Annual Report 2019

To succeed you need

A COMMUNITY TO WORK WITH

A TEAM TO DELEGATE TO

SIMPLE IT SOLUTIONS THAT WORK

A RECEPTIONIST TO ANSWER YOUR CALLS

SECURE, ROCKET-FAST, UNIQUE PASSWORD WI-FI

SERVCORP

Servcorp's Aim

To be the world's finest Workspace Solutions provider; providing IT and commercial services second to none; giving our clients a commercial advantage; paying our people reasonable wages; and giving our shareholders an acceptable return on the funds they invest.

Tokyo Marunouchi Nijubashi

Servcorp Limited ACN 089 222 506

PEOPLE ARE THE DIFFERENCE

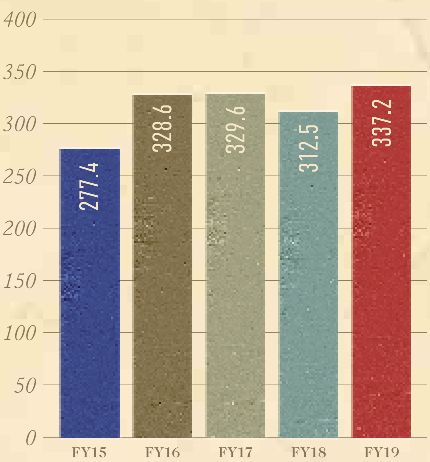
The Product

THE MEMBERSHIP VIRTUAL OFFICES HOT DESK OFFICES DEDICATED DESK

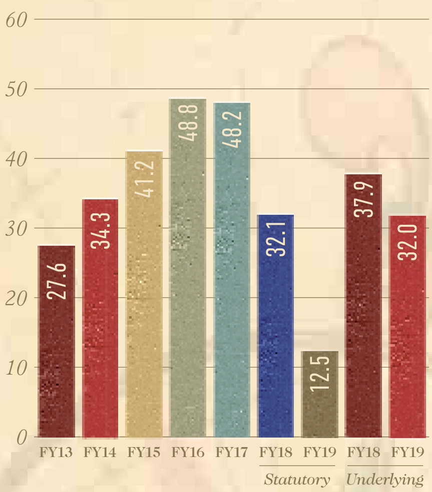
Contents

2019 YEAR IN REVIEW

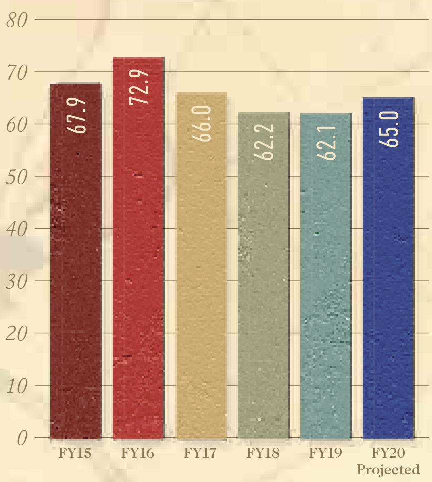
REVENUE
$MILLIONS



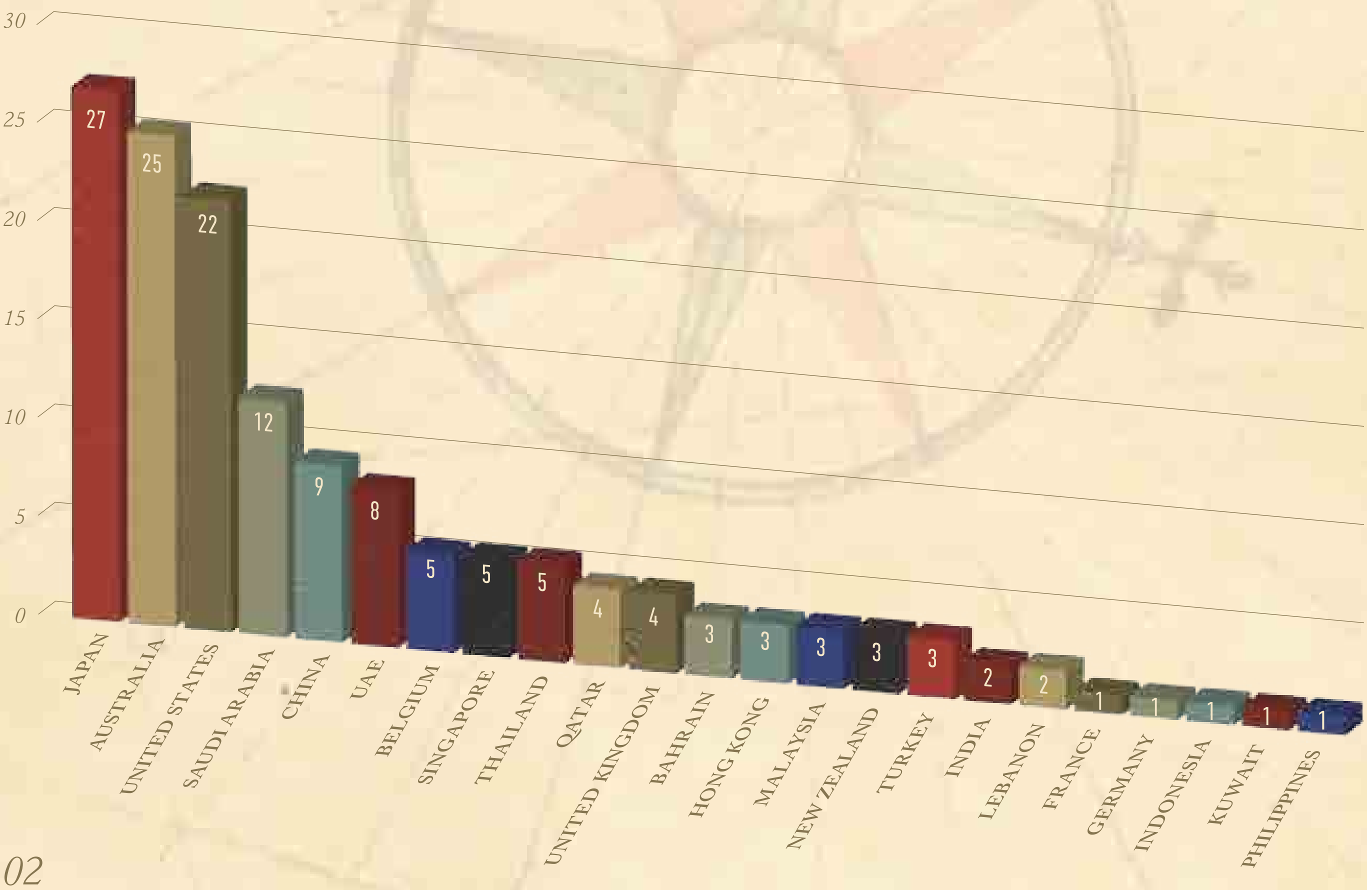
NET PROFIT BEFORE TAX
$MILLIONS



FREE CASH
$MILLIONS



SERVCORP GEOGRAPHIC SPREAD
(FLOORS)

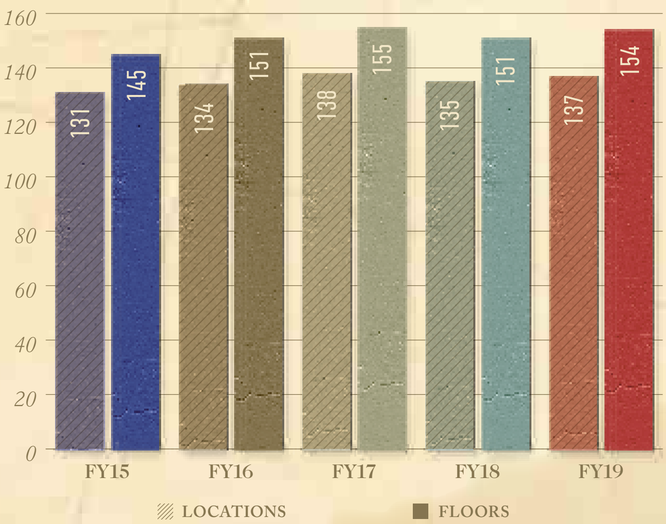


Bangkok Mercury Tower

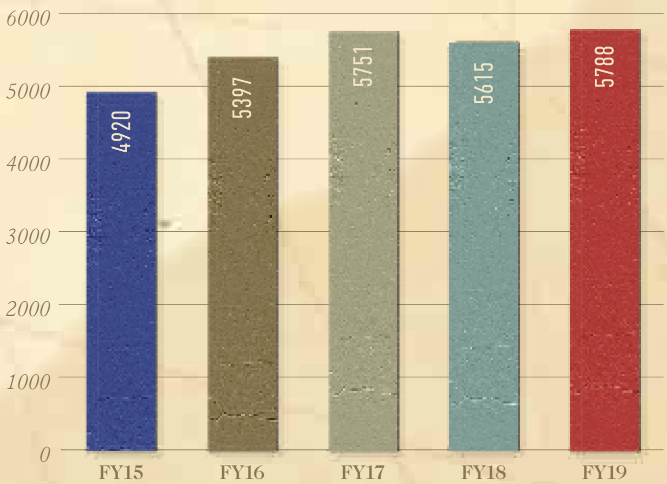
RESULTS SUMMARY
12 MONTHS ENDED 30 JUNE

	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000
Revenue & other income	277,378	328,601	329,565	312,539	**337,226**
Net profit before tax - statutory	41,211	48,840	48,193	32,051	**12,511**
Net profit before tax - underlying				37,851	**32,037**
Net profit after tax - statutory	33,141	39,722	40,711	10,062	**5,380**
Net profit after tax - underlying				28,862	**29,231**
Net operating cash flows	59,928	60,575	54,354	50,077	**51,037**
Free cash (Net operating cash before tax)	67,923	72,864	65,990	62,183	**62,106**
Cash & investments	114,451	114,586	118,754	104,836	**72,961**
Net assets	241,898	261,020	267,175	250,165	**238,593**
Earnings per share	$0.337	$0.404	$0.414	$0.102	**$0.056**
Dividends per share	$0.220	$0.220	$0.260	$0.260	**$0.230**

FLOORS AND LOCATIONS
30 JUNE



OFFICES
30 JUNE



X MARKS THE SPOT

AUSTRALIA

ADELAIDE
- Levels 24 & 30, Westpac House

BRISBANE
- Level 19, 10 Eagle Street
- Level 27, Santos Place

CANBERRA
- Level 1, The Realm
- Level 9, Nishi Building

HOBART
- Level 6, Reserve Bank Building

MELBOURNE
- Levels 18 & 27, 101 Collins Street
- Level 40, 140 William Street
- Level 2, Riverside Quay, Southbank

PERTH
- Level 28, AMP Tower
- Level 11, Brookfield Place

SYDNEY
- Level 35, Tower One, Barangaroo
- Level 29, Chifley Tower
- Level 36, Gateway
- Level 57, MLC Centre
- Level 26, 44 Market Street
- Level 32, 101 Miller Street, North Sydney
- Level 22, Westfield Tower Two, Bondi Junction
- Level 1, Octagon Building, Parramatta
- Level 15, Deloitte Building, Parramatta
- Level 9, Avaya House, Macquarie Park
- Level 5, Nexus Norwest

NEW ZEALAND

AUCKLAND
- Level 26, PwC Tower

WELLINGTON
- Level 16, Dimension Data House

CHINA

BEIJING
- Level 24, Tower 3, China Central Place
- Level 19, Tower E2, Oriental Plaza
- Level 26, Fortune Financial Center

CHENGDU
- Level 18, Shangri-La Office Tower

GUANGZHOU
- Level 54, Guangzhou IFC

HANGZHOU
- Level 3, JIAHUA International Business Center

SHANGHAI
- Level 23, Citigroup Tower
- Level 29, Tower One, Jing An Kerry Center

HONG KONG

CENTRAL
- Level 19, Two International Finance Centre
- Level 9, The Hong Kong Club Building

KOWLOON
- Level 12, One Peking Road

INDIA

HYDERABAD
- Level 7, Maximus Towers

MUMBAI
- Level 8, Vibgyor Towers

INDONESIA

JAKARTA
- Level 33, International Financial Centre Tower 2

MALAYSIA

KUALA LUMPUR
- Level 36, Menara Citibank
- Level 23, NU Tower 2
- Level 33, Ilham Tower

PHILIPPINES

MANILA
- Level 17, 6750 Ayala Avenue

SINGAPORE

SINGAPORE
- Level 42, Suntec Tower Three
- Level 30, Six Battery Road
- Level 39, Marina Bay Financial Centre Tower 2
- Level 8, The Metropolis Tower 2
- Level 24, CapitaGreen

THAILAND

BANGKOK
- Level 11, Mercury Tower
- Level 18, Park Ventures Ecoplex
- Level 29, The Offices at Centralworld
- Levels 8 & 9, 1 Silom Road

JAPAN

FUKUOKA
- Level 15, Fukuoka Tenjin Fukoku Seimei Building
- Level 2, NMF Hakata Ekimae Building

NAGOYA
- Level 40, Nagoya Lucent Tower
- Level 4, Nagoya Nikko Shoken Building

OSAKA
- Level 9, Edobori Center Building
- Levels 18 & 19, Hilton Plaza West Office Tower
- Level 4, Shinsaibashi Plaza Building
- Level 7, Honmachi Minami Garden City

TOKYO
- Level 11, Aoyama Palacio Tower
- Level 14, Hibiya Central Building
- Level 20, Marunouchi Trust Tower
- Levels 2 & 3, Marunouchi Nijubashi Building
- Level 1, Yusen Building
- Level 7, Wakamatsu Building
- Level 8, Nittochi Nishi-Shinjuku Building
- Level 9, Ariake Frontier Building Tower B
- Level 28, Shinagawa Intercity Tower A
- Level 32, Shinjuku Nomura Building
- Level 21, Shiodome Shibarikyu Building
- Level 27, Shiroyama Trust Tower
- Level 45, Sunshine 60
- Level 27, Tokyo Sankei Building
- Level 18, Yebisu Garden Place Tower
- Level 8, Tri-Seven Roppongi

YOKOHAMA
- Level 10, Hulic Minato Mirai

Singapore Marina Bay Financial Centre

KINGDOM OF BAHRAIN

MANAMA
- Levels 22 & 41, West Tower Bahrain Financial Harbour
- Level 13, Diplomatic Commercial Office Tower (DCO)

KUWAIT

KUWAIT CITY
- Level 18, Sahab Tower

LEBANON

BEIRUT
- Levels 2 & 3, Louis Vuitton Building

QATAR

DOHA
- Levels 14 & 15, Commercialbank Plaza
- Level 22, Tornado Tower
- Level 21, Doha Tower

KINGDOM OF SAUDI ARABIA

AL KHOBAR
- Level 22, Al Hugayet Tower
- Level 21, Al Khobar Gate Tower

JEDDAH
- Level 26, King's Road Tower
- Level 7, Al Murjanah Tower

RIYADH
- Level 6, Gate D, Al Akaria Plaza
- Level 18, Al Faisaliah Center
- Level 1, Building No. 7, The Business Gate
- Level 29, Olaya Towers Tower B
- Ground Floor, Levels 1 & 2, Riyadh Business Front

UNITED ARAB EMIRATES

DUBAI
- Level 23, Boulevard Plaza 2
- Levels 41 & 42, Emirates Towers
- Level 21, Al Habtoor Business Tower
- Level 54, Almas Tower

ABU DHABI
- Level 36, Etihad Towers
- Level 17, World Trade Center

BELGIUM

BRUSSELS
- Levels 20 & 21, Bastion Tower
- Ground Floor, Levels 5 & 6, Schuman 3, European Quarter

FRANCE

PARIS
- Level 2, 21 Boulevard Haussmann

GERMANY

BERLIN
- Level 8, Linkstrasse 2 Potsdamer Platz

TURKEY

ISTANBUL
- Levels 5 & 6, Louis Vuitton Orjin Building
- Level 8, Tekfen Tower

UNITED KINGDOM

LONDON
- Level 17, Dashwood House
- Level 18, 40 Bank Street, Canary Wharf
- Level 30, The Leadenhall Building
- Level 1, Devonshire House, One Mayfair Place

UNITED STATES OF AMERICA

ATLANTA
- Level 20, Terminus 200
- Level 36, 1075 Peachtree, Midtown

BOSTON
- Level 14, One International Place

CHICAGO
- Level 42, 155 North Wacker Drive
- Level 49, 300 North LaSalle
- Level 17, River Point, West Loop

DALLAS
- Level 6, International Plaza III
- Level 10, Rosewood Court

HOUSTON
- Level 39, Bank of America Center
- Level 41, Williams Tower

LOS ANGELES
- Level 40, Figueroa at Wilshire

MIAMI
- Level 27, Southeast Financial Center

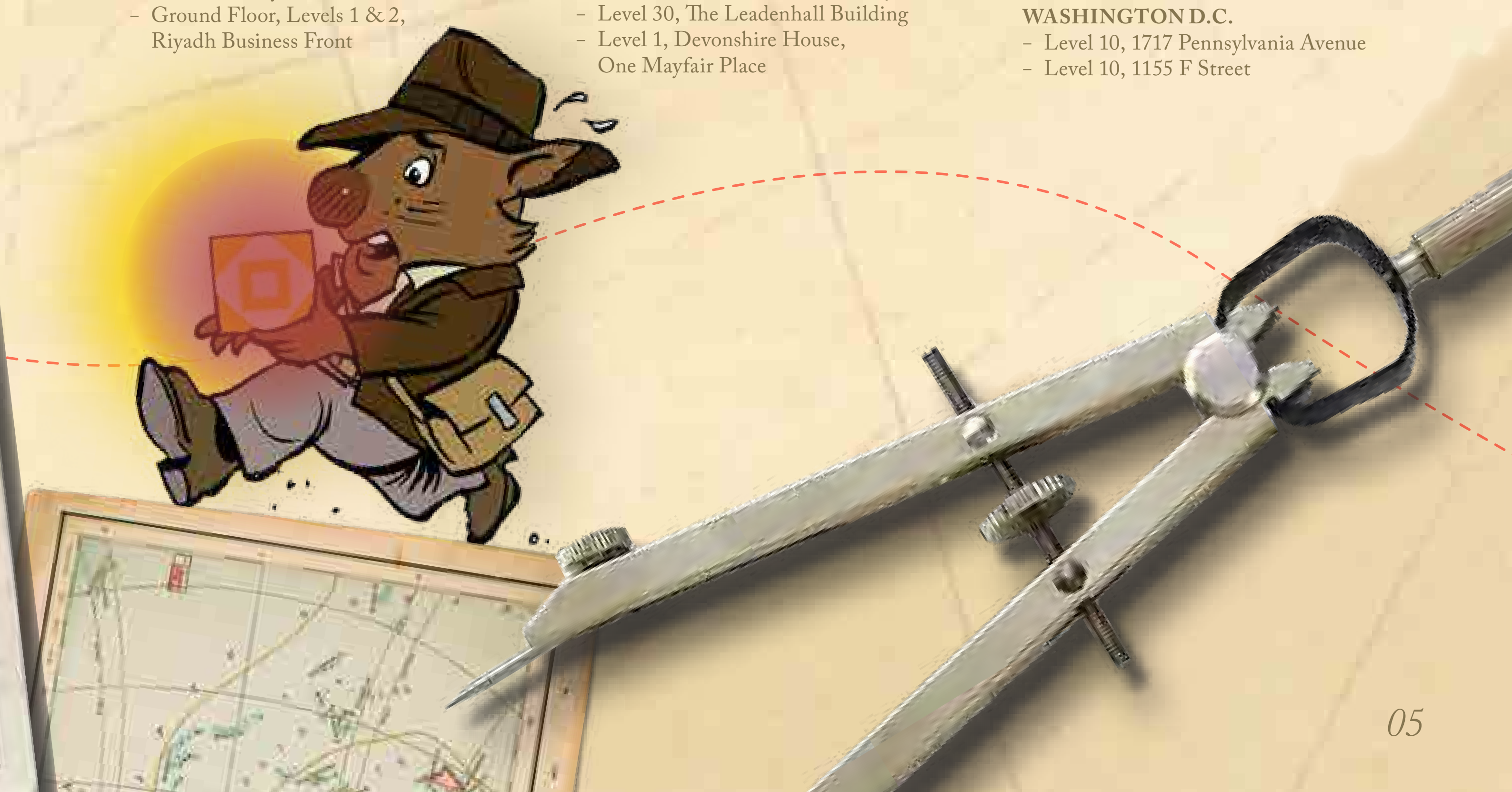
NEW YORK CITY
- Level 23, 1330 Avenue of the Americas
- Level 26, The Seagram Building
- Level 40, 17 State Street
- Level 85, One World Trade Center
- Levels 4 & 5, 667 Madison Avenue

ORANGE COUNTY
- Level 8, Irvine Towers

PHILADELPHIA
- Level 37, BNY Mellon Center

SAN FRANCISCO
- Level 27, 101 California Street
- Level 49, 555 California Street

WASHINGTON D.C.
- Level 10, 1717 Pennsylvania Avenue
- Level 10, 1155 F Street



CHAIRMAN'S MESSAGE

2019 REVENUE

$337.2million

an increase of 8% on 2018; a Servcorp record

The 2019 financial year saw the flexible workspace industry remain highly competitive and continue to experience unprecedented change and disruption. Our focus is staying ahead of this changing competitive landscape by continuing to invest in our unparalleled technology platform, and modernisation of fit-outs and enhancement of coworking offerings.

Revenue for the year was $337.2 million, an increase of 8% on 2018, and a Servcorp record.

Net profit before tax for the year was $12.5 million, a decrease of 61%; second half net profit before tax was $18.4 million, exceeding second half public guidance of between $14.0 million and $18.0 million. Net profit after tax was $5.4 million, with earnings per share of 5.6 cents.

Net profit before tax was impacted by $1.9 million in one-off, unbudgeted restructure costs and write-offs, $18.7 million of asset and goodwill impairment, and excludes $1.1 million of restricted earnings. Excluding these significant items, which do not reflect the real operating performance of our business, underlying net profit before tax was $32.0 million.

