Spotless Holdings (NZ) Limited

Company number: AK 4363558

Financial Statements
for the year ended 30 June 2017

Company Number
AK 4363558

Registered Office
600 Great South Road
Ellerslie
Auckland

Postal Address
600 Great South Road
Ellerslie
Auckland

Directors

D Nelson	
J Fletcher	Appointed 3 October 2016
P Morris	Appointed 1 September 2017
M Sheppard	Resigned 21 August 2017
N Chadwick	Resigned 31 August 2017

Nature of Business
Provision of outsourced facility services and laundry and linen services.

Controlling Entities
The ultimate parent entity of the wholly-owned Spotless Holdings (NZ) Limited Group is Spotless Group Holdings Limited.
The ultimate parent entity of Spotless Group Holdings Limited and its subsidiaries is Downer EDI Limited.

Solicitors
Simpson Grierson
Level 27, 88 Shortland Street
Auckland

Auditors
Ernst & Young
8 Exhibition Street
Melbourne VIC 3000
Australia

Review of Operations

Contract Portfolio Restructure

Further to the Strategy Reset announced in 1H17, Spotless Group undertook a detailed review of its contract book and identified potential areas to unlock value. Whilst the business has a strong portfolio of contracts, growth is constrained by a large number of contracts which are inconsistent with the attributes identified as desirable in the Strategy Reset, including long lived, multi-service, expandable customer partnerships. Reducing poor performing and single service contracts over time allows for a focus on long-dated, expandable, multi-service contracts.

This program provides the platform for growth by simplifying our business model, reducing complexity and overheads, and leveraging our strengths to drive organic growth.

The restructure has resulted in a largely non-cash accounting charge of $12.4 million (pre-tax) within the results of Spotless Holdings (NZ) Limited and its subsidiaries (the "Group") representing Property, Plant and Equipment write-downs, other asset write-downs and provisions for contracts that become onerous. These items are non-recurring in nature and should be considered when assessing the performance of the Group for the year ended 30 June 2017.

The rationalisation of non-core contracts will be undertaken progressively, with the majority being continued until maturity and not renewed, while we are also exploring the sale of certain contract bundles.

The Board of Directors present their Annual Report including the financial statements of the Group for the year ended 30 June 2017 and the auditor's report thereon.

The shareholder of the Company has exercised its right under section 211 (3) of the Companies Act 1993 that this Annual Report need not comply with any of paragraphs (a), and (e) to (j) of section 211 (1) of the Act.

For and on behalf of the Directors

Director

Director

24 November 2017
Date

EY
Building a better working world

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Independent Auditor's Report to the Shareholder of Spotless Holdings (NZ) Limited

Report on the Financial Statements

Opinion

We have audited the financial statements of Spotless Holdings (NZ) Limited ("the Company") and its subsidiaries (together "the Group") on pages 7 to 22, which comprise the consolidated statement of financial position of the Group as at 30 June 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 7 to 22 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2017 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

This report is made solely to the Company's shareholder. Our audit has been undertaken so that we might state to the Company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, the Company or any of its subsidiaries. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which describes the uncertainty that exists in relation to the Company's continued access to existing finance facilities, or access to renewed finance facilities. These conditions, along with other matters as set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, realise its assets and discharge its liabilities in the normal course of business.

Directors' Responsibility for the Financial Statements

The directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities. This description forms part of our auditor's report.

Ernst & Young

Ernst & Young

24 November 2017
Melbourne

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2017

	Note	Year ended 30 June 2017 $000	Year ended 30 June 2016 $000
Sales revenue		**431,493**	419,047
Interest income		**99**	128
Total revenue		**431,592**	419,175
Direct employee expenses		**(165,851)**	(167,156)
Subcontractor expenses		**(121,411)**	(101,844)
Cost of goods sold		**(85,606)**	(80,781)
Occupancy costs		**(5,327)**	(4,887)
Professional costs		**(496)**	(496)
Transportation costs		**(4,634)**	(4,826)
Catering rights		**(8,189)**	(8,109)
Depreciation and amortisation		**(15,235)**	(14,532)
Finance costs - interest expense		**(7,659)**	(8,305)
Other expenses		**(16,472)**	(10,079)
Total expenses		**(430,880)**	(401,015)
Share of gain of jointly controlled entities		**228**	208
Profit before income tax		**940**	18,368
Income tax expense	3(a)	**(451)**	(5,203)
Profit for the year		**489**	13,165
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		**1,977**	(538)
Income tax on effective portion of changes in fair value of cash flow hedges		**(554)**	151
Other comprehensive income / (loss) for the year net of tax		**1,423**	(387)
Total comprehensive income for the year net of tax		**1,912**	12,778