During the 2019 financial year the business generated net operating cash of $51.0 million, up 2% on 2018. Cash and investment balances at 30 June 2019 were $73.0 million, a decrease of 30%; $66.2 million of this balance was unencumbered and the Company has no external debt. These balances are after significant continued investment in reshaping our portfolio to modernise current fit-outs to incorporate coworking together with new floors and expansions. Having strong cash balances enables Servcorp to take advantage of opportunities as they arise, particularly in disrupted markets.

Directors have declared a final dividend of 10.0 cents per share, 60% franked. This final dividend is 25% above the previously forecast payment and brings total dividends for the 2019 financial year to 23.0 cents per share, resulting in a payout to shareholders of approximately $22.3 million.

For the 2020 financial year we project net profit before tax to be between $36.0 million and $40.0 million. This represents our view that the overall business has stabilised. Free cash (net operating cash flow before tax) in the 2020 financial year is expected to exceed $65.0 million. Directors anticipate the level of dividends for the 2020 financial year will be 20.0 cents per share (10.0 cents in each half); future franking levels are uncertain. These forecasts are subject to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.

We remain optimistic due to our unique strategic positioning, global reach, technology platform, longstanding track record, strong cash generation and healthy net cash position; all of which reinforce our confidence in Servcorp's potential to continue to drive healthy returns for our shareholders, and maintain our position as the world's premium provider of Workspace Solutions.

On behalf of the Board I want to acknowledge the outstanding efforts of our CEO, Alf Moufarrige; our leadership group; and all the Servcorp team members, for their dedication and commitment during the past year of continued disruption in the flexible workspace industry.

It is with regret that I have decided not to seek re-election as a Director at the forthcoming annual general meeting. It has been my privilege to serve as Chair of this great Company for the past 20 years but, as I will have turned 75 during September this year, it is time for one to pass the baton. The Hon. Mark Vaile AO, who has been a Director since 2011, will take my place as Chairman at the conclusion of this year's annual general meeting.

Servcorp has appointed Mr Tony McGrath as a new independent non-executive Director. Tony comes with a lifetime of experience in the Australian financial sector, specialising in corporate restructuring and governance advisory related matters. We are confident he will make a meaningful contribution to Servcorp's future.

We look to the future with optimism, and thank you, our shareholders, for your continuing support.

BRUCE CORLETT AM

CEO's MESSAGE

This year it's a happy Chief Executive.

The revolution turned into the education of the market and what shared commercial accommodation is all about.

At first sight of the size of the massive competition appearing in all of our markets, we panicked a little. Many of those searching for the opportunity to grow their small business signed contracts with building owners and the all too numerous competitors.

Almost every provider decided to take a shortcut to success, and in essence provided a coffee house environment with no underlying commercial infrastructure to give their clients a real advantage in the market place.

BUSINESSES TO SUCCEED NEED...

A COMMUNITY TO WORK WITH

A TEAM TO DELEGATE TO

SIMPLE IT SOLUTIONS THAT WORK

A RECEPTIONIST TO ANSWER YOUR CALLS

SECURE, ROCKET-FAST, UNIQUE PASSWORD WI-FI

...TO ENSURE THEY CAN GROW, COMPETE AND AT LEAST HAVE SOME SECURITY.

FREE CASH OVER
$30 million
for the second 6 months; a Servcorp record

The last 6 months has been a real resurgence for Servcorp, with Office and Virtual Office sales tracking at record levels, our revenue increasing and our free cash for 6 months was comfortably over $30 million, which is an all-time record for Servcorp.

One can never guarantee that this success will continue, but our Office and Coworking enquiries indicate that our organic growth will continue.

It was with a great deal of pleasure that the Board authorised increasing the projected final dividend from 8 cents to 10 cents, an increase of 25%, and an anticipated 2020 total dividend increase from 16 cents to 20 cents per share.

Our team enters a new financial year with renewed confidence in the quality of the product and we look forward to a successful full year.

I would like to thank the Board, in particular Bruce Corlett, whose guidance for over 20 years has been invaluable, and also to Rick Holliday-Smith for 20 years and to Mark Vaile and Wallis Graham. I welcome all the experience that Tony McGrath will bring to the Servcorp Board table.

The newcomers in this field are finding that the real disrupter is Servcorp. Its ability to disrupt comes from years of investment in technology and reinvestment in what appears to be the world's best provider of...

HOT DESK
DEDICATED DESK
OFFICES
VIRTUAL OFFICES
THE MEMBERSHIP

A G MOUFARRIGE AO
CEO

Tokyo Hibiya Central

THE DIFFERENCE IS OUR WORK PLACE

Not just a work space

The flexible workspace industry continues to grow at 20% compounding, but remains highly competitive. We continue our focus on staying ahead of this changing competitive landscape by continuing to invest in our unparalleled technology platform, modernisation of fit-outs and enhancement of coworking offerings.

Competition may be fierce, but nobody has the focus of Servcorp on building the infrastructure that clients need to succeed in the digital age.

We select only the most premium buildings, in the most dynamic locations, so that our clients' business benefits from a recognisable CBD address. The spectacular views welcome clients and business partners as they arrive in the lobby; they get the 'wow' factor with highest standards of interior styling, hand-chosen original art-work, fine leather furniture and our signature checkerboard granite floor.

THE HISTORY

Servcorp, since its inception in 1978, has always led the development of workspace solutions, and has grown organically since its IPO in 1999. At the time of the IPO, Servcorp operated in 8 countries with 35 floors. By June 2009, Servcorp operated in 14 countries, with 73 floors; in 10 years Servcorp had doubled its size.

In 2009 the global market conditions created an opportunity to secure leases on what was expected to be very favourable terms. This represented an attractive opportunity for aggressive expansion. During October and November 2009, Servcorp successfully undertook an equity capital raising of $80 million to fund a global expansion program. During the 2010 and 2011 years Servcorp opened a further 53 floors and expanded into 26 new cities and 7 new countries.

At 30 June 2019, Servcorp operated 154 floors in 54 cities across 24 countries.

THE FUTURE

We have absolute confidence that our product is better; our team is motivated and the competition seems to target rogue warriors that work in coffee shops rather than the over 30-year-old entrepreneurs who plan to make their business work.

OUR NEW PLACES

During the year we opened nine new floors and expanded existing capacity in our Mayfair and Canary Wharf locations in London. Our new floors include the Schuman 3 Building in Brussels, Honmachi Minami Garden City in Osaka, Linkstraße 2 in Berlin, Business Front in Riyadh and the Marunouchi Nijubashi Building in Tokyo.

- Our first location in Germany is in Linkstraße 2 at Potsdamer Platz in Berlin. Potsdamer Platz is in the heart of Berlin and is a popular shopping and nightlife district. Potsdamer Platz is only 1 kilometre from the Brandenburg Gate, the Reichstag, Tiergarten Park and many other tourist attractions.
- Our new Tokyo location is in Marunouchi Nijubashi, a new landmark building having beautiful views overlooking the Imperial Palace Gardens. You're in great company with stores such as Tiffany, Yves Saint Laurent, Issey Miyake, Hermes and Ermenegildo Zegna merely a stones throw away.
- Honmachi Minami Garden City in Osaka is a prestige location, located in the heart of Midosuji, Osaka's most recognized Avenue. It is a state-of-the-art building, with a beautiful granite and glass façade. The area underwent a major overhaul in 2012 when the mayor of Osaka unveiled plans to transform it into a shopping destination to rival the Champs-Elysées in Paris, Bond Street in London or Orchard Road in Singapore.
- We opened 3 floors in the Riyadh Business Front, boasting an advanced and modern concept with vibrant and natural settings, which offer a variety of work environments, designed for a unique business experience. Situated in a prime location near King Khalid Airport, the Business Front is where formal business atmosphere meets casual corporate culture. The Riyadh Front development consists of two facilities known as "The Business Front" and "The Shopping Front" both of which serve the business community and act as a centre for leisure, shopping and hospitality.

There is a Difference!

SERVCORP VS WEWORK

WHAT WE PROVIDE TO HELP YOU SUCCEED	SERVCORP	wework
Receptionist who answers your telephone *The way you like and puts it through to mobile, home or your desk.*	✓	×
International number portability *Servcorp provides a mobile app. No roaming charges.*	✓	×
Free calls to any outside destination or device = no connection cost	✓	×
Dial *1 for IT help *100 in-house Servcorp IT experts on hand to support you– no outsourcing!*	✓	×
Six incoming lines + Voicemail & press 1 to mobile *At Servcorp, your phone will never ring engaged.*	✓	×
A full team to delegate to *There always is a trained team member on hand to assist your business.*	✓	×
Printing and scanning available from Coworking space	✓	✓
Access to 60,000+ like-minded imagineeers across the globe *Socialise, communicate, collaborate, learn & profit online or in person.*	✓	✓
WeWork 100,000 Community, no vocal connection through switchboard	×	✓
Office clients can use Coworking space	✓	✓
Hot Desk included at any worldwide location	✓	✓
Global IT network	✓	×
Tier-1, 24/7 managed internet service	✓	×
We are our own ISP	✓	×
Any internet configuration can be achieved e.g. VLAN, VPN or DMZ	✓	×
Office space security deposit	1 month	2 months
20% of your spend returned to you as loyalty points	✓	×
***Secure, rocket fast Wi-Fi with unique password** *(*Available at some locations, currently being rolled out across the Servcorp world).*	✓	×

SERVCORP'S COMMUNITY

Welcome Home

WHERE SERVCORP'S COMMUNITY AND TECHNOLOGY MEET

At Servcorp, you will find 60,000 business clients spread throughout the world, but they all share one location: Servcorp Home.

Servcorp Home is where you will find the best of our technology in easy reach of our global community.

Servcorp Home is a powerful community platform, integrated into Servcorp's superior technology. It allows our clients to connect, collaborate and come together with 60,000+ businesses globally. It is our clients own private global business network; they can buy from and sell to each other.

60,000+
business clients throughout the world

THE TRUST DIFFERENCE

Within the last 12 months, Servcorp's Community has grown from 40,000 to 60,000 members. This 50% increase in our global members is a significant advantage for our clients. That is to connect with and promote to other verified companies.

Unlike other business communities and service providers, Servcorp's real difference is that every individual client has gone through a verification process. Why does this matter? It matters since the trust factor of doing business with another reputable business increases.

We also find Servcorp clients aligned through business outcomes, thus sharing a similar ethos and purpose. We continue to see members connect and watch strangers become contacts who become customers. It is these real-world outcomes which are the beauty of any digital platform.

THE COMMUNITY DIFFERENCE

"Community over competition" is the essential building block for creating a great Servcorp business network. The community focus for FY19/20 is to continue to add real, tangible value for our clients – offline and online.

Online, there are several touchpoints for a client to connect. They can list their company within the directory, access 1000's of events, articles, benefits and more. These create the tools needed for a client to build, manage and engage with their community.

Offline and on the ground, Servcorp has hosted 1000's of tailored and member-only events globally in the last year creating powerful networking opportunities for our members.

In a data-driven world, the result will always be to serve our clients better. Like any community platform – it is constantly evolving to create the outcomes each Servcorp client is looking for within the platform.

We operate a "community-first" approach; however, this still has indirect financial returns for Servcorp. Indirectly, it helps with service utilisation (i.e. booking meeting rooms, familiarity with Servcorp services) and potentially increased retention through adding value to clients.

THE FY19/20 DIFFERENCE

Servcorp Home will continue to evolve into the important cornerstone for Servcorp's overall drive to improve our online customer experience. Our outcome for FY19/20 is to become an actively used, premium business network, which delivers significant real value to our clients' overall experience helping accelerate their business growth.

The roadmap for the next 12 months will see improved client-centric designs, new features and a better client experience. FY19/20 will also see more of our technology integrated into Servcorp Home to stay ahead of the pack in an industry that is constantly changing and evolving.

INFORMATION & COMMUNICATION TECHNOLOGY

Our purpose-built technology remains a key point of difference for our business and our clients, and we continue to invest and innovate in products and infrastructure.

Servcorp doesn't just provide a place to work, but a place for our customers to grow their business. Our product and design teams continue to build unique products and solutions that offer measurable value, and a better overall experience for a fraction of the price to the customer.

We also continued development and rollout of our internal automation systems and customer service tools, enabling our team members to deliver the highest levels of customer service at scale.

As a result we continue to deliver not just a premium experience to our customers, but a higher chance of success for their business.

WI-FI SECURITY

We believe that, to be able to run a business, you need a secure internet connection. Complementing our secure global network, we have invested heavily in providing an encrypted, user-based Wi-Fi solution. Whilst being the most secure offering in the industry, we have also created a solution that is easy to use, and provided via a flexible business model to our customers.

ONEAP

Our flagship proprietary mobile platform continues to grow, and is a key element for our customers to access Wi-Fi, phones, space access, and adding guests securely to our network. This easy-to-use mobile experience is underpinned by a complex automation platform making it easy for our customers to consume services wherever they travel to within Servcorp.

ONGOING ROLLOUT OF KEYLESS DOORS

We continue to rollout our global access control solution, giving our customers the ability to obtain access to space using only a card or OneAp.

SERVCORP WORKSPACE PLATFORM GOES LIVE IN USA

The Servcorp Workspace Platform (SWP) continues to go from strength to strength, and has now started rolling out across the United States.

SERVCORP NOW GOES LIVE IN CHINA AND HONG KONG

Boasting 1 billion active users per day, WeChat is China's largest consumer platform. Launching this year is Servcorp Now, a WeChat mini-program that enables non-customers to find and book Servcorp space without signing up to contracts. We see this as a big opportunity in a new channel to increase our market share in China.

GLOBAL VOICE SYSTEM UPGRADES

Our global voice backbone was upgraded this year and has enabled increased security, at the same time as lowering operational costs. The upgrades have also enabled new features that will be passed on to our customers on demand through OneAp and Servcorp Home.

NEW DATA CENTRES IN USA, OSAKA, DUBAI AND MELBOURNE

To further increase our security, redundancy, availability and connectivity, we have opened new data centres that house our essential infrastructure worldwide. Strategically this assists us to respond quicker to market opportunities and increase our global internet speeds.

1 NEVER MISS THAT IMPORTANT CALL

- Find Me Follow Me
- Call Diversion
- Live Receptionist

2 RUN YOUR BUSINESS MORE EFFICIENTLY

- IT Support
- IT Consulting
- Call Screening
- OneAp Wi-Fi
- Security

3 EXPAND YOUR BUSINESS WITH EASE

- Local Number
- Professional Phone Greetings

4 TAKE YOUR OFFICE WITH YOU ANYWHERE YOU GO

- Onefone
- Global Dial
- OneAp

5 HAVE ACCESS TO THE MOST ADVANCED GLOBAL COMMUNICATION SYSTEM

- Automated Attendant
- Voicemail & Fax To Email
- Video Conferencing
- Conference Calling
- Wi-Fi
- IP Video Phones
- Voicemail Notifications
- Voicemail To SMS
- Security
- Global Redundancy & Disaster Recovery
- Internet Exchange Peering

GLOBAL COMMUNICATIONS NETWORK

Our network is truly revolutionary


LONDON
BERLIN
BRUSSELS
PARIS
ISTANBUL
BEIRUT
KUWAIT CITY
MANAMA
DOHA
JEDDAH
AL KHOBAR
DUBAI
ABU DHABI
RIYADH
MUMBAI
HYDERABAD
BEIJING
TOKYO
YOKOHAMA
NAGOYA
OSAKA
FUKUOKA
SHANGHAI
HANGZHOU
CHENGDU
GUANGZHOU
KOWLOON
HONG KONG
MANILA
BANGKOK
KUALA LUMPUR
SINGAPORE
JAKARTA
PERTH
ADELAIDE
MELBOURNE
HOBART
BRISBANE
SYDNEY
CANBERRA
AUCKLAND
WELLINGTON

OUR ENVIRONMENTAL COMMITMENT

Servcorp acknowledges the seriousness of climate change and the impact high concentrations of greenhouse gases in the atmosphere are having on our planet. There is growing need for businesses to become sustainable to ensure the protection of the environment from further damage. We have three distinct areas of focus; Reduce, Offset and Educate.

NEARLY
38,000 trees *planted*

MORE THAN
100,000m² occupied *by Servcorp forests*

9,700 tonnes CO_2 *offset*

As a global company, we have a responsibility for taking a leadership role amongst both team members and clients worldwide to educate them on our values and attitude towards the environment. We will endeavour to make everyday changes, such as reducing paper use, recycling waste materials and using energy efficient processes, to help make a difference.

As Servcorp continues to grow and open new locations, we choose green buildings as another step in the right direction, and to further reduce our impact on the environment.

Servcorp also takes a proactive approach to offsetting greenhouse emissions. Since 2007, Servcorp has supported The Green Offices Project as our global platform for these initiatives.

As part of The Green Offices Project, Servcorp plants a tree for every Virtual Office sold online through the Servcorp website. Virtual Offices, which are inherently environmentally friendly, continue to be a driving force behind the Green Offices Project.

The Project aims to reduce our carbon emissions, offset our existing footprint and educate our teams and clients about improving their day-to-day impact on the environment. As well as offsetting greenhouse gas, this action is helping improve water quality, reduce soil degradation and provide essential habitat for native wildlife.

Servcorp has already planted nearly 38,000 trees and the 'Servcorp forest' now covers more than 100,000 square metres of regional land and is greater than the combined floor space occupied by our network of offices, globally.

The Servcorp forest will already remove more than 9,700 tonnes of carbon dioxide from the atmosphere during its lifespan. This is offsetting our Sydney Head Office greenhouse gas emissions from waste for the equivalent of five years!

COMMUNITY SERVICE

Servcorp supports continuing research into the prevention and cure of cancer and assisting young, seriously or terminally ill members of the community.

Servcorp holds charity functions and balls, runs raffles and undertakes donation drives all year round in all our locations. Every dollar that is raised by our teams on the ground is matched dollar for dollar by Servcorp. Over the year, Servcorp has raised and donated in excess of $500,000 to help with many organisations around the world.

In Australia, Youngcare continues to be the main focus of our fundraising.

The other organisations we strongly supported globally this year included:

- Cancer Council
- Cure the Future
- Exodus Foundation
- Lifeline Australia
- MS Research Australia
- Murdoch Children's Research Institute
- Pinnacle Foundation
- Rotary Club of Sydney
- Salvation Army
- Soldier On Australia
- St Vincent's Private Hospital
- Marymount Centre –Singapore
- Nayamba School in Africa– United Kingdom
- Qatar Cancer Society - Qatar
- Run for the Cure – Japan

Servcorp also contributed to many other local charitable organisations around the world, and sponsors and supports the Australian Chamber Orchestra and The Art Gallery of NSW. Servcorp is a racially diverse company, supporting Christian, Buddhist, Muslim and Jewish causes.

We are proud of the fact that as a global Company we work with our local communities to bring about real change for good. We thank our clients and those who contributed to the success of our fundraising for the year.

Singapore CapitaGreen

Bangkok Mercury Tower

Cancer Council | MS Australia | ACO Australian Chamber Orchestra Richard Tognetti Artistic Director | youngcare

RUSSIA
PACIFIC OCEAN
GREENLAND
MONGOLIA
CHINA
NORTH ATLANTIC OCEAN
SOUTH ATLANTIC OCEAN
INDIAN OCEAN
AUSTRALIA
RRRRUMBLE!
EGYPT
ETHIOPIA
SOMALIA
KENYA
TANZANIA
ANGOLA
ZAMBIA
NAMIBIA
SOUTH AFRICA
NIGERIA
VENEZUELA
BOLIVIA
ARGENTINA
CHILE
THE DIFFERENCE AIRWAYS SYSTEM

OUR DIRECTORS & EXECUTIVES

THE BOARD AND EXECUTIVES

Bruce Corlett AM – *Chairman*

Rick Holliday-Smith – *Non-executive Director*

Mark Vaile AO – *Non-executive Director*

Wallis Graham – *Non-executive Director*

Tony McGrath – *Non- executive Director*

Alf Moufarrige AO – *Executive Director, CEO*

Anton Clowes (BCom (Hons), CA) – *Chief Financial Officer*

Greg Pearce (CA, FGIA, FCIS) – *Company Secretary*

OPERATIONAL EXECUTIVES

Olga Vlietstra (BA) – *General Manager Japan*

Liane Gorman – *General Manager Australia & New Zealand*

David Godchaux (MSc Hons) – *CEO Europe & Middle East*

Krystle Sulway-Johansson – *General Manager Hong Kong*

Anna Chavez (BDesign(Hons), BA) – *General Manager China and South East Asia*

Fabienne Hajjar (PharmD) – *Senior Manager Qatar & Lebanon*

Charles Robinson (LLB, BCom) – *Senior Vice President USA*

Lesley Brice – *Senior Manager UK & Germany*

HEAD OFFICE EXECUTIVES

Selene Ng (BCom, BA) – *Senior Vice President- Sales USA*

Warren James – *Chief Property Officer*

Matthew Baumgartner (BInfTech (SE), CCIE, MBA) – *Chief Information Officer*

Daniel Kukucka (MBA, BE, DipEngPrac) – *Chief Technology Officer*

Steve Gainer – *Global Accounts – Japan*

BUSINESSES TO SUCCEED NEED...

A COMMUNITY TO WORK WITH

A TEAM TO DELEGATE TO

SIMPLE IT SOLUTIONS THAT WORK

A RECEPTIONIST TO ANSWER YOUR CALLS

SECURE, ROCKET-FAST, UNIQUE PASSWORD WI-FI

Corporate Governance

The Board of Directors of Servcorp Limited (Servcorp or the Company) has responsibility for the long term financial health and prosperity of Servcorp. The Directors are responsible to the shareholders for the performance of the Company and the Consolidated Entity and to ensure that it is properly managed.

The Board is committed to the principles underpinning the ASX Corporate Governance Council Principles and Recommendations. The Board is continually working to improve Servcorp's governance policies and practices, where such practices will bring benefits or efficiencies to Servcorp.

Details of Servcorp's compliance are set out below, and in the ASX principles compliance statement on Servcorp's website; servcorp.com.au. The information in this statement is current as at 27 August 2019 and has been approved by the Board.

ROLE OF THE BOARD

The Board has adopted a formal statement of matters reserved for the Board. The central role of the Board is to set Servcorp's strategic direction and to oversee Servcorp's management and business activities.

Responsibility for management of Servcorp's business activities is delegated to the CEO and management.

The Board's primary responsibilities are:

- the protection and enhancement of long term shareholder value;
- ensuring Servcorp has appropriate corporate governance structures in place;
- endorsing strategic direction;
- monitoring Servcorp's performance within that strategic direction;
- appointing the Chief Executive Officer and evaluating his performance and remuneration;
- monitoring business performance and results;
- identifying areas of significant risk and seeking to put in place appropriate and adequate control, monitoring and reporting mechanisms to manage those risks;
- establishing appropriate standards of ethical behaviour and a culture of corporate and social responsibility;
- approving senior executive remuneration policies;
- ratifying the appointment of the Chief Financial Officer and the Company Secretary;
- monitoring compliance with continuous disclosure policy in accordance with the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange;
- monitoring that Servcorp acts lawfully and responsibly;
- reporting to shareholders;
- addressing all matters in relation to issued securities of the Company including the declaration of dividends;
- ensuring the Board is, and remains, appropriately skilled to meet the changing needs of Servcorp.

The Board Charter is available on Servcorp's website; servcorp.com.au

COMPOSITION OF THE BOARD

The size and composition of the Board is determined by the Board, subject to the limits set out in the Company's Constitution which requires a minimum of three Directors and a maximum of twelve Directors.

The Board comprises five Directors (one executive and four non-executive). All four non-executive Directors are considered to be independent.

The only change to the Board since the last annual report was the resignation of Mr Taine Moufarrige on 7 November 2018.

The Chairman of the Board, Mr Bruce Corlett, is an independent non-executive Director.

The non-executive Directors bring to the Board an appropriate range of skills, experience and expertise to ensure that Servcorp is run in the best interest of all stakeholders. The skills, experience and expertise of each Director in office at the date of this annual report are set out on pages 30 and 31 of this annual report. The Board will continue to be made up of a majority of independent non-executive Directors. The performance of non-executive Directors was reviewed during the year.

The names of the Directors of the Company in office at the date of this annual report are set out in the table on the following page.

Corporate Governance

DIRECTORS' INDEPENDENCE

It is important that the Board is able to operate independently of executive management.

The non-executive Directors are considered by the Board to be independent of management. Independence is assessed by determining whether the Director is free of any business interest or other relationship which could materially interfere with the exercise of their unfettered and independent judgement and their ability to act in the best interests of Servcorp.

NAMES OF DIRECTORS IN OFFICE AT THE DATE OF THIS ANNUAL REPORT

DIRECTOR	FIRST APPOINTED	NON-EXECUTIVE	INDEPENDENT	RETIRING AT 2019 AGM	SEEKING RE-ELECTION
A G Moufarrige	24 August 1999	No	No	No	N/A
B Corlett	19 October 1999	Yes	Yes	Yes	No
R Holliday-Smith	19 October 1999	Yes	Yes	No	N/A
M Vaile	27 June 2011	Yes	Yes	No	N/A
W Graham	3 October 2017	Yes	Yes	Yes	Yes

ELECTION OF DIRECTORS

The Company's Constitution specifies that an election of Directors must take place each year. One-third of the Board (excluding the Managing Director and rounded down to the nearest whole number), and any other Director who has held office for three or more years since they were last elected, must retire from office at each annual general meeting. The Directors are eligible for re-election. Directors may be appointed by the Board during the year. Directors appointed by the Board must retire from office at the next annual general meeting.

All Director appointments or changes are dealt with by the Nomination Committee.

CONFLICT OF INTEREST

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that would potentially conflict with those of Servcorp. Where the Board believes that an actual or potential significant conflict exists, the Director concerned, if appropriate, will not take part in any discussions or decision making process on the matter and will abstain from voting on the item being considered. Details of Director related entity transactions with the Company and the Consolidated Entity are set out in Note G2 to the Consolidated financial report.

INDEPENDENT PROFESSIONAL ADVICE

Each Director has the right to seek independent professional advice, at Servcorp's expense, to help them carry out their responsibilities. Prior approval of the Chairman is required, which will not be unreasonably withheld. A copy of any written advice received by the Director is made available to all other members of the Board.

ETHICAL STANDARDS

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Servcorp.

Codes of conduct, outlining the standards of personal and corporate behaviour to be observed, form part of Servcorp's management and team on-line resources.

DIRECTOR AND OFFICER DEALINGS IN COMPANY SHARES

Servcorp policy prohibits Directors, officers and senior executives from dealing in Company shares or exercising options:

- in the six weeks prior to the announcement to the ASX of the Company's half-year and full-year results; or
- whilst in possession of non-public price sensitive information.

Directors must discuss proposed purchases or sales of shares in the Company with the Chairman before proceeding. If the Chairman proposes to purchase or sell shares in the Company, he must receive approval from the next most senior non-executive Director before proceeding. Directors must also notify the Company Secretary when they buy or sell shares in the Company. This is reported to the Board.

In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the ASX, each Director has entered into an agreement with the Company that requires disclosure to the Company of all information needed for it to comply with the obligation to notify the ASX of Directors' holdings and interests in its securities.

The Company's Securities Trading Policy is available on Servcorp's website; servcorp.com.au

Corporate Governance

AUDITOR INDEPENDENCE

The Company's auditor Deloitte Touche Tohmatsu (Deloitte) was appointed at the annual general meeting of the Company on 6 November 2003.

Deloitte rotate their audit engagement partner every five years.

Deloitte have established policies and procedures designed to ensure their independence, and provide the Audit and Risk Committee with an annual confirmation as to their independence.

DIVERSITY

Servcorp has a culture that both embraces and achieves diversity in its global operations.

Servcorp is culturally diverse in its employment practices and has a global culture of employing the best qualified available talent for any position regardless of gender, age, race or religion. Servcorp benefits from the diversity of its team members and has training programs to assist with developing their skills and with career advancement. Servcorp travels team members to work in its global locations, giving them exposure to and understanding of various differing cultures and marketplaces.

Servcorp has a high participation of women across all employment levels. The proportion of women employees in the whole organisation, senior executive positions and on the Board is set out in the following table.

FULL TIME EMPLOYEES	TOTAL NO.	WOMEN %	MEN %
Consolidated entity	801	84%	16%
Senior executive	19	47%	53%
Board	5	20%	80%

"Senior executive" are general managers, senior managers and head office executives who report directly to the CEO.

Under the Workplace Gender Equality Act 2012 (WGE Act), any employer with 100 or more employees must submit an Annual Compliance Report detailing the composition of its workplace profile in Australia. Servcorp has lodged its WGE Report for 2019 with the WGE Agency and has received notice that the Company and its Australian subsidiaries are compliant with the WGE Act.

Shareholders may access the report on Servcorp's website; servcorp.com.au

CONTINUOUS DISCLOSURE

Servcorp is committed to ensuring that all shareholders and investors are provided with full and timely information and that all stakeholders have equal and timely access to material information concerning Servcorp. Procedures are in place to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

The Company Secretary has been appointed as the person responsible for communications with the ASX.

COMMITTEES

The Board does not delegate major decisions to Committees. Committees are responsible for considering detailed issues and making recommendations to the Board. The Board has established three Committees to assist in the implementation of its corporate governance practices. Details of these Committees are set out on the following pages.

Corporate Governance

AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee during the year were:

- Mr R Holliday-Smith (Chair)
- The Hon. M Vaile
- Mrs W Graham

All three current members are independent non-executive Directors.

The Chairman of the Audit and Risk Committee is independent and is not the Chairman of the Board.

The primary function of the Audit and Risk Committee is to assist the Board to meet its oversight responsibilities in relation to:

- ensuring the Company adopts, maintains and applies appropriate accounting and financial reporting processes and procedures;
- reviewing and monitoring the integrity of the Company's financial reports and statements;
- ensuring the Company maintains an effective risk management framework and internal control systems;
- monitoring the performance and independence of the external audit process and addressing issues arising from the audit process.

It is the Committee's responsibility to maintain free and open communication between the Committee and the external auditor and the management of Servcorp.

The external auditors attend all meetings of the Committee. The Chief Executive Officer, the Chief Financial Officer and other senior management attend Committee meetings by invitation.

The Audit and Risk Committee met four times during the year. The Committee meets with the external auditors without management being present before signing off its reports each half year. The Committee Chairman also meets with the auditors at regular intervals during the year.

The responsibilities of the Audit and Risk Committee, as stated in its charter, include:

- reviewing the financial reports and other financial information distributed externally;
- reviewing the Company's policies and procedures for compliance with Australian equivalents to International Financial Reporting Standards;
- monitoring the procedures in place to ensure compliance with the Corporations Act 2001, ASX Listing Rules and all other regulatory requirements;
- assisting management in improving the quality of the accounting function;
- monitoring the internal control framework and compliance structures and considering enhancements;
- overseeing the risk management framework;
- reviewing external audit reports to ensure that, where major deficiencies or breakdown in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- reviewing reports on any major defalcations, frauds and thefts from the Company;
- considering the appointment and fees of the external auditor;
- reviewing and approving the terms of engagement and fees of the external auditor at the start of each audit;
- considering and reviewing the scope of work, reports and activities of the external auditor;
- establishing appropriate policies in regard to the independence of the external auditor and assessing that independence;
- liaising with the external auditor to ensure that the statutory annual audit and half-yearly review are conducted in an effective manner;
- addressing with management any matters outstanding with the auditors, taxation authorities, corporate regulators, Australian Securities Exchange and financial institutions;
- monitoring the establishment of appropriate ethical standards.

The Audit and Risk Committee Charter is available on Servcorp's website; servcorp.com.au

Corporate Governance

NOMINATION COMMITTEE

The Nomination Committee members during the year were:

- Mr B Corlett (Chair)
- The Hon. M Vaile
- Mrs W Graham

The primary function of the Nomination Committee is to support and advise the Board in fulfilling its responsibility to shareholders in ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of Directors. Specifically, this will include establishing and reviewing the following matters for non-executive Directors on the Board and Board Committees:

- processes for identification of suitable candidates for an appointment or re-election to the Board, and selection procedures;
- necessary and desirable competencies and experience;
- processes to review Director contributions and the performance of the Board as a whole;
- succession plans;
- induction programs;
- assessment of the independence of Directors;
- gender diversity;

The Nomination Committee met three times during the year.

The Nomination Committee Charter is available on Servcorp's website; servcorp.com.au

REMUNERATION COMMITTEE

The Remuneration Committee members during the year were:

- The Hon. M Vaile (Chair)
- Mr B Corlett
- Mr R Holliday-Smith

The primary function of the Remuneration Committee is to assist the Board in adopting remuneration policy and practices that:

- supports the Board's overall strategy and objectives;
- attracts and retains key employees;
- links total remuneration to financial performance and the attainment of strategic objectives.

Specifically, this will include:

- making recommendations to the Board on appropriate remuneration, in relation to both the amount and its composition, for the Chief Executive Officer and senior executives who report to the Chief Executive Officer;
- developing and recommending to the Board short term and long term incentive programs;
- monitoring superannuation arrangements for the Company;
- reviewing recruitment, retention and termination strategies and procedures;
- ensuring the total remuneration policy and practices are designed with proper consideration of accounting, legal and regulatory requirements for both local and foreign jurisdictions;
- reviewing the Remuneration Report for the Company and ensuring that publicly disclosed information meets all legal requirements and is accurate.

The Remuneration Committee shall ensure the Company is committed to the principles of accountability and transparency and to ensuring that remuneration arrangements achieve a balance between shareholder and executive rewards.

The Remuneration Committee reviews the executive remuneration structures each year to ensure they continue to be appropriate. Details are included in the Remuneration Report on pages 40 to 51 of this annual report.

The Remuneration Committee met three times during the year. The Chief Executive Officer attends Committee meetings by invitation to assist the Committee in its deliberations.

The Remuneration Committee Charter is available on Servcorp's website; servcorp.com.au

Directors' Report

The Directors of Servcorp Limited ("the Company") present their report together with the Consolidated financial report of the "Consolidated Entity", being the Company and its controlled entities, for the financial year ended 30 June 2019.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

ALF MOUFARRIGE AO

Managing Director

Appointed August 1999

Chief Executive Officer

Alf is one of the global leaders in the serviced office industry, with over 40 years of experience. Alf is primarily responsible for Servcorp's expansion, profitability, cash generation and currency management.

Directorships of listed entities in the last three years:

- None.

BRUCE CORLETT AM

Chair

Independent Non-executive Director

BA, LLB

Appointed October 1999

Member of Remuneration Committee

Chair of Nomination Committee

For more than 30 years Bruce has been a Director of many public listed and unlisted companies. He has an extensive business background involving a range of industries including banking, property and maritime.

Bruce was Chair of Australian Maritime Systems Ltd until May 2018.

Bruce has a lifetime involvement with many community and charitable organisations. He is currently a Director of the Mark Tonga Perpetual Relief Trust and the Buildcorp Foundation and is an Ambassador of The Australian Indigenous Education Foundation.

Directorships of listed entities in the last three years:

- None.

RICK HOLLIDAY-SMITH

Independent Non-executive Director

BA (Hons), CA, FAICD

Appointed October 1999

Chair of Audit and Risk Committee

Member of Remuneration Committee

Rick spent over 11 years in Chicago in the roles of Divisional President of global trading and sales for NationsBank, N.A. and, prior to that, Chief Executive Officer of Chicago Research and Trading Group Limited. Rick also spent over four years in London as Managing Director of Hong Kong Bank Limited, a wholly owned merchant banking subsidiary of HSBC Bank.

Rick is currently Chair of ASX Limited and Cochlear Limited. Rick has a Bachelor of Arts (Hons) from Macquarie University, has a Chartered Accountant qualification and is a Fellow of the Australian Institute of Company Directors.

Directorships of listed entities in the last three years:

- ASX Limited (ASX) since July 2006 (Chair since March 2012);
- Cochlear Limited (COH) since March 2005 (Chair since July 2010).

Directors' Report

THE HON. MARK VAILE AO

Independent Non-executive Director

FAICD

Appointed June 2011

Member of Audit and Risk Committee

Chair of Remuneration Committee

Member of Nomination Committee

Mark had a distinguished career as an Australian Federal Parliamentarian from 1993 to 2008. Ministerial Portfolios held by Mark during his five terms in Federal Parliament include Minister for Transport and Regional Development, Minister for Agriculture, Fisheries and Forestry, Minister for Trade, and Minister for Transport and Regional Services.

Mark also served as Deputy Prime Minister of Australia from July 2005 through to December 2007. He was instrumental in securing or initiating a range of free trade agreements between Australia and the United States, Singapore, Thailand, China, Malaysia and the ASEAN countries.

Since leaving the Federal Parliament in July 2008, Mark has embarked on a career in the private sector utilising his extensive experience across a number of portfolio areas. His current Directorships include StamfordLand Limited and Chair of Whitehaven Coal Limited. Mark is Chair of the Australian American Leadership Dialogue, a Director/ Trustee of Hostplus Superfund Limited and is a member of Palisade Investment Partners Advisory Board.

Directorships of listed entities in the last three years:

- SmartTrans Holdings Limited (SMA) from April 2016 to June 2018 (Chair);
- StamfordLand Corporation Ltd (SLC - listed on SGX) since August 2009;
- Virgin Australia Holdings Limited (VAH) from September 2008 to December 2018;
- Whitehaven Coal Limited (WHC) since May 2012 (Chair).

WALLIS GRAHAM

Independent Non-executive Director

GAICD

Appointed October 2017

Member of Audit and Risk Committee

Member of Nomination Committee

Wallis has had over 15 years of experience in finance, including funds management, corporate finance, private equity, and investment banking. Her responsibilities have spanned multiple industries, including business services, and she has a strong understanding of emerging technologies and the digital landscape.

Wallis has involvement with many community and charitable organisations. She is currently a Director of Wenona School Limited, the Garvan Research Foundation, the Sydney Youth Orchestras, the Wenona Foundation and the John Brown Cook Foundation.

Directorships of listed entities in the last three years:

- None.

TAINE MOUFARRIGE

Executive Director

BA, LLB

Appointed November 2004

Resigned November 2018

Taine started his professional career as a lawyer.

He joined Servcorp in 1996 as a Trainee Manager. He played a key role in establishing Servcorp locations in Europe, the Middle East, China, Turkey, New Zealand, throughout Australia and in India.

After five and half years out of Servcorp operations, Taine re-joined as executive Director on 1 July 2017.

Taine resigned as a Director effective 7 November 2018 and as an operational executive effective 31 December 2018.

Directorships of listed entities in the last three years:

- None.

GREGORY PEARCE

Company Secretary

BCom, CA, FGIA, FCIS

Appointed August 1999

Greg joined Servcorp in 1996 as Financial Controller and was appointed to his current role of Company Secretary during the Company's IPO in 1999.

Prior to joining Servcorp, Greg spent 10 years working in the Information Technology business and the 11 years prior to that working in Audit and Business Services.

Greg is a member of Chartered Accountants Australia and New Zealand is a Fellow of the Governance Institute of Australia.

Directors' Report

DIRECTORS' MEETINGS HELD AND ATTENDANCES AT MEETINGS

The number of Directors' and Board Committee meetings held, and the number of meetings attended by each of the Directors of the Company during the financial year is set out in the following table. Only those Directors who are members of the relevant Committees have their attendance recorded. Other Directors do attend Committee meetings from time to time.

DIRECTOR	BOARD	AUDIT & RISK COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
Number of meetings held	7	4	3	3
NUMBER OF MEETINGS ATTENDED				
B Corlett	7		3	3
R Holliday-Smith	7	4	3	
A G Moufarrige	7			
T Moufarrige (i)	3			
M Vaile	7	4	3	3
W Graham	7	4		3

Note:

i Mr T Moufarrige ceased as a Director on 7 November 2018. The attendance recorded is only for meetings held during his directorship period.

The details of the function and membership of the Committees are presented in the Corporate Governance statement on pages 28 and 29.

DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the companies within the Consolidated Entity, as notified by the Directors to the Australian Securities Exchange in accordance with s205G(1) of the Corporations Act 2001, at the date of this report is set out in the following table.

DIRECTOR	ORDINARY SHARES IN SERVCORP LIMITED		OPTIONS OVER ORDINARY SHARES
	DIRECT	INDIRECT	
B Corlett	-	455,034	-
R Holliday-Smith	-	150,000	-
A G Moufarrige	547,436	50,790,669	-
M Vaile	-	20,600	-
W Graham	-	-	-

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Consolidated Entity has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Consolidated financial report, or the fixed salary of a full-time employee of the Consolidated Entity or of a related entity) by reason of a contract made by the Consolidated Entity or a related entity with the Director or with a firm of which a Director is a member, or with an entity in which a Director has a substantial financial interest.

Directors' Report

OPTIONS GRANTED

During the year, or since the end of the financial year, 1,281,000 options over unissued ordinary shares of the Company were issued (2018: Nil).

Options granted to Directors or the five most highly remunerated officers of the Company as part of their remuneration are detailed in the Remuneration report on page 47.

OPTIONS ON ISSUE

At the date of this report, unissued ordinary shares of the Company under option are:

Number of shares	160,000	1,281,000
Exercise price	$7.00	$3.01
Expiry date	2 May 2021	22 March 2024

The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

OPTIONS EXPIRED

During the year, or since the end of the financial year, 135,000 options over unissued shares expired or were cancelled (2018: Nil).

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the year, or since the end of the financial year, the Company has not issued any shares as a result of the exercise of an option over unissued shares.

SHARE BUY-BACK

During the year, or since the end of the financial year, the Company has not bought back any shares.

On 2 May 2018, the Company announced it was establishing an on-market buy-back program to enable the Company to repurchase shares in itself from 16 May 2018 for a maximum period of 3 months. During the previous financial year, the Company bought back 1,614,387 shares for a total consideration of $7,260,744.89. On 30 May 2018, the Company announced it had ceased the share buy-back.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The constitution of the Company provides that the Company must indemnify, on a full indemnity basis and to the full extent permitted by law, each current and former Director, alternate Director or executive officer against all losses or liabilities incurred in that capacity in defending any proceedings, whether civil or criminal, in which judgement is given in their favour or in which they are acquitted or in connection with any application in relation to any such proceedings in which relief is granted under the Corporations Act 2001.

The Company has agreed to indemnify the following current and former Directors of the Company, Mr A G Moufarrige, Mr B Corlett, Mr R Holliday-Smith, The Hon. M Vaile, Mrs W Graham, Mr T Moufarrige and Mrs J King against any loss or liability that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a wilful breach of duty. The agreement stipulates that the Company will meet the full amount of any such liabilities to the extent permitted by law, including reasonable costs and expenses.

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company.

During the financial year the Company has paid insurance premiums in respect of Directors' and officers' liability and legal expenses insurance contracts, for current and former Directors, secretaries and officers of the Company and its controlled entities. The insurance policies prohibit disclosure of the nature of the liability insured against and the amount of the premiums.

CORPORATE GOVERNANCE

A statement of the Board's governance practices is set out on pages 25 to 29 of this annual report and on Servcorp's website, servcorp.com.au/en/about-us/corporate-governance/

Directors' Report

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year were the provision of Executive Serviced and Virtual Offices, Coworking and IT, Communications and Secretarial Services.

There were no significant changes in the nature of the activities of the Consolidated Entity during the year.

CONSOLIDATED RESULTS

Net profit after tax for the financial year was $5.38 million (2018: $10.06 million). Underlying net profit after tax was $29.2 million (2018: $28.9 million). Operating revenue was $337.23 million (2018: $312.54 million). Basic and diluted earnings per share was 5.6 cents (2018: 10.2 cents).