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	2017 $000	2016 $000
Current assets			
Cash and cash equivalents		7,371	15,381
Trade and other receivables	4	61,784	55,610
Current tax asset	3(b)	3,149	524
Inventories		4,677	4,633
Prepayments		219	3,963
Total current assets		77,200	80,111
Non-current assets			
Property, plant and equipment	5	28,340	34,454
Goodwill	6	186,076	186,076
Other intangible assets	7	9,287	10,889
Investment in a joint venture	8	1,348	1,820
Deferred tax assets	3(c)	3,790	3,993
Prepayments		199	167
Other		2,279	5,227
Total non-current assets		231,319	242,626
Total assets		308,519	322,737
Current liabilities			
Trade and other payables	9	49,323	38,053
Borrowings	18	160,000	-
Employee benefits		11,979	12,930
Provision for environmental remediation	10	1,952	293
Provision for property make-good	10	2,430	2,348
Provision for onerous contracts	10	17	17
Derivatives at fair value		691	2,053
Amounts due to parent entity		63,821	-
Amounts due to related entity		22,016	-
Other	11	1,341	985
Total current liabilities		313,570	56,679
Non-current liabilities			
Borrowings	18	-	160,000
Amounts due to parent entity		-	63,803
Amounts due to related entity		-	32,216
Provision for environmental remediation	10	1,903	2,901
Provision for property make-good	10	837	634
Provision for onerous contracts	10	137	139
Derivatives at fair value		-	617
Other	12	1,273	1,019
Total non-current liabilities		4,150	261,329
Total liabilities		317,720	318,008
Net assets		(9,201)	4,729
Equity			
Share capital	13	41,154	41,154
Reserves		(492)	(1,915)
Accumulated losses		(49,863)	(34,570)
Total equity		(9,201)	4,669

Director

Director

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

	Share Capital $000	Debt Hedging Reserve $000	Accumulated Losses $000	Total $000
Balance as at 1 July 2015	41,154	(1,528)	(32,735)	**6,891**
Profit for the year	-	-	13,165	**13,165**
Other comprehensive income				
Movement in cash flow hedges	-	(538)	-	**(538)**
Tax effect of movements	-	151	-	**151**
Total other comprehensive loss	-	(387)	-	**(387)**
Total comprehensive (loss) / income	-	(387)	13,165	**12,778**
Dividend paid	-	-	(15,000)	**(15,000)**
Balance as at 30 June 2016	**41,154**	**(1,915)**	**(34,570)**	**4,669**
Balance as at 1 July 2016	41,154	(1,915)	(34,570)	**4,669**
Profit for the year	-	-	489	**489**
Other comprehensive income				
Movement in cash flow hedges	-	1,977	-	**1,977**
Tax effect of movements	-	(554)	-	**(554)**
Total other comprehensive income	-	1,423	-	**1,423**
Total comprehensive income / (loss)	-	1,423	489	**1,912**
Dividend paid	-	-	(15,782)	**(15,782)**
Balance as at 30 June 2017	**41,154**	**(492)**	**(49,863)**	**(9,201)**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Inflows / (Outflows) 2017 $000	2016 $000
Cash flows from operating activities		
Receipts from customers	**492,597**	479,110
Payments to suppliers and employees	**(464,922)**	(431,428)
Interest received	**99**	128
Interest and other costs of finance paid	**(7,541)**	(8,236)
Income tax paid	**(2,878)**	(7,279)
Net cash provided by operating activities	**17,355**	32,295
Cash flows from investing activities		
Payment for property, plant and equipment and capitalised contract costs	**(9,602)**	(19,256)
Proceeds from sale of property, plant and equipment	**141**	8
Net cash used in investing activities	**(9,461)**	(19,248)
Cash flows from financing activities		
Payment of finance lease liabilities	**(822)**	(517)
Dividends paid	**(15,782)**	(15,000)
Dividends received from joint venture	**700**	300
Net cash used in financing activities	**(15,904)**	(15,217)
Net decrease in cash and cash equivalents	**(8,010)**	(2,170)
Cash and cash equivalents at the beginning of the year	**15,381**	17,551
Cash and cash equivalents at the end of the year	**7,371**	15,381

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

Spotless Holdings (NZ) Limited ("the Company") is a profit-oriented entity incorporated and domiciled in New Zealand. The address of its registered office and principal place of business are disclosed in the directory to the financial statements. Its principal activities are the provision of outsourced facility services and laundry and linen services. These consolidated financial statements comprise the Company and its subsidiaries (collectively, the "Group").

The consolidated financial statements were authorised for issue by the Directors on 24 November 2017.

Going concern

As at 30 June 2017, the consolidated statement of financial position of the Group reflects a net current asset deficiency of $236,370,000. This is attributable to the reclassification of the Group's external debt facilities to current liabilities following Downer Group ("Downer") acquiring ownership of more than 50% of the issued share capital of the Group's parent (Spotless Group Holdings Limited ("Spotless")) on 27 June 2017. Under the Group's Syndicated Facility Agreements ("the Facility Agreements"), a change of control gives rise to an unconditional right for the Facility Agreement lenders ("the Lenders") to trigger a review event ("Review Event") which may result in the early repayment of the outstanding drawn debt and committed facilities, despite not yet being at maturity. As at 30 June 2017, a waiver of this Review Event right had not been obtained from the Lenders.