	2019 $'000	2018 $'000
Revenue & other income	**337,226**	312,539
Net profit before tax	**12,511**	32,051
Underlying net profit before tax (i)	**32,037**	37,843
Net profit after tax	**5,380**	10,062
Free cash (ii)	**62,106**	62,138
Net operating cash flows	**51,037**	50,077
Cash & investment balances	**72,961**	104,836
Net assets	**238,593**	250,165
Earnings per share	**$0.056**	$0.102
Dividends per share	**$0.230**	$0.260

Notes:

i Underlying net profit before tax is the statutory net profit before tax adjusted for significant items that are one-off in nature and that do not reflect the underlying performance of the business. In the 2019 financial year it excludes restructure costs and write-offs of $1.92 million and impairment of leasehold improvements and goodwill of $18.71 million incurred during the year, and also excludes restricted earnings of $1.10 million generated by a member of the Consolidated Entity operating in a politically restricted country with exchange controls. In the 2018 financial year it excluded strategic initiative expenses of $5.79 million.

ii. Free cash is net operating cash flows before tax paid.

DIVIDENDS PAID AND DECLARED

Dividends totalling $22.27 million have been paid or declared by the Company in relation to the financial year ended 30 June 2019 (2018: $25.38 million). Information relating to dividends in respect of the prior and current financial year, including dividends paid or declared by the Company since the end of the previous year, is set out in the following table.

DIVIDEND		CENTS PER SHARE	TOTAL AMOUNT $'000	DATE OF PAYMENT	FRANKED %	TAX RATE FOR FRANKING CREDIT
In respect of the previous financial year: 2018						
Interim	Ordinary shares	13.00	12,796	5 April 2018	7.5%	30%
Final	Ordinary shares	13.00	12,586	4 October 2018	25%	30%
In respect of the current financial year: 2019						
Interim	**Ordinary shares**	**13.00**	**12,586**	**3 April 2019**	**40%**	**30%**
Final	**Ordinary shares**	**10.00**	**9,681**	**2 October 2019**	**60%**	**30%**

Directors' Report

FLEXIBLE WORKSPACE INDUSTRY

The flexible workspace industry (as it is now known) has seen unprecedented change as commercial real estate experiences significant disruption. Whilst this brings new competition and certain challenges, Servcorp believes it brings immense opportunity. We believe global flexible workspace will grow from 5% of all commercial real estate to 20% in the medium term. Our opportunity is to transition from being the premium provider of this space in a niche market to the premium provider of this space in a more mainstream market. This transition and transformation has impacted our short term performance in some markets, but we believe Servcorp's investment in strategic initiatives will position us to capitalise on significant long term opportunities.

REVIEW OF OPERATIONS

Revenue and other income from ordinary activities for the twelve months ended 30 June 2019 was $337.23 million, an all-time Servcorp record, up 7.9% from the twelve months ended 30 June 2018. During the year, the Australian dollar weakened against all major currencies. In constant currency terms revenue increased by approximately 2.1% compared to the 2018 year.

Net profit before tax for the twelve months to 30 June 2019 was $12.51 million, down 60.9% from $32.05 million in the prior year.

Underlying net profit before tax, excluding restructure costs and write offs of $1.92 million and impairment of leasehold improvements and goodwill of $18.71 million incurred during the year, and also excluding restricted earnings of $1.1 million, was $32.04 million.

Net profit after tax for the twelve months to 30 June 2019 was $5.38 million, down from $10.06 million in the prior year.

Underlying net profit after tax for the 12 months to 30 June 2019 was $29.20 million.

Cash and investment balances were $72.96 million at 30 June 2019 (30 June 2018: $104.84 million). Of this balance, $6.79 million has been pledged with banks as collateral for bank guarantees and facilities, leaving an unencumbered cash and investment balance of $66.17 million in the business as at 30 June 2019 (30 June 2018: $97.13 million).

The business generated strong net operating cash flows during the 2019 financial year of $51.04 million, up 1.9% compared to the 2018 financial year (2018: $50.08 million). Net operating cash flows before tax (free cash) during the 2019 financial year were $62.11 million.

SERVCORP FOOTPRINT

In the 2019 financial year, net capacity increased by 173 offices. Nine floors were opened and six floors were closed during the year.

During the 2019 financial year we opened new locations at the Schuman Building in Brussels, Honmachi Garden City in Osaka, LinkStrasse 2 in Berlin, Business Front in Riyadh and the Marunouchi Nijubashi Building in Tokyo. In addition, two floors were expanded in London, at the Mayfair and Canary Wharf locations. Floors were closed at locations in Abu Dhabi, Auckland, Perth, Melbourne, Singapore and Shanghai.

Occupancy of like for like floors open at 30 June 2019 was 73% (30 June 2018: 72%). All floor occupancy was 72%.

Our investment in reshaping our portfolio to modernise current fit-outs and enhance our coworking offering is mostly complete. The flexible coworking space category continues to sell. To date we have completed 83 of the previously identified locations and are committed to complete a further 16 locations during the 2020 financial year. Depending on the final selection of floors, we estimate an additional investment of between $7.0 million and $9.0 million over the next 12 months.

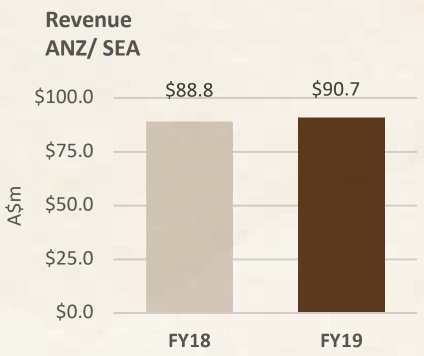
As at 30 June 2019, Servcorp operated 154 floors in 54 cities across 24 countries.

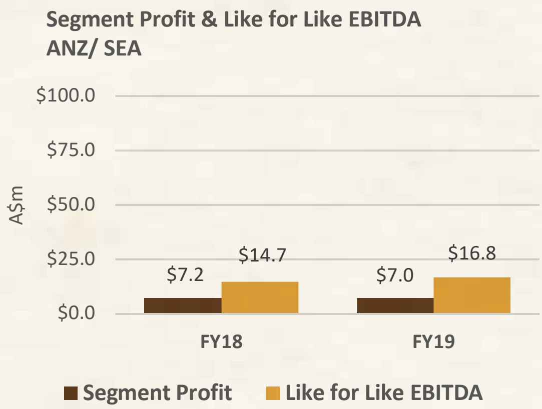
Directors' Report

AUSTRALIA, NEW ZEALAND AND SOUTHEAST ASIA (ANZ/ SEA)

Segment performance in ANZ/ SEA was relatively flat year on year, however the 2019 financial year like for like EBITDA increased $2.1 million to $16.8 million, principally reflecting the closure across the region of 5 underperforming floors during the year.

In the 2019 financial year ANZ/ SEA impaired $2.9 million of leasehold improvements relating to Indonesia and Singapore.

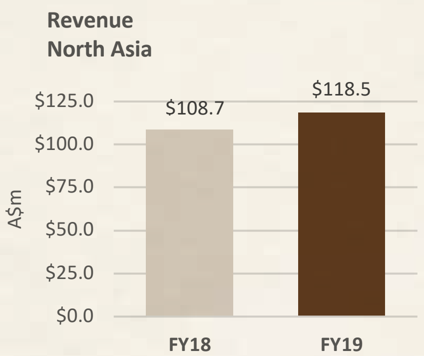


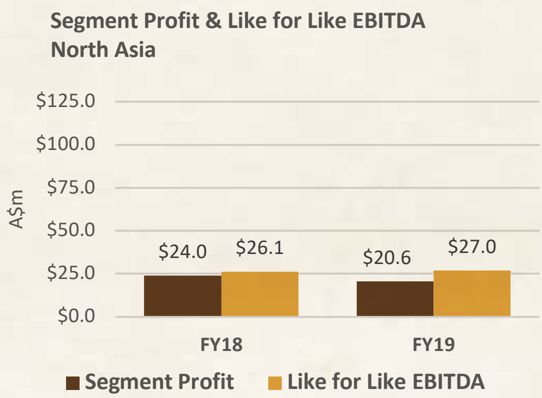


NORTH ASIA

North Asia as a whole produced a solid result, with the drag on profit attributed to Hong Kong. Revenue was up 9% from $108.7 million to $118.5 million. Like for like EBITDA increased 3% for the same period.

In the 2019 financial year China impaired $1.0 million of leasehold improvements.





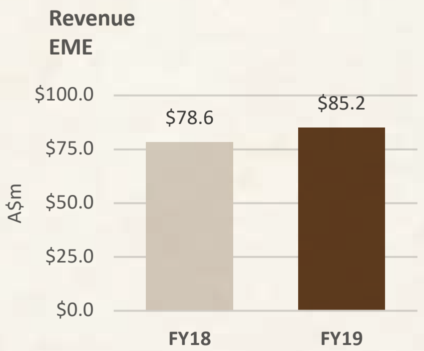
Directors' Report

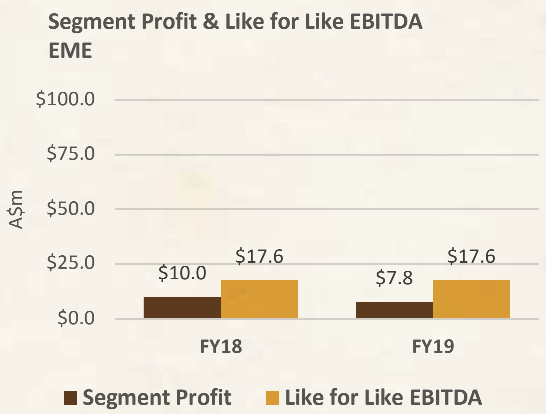
EUROPE AND THE MIDDLE EAST (EME)

Like for like floors in the Europe and Middle East segment produced a lower result in the 2019 financial year due to poor performances by France and Belgium, compounded by new floor openings in Saudi Arabia and Germany. The 2019 financial year like for like EBITDA of $17.6 million was flat compared to the 2018 financial year.

In the 2019 financial year Europe and the Middle East impaired $3.3 million of leasehold improvements relating to the UAE and Saudi Arabia. In addition, goodwill of $1.0 million relating to France was impaired.

Included in the Europe and Middle East segment is the business which operates in a politically restricted country with exchange controls. Associated Europe and Middle East revenue, segment profit and like for like EBITDA is $4.4 million, $1.1 million and $2.9 million respectively (2018 $2.3 million, $0.2 million and $0.7 million respectively). Supplementary information is set out in Note F1 to the Consolidated financial report.



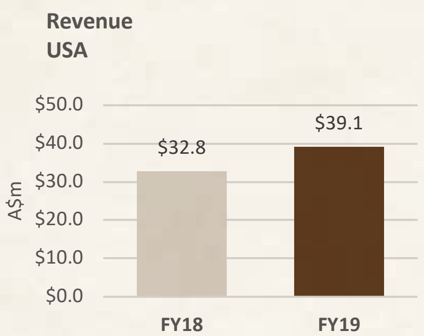


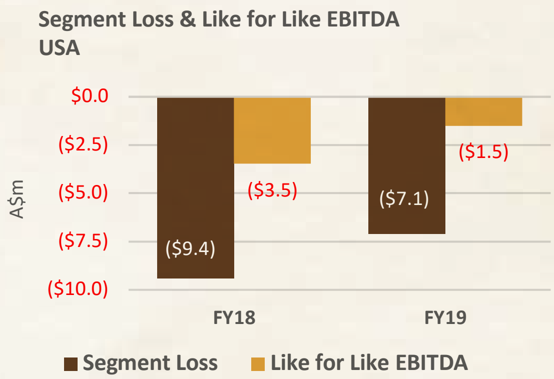
USA

While the USA continued to produce losses in the 2019 financial year, like for like negative EBITDA improved $2.0 million from negative $3.5 million to negative $1.5 million, reflecting some of the strategies that have been implemented.

In the 2019 financial year the USA impaired $10.5 million of leasehold improvements relating to New York City and Boston.

The USA remains a difficult market particularly where other competitors continue to have limited focus on profitability, and this creates a challenging environment, but one that we believe will eventually normalise; patience and time are required.





Directors' Report

NEW LOCATIONS

New locations opened by the Consolidated Entity during the course of the financial year are set out in the following table.

CITY	LOCATION	OFFICES	OPENED
Brussels	Ground Floor, Schuman 3 Building	8	August 2018
Osaka	Level 7, Honmachi Garden City	75	August 2018
Berlin	Level 8, LinkStrasse 2	64	March 2019
Riyadh	Ground & levels 1 & 2, Business Front	136	March 2019
Tokyo	Levels 2 & 3, Marunouchi Nijubashi Building	124	February 2019

In addition, the following locations were expanded by the Consolidated Entity during the course of the financial year.

CITY	LOCATION	ADDITIONAL OFFICES	OPENED
London	Level 1, Mayfair	22	September 2018
London	Level 18, Canary Wharf	13	January 2019

EVENTS SUBSEQUENT TO BALANCE DATE

Dividend

On 27 August 2019 the Directors declared a 60% franked final dividend of 10.00 cents per share, payable on 2 October 2019.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2019.

The Directors are not aware of any matter or circumstance, other than that referred to above or in the financial statements or notes thereto, that has arisen since the end of the year that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

LIKELY DEVELOPMENTS

The Consolidated Entity will continue to pursue its policy of seeking to increase the profitability and market share of its major business sectors during the next financial year.

ENVIRONMENTAL MANAGEMENT

The Consolidated Entity's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

ROUNDING OFF

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Directors' Report

NON-AUDIT SERVICES

During the year Deloitte Touche Tohmatsu, the Company's auditor, has performed certain "non-audit services" in addition to their statutory duties.

The Board of Directors has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by, and did not compromise the auditor independence requirements of, the Corporations Act 2001 for the following reasons:

- Non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 52 and forms part of this report.

Details of the amounts paid or payable to the auditor of the Company, Deloitte Touche Tohmatsu and its related practices for audit and non-audit services provided during the year are set out in Note G4 to the Consolidated financial report.

REMUNERATION REPORT

The Remuneration Report for the financial year ended 30 June 2019 is set out on pages 40 to 51 and forms part of this report.

Signed in accordance with a resolution of the Directors pursuant to section 298(2) of the Corporations Act 2001.

A G Moufarrige AO

Managing Director and CEO

Dated at Sydney this 27th day of August 2019

Remuneration Report

CONTENTS

Remuneration Report

INTRODUCTION

Servcorp is a geographically diverse business. Our global footprint provides leverage to exploit our brand, take advantage of new market opportunities and diversify our risk. It is acknowledged that the markets in which we operate are subject to changing economic factors and often these may be counter cyclical to the Australian market. For the financial year ended 30 June 2019, the percentage of offshore revenue as a proportion of total revenue was more than 80%.

Skilled, experienced local management in each jurisdiction, supported by Servcorp's market leading IT platform and proprietary product offerings, are critical to our continued success.

The Board's philosophy and approach to executive remuneration is to balance fair remuneration for skills and expertise with a risk and reward framework attuned to local market conditions but that supports the growth aspirations of Servcorp as a global business.

The Board undertook a comprehensive review of executive remuneration during the 2014 financial year. The key initiatives implemented following this review, supported by independent external advice, which continue to be applied include:

- an STI opportunity for executive KMP with the targets aligned to the Consolidated Entity's global and region earnings;
- a global gateway net profit before tax is imposed whereby any global STI is not paid unless a predetermined threshold is achieved;
- the deferral of STI was considered but not introduced, because it is an unfamiliar concept in many of the countries in which we operate and the costs of implementation outweigh the benefits;
- the Board has retained a limited ability to exercise discretion;
- the reintroduction of a long term incentive (LTI) scheme was considered but it was decided that the cost / benefit of offering equity in multiple taxation and securities law jurisdictions to individual executives was unnecessarily complex and the Board is satisfied that the Company's existing incentive and retention strategies are appropriate;
- selected Board and executive KMP remuneration were benchmarked to relevant local market comparisons to ensure the remuneration of these key positions meets external expectations. This remains an ongoing process;
- the Board meets with shareholders and proxy advisors as required in relation to these matters.

The response from shareholders to the comprehensive review were positive. The changes adopted in the 2014 financial year are reviewed annually.

The Board introduced two new executive remuneration components in the 2016 financial year:

- an additional STI opportunity was introduced to provide incentive for executive KMP to outperform their targets. Executive KMP with a region target will receive an extra STI amount if they outperform their region target by an amount which will be set each year. Further, if the global target is exceeded by more than a set percentage executive KMP will receive an extra STI amount;
- in recognition of the need to have a deferred STI component, the Board issued Options to certain KMP. These were issued under the terms of the Servcorp Limited Executive Share Option Scheme.

In the 2019 financial year:

- the Board has not introduced any new executive remuneration components;
- in March 2019, the Board issued further Options to KMP and to other senior executives;
- in recognition of the profit expectations going forward, the Board has not reset the global gateway net profit before tax for the 2020 financial year.

The Board believes Servcorp's approach to non-executive Director and executive KMP remuneration is balanced, fair and equitable and designed to achieve an alignment of interests between executive reward and shareholder expectations and wealth.

The Board will continue to welcome feedback from shareholders on Servcorp's remuneration practices or on the communication of remuneration matters in the Remuneration Report for the financial year ended 30 June 2019 and beyond.

This Remuneration Report sets out, in accordance with the relevant Corporations Act 2001 (Corporations Act) and accounting standard requirements, the remuneration arrangements in place for KMP of Servcorp during the financial year ended 30 June 2019.

Remuneration Report

KEY MANAGEMENT PERSONNEL

Key management personnel have authority and responsibility for planning, directing and controlling the activities of Servcorp and comprise the non-executive Directors, and executive KMP (being the Executive Directors and other senior executives named in this report). Details of the KMP during the year are provided in the following table.

NAME	TITLE	CHANGE IN 2019
Non-executive Directors		
Bruce Corlett	Chairman Member, Remuneration Committee Chair, Nomination Committee	Full year | No change
Rick Holliday-Smith	Director Chair, Audit & Risk Committee Member, Remuneration Committee	Full year | No change
The Hon. Mark Vaile	Director Member, Audit & Risk Committee Chair, Remuneration Committee Member, Nomination Committee	Full year | No change
Wallis Graham	Director Member, Audit & Risk Committee Member, Nomination Committee	Full year | No change
Executive Directors		
Alf Moufarrige	Chief Executive Officer	Full year | No change
Taine Moufarrige	Executive Director	Resigned as Director effective 7 November 2018 Resigned as employee effective 31 December 2018
Other executive KMP		
Marcus Moufarrige	Chief Operating Officer	Resigned effective 31 December 2018
Anton Clowes	Chief Financial Officer	Full year | No change
David Godchaux	CEO Middle East, Europe & India	Full year | KMP effective 1 July 2018
Liane Gorman	General Manager – Australia & New Zealand	Full year | No change
Laudy Lahdo	General Manager - Middle East	Resigned effective 31 December 2018
Charles Robinson	Senior Vice President - USA	Full year | KMP effective 1 July 2018
Olga Vlietstra	General Manager - Japan	Full year | No change

Remuneration Report

REMUNERATION GOVERNANCE

This section explains the role of the Board and the Remuneration Committee, and use of remuneration consultants when making remuneration decisions in respect of non-executive Directors and executive KMP.

Role of the Board and the Remuneration Committee

The Board is responsible for Servcorp's global remuneration strategy and policy. Consistent with this responsibility, the Board has established the Remuneration Committee which comprises solely non-executive Directors, all being independent.

The role of the Remuneration Committee is set out in its Charter, which is reviewed annually. In summary, the Remuneration Committee's role includes:

- ensure that the appropriate procedures exist to assess the remuneration levels of the Chairman, other non-executive Directors, executive Directors, direct reports to the CEO, Board Committees and the Board as a whole;
- ensure that Servcorp meets the requirements of ASX Corporate Governance Principles and Recommendations, and other relevant guidelines;
- ensure that Servcorp adopts, monitors and applies appropriate remuneration policies and procedures;
- ensure that reporting disclosures related to remuneration meet the Board's disclosure objectives and all relevant legal and accounting standard requirements;
- develop, maintain and monitor appropriate talent management programs including succession planning, recruitment, development; and retention and termination policies and procedures for senior management; and
- develop, maintain and monitor appropriate superannuation and other relevant pension benefit arrangements for Servcorp as required by law.

Further information on the Remuneration Committee's role, responsibilities and membership are contained in the Corporate Governance section on page 29.

Use of remuneration consultants

During the 2019 financial year, remuneration consultancy contracts were entered into by Servcorp with respect to the grant and valuation of Options. During the 2018 financial year, no remuneration consultancy contracts were entered into by Servcorp.

ADVISOR / CONSULTANT- 2019	SERVICES PROVIDED	REMUNERATION CONSULTANT FOR THE PURPOSE OF THE CORPORATIONS ACT
Ian Crichton, Remuneration Consultant Crichton + Associates Pty Ltd	Review of the Servcorp Limited Executive Share Options Scheme and general advice on participant guides and supporting documentation.	No

Key questions regarding use of remuneration consultants

QUESTION	ANSWER
Did the remuneration consultant provide remuneration recommendations in relation to any of the executive KMP for the 2019 financial year?	No.
How much was the remuneration consultant paid by Servcorp for remuneration related and other services?	Remuneration services: Crichton + Associates Pty Ltd $14,023; Other services: Nil.
What arrangements did Servcorp make to ensure that the making of the remuneration recommendations would be free from undue influence by the executive KMP?	Servcorp maintains a protocol which governs the procedure for procuring advice relating to KMP remuneration. The protocol includes a process for the engagement of the remuneration consultant, the provision of information to the remuneration consultant and the communication of remuneration recommendations.
Is the Board satisfied that the remuneration information provided was free from any such undue influence?	Yes, the Board is satisfied.
What are the reasons for the Board being so satisfied?	The Chairman of the Remuneration Committee had oversight of all requests for remuneration information, and the protocol with respect to the procurement of remuneration related advice remains in place.

Remuneration Report

NON-EXECUTIVE DIRECTOR REMUNERATION

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed by the Board. The Board ensures non-executive Directors' fees and payments are appropriate and in line with the market. Non-executive Directors are not employed under a contract and do not receive share options or other equity based remuneration.

Directors' fees

Non-executive Directors' fees are determined by the Board within an aggregate Directors' fees limit approved by shareholders.