The following matters have been considered by the Directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- Subsequent to year-end, but before the signing of the financial statements, the Group sought and was granted, a waiver from the Lenders from the Change of Control trigger;
- The Group's existing Facility Agreements have contractual maturities beyond twelve months;
- All financial covenants under existing debt facilities have been met at 30 June 2017; and
- The Group has forecast positive free cash flows in FY18 and beyond, which is sufficient to service existing obligations in the ordinary course of business.

Notwithstanding the uncertainties at 30 June 2017, the financial statements have been prepared on a going concern basis and no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Basis of preparation

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). For the purposes of complying with NZ GAAP the entity is a for-profit entity.

The Group is eligible to report in accordance with NZ IFRS RDR on the basis that it does not have public accountability and is not a large for-profit public sector entity.

The financial statements have been prepared on the basis of historical cost, except for financial instruments which are carried at fair value, and inventory which is carried at the lower of cost or net realisable value.

Cost is based on the fair value of the consideration given in exchange for assets.

The presentation and functional currency is New Zealand dollars. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated. Certain comparative information in the financial statements has been reclassified to ensure consistency of presentation.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2017.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. These entities are:

- 100% (2016: 100%) equity owned interest in Spotless Facility Services (NZ) Limited; and
- 50% (2016: 50%) joint venture interest in Eden Park Catering Limited (refer note 8).

There are no significant restrictions on the Group's or its controlled entities' ability to access or use the assets and settle the liabilities of the Group.

Control is achieved where the Company is exposed to, or has the rights to, variable returns from its involvement with an entity and can affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. In preparing the consolidated financial statements, all intercompany balances and transactions (including unrealised profits arising from intra-group transactions) are eliminated in full.

Investments in subsidiaries held by the Company are accounted for at cost less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

Interests in jointly controlled entities in which the Group is a venturer (and so has joint control) are accounted for under the equity method.

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(b) Borrowings

Borrowings are recorded initially at fair value, net of transactions costs.

Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the borrowings, or where appropriate, a shorter period.

Borrowing costs are capitalised where they relate to qualifying assets and are expensed over the asset's useful life.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in transit, cash in banks and investments in money market instruments. Bank overdrafts are shown within borrowings in current liabilities in the Consolidated Statement of Financial Position.

(d) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, sick leave and directors retirement allowances when it is probable that settlement will be required and they are capable of being measured reliably.

Short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Long-term employee benefits are measured as the present value of the estimated future cash outflows in respect of services provided by employees up to the reporting date.

Contributions to defined contribution superannuation plans are expensed when incurred. Amount recognised as an expense for defined contribution plans during the year amounted to $3,275,000 (2016: $3,318,000)

(e) Financial assets

Financial assets at amortised cost and the effective interest rate method

A financial asset is measured at amortised cost if the following conditions are met:

• the objective of the Group's business model in relation to those instruments is to hold the asset to collect the contractual cash flows;
• the contractual cash flows give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding; and
• the Group does not irrevocably elect at initial recognition to measure the instrument at fair value through profit or loss to minimise an accounting mismatch.

Amortised cost instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the carrying amount of amortised cost financial instruments is determined using the effective interest rate method, less any impairment losses.

Financial assets at fair value through other comprehensive income

At initial recognition the Group may make an irrevocable election (on an instrument-by-instruments basis) to recognise the change in fair value of investments in equity instruments in other comprehensive income. This election is only permitted for equity instruments that are not held for trading purposes.

These instruments are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented within equity in the investment revaluation reserve. When an investment is derecognised, the cumulative gain or loss is transferred directly to retained earnings and is not recognised in the profit or loss. Dividends or other distributions received from these investments are recognised in the profit and loss when the entity's right to receive payment or the dividend is established.

(f) Foreign currency

Foreign currency transactions, assets and liabilities are translated into New Zealand Dollars at reporting date using the following applicable exchange rates:

Foreign currency amount	*Applicable exchange rate*
Transactions	Date of the transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities measured at historical cost	Initial transaction date

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except

(i) for receivables and payables which are recognised inclusive of GST; and
(ii) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(h) Business combinations

The Group accounts for all business combinations using the acquisition method. The cost of a business combination is measured as the aggregate of the fair values (at exchange date) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group. Acquisition related transaction costs are expensed as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions under NZ IFRS 3 '*Business Combinations*' are recognised at their fair values at the acquisition date; except held for sale non-current assets (or disposal groups) which are measured at the lower of their carrying amount and fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the net identifiable assets recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's net identifiable assets or its value in use exceeds the cost of the business combination, the excess is immediately recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Contingent consideration is measured at fair value at the acquisition date. Subsequent adjustments to the consideration are recognised against goodwill only to the extent they arise from better information regarding fair value at the acquisition date and occur within 12 months of acquisition date. All other subsequent adjustments are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(i) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset (net of impairment where applicable) and is not amortised. It is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and cannot be subsequently reversed.

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the Cash-Generating Unit ("CGU") to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset or CGU is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period in which it was incurred.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount; to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(k) Income tax

Current tax

Current tax is the expected tax payable or recoverable on the taxable profit or loss for the period, using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Temporary differences are differences between an asset or liability's tax base, and its carrying value for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable future taxable profits will be available against which the asset can be utilised. However, deferred tax balances are not recognised in the following circumstances:

• if the temporary differences giving rise to them results from the initial recognition of assets and liabilities (in a transaction other than a business combination) which affects neither taxable nor accounting profit or loss; or
• if the temporary differences arises from initial goodwill recognition; or
• if the temporary differences relate to investments in subsidiaries and associates and interests in joint ventures, the Group is able to control the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset is realised or liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects (at reporting date) to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax for the year is recognised as an expense or income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity; or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or the excess of net assets over the purchase price.

(l) Leased assets

Leases where the Group holds substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at the lower of their fair value and the present value of the minimum lease payments. The corresponding liability to the Group is included in the Consolidated Statement of Financial Position as a finance lease obligation.

Finance lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss. Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Any lease incentives are recognised as a liability and amortised on a straight-line basis over the lease life.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

(m) Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Due to their short term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within the credit timeframe.

(n) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

The straight-line method of depreciation is used for all assets. Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. Estimated useful lives are reassessed each reporting period.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount and recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle the obligation; and the amount of the provision can be reliably estimated.

The amount recognised as a provision is the present value of management's best estimate of the consideration required to settle the obligation at reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. Current provisions are not discounted.

Onerous customer contracts are recorded at the lower of the estimated unavoidable net costs of fulfilling the contract and the costs to exit the contract.

Environmental remediation comprises the estimated costs to restore and remediate certain properties.

Property make-good is the estimated restoration cost to "make-good" premises which are currently occupied under operating leases or operating sites at customer premises.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(p) ACC partnership programme

Provision has been made for the estimated cost of all claims notified but not settled at reporting date, and for the estimated cost of claims incurred but not reported at reporting date. The outstanding claims liability is based on the historic percentage of claims to total wages.

(q) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised if it meets the criteria below.

Rendering of services

The revenue from time and material contracts is recognised at contractual rates as labour hours are delivered and direct expenses incurred. Life cycle maintenance revenue is based on stage of completion using costs incurred. Where a loss is expected to occur it is recognised immediately.

Revenue from certain long term contracts is recognised using the stage of completion method. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are expected to be recoverable.

Construction contracts

The Group enters into fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognised by reference to the stage of completion of contract activity at year end (the "percentage of completion" method).

The outcome of a construction contract can be estimated reliably when:

(i) the total contract revenue can be measured reliably;
(ii) it is probable that the economic benefits associated with the contract will flow to the entity;
(iii) the costs to complete the contract and the stage of completion can be measured reliably; and
(iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a construction contract cannot be estimated reliably (principally during a contract's early stages), contract revenue is recognised only to the extent that costs incurred are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate. Actual completion rate is based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

• Contract revenue — initial amount of revenue agreed in the contract, plus any variations, claims and incentive payments to the extent that it is probable that they will result in revenue, and can be reliably measured.
• Contract costs — include costs that relate directly to the specific contract and costs that are attributable to contract activity and can be allocated to the contract. Costs that relate directly to a specific contract comprise labour costs; costs of materials used in construction; depreciation of equipment used on the contract; costs of design; and technical assistance.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer.

Dividend and interest revenue

Dividend revenue is recognised when the Group's right to receive payment has been established. Interest revenue is recognised on a time proportionate basis that takes into account the effective interest rate on the financial asset.

(r) Capitalised contract and mobilisation costs

Capitalised contract costs are costs necessarily incurred in relation to securing new contracts. They are capitalised to Other non-current assets on the Consolidated Statement of Financial Position only to the extent that it is probable the contract will be secured (or the costs recovered). They are amortised to the Consolidated Statement of Profit or Loss and Other Comprehensive Income over the contract period within depreciation expense. Costs are immediately expensed in full to the Consolidated Statement of Profit or Loss and Other Comprehensive Income upon notification that the Group has been unsuccessful in securing the contract.

Mobilisation costs are incurred during the set-up and initial establishment of new contracts. They are capitalised to Other non-current assets on the Consolidated Statement of Financial Position. They are amortised to the Consolidated Statement of Profit or Loss and Other Comprehensive Income over the contract period within depreciation expense.

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(s) Changes in accounting policies

There have been no changes in accounting policies during the year.

(t) Standards and interpretations effective in the current year

The Group adopted all mandatory new and amended standards and interpretations which are effective for annual periods beginning on or after 1 July 2016. None of the new and revised standards and interpretations had a material impact on the financial statements.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017 and have not been applied in preparing the consolidated financial statements. Those which may be relevant are set out below.