The fees limit currently stands at $500,000 per annum inclusive of payments for superannuation. This limit was approved at the 2011 annual general meeting.

The most recent review of Directors' fees was effective 1 July 2013. Directors' fees had not been increased since 1 January 2010. Effective 1 July 2013, Non-executive Directors' fees were set as:

- Chair - $175,000 per annum including superannuation;
- Non-executive - $100,000 per annum including superannuation;
- Chair of the Audit and Risk Committee - an additional $10,000 per annum including superannuation.

Additional fees are not paid for membership of Board committees other than as referred to in the previous paragraph.

Retirement allowances for Directors

Non-executive Directors are not entitled to retirement allowances.

Details of remuneration

Details of the nature and amount of each element of the remuneration of each non-executive Director of Servcorp Limited for the year ended 30 June 2019 are set out in the table on page 49.

Minimum shareholding requirement

Servcorp does not have a minimum shareholding requirement for non-executive Directors. It is noted, however, that three non-executive Directors are shareholders of the Company.

EXECUTIVE REMUNERATION

Remuneration philosophy and principles

The Board recognises that the Consolidated Entity's performance is dependent on the quality and contribution of its employees, particularly the executive KMP. To achieve its financial and operating objectives, Servcorp must be able to attract, retain and motivate appropriately qualified and skilled executives.

The objective of the executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of Servcorp's strategic objectives particularly its short, medium and long term earnings.

Executive remuneration is balanced between fixed and incentive pay. In determining the appropriate balance, regular reviews are undertaken that involve cross referencing position descriptions to reliable accessible remuneration data in the markets in which Servcorp operates.

Servcorp's executive remuneration policy and principles are designed to ensure that the Consolidated Entity:

- provides competitive rewards that attract, retain and motivate our key executives;
- encourages loyalty and commitment to Servcorp;
- builds a structure for growth and includes appropriate succession planning;
- structures remuneration at a level that reflects the executive's duties and accountabilities and is competitive in the markets in which it operates;
- complies with applicable legal requirements and appropriate standards of governance.

Remuneration structure and elements

The executive KMP remuneration and reward framework at Servcorp currently has three components:

- fixed remuneration;
- short term incentives; and
- options

The combination of these comprises the executive KMP total targeted remuneration opportunity.

Fixed remuneration

Fixed remuneration is reviewed each year and adjusted to changes in job role, promotion, market practice, internal relativities and performance. Remuneration for the 2019 financial year and changes from 2018 are set out in the table on pages 50 and 51.

Remuneration Report

Short term incentives

Short term incentives (STI) are awarded based on achievement against targets set at the beginning of each financial year. The basis of the STI scheme was established for the 2014 financial year and has been applied consistently in subsequent financial years. It is noted that Alf Moufarrige, the CEO, founder and major shareholder, has elected not to participate in the STI scheme.

Under the STI scheme, an STI dollar value is set for each executive KMP which represents the target STI that can be awarded for achieving target for the relevant year. The target STI opportunity for the 2019 financial year ranged between $50,000 and $180,000. The target STI opportunity as a percentage of fixed remuneration ranged between 10% and 50% with the average being 22%. The target STI opportunity range for achieving target and percentage of fixed remuneration will be similar for the 2020 financial year.

STI targets will be set in advance each year and will be challenging. The STI targets for the 2019 financial year were determined based on a matrix of Consolidated Entity net profit before tax (global STI target) and region operating profit (region STI target), where appropriate. Where executive KMP have a direct responsibility for a region, their total STI potential was allocated between their region STI target and the global STI target. Their region STI allocation ranged between 36% and 100% of their total potential STI, with the average being 60%.

A gateway consolidated net profit before tax, needed to be achieved before any global STI pay out. It is intended that a similar approach to STI, with a pre-determined growth over the 2019 financial year net profit before tax, will be applied for the 2020 financial year. The gateway consolidated net profit before tax is provided in the following table.

FINANCIAL YEAR ENDING 30 JUNE	2019 BASE	2020 GATEWAY
Consolidated net profit before tax ($ million)	12.5	38.0

Global STI will be calculated as follows:

- if consolidated net profit before tax meets the global gateway - 50% of the global STI opportunity;
- if consolidated net profit before tax meets the global target - 100% of the global STI opportunity;
- if consolidated net profit before tax falls between the global gateway and target - the global STI paid will be calculated as a percentage between 50% and 100% of global STI opportunity on an incremental basis, in the same proportion as the net profit before tax is to gateway and target.

Region STI will only be paid if the region STI target is met. There will be no gateway.

There are also additional STI opportunities to provide incentive for executive KMP to out-perform their targets:

- executive KMP with a region target can receive an extra $50,000 for each $2.0 million by which they out-perform their region operating profit target. In addition, the Board has discretion to reward executive KMP who achieve 'super out-perform' region results with additional STI payments;
- if the global target is exceeded by more than $5.0 million, executive KMP will receive double their global STI opportunity. If consolidated net profit before tax falls between the global target and global out-perform, the global STI paid will be calculated as a percentage between 100% and 200% of global STI opportunity on an incremental basis, in the same proportion as the net profit before tax is to target and out-perform;
- The total additional STI opportunity if all executive KMP outperform their region and global target is $1,048,000.

Long term equity incentives

The Board, after detailed consideration, has decided not to offer long term equity incentives (LTI) to any executive KMP. The reason for this decision is that:

- Servcorp has a small number of executive KMP in many geographic locations and the cost and complexity of offering equity to these executive KMP outweighs the benefit to shareholders, in the Board's opinion;
- Servcorp has a very strong culture, and most executive KMP are long serving employees. The Board does not consider offering an LTI is necessary or desired for executive KMP to achieve the Company's long term strategic objectives.

Remuneration Report

Deferred short term incentives

As stated above, an LTI component is not considered best practice for Servcorp. The Board, following due consideration, has however decided to introduce a deferred STI component for executive KMP. The most effective method to achieve this was considered to be the utilisation of the Servcorp Limited Executive Share Option Scheme (ESOS). From time to time, the Board will grant Options to senior executives to encourage and reward superior business performance.

Options were granted during the 2019 financial year. The previous grant was in the 2016 financial year. A summary of the terms of the Options are as follows:

Grant date	31 March 2016	25 February 2019
Issue date	2 May 2016	22 March 2019
Exercise price	$7.00 per Option	$3.01 per Option
Vesting conditions	EPS performance hurdle of 15% growth in the financial year of issue Continuous service until 2 May 2019	EPS performance hurdle of 15% pa cumulative growth between the 2018 and 2020 financial years Continuous service until 22 March 2022
Vesting date	2 May 2019	22 March 2022
Exercise period	Two years from vesting date to expiry date	Two years from vesting date to expiry date
Expiry date	2 May 2021	22 March 2024
Option value	$0.9589	$0.7756

Termination benefits

There are no termination of employment agreements in place for executive KMP. Any termination benefit paid to executive KMP would be limited to 12 months remuneration as required by law and in most cases would be determined based on statutory minimum requirements, years of service and the nature of the termination.

Clawback

Servcorp has no policy on clawback but will ensure compliance with any legal or ASX requirements in this regard. There have been no circumstances where clawback would have applied.

Minimum shareholding requirements

Servcorp does not have a minimum shareholding requirement for executive KMP.

Relationship between Consolidated Entity performance and executive KMP remuneration

The relationship between Consolidated Entity performance and executive KMP remuneration is important to ensure that there is a clear and appropriate correlation and alignment of interests between shareholders and executive KMP.

Key financial indicators

Servcorp's principal activities and financial performance are explained in detail in the Review of Operations section of the Directors' Report on pages 34 to 38.

A summary of Servcorp's financial performance over the last five years is provided in the following table.

	FINANCIAL YEAR ENDED 30 JUNE				
MEASURE	**2015**	**2016**	**2017**	**2018**	**2019**
Total revenue ($million)	277	329	330	312	**337**
Net profit before tax ($million)	41.2	48.8	48.2	32.1	**12.5**
Net profit after tax ($million)	33.1	39.7	40.7	10.1	**5.4**
Basic earnings per share (cents)	33.7	40.4	41.4	10.2	**5.6**
Dividend per share (cents)	22.0	22.0	26.0	26.0	**23.0**
Share price as at 30 June ($)	$5.84	$6.91	$5.70	$4.16	**$3.51**
Offices	4,920	5,397	5,751	5,615	**5,788**
Number of locations	131	134	138	135	**137**

Remuneration Report

Executive KMP remuneration in comparison to Consolidated Entity performance

For the financial years from 2015 to 2017, Servcorp had achieved significant increases in profitability; year on year net profit after tax increased on average 18% per annum. The 2018 financial year was challenging, with net profit after tax decreasing to $10.1 million after a one-off, non-cash adjustment to income tax of $13.0 million. The 2019 financial year has continued to be challenging, with net profit after tax decreasing to $5.4 million after charges of $1.92 million for non-recurring restructure costs and write-offs, $18.7 million for the impairment of leasehold improvements and goodwill and the exclusion of restricted earnings of $1.1 million. Revenues for the 2019 financial year were at a record level and Directors' are encouraged by a strong second half profit.

Underlying cash flows have remained strong, and the interim dividend paid with respect to the 2019 financial year remained constant. The final dividend to be paid with respect to the 2019 financial year has been slightly reduced as the Consolidated Entity utilises cash balances for its continued investment in refurbishment and modernisation of current floors. Servcorp's share price had increased considerably during the 2015, 2016 and the first half of the 2017 financial years. The decreased profit in 2017 and 2018 has been reflected in a decreased share price. Despite a lower share price at 30 June 2019, we are confident that the forecast return to higher profit levels will result in a satisfactory total shareholder return (TSR) performance over the coming years.

With the decreased earnings in the 2019 financial year, global net profit before tax targets were not achieved. Some regions met their targets.

The table below sets out the STI awarded to each executive KMP. One executive KMP met their individual region target and also met their out-perform target, and in the Board's opinion achieved 'super out-perform' profits, resulting in a payment in excess of their target opportunity. Two executive KMP were paid a portion of their STI, at the discretion of the Board, in recognition of their region result. The variable pay opportunity for executive KMP paid out represents 57.5% of the maximum opportunity. The individual 'at risk' rewards paid in the 2019 financial year to executive KMP and the percentage of their maximum opportunity is provided in the following table.

EXECUTIVE KMP	STI AWARDED $	% OF TARGET OPPORTUNITY	OPTIONS AWARDED NO.
Marcus Moufarrige	-	0%	-
Taine Moufarrige	-	0%	-
Anton Clowes	-	0%	75,000
David Godchaux	21,739	43.5%	50,000
Liane Gorman	15,000	10.7%	100,000
Laudy Lahdo	-	0%	-
Charles Robinson	-	0%	50,000
Olga Vlietstra	250,000	142.9%	200,000

Servcorp has a very strong culture focusing on sales and generation of shareholder wealth. Our executive KMP include a balance of long-serving employees together with new executive talent, who reflect Servcorp's investment in the future. All executive KMP are aware of the need to perform. Each executive is involved in the target setting for the business and accepts the challenging targets set.

If our forward net profit before tax targets are met, then shareholders, in the opinion of the Board, will be satisfied with the Consolidated Entity's performance and executive KMP will receive the maximum remuneration opportunity.

If executive KMP fail to meet their targets, the 'at risk' component of executive KMP remuneration will be heavily discounted. In this way the alignment of Consolidated Entity performance and executive KMP remuneration will be in direct correlation and be unambiguous.

Remuneration Report

EMPLOYEE SHARE SCHEME AND OTHER EQUITY INCENTIVE INFORMATION

As mentioned earlier in this report, the Board introduced a deferred STI component in the 2016 financial year. This was achieved by issuing Options under the Servcorp Limited Executive Share Option Scheme (ESOS).

The ESOS was introduced in 1999 and was first approved by shareholders on 19 October 1999 and subject to various amendments until November 2008. Options were last granted under the scheme on 22 September 2008, but have since lapsed. The ESOS was amended by the Board on 24 March 2016 to update it to comply with current legislation.

In the current financial year, the Directors granted 1,281,000 Options under the ESOS to senior executives, 475,000 to executive KMP. Options were issued to KMP taking into account performance and length of service, as recommended by the CEO and adopted by the Remuneration Committee and Board.

In the 2016 financial year, the Directors granted 255,000 Options to executive KMP.

Details of Options granted and on issue are provided in the Directors' Report on page 33.

Other than the Options issued as detailed above, at the date of this report there are no shares, rights, options or other equity incentives held by executive KMP and subject to vesting restrictions.

Future offers under the ESOS or an alternative employee share scheme may be considered by the Board in the future.

SPECIAL RETENTION INCENTIVE

During the 2017 financial year, the Board identified that the retention of Ms Olga Vlietstra as General Manager in Japan was critical to the success of this key region, which contributes significantly to the profit of the Consolidated Entity.

The Board decided to offer Ms Vlietstra a special retention incentive, subject to service conditions. Ms Vlietstra was provided with an option to purchase from Servcorp an apartment currently owned in Tokyo. A summary of the terms of the option are as follows:

Service condition	Ms Vlietstra must remain employed in continuous service in Japan until 30 June 2019
Reward if service condition is met	Option to purchase Servcorp's Tokyo apartment at its market value at time of offer, adjusted for inflation
Vesting date	1 July 2019
Market value	JPY373,000,000
Exercise period	Two years, from vesting date to expiry date
Expiry date	30 June 2021

EMPLOYMENT AGREEMENTS

There are no fixed term employment agreements in place for any executive KMP.

Remuneration Report

NON-EXECUTIVE DIRECTOR REMUNERATION

Amount in AUD		Short-term benefits	Post-employment benefits	Total
Name & title	Year	Fees	Superannuation benefits	
B Corlett	**2019**	**159,818**	**15,182**	**175,000**
Non-Executive Director	2018	159,818	15,182	175,000
R Holliday-Smith	**2019**	**100,457**	**9,453**	**110,000**
Non-Executive Director	2018	100,457	9,453	110,000
M Vaile	**2019**	**91,325**	**8,675**	**100,000**
Non-Executive Director	2018	91,325	8,675	100,000
W Graham	**2019**	**91,325**	**8,675**	**100,000**
Non-Executive Director (ii)	2018	68,494	6,506	75,000
Aggregate	**2019**	**442,925**	**42,075**	**485,000**
	2018	420,094	39,906	460,000

Notes:

i Directors' and officers' indemnity insurance has not been included in the above figures since it is impractical to determine an appropriate allocation basis.

ii W Graham was appointed as a non-executive Director effective 3 October 2017.

iii Non-executive Directors do not participate in any short term or long term incentive schemes.

Remuneration Report

KEY MANAGEMENT PERSONNEL REMUNERATION

Amount in AUD		Short-term benefits			Post-employment		Other long-term benefits	Term-ination benefits	Share based payments	Total	% of performance related remuneration
Name & title	Year	Salary	Cash STI	Non-monetary benefits	Super-annuation benefits	Other post-employment benefits	Long service leave		Options		
A G Moufarrige (iv)	**2019**	**458,856**	**-**	**24,870**	**28,500**	**-**	**-**	**-**	**-**	**512,226**	**0.0%**
CEO	2018	446,663	-	41,701	28,500	-	-	-	-	516,864	0.0%
A Clowes	**2019**	**276,750**	**-**	**-**	**26,291**	**-**	**-**	**-**	**4,931**	**307,972**	**27.7%**
CFO	2018	268,342	30,000	-	25,493	-	-	-	-	323,835	28.6%
D Godchaux (v)	**2019**	**499,236**	**21,739**	**17,541**	**31,549**	**-**	**-**	**-**	**3,287**	**573,352**	**9.1%**
CEO EMEIA											
L Gorman	**2019**	**350,000**	**15,000**	**-**	**33,250**	**-**	**-**	**-**	**19,549**	**417,799**	**36.5%**
GM AUNZ	2018	332,910	20,000	-	31,627	-	-	-	15,528	400,065	38.4%
C Robinson (v)	**2019**	**365,481**	**-**	**44,758**	**-**	**-**	**-**	**-**	**3,287**	**404,526**	**12.5%**
Senior VP USA											
O Vlietstra (vi)	**2019**	**621,328**	**250,000**	**29,397**	**-**	**-**	**-**	**-**	**31,314**	**932,039**	**26.9%**
GM Japan	2018	550,484	200,000	37,713	-	-	-	-	21,739	809,936	25.5%
T Moufarrige (vii)	**2019**	**270,621**	**-**	**60,397**	**23,750**	**27,688**	**-**	**-**	**-**	**382,456**	**49.3%**
Executive Director	2018	513,172	-	19,293	47,500	-	-	-	-	579,965	25.9%
M Moufarrige (vii)(viii)	**2019**	**335,000**	**-**	**388,423**	**31,825**	**75,621**	**256,798**	**670,000**	**-**	**1,757,667**	**23.8%**
COO	2018	670,000	-	284,129	63,650	-	-	-	31,056	1,048,835	15.7%
L Lahdo (vii)	**2019**	**209,695**	**-**	**12,961**	**52,640**	**54,003**	**-**	**209,695**	**-**	**538,994**	**18.2%**
GM Middle East	2018	367,255	-	27,622	30,605	-	-	-	10,870	436,352	11.8%
Aggregate	**2019**	**3,377,967**	**286,739**	**578,347**	**227,805**	**157,312**	**256,798**	**879,695**	**62,368**	**5,827,031**	**21.6%**
	2018	3,148,826	250,000	410,458	227,375	-	-	-	79,193	4,115,852	19.4%

Notes:

i Amounts disclosed as short-term cash STI in the 2019 year represent STI paid in August 2019 based on 2019 financial year global and region targets.

ii Amounts disclosed as short-term cash STI in the 2018 year represent STI paid in August 2018 based on 2018 financial year global and region targets.

iii Amounts disclosed as share based payments relate to Options issued on 2 May 2016 and 22 March 2019. Details are set out on page 23 of this annual report.

iv The salary of A G Moufarrige includes a component paid in Yen. The increase in the 2019 year reflects the change in foreign currency exchange rate, not a change in salary in base currency terms.

v D Godchaux and C Robinson have been recognised as KMP effective 1 July 2018.

vi The salary of O Vlietstra is paid in JPY. The increase in the 2019 year is partly due to the change in foreign currency exchange rate, and partly due to a change in salary.

vii T Moufarrige, M Moufarrige and L Lahdo ceased employment with Servcorp effective 31 December 2018.

viii Mr M Moufarrige was relocated to New York City in March 2017. Rental assistance was paid by the Company in the amount of $388,423 and is disclosed in non-monetary benefits.

Remuneration Report

KEY MANAGEMENT PERSONNEL REMUNERATION

		Short term incentive grants			
Name & title	Year	STI paid in cash %	STI Accrued and not yet due %	STI forfeited %	Maximum future value of vested STI $
A G Moufarrige	**2019**	**-**	**-**	**-**	**-**
CEO	2018	-	-	-	-
A Clowes	**2019**	**0.0%**	**0.0%**	**100.0%**	**-**
CFO	2018	35.7%	0.0%	64.3%	-
D Godchaux	**2019**	**43.5%**	**0.0%**	**56.5%**	**-**
CEO EMEIA					
L Gorman	**2019**	**10.7%**	**0.0%**	**89.3%**	**-**
GM AUNZ	2018	14.3%	0.0%	85.7%	-
C Robinson	**2019**	**0.0%**	**0.0%**	**100.0%**	**-**
Senior VP USA					
O Vlietstra	**2019**	**142.9%**	**0.0%**	**42.9%**	**-**
GM Japan	2018	133.3%	0.0%	50.0%	-
T Moufarrige	**2019**	**0.0%**	**0.0%**	**100.0%**	**-**
Executive Director	2018	0.0%	0.0%	100.0%	-
M Moufarrige	**2019**	**0.0%**	**0.0%**	**100.0%**	**-**
COO	2018	0.0%	0.0%	100.0%	-
L Lahdo	**2019**	**0.0%**	**0.0%**	**100.0%**	**-**
GM Middle East	2018	0.0%	0.0%	100.0%	-
Aggregate	**2019**	**31.7%**	**0.0%**	**84.9%**	**-**
	2018	34.1%	0.0%	83.0%	-

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The Board of Directors
Servcorp Limited
Level 63, MLC Centre
19 Martin Place
Sydney, NSW 2000

27 August 2019

Dear Board Members

Auditor's Independence Declaration to Servcorp Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Servcorp Limited.

As lead audit partner for the audit of the financial report of Servcorp Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountant

Consolidated Financial Report

For the year ended 30 June 2019

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CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	**2019 $'000**	2018 $'000
Revenue	B2	**334,875**	310,090
Other revenue & income	B2	**2,351**	2,449
		337,226	312,539
Service expenses		**(83,191)**	(75,726)
Marketing expenses		**(20,418)**	(18,082)
Occupancy expenses		**(174,975)**	(160,276)
Rent – fixed annual impact	B3	**(342)**	(816)
Strategic initiative expenses	B3	**-**	(5,794)
Administrative expenses		**(27,042)**	(21,545)
Share of losses of joint venture		**(627)**	(93)
Net foreign exchange (loss)/ gain (realised & unrealised)		**1,297**	1,864
Impairment of goodwill	B3	**(1,030)**	-
Impairment of property, plant & equipment	B3	**(17,679)**	-
Borrowing expenses		**(5)**	(20)
Other expenses		**(703)**	-
Total expenses		**(324,715)**	(280,488)
Profit before income tax expense	B1	**12,511**	32,051
Income tax expense	B5	**(7,131)**	(21,989)
Profit for the year		**5,380**	10,062
Other comprehensive income			
Translation of foreign operations (item may be reclassified subsequently to profit or loss)		**8,178**	5,693
Other comprehensive income for the year (net of tax)		**8,178**	5,693
Total comprehensive income for the year		**13,558**	15,755
Earnings per security		**Cents**	Cents
Basic and diluted EPS	B6	**0.06**	0.10

The Consolidated statement of comprehensive income is to be read in conjunction with the notes to the Consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2019

	Note	**2019 $'000**	2018 $'000
Current assets			
Cash and cash equivalents	C1	**65,091**	93,444
Trade and other receivables	C2	**46,420**	43,937
Other financial assets	C3	**9,385**	11,981
Current tax assets	B5	**1,408**	469
Prepayments and other assets	C4	**16,137**	17,288
Total current assets		**138,441**	167,119
Non-current assets			
Other financial assets	C3	**47,170**	41,135
Property, plant and equipment	C5	**145,554**	134,145
Deferred tax assets	B5	**27,093**	24,466
Goodwill	C6	**13,775**	14,805
Total non-current assets		**233,592**	214,551
Total assets		**372,033**	381,670
Current liabilities			
Trade and other payables	C7	**59,831**	58,597
Other financial liabilities	C8	**35,025**	31,477
Current tax liabilities	B5	**-**	3,153
Provisions	C9	**7,774**	7,610
Total current liabilities		**102,630**	100,837
Non-current liabilities			
Trade and other payables	C7	**28,219**	28,935
Other financial liabilities	C8	**530**	-
Provisions	C9	**854**	739
Deferred tax liabilities	B5	**1,207**	994
Total non-current liabilities		**30,810**	30,668
Total liabilities		**133,440**	131,505
Net assets		**238,593**	250,165
Equity			
Contributed equity	E2	**151,594**	151,594
Reserves		**(3,085)**	(11,306)
Retained earnings		**90,084**	109,877
Total equity attributable to equity holders of the parent		**238,593**	250,165

The Consolidated statement of financial position is to be read in conjunction with the notes to the Consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

	Issued Capital $'000	Share Buy-Back Reserve $'000	Foreign Currency Translation Reserve $'000	Employee Equity Settled Benefits Reserve $'000	Retained earnings $'000	Total $'000
Balance 1 July 2017	154,122	-	(12,465)	111	125,407	267,175
Profit for the period	-	-	-	-	10,062	10,062
Translation of foreign operations (net of tax)	-	-	5,693	-	-	5,693
Total comprehensive income for the period	-	-	5,693	-	10,062	15,755
Share-based payments	-	-	-	88	-	88
Share buy back	(2,528)	(4,733)	-	-	-	(7,261)
Payment of dividends	-	-	-	-	(25,592)	(25,592)
Balance 30 June 2018	151,594	(4,733)	(6,772)	199	109,877	250,165
Balance 1 July 2018	151,594	(4,733)	(6,772)	199	109,877	250,165
Profit for the period	-	-	-	-	5,380	5,380
Translation of foreign operations (net of tax)	-	-	8,178	-	-	8,178
Total comprehensive income for the period	**-**	**-**	**8,178**	**-**	**5,380**	**13,558**
Share-based payments	-	-	-	43	-	43
Share buy back	-	-	-	-	-	-
Payment of dividends	-	-	-	-	(25,173)	(25,173)
Balance 30 June 2019	**151,594**	**(4,733)**	**1,406**	**242**	**90,084**	**238,593**

The Consolidated statement of changes in equity is to be read in conjunction with the notes to the Consolidated financial statements.

Consolidated Statement of CashFlows

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**363,621**	330,395
Payments to suppliers and employees (inclusive of GST)		**(304,419)**	(271,521)
		59,202	58,874
Franchise fees received		**575**	588
Tax paid		**(11,069)**	(12,106)
Interest and other items of similar nature received		**2,334**	2,741
Interest and other costs of finance paid		**(5)**	(20)
Net operating cash inflows	G3	**51,037**	50,077
Cash flows from investing activities			
Payments for variable rate bonds		**(660)**	(198)
Payments for strategic initiatives (i)		**(640)**	(5,187)
Payments for property, plant and equipment		**(50,572)**	(32,802)
Payments for lease deposits		**(5,265)**	(2,356)
Proceeds from sale of property, plant and equipment		**-**	6,048
Proceeds from sale of variable rate bonds		**4,290**	3,222
Proceeds from refund of lease deposits		**767**	952
Net investing cash outflows		**(52,080)**	(30,321)
Cash flows from financing activities			
Dividends paid		**(25,173)**	(25,592)
Share buy back		**-**	(7,277)
Borrowings		**(317)**	(587)
Landlord capital incentives received		**1,133**	89
Net financing cash outflows		**(24,357)**	(33,367)
Net (decrease) in cash and cash equivalents		**(25,400)**	(13,611)
Cash and cash equivalents at the beginning of the financial year		**93,444**	104,376
Effects of exchange rate changes on cash transactions in foreign currencies		**(2,953)**	2,679
Cash and cash equivalents at the end of the year	C1	**65,091**	93,444

The Consolidated statement of cash flows is to be read in conjunction with the notes to the Consolidated financial statements.

Note:

i Refer to Note B3(ii), B3(iii) and Note G2.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

A BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB.

The financial statements were authorised for issue by the directors on 27 August 2019.

BASIS OF PREPARATION

The financial report has been prepared on the basis of historical cost, except for financial instruments that are measured at their fair value as explained in Note I. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The consolidated financial statements comprise the financial statements of the Company and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of when we determine that the Company has control over the entity. Control exists when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Consolidated Entity assess power by examining existing rights that give the Company the current ability to direct the relevant activities of the entity. The effect of all transactions between entities in the Consolidated Entity have been eliminated on consolidation.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period, being AASB 9 ‘Financial Instruments’ and AASB 15 ‘Revenue from Contracts With Customers’. The adoption of these new accounting standards did not have any material impact that requires adjustments on adoption of the new standards. The impact of the adoption of the new standards have been explained below.

Notes to the Consolidated Financial Statements

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

At the date of authorisation of the financial report, AASB 16 "Leases" relevant to the Consolidated Entity was on issue but not yet effective:

Accounting standard

AASB 9 *Financial Instruments*

Nature of change

AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and de-recognition of financial instruments from AASB 139. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement (AASB 139).

Impact on financial statements

The assessment of the new requirements of this standard on the Consolidated Entity has indicated the impact on adoption of the standard in the current year is not material.

The classification and measurement of financial assets and financial liabilities

- The Consolidated Entity reviewed the existing financial assets and financial liabilities as at 1 July 2019 based on facts and circumstances existing at that date and concluded that the initial adoption of AASB 9 has had no impact on the accounting for financial assets or financial liabilities in its portfolio at that date.
- Financial assets previously classified as at fair value through profit or loss will continue to be classified and measured as at fair value through profit or loss. Financial assets previously classified as Loans and receivables will now be classified as financial assets at amortised cost with no change in measurement basis. Trade and other receivables are held to collect contractual cash flows and are solely payments for principal and interest and will continue to be measured at amortised cost.
- The classification and measurement of financial liabilities carried at amortised cost remains unchanged under AASB 9.

Impairment of financial assets

- In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Consolidated Entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- To assess for any expected credit losses under AASB 9, there is consideration around the probability of default upon initial recognition of the asset, and subsequent consideration as to whether there have been any significant increases in credit risk on an ongoing basis at each reporting period. To assess whether there is a significant increase in credit risk the Consolidated Entity compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.
- In particular, AASB 9 requires the Consolidated Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. AASB 9 also allows a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The below table provides information about the impact upon classification and measurement of financial assets and financial liabilities under AASB 9 and AASB 139 at the date of initial application:

	Classification under AASB 139	New classification under AASB 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Financial asset at amortised cost
Trade and other receivables	Loans and receivables	Financial asset at amortised cost
Other financial assets (current and non-current)		
- Investment in bank hybrid variable rate securities	Fair value through profit or loss	Financial assets at fair value through profit or loss
- Forward foreign currency exchange contracts	Fair value through profit or loss	Financial assets at fair value through profit or loss
- Lease deposits & other	Loans and receivables	Financial asset at amortised cost
Financial Liabilities		
Trade and other payables (current & non-current)	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Other financial liabilities (current & non-current)	Financial liabilities at amortised cost	Financial liabilities at amortised cost

Mandatory application date

AASB 9 is mandatory for financial years commencing on or after 1 January 2018. The Consolidated Entity adopted AASB 9 for the first time on 1 July 2018. As allowed by the transition provisions, the Consolidated Entity elected not to restate comparatives.

Notes to the Consolidated Financial Statements

Accounting standard	**AASB 15 *Revenue from Contracts with Customers***
Nature of change	AASB 15 replaces AASB 118 *Revenue* (AASB 18), which currently applies to contracts for goods and services, and AASB 111 *Construction Contracts* (AASB 111) which applies to construction contracts. The new standard a single comprehensive model to revenue recognition with the core principle that revenue is recognised when (or as) a performance obligation is satisfied, i.e when control of a good or service underlying the particular performance obligation is transferred to a customer – the notion of control of the performance obligation replaces the existing notion of risks and rewards. AASB 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 compared to the guidance in AASB 118. Details of the new requirements as well as their impact on the Consolidated Entity's consolidated financial statements are described below.
Impact on financial statements	In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers (as amended) which is effective for an annual period that begins on or after 1 July 2018. AASB 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below. AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Consolidated Entity has adopted the terminology used in AASB 15 to describe such balances. Management has assessed the effects of applying the new standard on the Consolidated Entity's financial statements and has concluded that the standard has no impact on the Consolidated Entity's assets and revenue. Recognition remained the same for these income streams under the new standard. Revenue from leasing is in accordance with IAS17 *Leases* until AASB16 *Leases* is effective.
Mandatory application date	Mandatory for financial years commencing on or after 1 January 2018. Servcorp has adopted AASB 15 for the year ended 30 June 2019.

Accounting standard	**AASB 16 *Leases***
Nature of change	AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will bring all major leases on balance sheet.
Impact on financial statements	The adoption of AASB 16 will result in the recognition of significant right-of-use assets together with corresponding lease liabilities as well as a change in the recognition of interest expense on the lease liability and depreciation on the right of use asset. The pattern of expense recognition will also change with higher costs in the earlier stages of the lease as a result of the interest expense being determined on a lease liability that amortises over the lease term. The Consolidated Entity adopted the modified cumulative catch-up approach, which adjusts opening retained profits from 1 July 2019 for the net effect of the new lease liabilities and right of use assets, adjusted for deferred tax asset and the reversal of the existing straight-line lease and incentive liability. With the exception of one lease that is less than 12 months old, Servcorp's leases fall within scope of AASB 16 Leases. This does not impact the flexibility of our leases. The majority of Servcorp's leases remain 'flexible', meaning that they are either terminable at our option within six months. As at the reporting date the Consolidated Entity estimated its right of use asset of approximately $389 million and a lease liability of approximately $452 million. These numbers are subject to changes in lease terminations, lease renewals, new leases, future economic conditions that affect the Consolidated Entity's credit rating, expected exercise of options, exercise of break clauses and changes in the factors that make up the incremental borrowing rates for each lease including lease collaterals. A detailed review of contracts, financial reporting impacts and system requirements will continue. The recognition of these balances will not impact the actual cash flows of the Consolidated Entity or cash generation per share although the operating cash flows in the cash flow statement will be impacted due to the different classification of lease payments as interest and repayment as lease liability (rather than operating lease payments). The overall impact on the income statement of adopting AASB 16 will be neutral over the life of a lease but will result in a higher charge in the earlier years following implementation and a lower charge in later years. AASB 16 will have no impact on the Consolidated Entity's strategy, commercial lease negotiations, growth or financing arrangements. On transition, the interest portion of rent paid during the fit-out period is no longer allowed to be capitalised. These are required to be written off leaving only the depreciation of the right of use as being capitalised. Under AASB 16 the Consolidated Entity's effective tax rate may be neutral over the life of the lease. The extent of this will depend on how local tax rules treat the AASB 16 deductions as well as the deferred tax impact in respect of countries not adopting the new standard.
Mandatory application date	Mandatory for financial years commencing on or after 1 January 2019. The Consolidated Entity has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Notes to the Consolidated Financial Statements

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that management has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of property, plant and equipment

The Consolidated Entity reviews the estimated useful lives of property, plant and equipment at each reporting period.

Make good provisions

At each reporting date, management review leases that are expected to terminate within 18 months to determine the present obligation in relation to floor closure costs including make good.

Tax losses and uncertain tax matters

Deferred tax assets for the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised. This is assessed at each reporting date. Further information is set out in Note B5.

The Consolidated Entity operates across many tax jurisdictions. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes. Judgements are required about the application of income tax legislation and its interaction with income tax accounting principles. There are no material uncertain tax positions that we are aware of.

Executive share option scheme

To calculate the expense for equity-settled share based payments, the fair value of the equity instruments at grant date has to be estimated. The fair value is determined using the Binomial Tree option pricing model. Key judgements and assumptions include exercise price, vesting and performance criteria, security price at grant date, volatility, distribution yield and risk-free interest rate. These judgements and assumptions relating to fair value measurement may impact the expense taken to profit or loss and reserves.

a. Basis of consolidation

The Consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power, rights to variable returns and the ability to use its power to affect the amount of the returns. Consistent accounting policies are employed in the preparation and presentation of the Consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess in the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the difference is credited to the Statement of comprehensive income in the period of acquisition.

The Consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control, and until such time as the Company ceases to control an entity.

In preparing the Consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising are eliminated in full.

Notes to the Consolidated Financial Statements

b. Goodwill

Goodwill arising on acquisition is recognised as an asset and initially recognised at cost, representing the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised, but is tested for impairment at each reporting date and whenever there is an indication that goodwill may be impaired. Any impairment of goodwill is recognised immediately in the Statement of comprehensive income and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Consolidated Entity's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment of the Consolidated Entity. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then to the other assets of the CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or group of CGUs). On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

c. Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Consolidated Entity reviews the carrying values of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value by using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only 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 the impairment loss is recognised in the Statement of comprehensive income immediately.

d. Revenue recognition

Rental and services revenue

Rental revenue from operating leases with customers in the capacity as lessor, is accounted for in accordance with AASB 117 Leases on a straight line basis according to contractual terms.

Services revenue and franchise fees are accounted for according to AASB 15 Revenue from Contracts with Customers.

Service revenue comprises revenue earned from telephone, communications, service and franchise fees net of the amount of goods and services tax from the provision of services to entities outside the Consolidated Entity. Services revenue are typically invoiced in advance and are recognised in the period in which the services are provided. The services provided under contract are provided over time as the customer simultaneously receives and consumes the benefit of the service. The contract liability associated with consideration received in advanced has been presented as deferred contract liabilities in the trade and other payables balance on the statement of financial position.

The application of AASB 15 has not had a significant impact on the financial position and/ or financial performance of the Consolidated Entity and as such not restatement was required on adoption of AASB 15.

Revenue from leasing is in accordance with AASB 117 Leases until AASB16 Leases is effective. No balances in respect of this revenue stream is accounted for in accordance with AASB 15 Revenue from Contracts with Customers.

e. Other income/ expense

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Disposal of assets

The profit and loss on disposal of assets is brought to account when the significant risks and rewards of ownership are passed to a party external to the Consolidated Entity.

Notes to the Consolidated Financial Statements

f. Foreign currency transactions

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Foreign currency monetary items at reporting date are translated at the exchange rates existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognised in profit and loss in the period in which they arise except exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation. Such exchange differences are recognised in the foreign currency translation reserve and in the profit and loss on disposal of the net investment.

Translation of controlled foreign entities

The individual financial statements of each controlled foreign entity are presented in its functional currency, being the currency of the primary economic environment in which the entity operates. For the purpose of the Consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the Consolidated financial statements.

The assets and liabilities of overseas operations are translated at the rates of exchange ruling at the balance sheet date.

Income and expense items are translated at the average exchange rate for the period. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

The balance of the foreign currency translation reserve relating to an overseas operation that is disposed of is recognised in the profit and loss in the period of disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

g. Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, and amortisation of ancillary costs using the effective interest rate method in connection with the arrangement of borrowings. Borrowing costs are expensed to the Statement of comprehensive income as incurred.

h. Taxation

Current tax

Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or loss for the period. Income tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the 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 comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arises from the initial recognition of assets and liabilities, other than as a result of a business combination, which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches and associates except where the Consolidated Entity 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 arising from deductible temporary differences associated with these investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the assets and liabilities giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantially enacted by the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the 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 Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Notes to the Consolidated Financial Statements

h. Taxation (continued)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised in equity.

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. Servcorp Limited is the head entity in the tax consolidated group. Tax expense/ income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate tax payer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company. Under this method, each entity is subject to tax as part of the tax consolidated group.

Due to the existence of a tax funding arrangement between entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company, and each member of the tax consolidated group in relation to the tax contribution amounts paid or payable between the parent entity, and the other members of the tax consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the Statement of financial position.

Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

i. Receivables

Trade debtors to be settled within 30 days are carried at amounts due. AASB 9 impairment requirements use forward-looking information when determining expected credit losses. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Under AASB9 *Financial Instruments* the expected loss model under the new standard does not require a trigger event before the recognition of an impairment provisions.

j. Derivative financial instruments

The Consolidated Entity enters into derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates. Further details of derivative financial instruments are disclosed in Note D3 to the Consolidated financial report.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised immediately in the profit or loss.

k. Share based payments

The Board may grant options to eligible executives in accordance with the Servcorp Executive Share Option Scheme. These equity-settled-share-based payments are non-market based and have earnings per share performance hurdles for the vesting of options.

Equity-settled share-based payments with employees are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a Binomial Tree model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest.

At each reporting date, the Company revises its estimate of the number of equity instruments that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the equity-settled employee benefits reserve.

Notes to the Consolidated Financial Statements

l. Financial assets

All recognised financial assets that are within the scope of AASB 9 are required to be initially recognised at fair value and subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Consolidated Entity reviewed and assessed the existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 has not had any impacts on the financial assets as regards their classification and measurement.

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note D4.

Other financial assets are classified into the following specified categories:

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Loans and receivables'. In relation to the impairment of financial assets, loans and receivables are required to be accounted for using the expected credit loss model. Changes in those expected credit losses at each reporting date reflect changes in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flow of the investment have been impacted.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that will exactly discount estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period.

m. Property, plant and equipment

Acquisition

Items of property, plant and equipment acquired are capitalised when it is probable that the future economic benefits associated with the item will flow to the entity and the cost can be measured reliably. Where these costs represent separate components of a complex asset, they are accounted for as separate assets and are separately depreciated over their useful lives. Rent incurred in bringing floors to a state of operational readiness is capitalised to leasehold improvements and depreciated over the useful life of the asset.

Costs incurred on property, plant and equipment, which does not meet the criteria for capitalisation are expensed as incurred.

Property, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation, less impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated using the straight line method over their estimated useful lives. Leasehold improvements are depreciated over the useful life of the asset using the straight line method.

The estimated useful lives used for each class of asset are as follows:

Buildings	40 years
Leasehold improvements	Useful life of the asset
Office furniture and fittings	7.7 years
Office equipment	3-4 years
Software	3.7 years
Motor vehicles	6.7 years

Depreciation rates and methods are reviewed annually and, where changed, are accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method.

Assets are depreciated from the date of acquisition or from the time an asset is completed and ready for use.

Notes to the Consolidated Financial Statements

n. Leased assets

Finance leases

Leased plant and equipment

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

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.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the Statement of comprehensive income.

Operating leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives

Floor rental is expensed on a straight line basis over the period of the lease term in accordance with lease agreements entered into with landlords. Where a rent free period or other lease incentives exist under the terms of a lease agreement, the aggregate rent payable over the lease term is calculated and a charge is made to the profit and loss on a straight line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

o. Payables

Liabilities are recognised for amounts payable in the future for goods or services received, whether or not billed to the Consolidated Entity. Trade accounts payable are normally settled within 60 days.

p. Borrowing costs

Borrowings are recorded initially at fair value, net of transaction costs. Any difference between the initial recognised amount and the redemption value is recognised in the Statement of comprehensive income over the life of the borrowings using the effective interest rate method.

q. Employee benefits

Wages, salaries and annual leave

The provision for employee benefits in respect of wages, salaries and annual leave represents the amount which the Consolidated Entity has a present obligation to pay resulting from employees' services provided up to the reporting date. Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long service leave

The provision for employee benefits in respect of long service leave represents the present value of the estimated future cash outflows to be made by the Consolidated Entity resulting from employees' services provided up to the reporting date.

Provisions for employee benefits which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at the reporting date which most closely match the terms of maturity of the related liabilities.

In determining the provision for employee benefits, consideration has been given to future increases in wage and salary rates, and the Consolidated Entity's experience with staff departures. Related on-costs have also been included in the liability.

Contributions to Australian superannuation funds

The Company and other Australian controlled entities contribute to defined contribution superannuation plans. Contributions are charged to the Statement of comprehensive income as they are incurred.

Notes to the Consolidated Financial Statements

r. Earnings per security (EPS)

Basic earnings per security

Basic EPS is calculated by dividing the net profit attributable to members of the Consolidated Entity for the reporting period by the weighted average number of ordinary shares of the Company.

Diluted earnings per security

Diluted EPS is calculated by adjusting the basic EPS earnings by the effect of conversion to ordinary shares of the associated dilutive potential ordinary shares. The notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted are not included.

The diluted EPS weighted average number of shares includes the number of shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing ordinary operations and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary shares. There is no impact on diluted EPS resulting from shares under option.

s. Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

t. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of six months or less.

u. Investment in joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture is incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated Statement of financial position at cost and adjusted thereafter to recognise the Consolidated Entity's share of profit or loss and other comprehensive income of the joint venture.

An investment in a joint venture is accounted for using the equity method of accounting from the date on which the investee becomes a joint venture.

The requirements of AASB9 'Financial Instruments' are applied to determine whether it is necessary to recognise any impairment loss with respect to the Consolidated Entity's investment in a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with AASB136 'Impairment of Assets' as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB136 to the extent that the recoverable amount of the investment substantially increases.

v. Comparative information

Where applicable, comparative information has been reclassified or restated where there has been a retrospective restatement, or reclassification of items in the financial statements in order to comply with current period disclosure requirements.

Notes to the Consolidated Financial Statements

B RESULTS FOR THE YEAR

This section explains the results and performance of the Consolidated Entity, including segmental analysis and detailed breakdowns.

B1 SEGMENT INFORMATION

The Consolidated Entity identifies its operating segments based on the internal reporting provided to the Executive Leadership Team, who are the Consolidated Entity's chief operating decision makers.