- NZ IFRS 9 'Financial Instruments'
- NZ IFRS 15 'Revenue from Contracts with Customers'
- NZ IFRS 16 'Leases'

It is not anticipated that the Group will early adopt the new NZ IFRS 15 standard. NZ IFRS 15 primarily replaces NZ IFRS 118 *Revenue* and NZ IFRS 111 *Construction Contracts* , and the existing principles around revenue recognition and measurement. The new standard requires revenue to be recognised when (or as) an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. The current standards require revenue to be recognised when the entity has transferred the risks and rewards of ownership to the customer (goods) or by reference to the stage of completion of the transaction (services) at the fair value of the consideration received or receivable. AASB 15 also provides principles on when to capitalise the costs of obtaining or fulfilling a contract that are not addressed in other accounting standards, as well as additional disclosure requirements.

The Group's dedicated project team is currently in the process of determining the potential impact to the Group of adopting NZ IFRS 15, primarily by:

- Completing detailed reviews of selected material contracts to understand the impact, if any, at the date of transition and beyond;
- Assessing the disclosure requirements; and
- Assessing the revenue and reporting systems used by the Group to understand what systems changes are required to recognise revenue and fulfil disclosure requirements.

No material differences have been identified to date.

Whilst the Group has not yet made a final decision, it presently intends to elect modified retrospective application under the transition rules, therefore recognising the cumulative effect of initially applying the new standard at the date of initial application, 1 July 2018.

The Group have commenced assessing the potential impact of the initial application of both NZ IFRS 9 'Financial Instruments' and NZ IFRS 16 'Leases'.

(u) Consistency of presentation

These financial statements demonstrate consistent presentation and classification for each annual reporting period.

(v) Derivative financial instruments

Derivatives are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
- hedges of highly probable forecast transactions or the foreign currency risk in an unrecognised firm commitment (cash flow hedge); or
- hedges of a net investment in a foreign operation.

The fair value of derivatives is presented as a non-current asset or liability if the remaining maturity of the instrument is more than 12 months, and it is not expected to be realised or settled within 12 months.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts, and the host contracts are not measured at fair value with changes in the fair value recognised in profit or loss.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

The Group has only entered into hedges of the type classified as cash flow hedges. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity in the debt hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the Consolidated Statement of Profit or Loss and Other Comprehensive Income as the recognised hedged item. When the forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

The carrying amount of financial assets or liabilities recognised in the consolidated financial statements approximates to their fair value. The fair value of derivative financial instruments, as well as the methods used to estimate the fair value, is the Level 2 Observable Inputs method using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

(w) Upfront catering rights

The Group incurs certain upfront contractual payments in order to secure exclusive catering right arrangements with customers. These payments are capitalised to Other non-current assets on the Consolidated Statement of Financial Position and recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income over the contract period within depreciation expense. Annual volume related catering right fees are expensed to the Consolidated Statement of Profit or Loss and Other Comprehensive Income as catering rights expenses as incurred.

(x) Non current other assets

Non-current other assets include upfront catering rights, capitalised contract costs, contract mobilisation costs and other non-current assets.

1 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(y) Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset. They are assessed to have a finite live and are amortised on a straight-line basis over their estimated useful lives. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses.

Customer contracts

Customer contracts acquired in business combinations are assessed to have finite lives and are amortised on a straight-line basis over the estimated useful lives of between 6 and 30 years.

The amortisation expense on intangible assets with finite lives are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income within depreciation and amortisation expense.

(z) Critical accounting estimates

The Group makes estimates and assumptions concerning the future which may eventually differ from actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

Information on the estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Useful lives of acquired customer contracts

Customer contracts are carried on the Consolidated Statement of Financial Position at their initial fair value at acquisition date net of accumulated amortisation. These intangible assets are amortised on a straight-line basis over the average contract term of the customer portfolio. The contract term and amortisation period has been based on historical experience and management expectation on the renewal profiles.

Onerous contracts provisions

The Group has recognised provisions for various contracts assessed as being onerous as at reporting date. These provisions have been calculated based on management's best estimate of discounted net cash outflows required to fulfil the contracts. The status of these contracts and the adequacy of provisions are assessed at each reporting date.

Long-term contract revenue recognition

The Group has a limited number of long-term maintenance contracts that are engaged in a suite of related services under the one contract. The Group distinguishes between these revenue streams with respect to revenue recognition. Planned maintenance services revenue is recognised based on services completed. Life cycle maintenance revenue is based on stage of completion based on costs incurred. In recognising the revenue, the Group periodically re-forecasts the estimated total contract costs based on the different stage of completion of the contract.

Environmental provisioning

The Group intends to restore and remediate certain Laundry properties. The provision for remediation is based on assessments by management supported by external advisors. As remediation progresses, actual costs are being monitored against the estimated provisions made.

Impairment of goodwill and intangibles

Determining whether goodwill and intangibles are impaired requires an estimation of the asset's recoverable amount. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

Property make-good provisions

The Group has made assumptions in arriving at its best estimate of the likely costs to "make good" premises which are currently occupied under operating leases or at customers' premises. Such estimates involve management forecasting the average restoration cost and are dependent on the nature of the premises occupied.