Servcorp provides flexible workspace solutions that are fully-managed, fully-furnished office suites in prime locations, with a receptionist, meeting rooms, IT infrastructure and support services available. Servcorp Virtual Office provides the services, facilities and IT to businesses without the cost of a physical office.

The information reported to the Board of Directors is based on each segment manager directly responsible for the functioning of the operating segment. The segment manager has regular contact with members of the Board of Directors to discuss operating activities, forecasts and financial results. Segment managers are also responsible for disseminating management planning materials as directed by the Chief Operating Decision Maker. The segment manager motivates and rewards team members who meet or exceed sales targets. Four reportable operating segments have been identified: Australia, New Zealand and Southeast Asia (ANZ/ SEA); USA; Europe and Middle East (EME); North Asia and Other which reflect the segment requirements under AASB 8 *'Operating Segments'*.

The Consolidated Entity's reportable operating segments under AASB 8 *'Operating Segments'* are presented below. The accounting policies of the reportable operating segments are the same as the Consolidated Entity's accounting policies.

	Lease revenue	AASB15 revenue	Total revenue	Lease revenue	AASB15 revenue	Total revenue	Segment profit/ (loss)	
	2019	2019	2019	2018	2018	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Continuing operations								
Australia, New Zealand & Southeast Asia	**69,013**	**21,705**	**90,718**	65,161	23,648	88,809	**7,001**	7,189
USA	**30,925**	**8,189**	**39,114**	25,080	7,670	32,750	**(7,126)**	(9,394)
Europe & Middle East	**62,424**	**22,740**	**85,164**	56,876	21,731	78,607	**7,792**	10,039
North Asia	**89,434**	**29,050**	**118,484**	81,595	27,067	108,662	**20,590**	23,991
Other	**225**	**398**	**623**	256	419	675	**169**	(484)
	252,021	**82,082**	**334,103**	228,968	80,535	309,503	**28,426**	31,341
Finance costs							**(5)**	(20)
Interest revenue		**2,071**	**2,071**		2,707	2,707	**2,071**	2,707
Foreign exchange gains							**1,297**	1,864
Centralised unrecovered head office overheads							**388**	3,077
Franchise fee income		**570**	**570**		588	588	**570**	588
Rent – fixed rent increase (i)							**(342)**	(816)
Share of losses of joint venture							**(627)**	(93)
(Loss)/ gain on asset disposal					(897)	(897)	**(196)**	(897)
Strategic initiatives (ii)							**-**	(5,794)
Restructure costs (iii)							**(1,167)**	-
Impairment of goodwill (iv)							**(1,030)**	-
Impairment of property, plant & equipment (v)							**(17,679)**	-
Unallocated		**482**	**482**		638	638	**805**	94
Profit before tax							**12,511**	32,051
Income tax expense (vi)							**(7,131)**	(21,989)
Consolidated segment revenue and profit for the period	**252,021**	**85,205**	**337,226**	228,968	83,571	312,539	**5,380**	10,062

Notes to the Consolidated Financial Statements

B1 SEGMENT INFORMATION (CONTINUED)

The revenue reported above represents revenue generated from external customers. Intersegment sales were eliminated in full. For the 12 months ended 30 June 2019, the Consolidated Entity's Virtual Office revenue and Serviced Office revenue were $93.8 million and $240.3 million respectively (2018: $82.8 million and $226.7 million, respectively).

Notes:

i Refer to Note B3.

ii The net total of $5.8 million is after the reimbursement of $1.7 million by Servcorp's Chief Executive Officer, Mr. A.G. Moufarrige, to the Consolidated Entity for expenses incurred above a pre-determined amount. The tax effect of the $1.7 million reimbursement is nil as the expenses to which the reimbursement relates have been incurred in the United Arab Emirates where the tax rate is 0%. Refer also to Notes B3 and G2.

iii Key personnel resigned during the financial year. These were one-time voluntary attrition expenses.

iv The Consolidated Entity assessed the recoverable amount of goodwill and determined that $1.0 million of the full goodwill for France in the Europe and Middle East segment was impaired. Refer to Note C6 for further details.

v During the financial year, the Consolidated Entity carried out a review of loss making entities and the recoverable amount of property, plant and equipment. The review of the assets' value in use less net book value, led to the recognition of an impairment loss of $17.8 million. The impairment impacted the following segments North Asia $1.0 million, Australia, New Zealand and Southeast Asia $2.6 million, Europe and Middle East $3.7 million, USA $10.5 million.

vi During the year ended 30 June 2018, the USA reduced the corporate tax rate from 35% to 21%. The consequence of this change is a downward remeasurement of deferred tax assets of the USA operations.

B2 REVENUE & OTHER INCOME

The Consolidated Entity has three main revenue streams from the rendering of services: rental revenue, telephone revenue and franchise fee income.

	2019 $'000	2018 $'000
Revenue		
Lease revenue	**252,223**	228,968
Communications revenue	**38,177**	38,032
Service revenue	**43,905**	42,502
Franchise fee income	**570**	588
Total revenue	**334,875**	310,090
Other income		
Interest income – bank deposits	**2,071**	2,707
(Loss)/ gain on asset disposal	**(196)**	(896)
Other income	**476**	638
Total other income	**2,351**	2,449

Notes to the Consolidated Financial Statements

B3 EXPENSES

Expenses and outgoings

Expenses and outgoings include rates and taxes and are recognised on an accruals basis.

Depreciation

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset.

	2019 $'000	2018 $'000
Profit before income tax was arrived at after charging/ (crediting) the following from/ (to) continuing operations:		
Rent – fixed annual impact (i)	**342**	816
Expenses relating to strategic initiatives (ii) (iii)	**-**	5,794
Impairment of goodwill (iv)	**1,030**	-
Impairment of property, plant & equipment (v)	**17,679**	-
Restructure costs (vi)	**1,167**	-
Interest on bank overdrafts and loans	**5**	20
Depreciation of leasehold improvements	**18,324**	17,652
Depreciation of property, plant and equipment	**9,262**	7,242
Loss/ (gain) on disposal of property, plant & equipment	**196**	928
Gain on disposal of financial assets	**(105)**	(32)
Decrease in fair value of financial assets classified as fair value through the profit & loss	**652**	333
Bad debts written off	**2,350**	1,838
Operating lease payments	**146,727**	134,702

Notes:

i The rent fixed annual impact represents the straight-lining of fixed annual increases ranging between 0% and 10% (2018: 0% and 4.25% per annum) in accordance with AASB117.

ii During the financial year ended 30 June 2018, Servcorp initiated an investment review of its operations in Europe and the Middle East to accelerate growth pathways to take advantage of the expansion in the demand for shared offices and to unlock more of the inherent value in its business and technology platform. The outcome of the strategic review will benefit Servcorp in the long run, however a decision was made to not proceed with the identified alternatives at this time. These expenses related to the strategic initiatives undertaken.

iii The net total of $5.8 million is after the reimbursement of $1.7 million by Servcorp's Chief Executive Officer, Mr. A.G. Moufarrige, to the Consolidated Entity for expenses incurred above a pre-determined amount. The tax effect of the $1.7 million reimbursement is nil as the expenses to which the reimbursement relates have been incurred in the United Arab Emirates where the tax rate is 0%. Refer also to Notes B1 and G2.

iv The Consolidated Entity assessed the recoverable amount of goodwill and determined that $1.0 million of the full goodwill for France was impaired. Refer to Note C6 for further details.

v During the financial year, the Consolidated Entity carried out a review of the recoverable amount of property, plant and equipment. The review led to the recognition of an impairment loss of $17.7 million. Refer to Notes B1 and C5 for further details.

vi Key personnel resigned during the financial year. These were one-time voluntary attrition expenses.

B4 EVENTS OCCURRING AFTER THE END OF THE YEAR

No events have occurred since the end of the year which have significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the Consolidated Entity's state of affairs in future years.

Dividend

On 27 August 2019 the Directors declared a final dividend of 10.00 cents per share, franked to 60%, payable on 2 October 2019.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2019.

Notes to the Consolidated Financial Statements

B5 INCOME TAX

All of the Consolidated Entity's tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or loss for the period.

Income tax analysis

Reconciliation to effective tax rate	**2019 $'000**	2018 $'000
Profit before income tax	**12,511**	32,051
Income tax expense calculated at 30%	**3,753**	9,615
Deductible local taxes	**(589)**	(642)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,745**	(1,029)
Other non (deductible)/ assessable items	**(329)**	226
Tax losses of controlled entities recovered	**(402)**	-
Effect of change in tax rates (i)	**-**	7,560
Derecognition of previously recognised tax losses	**3,283**	5,405
Income tax under/ (over) provision in prior years	**(2,771)**	(1,328)
Unused tax losses and tax offsets not recognised as deferred tax assets (ii)	**2,441**	2,182
Income tax expense	**7,131**	21,989

Notes:

i During the year ended 30 June 2018, the USA reduced the corporate tax rate from 35% to 21%. The consequence of this change is a downward remeasurement of deferred tax assets of the USA operations.

ii During the half year ended 31 December 2018, the Consolidated Entity carried out a review of the recoverable amount of property, plant and equipment. The review led to the recognition of an impairment loss of $17.7 million. The Consolidated Entity also assessed the recoverable amount of goodwill and determined that $1.0 million of the full goodwill for France in the Europe and Middle East segment was impaired. Refer to Notes B1, C5 and C6 for further details.

Income tax recognised in the income statement	**2019 $'000**	2018 $'000
Tax expenses comprises:		
Current tax expense	**10,594**	12,974
(Over)/ under provision in prior years – current tax	**(2,124)**	(1,393)
Under provision in prior years – deferred tax	**(648)**	256
Deferred tax expense relating to change in tax rate	**-**	7,560
Deferred tax expense relating to derecognition of tax losses	**3,283**	5,405
Deferred tax income relating to the origination and reversal of temporary differences and previously unrecognised tax losses	**(3,974)**	(2,813)
Income tax expense	**7,131**	21,989

Current tax assets and liabilities	**2019 $'000**	2018 $'000
Current tax assets		
Tax refunds receivable	**1,408**	469
Current tax payables		
Income tax attributable to:		
Parent entity	**-**	184
Subsidiaries	**-**	2,969
	-	3,153

Notes to the Consolidated Financial Statements

B5 INCOME TAX (CONTINUED)

Deferred tax balances	**2019 $'000**	2018 $'000
Deferred tax assets comprises:		
Tax losses – revenue	**3,710**	5,338
Temporary differences	**23,383**	19,128
	27,093	24,466
Deferred tax liabilities comprises:		
Temporary differences	**(1,207)**	(994)
	25,886	23,472
The gross movement of the deferred tax accounts are as follows:		
Balance at the beginning of the financial year	**23,472**	32,466
Change in tax rate	**-**	(7,560)
Tax loss derecognition	**(3,283)**	(5,405)
Movements in foreign exchange rates	**405**	1,412
Statement of comprehensive income charge	**5,292**	2,559
Balance at the end of the financial year	**25,886**	23,472
Deferred tax assets		
Movements in temporary differences:		
Accruals not currently deductible	**1,031**	336
Doubtful debts	**4**	14
Depreciable and amortisable assets	**2,926**	1,087
Tax losses	**1,654**	(3,116)
Foreign exchange	**559**	439
Deferred rent incentive	**(1,470)**	(1,626)
Change in tax rate	**-**	(7,560)
Tax loss derecognition	**(3,283)**	(5,405)
Other	**801**	5,419
Deferred tax asset movements	**2,222**	(10,412)
Balance at the beginning of the financial year	**24,466**	33,620
Change in tax rate	**-**	(7,560)
Tax loss derecognition	**(3,283)**	(5,405)
Movements in foreign exchange rates	**405**	1,258
Statement of comprehensive income/ (credit)	**5,505**	2,553
Balance at the end of the financial year	**27,093**	24,466

Notes to the Consolidated Financial Statements

B5 INCOME TAX (CONTINUED)

Deferred tax balances (continued)	2019 $'000	2018 $'000
Deferred tax liabilities		
Movements in temporary differences:		
Depreciable and amortisable assets	**(7)**	(3)
Accruals and provisions not currently deductible	**4**	-
Other	**215**	(161)
Deferred tax liabilities	**212**	(164)
Balance at the beginning of the financial year	**994**	1,154
Movements in foreign exchange rates	**1**	2
Statement of comprehensive income/ (credit)	**212**	(162)
Balance at the end of the financial year	**1,207**	994

Unrecognised deferred tax balances	2019 $'000	2018 $'000
The following deferred tax assets have not been brought to account:		
Tax losses – revenue	**16**	16
Tax losses – capital	**2,086**	2,086
Tax losses – revenue	**14,011**	11,728
	16,113	13,830

B6 EARNINGS PER SECURITY

Basic earnings per security (EPS) is calculated by dividing:

- the profit attributable to securityholders; by
- the weighted average number of ordinary securities (WANOS) outstanding during the year.

Diluted EPS adjusts the WANOS to take into account dilutive potential ordinary securities from security-based payments.

	2019	2018
Profit attributable to securityholders used to calculate basic and diluted EPS($'000)	**5,380**	10,062
WANOS used in calculating basic EPS ('000)	**96,818**	98,247
WANOS used in calculating diluted EPS ('000)	**96,818**	98,247

C ASSETS AND LIABILITIES

C1 CASH & CASH EQUIVALENTS

	2019 $'000	2018 $'000
Cash (i) (iii)	**27,101**	34,118
Bank short term deposits (i) (ii)	**37,990**	59,326
	65,091	93,444

Notes:

i Servcorp's unencumbered cash and investment balance is $66.2 million as at 30 June 2019 (2018: $97.1 million).

ii Bank short term deposits mature within an average of 90 days (2018: 117 days). These deposits and the interest earning portion of the cash balance earn interest at a weighted average rate of 2.10% (2018: 2.09%).

iii Included in cash balance is restricted cash of: $0.9 million (2018: $0.7 million) held by a member of the Consolidated Entity in a politically restricted country with exchange controls.

Notes to the Consolidated Financial Statements

C2 TRADE & OTHER RECEIVABLES

	2019 $'000	2018 $'000
Current		
At amortised cost		
Trade receivables (i)	**40,198**	35,253
Less: Expected credit loss	**(1,038)**	(1,042)
Other debtors	**7,260**	9,726
	46,420	43,937

Note:

i The average credit period allowed on rendering of services is 7 days. An allowance has been made for estimated unrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience. The Consolidated Entity has applied the expected credit loss model to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the assets. Receivables are assessed for impairment at each reporting date and as at 30 June 2019 the Directors believe no further provisions are required.

C3 OTHER FINANCIAL ASSETS

	2019 $'000	2018 $'000
Current		
At fair value through profit or loss		
Investment in bank hybrid variable rate securities (i)	**7,870**	11,392
At amortised cost		
Lease deposits	**1,515**	589
	9,385	11,981
Non-current		
At fair value through profit or loss		
Forward foreign currency exchange contracts	**-**	128
At amortised cost		
Lease deposits	**46,583**	40,312
Other	**587**	695
	47,170	41,135

Note:

i Australia has $6.8 million in securities which is encumbered (2018: $7.7 million).

C4 PREPAYMENTS & OTHER ASSETS

	2019 $'000	2018 $'000
Current		
Prepayments	**12,930**	14,275
Other	**3,207**	3,013
	16,137	17,288

Notes to the Consolidated Financial Statements

C5 PROPERTY, PLANT & EQUIPMENT

	Land & buildings at cost	Leasehold improvements owned at cost	Leasehold improvements leased at cost	Office furniture & fittings owned at cost	Office furniture & fittings leased at cost	Office equipment & software owned at cost	Office equipment leased at cost	Motor vehicles owned at cost	WIP at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amounts										
Balance at 30 June 2018	8,167	232,506	1,174	36,842	136	54,528	118	464	5,165	339,100
Additions	-	35,673	73	7,412	-	9,999	-	2	(2,587)	50,572
Disposals	-	(38,263)	-	(2,741)	-	(4,185)	-	(158)	-	(45,347)
Effect of foreign currency exchange differences	683	11,401	107	2,018	9	1,647	9	25	-	15,899
Balance at 30 June 2019	**8,850**	**241,317**	**1,354**	**43,531**	**145**	**61,989**	**127**	**333**	**2,578**	**360,224**
Accumulated depreciation										
Balance at 30 June 2018	535	135,937	1,128	23,883	136	42,918	118	300	-	204,955
Depreciation expense	136	18,324	-	3,470	-	5,600	-	56	-	27,586
Disposals	-	(38,116)	-	(2,682)	-	(4,125)	-	(154)	-	(45,077)
Impairment (i)	-	17,679	-	-	-	-	-	-	-	17,679
Effect of foreign currency exchange differences	67	6,538	98	1,231	11	1,557	9	16	-	9,527
Balance at 30 June 2019	**738**	**140,362**	**1,226**	**25,902**	**147**	**45,950**	**127**	**218**	**-**	**214,670**
Net book value										
Balance at 30 June 2019	**8,112**	**100,955**	**128**	**17,629**	**(2)**	**16,039**	**-**	**115**	**2,578**	**145,554**
Balance at 30 June 2018	7,632	96,569	46	12,959	-	11,610	-	164	5,165	134,145

Note:

i During the financial year, the Consolidated Entity carried out a review of loss making entities and the recoverable amount of property, plant and equipment. The review of the assets' value in use less net book value, led to the recognition of an impairment loss of $17.7 million. Refer to Note B1 for further details.

Notes to the Consolidated Financial Statements

C6 GOODWILL

Allocation of goodwill to cash-generating units

The following twenty-three countries are groups of cash-generating units:

Japan, Australia, New Zealand, China, Hong Kong, Malaysia, Singapore, Thailand, Belgium, United Arab Emirates, Bahrain, Qatar, Saudi Arabia, Philippines, Lebanon, Turkey, France, Germany, United States of America, Kuwait, United Kingdom, Iran and Indonesia.

Goodwill was allocated to the countries in which goodwill arose.

The carrying amounts of goodwill relating to each group of cash-generating unit as at 30 June 2019 were as follows:

	2019 $'000	2018 $'000
Japan	**9,161**	9,161
France (i)	**-**	1,030
Australia	**2,636**	2,636
New Zealand	**785**	785
Singapore	**706**	706
Thailand	**326**	326
China	**161**	161
	13,775	14,805

The recoverable amount of goodwill relating to each group of cash-generating unit was determined based on value in use calculations, which use post-tax cash flow projections, covering a five-year period and terminal value. For the year ended 30 June 2019, the post-tax discount rate applied to the above countries, inclusive of country risk premium, was as follows: Japan 10.3%, Australia 9.3%, New Zealand 9.3%, Singapore 9.3%, Thailand 11.5% and China 10.3% (2018: Japan 10.9%, France 10.7%, Australia 10.1%, New Zealand 10.1%, Singapore 10.1%, Thailand 11.9% and China 10.9%). Growth rates ranging between 0.4% and 2.1% (2018: 0.17% and 1.9%) have been applied to extrapolate the cash flow projections for each cash-generating unit.

Note:

i The Consolidated Entity assessed the recoverable amount of goodwill and determined that $1.0 million of the full goodwill for France in the Europe and Middle East segment was impaired.

C7 TRADE & OTHER PAYABLES

	2019 $'000	2018 $'000
Current		
At amortised cost		
Trade creditors	**8,078**	10,530
Deferred contract liabilities	**24,039**	23,697
Deferred lease incentive	**8,331**	8,193
Other creditors and accruals	**19,383**	16,177
	59,831	58,597
Non-current		
At amortised cost		
Deferred lease incentive	**28,219**	28,935
	28,219	28,935

Notes to the Consolidated Financial Statements

C8 OTHER FINANCIAL LIABILITIES

	2019 $'000	2018 $'000
Current		
At amortised cost		
Security deposits	**35,025**	30,956
External borrowings	**-**	521
	35,025	31,477
Non-current		
Other	**530**	-
	530	-

C9 PROVISIONS

	2019 $'000	2018 $'000
Current		
Employee benefits (i)	**7,620**	7,456
Other	**154**	154
	7,774	7,610
Non-current		
Employee benefits	**854**	739
	854	739

Note:

i The current provision for employee benefits includes $7.0 million of annual leave and vested long service leave entitlements accrued (2018: $7.2 million).

D CAPITAL STRUCTURE & RISKS

This section outlines the market, credit and liquidity risks that the Consolidated Entity is exposed to and how it manages these risks. Capital comprises securityholders' equity and financing arrangements.

D1 CAPITAL MANAGEMENT

The Company's Audit and Risk Committee oversees the establishment of the capital and financial risk management system which identifies, evaluates, classifies, monitors, qualifies and reports significant risks to the Board of Directors. All controlled entities in the Consolidated Entity apply this risk management system to manage their own risks.

The Company's objective when managing capital is to ensure that entities within the Consolidated Entity will be able to continue as a going concern while maximising the return to stakeholders.

The Company's overall strategy remains unchanged from the prior period. The capital structure of the Consolidated Entity consists of equity attributable to equity holders of the parent, company issued capital, reserves and retained earnings.

The Consolidated Entity operates globally, primarily through subsidiary companies established in the markets in which the Consolidated Entity operates. Operating cash flows are used to maintain and expand the Consolidated Entity, as well as to make routine outflows of tax and dividend payments.

Notes to the Consolidated Financial Statements

D2 FINANCING FACILITIES & LIQUIDITY

The Consolidated Entity has access to financing facilities.

Bank guarantees have been issued to secure rental bonds over premises. A guarantee has also been established to secure an overdraft limit in the form of a term deposit. Details are in Note F2.

Bank overdraft limits have been established to fund working capital as required. All bank overdraft facilities are unsecured and payable at call, including any credit card facility utilised.

Bill acceptance, payroll and other facilities have been established to facilitate the encashment of cheques, and to accommodate direct entry payroll and direct entry supplier payments.

At 30 June 2019, the Consolidated Entity had $15.1 million of cash and committed undrawn bank facilities available (2018: 16.0 million).