Estimation of useful lives and residual values of property, plant and equipment

The estimation of the useful lives and residual of values of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment and leasehold improvements) and turnover policies. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives and residual values are made when considered necessary.

2 REMUNERATION OF AUDITORS

The auditor of Spotless Holdings (NZ) Limited is Ernst & Young. Audit fees for the year were paid on behalf of the Group by a related entity.

3 TAXATION

(a) Tax expense comprises:

	2017 $000	2016 $000
Current tax expense	**(862)**	(1,875)
Deferred tax expense relating to origination and reversal of temporary differences	**411**	(3,328)
Total tax expense	**(451)**	(5,203)

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2017 $000	2016 $000
Profit from operations	**940**	18,368
Income tax expense calculated at 28% (2016: 28%)	**(263)**	(5,143)
Non-deductible items	**(5)**	-
Non-assessable items	**(16)**	-
Other	**(167)**	(60)
	(451)	(5,203)

(b) Current tax

	2017 $000	2016 $000
Current tax:		
Income tax asset	**3,149**	524
	3,149	524

(c) Deferred tax balances

Taxable and deductible temporary differences arise from the following:

	Opening Balance 2017 $000	Credited / (Charged) to reserves 2017 $000	Credited / (Charged) to profit and loss 2017 $000	Closing Balance 2017 $000
Net deferred tax assets / (liabilities):				
Provisions	**8,731**	-	(5,835)	**2,896**
Property, plant and equipment	**(3,581)**	-	3,645	**64**
Other	**(1,217)**	(554)	2,601	**830**
	3,933	**(554)**	**411**	**3,790**

3 TAXATION (CONTINUED)

(c) Deferred tax balances (continued)

	Opening Balance 2016 $000	Credited / (Charged) to reserves 2016 $000	Credited / (Charged) to profit and loss 2016 $000	Closing Balance 2016 $000
Net deferred tax assets / (liabilities):				
Provisions	5,667	-	3,064	8,731
Property, plant and equipment	(1,506)	-	(2,075)	(3,581)
Other	594	151	(1,962)	(1,217)
	4,755	151	(973)	3,933

(d) Imputation credits

	2017 $000	2016 $000
The amount of imputation credits available for use in subsequent reporting periods	**17,460**	14,516

Imputation credits are available to shareholders of the Company subject to approval of the Inland Revenue Department's and maintaining continuity of shareholders.

4 CURRENT TRADE AND OTHER RECEIVABLES

	2017 $000	2016 $000
Trade receivables	**51,193**	44,868
Allowance for doubtful debts	**(78)**	(176)
	51,115	44,692
Other receivables	**10,669**	10,918
	61,784	55,610

The Group's credit policy requires customers to pay in accordance with agreed credit terms, which are generally 30 days from the date of invoice. The concentration of credit risk is limited due to the customer base being large and unrelated. The Group generally trades only with recognised creditworthy third parties, and therefore collateral is not requested.

The following basis is used to assess the allowance for doubtful debts:

• individual assessment by account based on past credit history and those receivables greater than 60 days to determine whether there is objective evidence that an individual trade receivable is impaired;

• prior knowledge of debtor insolvency or other credit risk; and
• a statistical approach to determine the historical default rate to develop an estimate of irrevocable amounts.

Collectability of receivables is monitored continuously and allowance for doubtful debts is used for receivables considered being in dispute or if there is uncertainty regarding collection. A receivable is written off when it is considered non-recoverable and all collection efforts have been exhausted.

5 PROPERTY, PLANT AND EQUIPMENT

	Freehold land at cost $000	Buildings at cost $000	Leasehold Improvements at cost $000	Plant & Equipment at cost $000	Rental Stock at cost $000	Total $000
Estimated useful lives	Not applicable	50 years	2 - 25 years	2 - 20 years	18 months - 5 years	
Cost						
At 1 July 2015	1,818	392	3,355	28,220	14,681	48,466
At 30 June 2016	**1,818**	**392**	**4,078**	**35,478**	**23,016**	**64,782**
Additions	-	-	1,001	3,743	6,211	10,955
Impairment	-	-	-	(3,193)	(1,224)	(4,417)
Disposals	-	(57)	(1)	(1,613)	-	(1,671)
At 30 June 2017	**1,818**	**335**	**5,078**	**34,415**	**28,003**	**69,649**
Depreciation						
At 1 July 2015	-	(44)	(1,577)	(9,965)	(7,713)	(19,299)
At 30 June 2016	**-**	**(57)**	**(2,032)**	**(14,269)**	**(13,970)**	**(30,328)**
Depreciation charge for the year	-	(12)	(656)	(4,692)	(6,700)	(12,060)
Disposals	-	57	-	1,022	-	1,079
At 30 June 2017	**-**	**(12)**	**(2,688)**	**(17,939)**	**(20,670)**	**(41,309)**
Net book value at 30 June 2017	**1,818**	**323**	**2,390**	**16,476**	**7,333**	**28,340**

Finance leases
The carrying value of plant and equipment held under finance lease contracts at 30 June 2017 was $2,073,879 (2016: $1,505,629).

6 GOODWILL

	2017 $000	2016 $000
Gross Carrying Amount		
Balance at beginning and end of financial year	**186,076**	186,076
Accumulated impairment losses		
Balance at beginning and end of financial year	**-**	-
Net Carrying Amount at end of financial year	**186,076**	186,076

7 OTHER INTANGIBLE ASSETS

Customer Contracts

	2017 $000	2016 $000
Gross Carrying Amount		
Balance at beginning and end of financial year	**15,929**	15,929
Accumulated amortisation and impairment		
Balance at beginning of financial year	**(5,040)**	(3,438)
Amortisation expense	**(1,602)**	(1,602)
Balance at end of financial year	**(6,642)**	(5,040)
Net book value at end of financial year	**9,287**	10,889

8 INVESTMENT IN A JOINT VENTURE

	2017 $000	2016 $000
Investment in jointly controlled entity	**1,348**	1,820
	1,348	1,820

NAME OF ENTITY	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2017 (%)	2016 (%)
Eden Park Catering Limited	New Zealand	**50**	50

There were no commitments or contingent liabilities for the joint venture as at balance date.

9 CURRENT TRADE AND OTHER PAYABLES

	2017 $000	2016 $000
Trade payables (i)	**27,481**	22,013
Goods and Services Tax payable	**3,100**	2,189
ACC provision (ii)	**2,431**	1,806
Sundry creditors and accruals	**16,311**	12,045
	49,323	38,053

(i) The average credit period on the purchase of supplies is between 30 and 45 days.

(ii) Effective 1 April 2001, Spotless Facility Services (NZ) Limited joined the ACC Partnership Programme. Under that program Spotless Facility Services (NZ) Limited managed claims for a period of five years, at which time any open claims are passed back to ACC. Effective 1 April 2007, the claims management period was reduced to one year, with no pass back liability. The claims management period was extended to two years in 2011 to take advantage of significantly improved claims management. Despite consistent improvements to claims management, Spotless reverted to the one year scheme for the 2015 – 2016 period reflecting a change to ACC premium structures and continued with this arrangement for 2016 - 2017. A stop loss premium is in place whereby Spotless is liable for claims up to $1,100,000. Any claims in excess of this amount for each claim year are directed back to ACC.

10 PROVISIONS

	Environmental Provision $000	Make Good Provision $000	Onerous Contracts $000
Opening balance as at 1 July 2016	3,194	2,982	156
Provided during the year	661	285	172
Utilised during the year	-	-	(176)
Interest unwind	-	-	2
Balance as at 30 June 2017	**3,855**	**3,267**	**154**
Current	**1,952**	**2,430**	**17**
Non-current	**1,903**	**837**	**137**

11 OTHER CURRENT LIABILITIES

	2017 $000	2016 $000
Finance lease liabilities at amortised cost	**916**	515
Other	**425**	470
	1,341	985

12 OTHER NON-CURRENT LIABILITIES

	2017 $000	2016 $000
Finance lease liabilities at amortised cost	**1,273**	1,019
	1,273	1,019

13 SHARE CAPITAL

	2017 $000	2016 $000
Share capital	**41,154**	41,154

Comprising 41,154,000 fully paid ordinary shares. All shares rank equally in voting and distribution rights.

14 DIVIDENDS

The Company paid a final dividend for financial year 2016 of $15,781,500 (2016: $15,000,000) on 23 August 2016.

15 COMMITMENTS FOR EXPENDITURE

	2017 $000	2016 $000
(a) Operating leases		
Non cancellable operating lease commitments comprise:		
Not later than one year	**3,817**	6,544
Later than one year and not later than five years	**10,880**	16,264
Later than five years	**7,402**	11,729
	22,099	34,537

Operating leases relate to office facilities, motor vehicles and laundry plants with lease terms of 1 month to 10 years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

	2017 Minimum payments $000	2016 Minimum payments $000
(b) Finance Leases		
Not later than one year	**916**	593
Later than one year and not later than five years	**1,272**	1,062
Later than five years	**-**	-
Minimum finance lease payments	**2,188**	1,655

The Group has finance leases for various items of plant and equipment and motor vehicles with lease terms ranging from 4 to 5 years. The Group has options to purchase the equipment at a market price at the conclusion of the lease agreements.

16 CONTINGENT LIABILITIES

	2017 $000	2016 $000
Legal proceedings (i)	**-**	-
Contract and bank guarantees (ii)	**12,533**	7,875
	12,533	7,875

(i) The Group does not have any material contingent liabilities in respect of legal proceedings as at 30 June 2017 (30 June 2016: nil). A number of legal claims exist where the outcome is uncertain. Where practicable, provision has been made in the financial statements to recognise the estimated cost to settle the claims based on best estimate assumptions and legal advice where relevant. The actual amounts settled in relation to the outstanding matters may differ to those estimated.

(ii) Entities within the Group are required to guarantee their performance or provide financial surety for certain contracts. The amount disclosed represents the aggregate amount of such guarantee. The extent to which an outflow of funds will be required is dependent on the future operations.

17 RELATED PARTIES

(a) Parent entities

Spotless Holdings (NZ) Limited is 100% owned by Pacific Industrial Services BidCo Pty Limited.

The ultimate parent entity of the wholly owned Group is Spotless Group Holdings Limited.

The immediate parent of Spotless Group Holdings Limited is Downer EDI Services Pty Limited.

The ultimate parent entity of Spotless Group Holdings Limited and its subsidiaries is Downer EDI Limited.

(b) Transactions with related parties

Transactions involving other group entities

Amounts payable to related parties at balance date are disclosed on the Statement of Financial Position. Interest is not charged on intercompany balances within the Group.

During the financial year, Spotless Facility Services (NZ) Limited recharged expenses to Spotless Facility Services Pty Limited of $706,760 (2016: $1,114,161).

During the financial year, Spotless Facility Services Pty Limited paid expenses on behalf of Spotless Facility Services (NZ) Limited of $2,200,462 (2016: $6,847,956).

During the financial year, Spotless Facility Services (NZ) Limited paid to Spotless Facility Services Pty Limited insurance premiums of $705,176 (2016: $752,829).

Spotless Facility Services (NZ) Ltd was charged a royalty fee by Spotless Facility Services Pty Ltd of $2,689,235 (2016: $3,981,031).

Spotless Facility Services (NZ) Ltd was charged a management fee by Spotless Facility Services Pty Ltd of $8,914,877 (2016: $7,162,673).

Other transactions involving related parties

During the financial year, Spotless Facility Services (NZ) Limited received $312,007 (2016: $310,194) in management fees from Eden Park Catering Limited, a jointly controlled entity.

During the financial year, Spotless Facility Services (NZ) Limited received rebates of $368,437 (2016: $307,570) on behalf of Eden Park Catering Limited, a jointly controlled entity.

18 FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group's capital risk management objective is to safeguard the ability to continue as a going concern, in order to continue to provide returns to stakeholders whilst maintaining an optimal capital structure that reduces the cost of capital.

The capital structure of the Group consists of related party, debt and equity, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

The Board of Directors regularly reviews the capital structure by considering the absolute and relative cost and risks associated with each class of capital, market conditions, stakeholder expectations and current market practices. In order to affect capital management initiatives to maintain or adjust the capital structure, adjustments may be made to the amount of permitted distributions, the issuance or return of equity capital to shareholders, or the procurement or retirement of debt.

Operating cash flows are used to maintain and expand the assets of the Group, as well as to make routine payments of tax, interest, dividends and debt. To meet its anticipated funding requirements the Group uses a portfolio of borrowing facilities.

(b) Financial assets and financial liabilities

The financial assets of the Group comprise cash and cash equivalents and trade and other receivables (refer to Note 4 for additional detail).

Trade and other receivables are non-interest bearing assets that are held to maturity. The carrying value may be affected by changes in the credit risk of the counterparties.

The financial liabilities of the Group comprise borrowings, trade and other payables (refer to Note 9) and derivatives at fair value through Other Comprehensive Income ("OCI").

Borrowings comprise interest bearing liabilities recorded at amortised cost, net of borrowing costs, that are held to maturity.

Derivatives at fair value through OCI represent the change in fair value of interest rate swaps and cross currency swaps designated as cash flow hedges to hedge highly probable future cash flows.

Spotless Holdings (NZ) Limited and Spotless Facility Services (NZ) Limited are borrowers and guarantors to a Syndicated Facility Agreement.

The three year Facility A tranche ($107 million) will mature in December 2018 and the four year Facility B tranche ($53 million) will mature in December 2019.

As at 30 June 2017, the Group had total committed facilities of $160 million (2016: $160 million), of which $160 million is drawn (2016: $160 million).

(c) Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges as they are short-term in nature (less than 12 months) and reflect the period of exposure of the underlying transaction.

Other than foreign exchange forward contacts, in the current and prior financial year, the Group did not enter into any other derivative contracts that were not designated as hedging instruments.

Cash flow hedges

Interest rate risk

Interest rate swap contracts measured at fair value through OCI are designated as hedging instruments in cash flow hedges of highly probable forecast transactions, as they hedge exposure to the variability in cash flows attributable to movements in the base interest rate for the Syndicated Facility Agreement.

Effective 28 May 2014, the Group entered into interest rate swap contracts to hedge the variability of interest rate cash flows payable on a portion of the New Zealand dollar denominated debt for the Syndicated Facility Agreement until 28 May 2018. The terms of the interest rate swap contracts were structured to match the terms of the highly probable forecast transaction. As a result, no hedge ineffectiveness was recognised through profit and loss.

In the current and prior year, the Group did not enter into any additional interest rate contracts.

The cash flow hedges of the Syndicated Facility Agreement were assessed to be highly effective and a net unrealised gain of $1,977,000 (2016: unrealised loss of $538,000) was recognised in the debt hedging reserve.

19 SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.