The Consolidated Entity has access to the following lines of credit:

	2019 $'000	2018 $'000
Total facilities available		
Bank guarantees	**37,000**	37,000
Bank overdrafts and loans	**1,078**	3,992
Bill acceptance/ payroll/ other facilities	**4,150**	4,150
	42,228	45,142
Facilities utilised at balance sheet date		
Bank guarantees	**26,628**	28,882
Bank overdrafts and loans	**80**	293
	26,708	29,175
Facilities not utilised at balance sheet date		
Bank guarantees	**10,372**	8,118
Bank overdrafts and loans	**998**	3,699
Bill acceptance/ payroll/ other facilities	**4,150**	4,150
	15,520	15,967

D3 FINANCIAL RISK MANAGEMENT

The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Consolidated Entity enters into forward foreign currency exchange contracts to economically hedge anticipated transactions.

a. Financial risk management objectives

The financial risks that result from the Consolidated Entity's activities are credit risk and market risk (interest rate risk and foreign exchange risk).

The Consolidated Entity's corporate treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Consolidated Entity.

The Consolidated Entity does not enter into or trade financial instruments for speculative purposes. The Consolidated Entity does not apply hedge accounting. The use of financial derivatives is governed by policies approved by the Board of Directors.

The Consolidated Entity's corporate treasury function reports to the Company's Audit and Risk Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

Notes to the Consolidated Financial Statements

D3 FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Market risk

The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Consolidated Entity enters into forward foreign currency exchange contracts to economically hedge anticipated transactions.

i. Foreign exchange risk

The Consolidated Entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

The Consolidated Entity's foreign exchange risk arises primarily from:

- risk of fluctuations in foreign exchange rates to the Australian dollar (the functional and presentation currency);
- firm commitments of receipts and payments settled in foreign currencies or with prices dependent on foreign currencies;
- investments in foreign operations; and
- loans and trading accounts to foreign operations.

Foreign currency assets and liabilities

For accounting purposes, net investment in foreign operations are revalued at the end of each reporting period with the movement reflected as a movement in the foreign currency translation reserve. Borrowings and forward exchange contracts not forming part of the net investment in foreign operations are revalued at the end of each reporting period with the fair value movement reflected in the Statement of comprehensive income as exchange gains or losses.

Foreign currency sensitivity analysis

The following table summarises the material sensitivity of financial instruments held at balance date to movements in the exchange rate of the Australian dollar to foreign exchange rates, with all other variables held constant. The sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates for the preceding five-year period.

Sensitivity analysis – foreign exchange risk and interest rate risk

	Impact on profit		Impact on equity	
	2019 $'000	2018 $'000	**2019 $'000**	2019 $'000
Pre-tax gain/ (loss)				
AUD/ USD +7% (2018: +6%)	**(2,621)**	(1,750)	**1,014**	845
AUD/ USD -7% (2018: -6%)	**3,002**	1,957	**(1,161)**	(945)
AUD/ JPY +7% (2018: +6%)	**(945)**	2,200	**1,394**	1,036
AUD/ JPY -7% (2018: -6%)	**179**	(1,240)	**(1,611)**	(1,163)
AUD/ EUR +3% (2018: +3%)	**(13)**	142	**146**	162
AUD/ EUR -3% (2018: -3%)	**14**	(152)	**(155)**	(172)
AUD/ RMB +7% (2018: +7%)	**(251)**	(187)	**52**	8
AUD/ RMB -7% (2018: -7%)	**287**	209	**(60)**	(9)
AUD/ SGD +6% (2018: +5%)	**(819)**	(710)	**-**	-
AUD/ SGD -6% (2018: -5%)	**919**	783	**-**	-

Notes to the Consolidated Financial Statements

D3 FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Market risk (continued)

i. Foreign exchange risk (continued)

Forward foreign currency exchange contracts

The following table sets out the details of forward foreign currency exchange contracts in place as at 30 June 2019. These are level 2 fair value measurements derived from inputs as defined in Note D4.

	Average exchange rate		Foreign currency		Fair value	
	2019	2018	**2019 Million**	2018 Million	**2019 $'000**	2018 $'000
Outstanding contracts						
Sell JPY						
No later than one year	**76.70**	78.11	**800**	150	**(304)**	39
Later than one year and not later than five years	**74.32**	76.78	**1,000**	750	**(282)**	89
Sell EUR						
No later than one year	**0.584**	-	**1**	-	**53**	-

ii. Interest rate risk

Interest rate risk on cash or short term deposits is not considered to be a material risk due to the short term nature of these financial instruments.

The following table summarises the sensitivity of the financial instruments held at balance date, following a movement to interest rates, with all other variables held constant. The sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical rates. Nil impact on equity.

	Impact on profit	
	2019 $'000	2018 $'000
Pre-tax gain/ (loss)		
AUD balances		
125 basis point increase	**397**	655
125 basis point decrease	**(392)**	(607)
Other balances		
125 basis point increase	**114**	167
125 basis point decrease	**(70)**	(94)

Notes to the Consolidated Financial Statements

D3 FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Market risk (continued)

iii. Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of short, medium and long term funding. The Consolidated Entity manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities.

The following table details the Consolidated Entity's expected maturity for its financial assets. The table below was drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned.

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 + years	Total	Weighted average effective interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
2019							
Non-interest bearing							
Receivables	40,198	-	-	-	-	40,198	
Lease deposits	2,014	1,634	6,323	21,445	11,716	43,132	
Forward foreign currency exchange contracts	-	480	10,434	15,152	-	26,066	
Interest bearing							
Cash and cash equivalents	27,101	-	-	-	-	27,101	2.05%
Bank short term deposits	27,254	16,011	-	-	-	43,265	2.10%
Variable rate securities	7,870	-	-	-	-	7,870	4.82%
	104,437	**18,125**	**16,757**	**36,597**	**11,716**	**187,632**	

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 + years	Total	Weighted average effective interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
2018							
Non-interest bearing							
Receivables	43,937	-	-	-	-	43,937	
Lease deposits	144	-	14,015	15,692	6,565	36,416	
Forward foreign currency exchange contracts	-	1,000	1,917	9,767	-	12,684	
Interest bearing							
Cash and cash equivalents	34,118	-	-	-	-	34,118	2.06%
Bank short term deposits	32,095	5,585	26,329	-	-	64,009	2.25%
Variable rate securities	11,392	-	-	-	-	11,392	5.82%
	121,686	6,585	42,261	25,459	6,565	202,556	

Notes to the Consolidated Financial Statements

D3 FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Market risk (continued)

iii. Liquidity risk (continued)

The following table details the Consolidated Entity's remaining contractual maturity for its financial liabilities. The table is based on the earliest date on which undiscounted cash flows of financial liabilities are contractually to be paid. The table includes both principal and interest cash flows.

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 + years	Total	Weighted average effective interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
2019							
Non-interest bearing							
Payables	8,078	20,009	-	-	-	28,087	
Security deposits	-	-	35,025	-	-	35,025	
Forward foreign currency exchange contracts	-	810	10,569	14,831	-	26,210	
	8,078	**20,819**	**45,594**	**14,831**		**89,322**	

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 + years	Total	Weighted average effective interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
2018							
Non-interest bearing							
Payables	10,530	16,408	-	-	-	26,938	
Security deposits	-	-	30,574	-	-	30,574	
Forward foreign currency exchange contracts	-	998	1,831	9,154	-	11,983	
Interest bearing							
Bank loans (i)	6	159	157	-	-	322	2.42%
	10,536	17,565	32,562	9,154	-	69,817	

Note:

i Fixed interest rate instruments.

c. Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any group of any counterparties having similar characteristics. Details of credit enhancements in the form of serviced office security deposits retained from customers are further disclosed in Note C8.

Credit risk on cash and short term fixed deposits is limited because counterparties are banks with high credit ratings assigned by international credit rating agencies. These liquid funds are managed centrally by the Company's senior management on a daily basis.

Notes to the Consolidated Financial Statements

D4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Servcorp measures various financial assets and liabilities at fair value which, in some cases, may be subjective and depend on the inputs used in the calculations. The different levels of measurement are described below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: not traded in an active market but calculated with significant inputs coming from observable market data; and
- Level 3: significant inputs to the calculation that are not based on observable market data (unobservable inputs).

Servcorp holds Level 1 and level 2 financial instruments.

The Board of Directors consider that the carrying amount of financial assets and financial liabilities approximate their fair value other than in respect of the Company's investment in subsidiaries.

Financial instruments that are measured subsequent to initial recognition at fair value is grouped into Levels 1 to 3 based on the degree to which fair value is observable:

				2019				2018
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Bank hybrid variable rate securities	**7,870**	**-**	**-**	**7,870**	11,392	-	-	11,392
Forward foreign currency exchange contracts	**-**	**-**	**-**	**-**	-	128	-	128
	7,870	**-**	**-**	**7,870**	11,392	128	-	11,520

There were no transfers between the fair value hierarchy levels during the year. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at 30 June 2019 $'000	Fair value as at 30 June 2018 $'000	Fair value hierarchy	Valuation technique(s) & key input(s)
Financial assets				
Bank hybrid variable rate securities	**7,870**	11,392	1	Quoted prices in an active market
Forward foreign currency exchange contracts	**-**	128	2	Future cash flows are estimated based on observable forward exchange rates

Notes to the Consolidated Financial Statements

E EQUITY

This section includes details of distributions, securityholders' equity and reserves. It represents how the Consolidated Entity raised equity from its securityholders (equity) in order to finance activities both now and in the future.

E1 DISTRIBUTIONS

Ordinary distributions paid/ payable and distribution per security:

		Cents per share	Total amount $'000	Date of payment	Tax rate for franking credit	Percentage franked
Recognised amounts						
2019						
Final	Fully paid ordinary shares	13.00	12,586	4 Oct 2018	30%	25%
Interim	Fully paid ordinary shares	13.00	12,586	3 Apr 2019	30%	40%
2018						
Final	Fully paid ordinary shares	13.00	12,796	5 Oct 2017	30%	50%
Interim	Fully paid ordinary shares	13.00	12,796	5 Apr 2018	30%	7.5%
Unrecognised amounts						
Since the end of the financial year, the directors have declared the following dividend:						
Final	Fully paid ordinary shares	10.00	9,682	2 Oct 2019	30%	60%

In determining the level of future dividends, the directors will seek to balance growth objectives and rewarding shareholders with income. This policy is subject to the cash flow requirements of the Consolidated Entity and its investment in new opportunities aimed at growing earnings. The directors cannot give any assurances concerning the extent of future dividends, or the franking of such dividends, as they are dependent on future profits, the financial and taxation position of the Company and the impact of taxation legislation.

	2019 $'000	2018 $'000
Dividend franking account		
30% franking credit available	**1,390**	1,618
Impact on franking account balance of dividends not recognised	**2,490**	1,349

The balance of the franking account has been adjusted for franking credits that will arise from the payment of income tax provided for in the financial statements, and for franking debits that will arise from the payment of dividends recognised as a liability at reporting date.

Notes to the Consolidated Financial Statements

E2 CONTRIBUTED EQUITY

Movements in paid up equity

	2019		2018	
	No. securities '000	**Securities $'000**	No. securities '000	Securities $'000
Balance 1 July	**96,818**	**151,594**	98,432	154,122
Share buy-back (i)	**-**	**-**	(1,614)	(7,261)
Share buy-back reserve	**-**	**-**	-	4,733
Balance 30 June	**96,818**	**151,594**	96,818	151,594

Note:

i During the financial year ended 30 June 2018 Servcorp established an on-market buy-back program which enabled the purchase of 1,614,387 shares at an average price of $4.498.

E3 RESERVES

Foreign currency translation reserve (FCTR)

Servcorp has controlled entities operating in 23 countries and its presentation currency is Australian dollars. The assets and liabilities are translated to Australian dollars using the exchange rate at year end; income and expenses are translated using an average exchange rate for the year. On translation of foreign operations, exchange differences are recognised in other comprehensive income and the FCTR.

	2019 $'000	2018 $'000
Balance 1 July	**(6,772)**	(12,465)
Exchange difference on translation of foreign operations	**8,178**	5,693
Balance 30 June	**1,406**	(6,772)

E4 EQUITY SETTLED EMPLOYEE BENEFITS RESERVE

The equity-settled employee benefits reserve arises on the grant of rights to executives and senior executive management in accordance with the provisions of Servcorp's Executive Share Option Scheme. Amounts are transferred out of the reserve and into share capital when the rights vest, the options exercised and shares issued. Further information about the share-based payments to employees is set out in the Remuneration Report.

	Balance 1 July	Issued	Vested	Forfeited	Balance 30 June
Total rights FY19	**295,000**	**1,281,000**	**-**	**(135,000)**	**1,441,000**
Total rights FY18	295,000	-	-	-	295,000

The movements in the employee equity settled benefits reserve are as follows:

	2019 $'000	2018 $'000
Balance 1 July	**199**	111
Total (benefit)/ expense taken to reserve	**43**	88
Balance 30 June	**242**	199

Notes to the Consolidated Financial Statements

F ORGANISATIONAL STRUCTURE

This section explains how the Consolidated Entity is structured and disclosures for the parent entity.

F1 ORGANISATIONAL STRUCTURE

Subsidiary entities

The consolidated financial statements of Servcorp incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities over which the Consolidated Entity has power to direct the activities of the entity and an exposure to and ability to influence its variable returns from its involvement with the entity.

Controlled entities are fully consolidated from the date control is obtained until the date that control ceases. Inter-entity transactions and balances are eliminated.

Country of incorporation & principal place of business of subsidiaries	**Number 2019**	Number 2018
Australia	**47**	47
Bahrain	**1**	1
Belgium	**1**	1
China & Hong Kong	**8**	8
France	**2**	2
Germany	**1**	1
Indonesia	**1**	1
Iran (i)	**1**	1
Japan	**4**	4
Kuwait	**1**	1
Lebanon	**1**	1
Malaysia	**4**	2
New Zealand	**5**	5
Philippines	**1**	1
Qatar	**1**	1
Saudi Arabia	**1**	1
Singapore	**9**	9
Thailand	**3**	3
Turkey	**1**	1
United Arab Emirates	**4**	4
United Kingdom	**5**	5
United States of America	**17**	16

Movements in the number of subsidiaries are due to the formation and deregistration of subsidiary entities.

Note:

i The Consolidated Entity has an investment in a profitable, cash producing flexible workspace business in a politically restricted country with exchange controls. Included in the 30 June 2019 consolidated balance sheet are net assets of approximately $5.8 million of which $0.9 million is represented in cash (refer note Note C1). Given the various sanctions imposed on the country and the current significant political risk the year ended 30 June 2019 earnings of our operation have been excluded from Underlying Net Profit After Tax (refer to the Directors' Report for details). Further, until such time as the current climate changes, we will not be including in our forecasts any future earnings generated.

The Consolidated Entity's investment was made several years ago, before the heightening of sanctions by certain countries. We are always fully compliant with all laws and regulations including the associated sanctions laws. The current political risk is significant and extremely complicated; we have a profitable cash generating business but are strictly prohibited from repatriating cash or profits. We continue to explore all options including sale, nevertheless given the profitability and cash generation of our business, any potential terms of such a sale need to be commercially acceptable.

Notes to the Consolidated Financial Statements

F1 ORGANISATIONAL STRUCTURE (CONTINUED)

The following subsidiaries have non-controlling interests that are relevant to the Company. The table below sets out the Company's ownership interest:

Name of subsidiary	Principal place of business	2019 %	2018 %
Servcorp Aswad Real Estate Company WLL	Kuwait	**51**	51
Servcorp Qatar LLC	Qatar	**51**	51
Servcorp LLC	UAE	**51**	51
Servcorp Administration Services WLL	UAE	**51**	51

A Company in the Consolidated Entity exercises control over Servcorp Aswad Real Estate Company WLL, Servcorp Qatar LLC, Servcorp LLC and Servcorp Administration Services WLL despite owning 49% of the issued capital. Arrangements are in place that entitle the Company or its controlled entities to the benefits and risks of ownership notwithstanding that the majority shareholding may be vested in another party.

Name of joint venture	Principal place of business	2019 %	2018 %
Etihad Towers Service Offices LLC	UAE	**49**	49

A company in the Consolidated Entity entered into a joint venture with Emirates Consortium LLC. The joint venture is accounted for using the equity method in the Consolidated financial statements.

F2 PARENT ENTITY

The financial information for the parent entity, Servcorp Limited, is prepared on the same basis as the consolidated financial statements.

Parent entity	2019 $'000	2018 $'000
Current assets	**135,976**	149,318
Non-current assets	**22,445**	22,779
Total assets	**158,421**	172,097
Current liabilities	**768**	8,968
Total liabilities	**768**	8,968
Equity		
Contributed equity	**146,861**	146,861
Retained earnings	**10,792**	16,268
Total equity	**157,653**	163,129
Profit for the year	**19,658**	26,595
Total comprehensive income for the year	**19,658**	26,595

As at 30 June 2019:

i Servcorp Limited guaranteed Company Headquarters Limited (a subsidiary) as part of a New Zealand lease.

ii In January 2016 Servcorp Limited renewed a Corporate Guarantee and Indemnity with the Australian and New Zealand Banking Group Limited, pursuant to which the bank agreed to make available to the Consolidated Entity a $37 million interchangeable facility for general corporate purposes. The liability under the deed by and between the Australian and New Zealand companies is limited to $52 million. As at 30 June 2019 the fair value of these commitments was Nil (2018: Nil).

iii There were no contingent liabilities of the parent entity.

iv There were no commitments for the acquisition of property, plant and equipment by the parent entity.

Notes to the Consolidated Financial Statements

G OTHER INFORMATION

This section provides additional required disclosures that are not covered in the previous sections.

G1 COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments – property, plant & equipment

	2019 $'000	2018 $'000
Committed but not provided for and payable:		
Not later than 1 year (i)	**5,682**	30,628
Later than 1 year but not later than 5 years	**-**	-
Later than 5 years	**-**	-
	5,682	30,628

Note:

i The refurbishment and modernisation of current floors to create coworking space totals $5.6 million (2018: $7.5 million). New floors total Nil (2018: $23.1 million).

Non-cancellable operating lease commitments

Operating leases have been entered into to operate serviced office floors. Servcorp does not have an option to purchase the leased asset at the expiry of the lease period.

Servcorp leases property under operating leases expiring from 1 to 15 years. Liabilities in respect of lease incentives are disclosed in Note C7 to the Consolidated financial statements.

	2019 $'000	2018 $'000
Future minimum lease payments:		
Not later than 1 year	**152,214**	133,608
Later than 1 year but not later than 5 years	**330,422**	305,475
Later than 5 years	**115,348**	117,567
	597,984	556,650

G2 RELATED PARTIES

From time to time Directors of the Company and its controlled entities, or their director-related entities, may purchase services from or provide services to the Consolidated Entity. These purchases or sales are on the same terms and conditions as those entered into by other employees, suppliers or customers of the Consolidated Entity and are trivial or domestic in nature.

All transactions with director-related entities are disclosed to the Board and reviewed to ensure they bring a benefit to the Consolidated Entity.

Mr. A G Moufarrige has an interest in and is a Director of Tekfon Pty Ltd (Tekfon). Servcorp has a lease on arm's length terms with Tekfon for the use of Tekfon's premises for storage. Servcorp utilises off-site storage facilities in many of its global locations, for storage of office furniture and retention of records. Tekfon's premises are in a suburb of Sydney, and have been utilised by Servcorp's Sydney locations and head office for storage since before the Consolidated Entity's IPO in 1999. Research confirms that the lease is at arm's length terms for similar facilities in the area. The Board, with Mr. A G Moufarrige absent, reviews the lease with Tekfon on an annual basis to ensure that the terms are at market rate or better.

A relative of Mr. A G Moufarrige has an interest in Enideb Pty Ltd (Enideb). Mr. A G Moufarrige has no interest in the affairs of Enideb. Enideb operates the Servcorp franchise in Canberra on arm's length terms. The Canberra franchise has been operating for more than 28 years, and the Canberra locations bring a benefit to Servcorp's operations. The Board reviews the terms of the franchise agreement on a regular basis to ensure that it is conducted on proper commercial terms, consistent with any other franchise operations.

Notes to the Consolidated Financial Statements

G2 RELATED PARTIES (CONTINUED)

Mr. A G Moufarrige has an interest in and is a Director of Sovori Pty Ltd (Sovori). Mr. T Moufarrige, was also a director of Sovori. Mr. A G Moufarrige has personal credit cards which, in the main, are used to pay for Servcorp expenses during his business travels. For convenience, these are paid by Servcorp whilst he travels and they are then reconciled upon his return and personal expenses are repaid to Servcorp by Sovori. The Chairman has oversight over the reconciliations.

During the previous financial year Servcorp undertook certain strategic initiatives in the Middle East and Europe to accelerate growth pathways to take advantage of the expansion in the demand for shared offices and to unlock more of the inherent value in its business and technology platform. In order to provide cost-certainty, Mr. A G Moufarrige undertook in February 2018 to reimburse expenses incurred by the Consolidated Entity in excess of a pre-determined amount. Accordingly, $1.7 million was reimbursed by Mr. A G Moufarrige. The $1.7 million was received in cash on 30 June 2018. Refer also to Notes B1 and B3.

Mr. T Moufarrige has an interest in Nualight AUSNZ Pty Ltd (Nualight) and Light Energy Australia Pty Ltd (LEA). Nualight and LEA are clients of Servcorp in Sydney, Melbourne, Adelaide and Brisbane. From time to time Nualight and LEA also provide lighting products to Servcorp on arm’s length terms. The Board, with Mr. T Moufarrige absent, review the terms of any contract to supply lighting services, to ensure that the terms bring a commercial benefit to Servcorp.

Mr. T Moufarrige, has an interest in and is a Director of Spigoli Pty Ltd. Mr. T Moufarrige and Spigoli Pty Ltd are clients of Servcorp in Sydney. Services provided by Servcorp are at market terms and rates.

Mr. B Corlett is provided an office in Sydney for use as necessary in carrying out his duties as Chairman. Mr. B Corlett pays full market rate for any services he utilises.

Servcorp has in excess of 21,000 clients globally. From time to time a client will be an entity which is defined as a Director related party, even though the Director has had no involvement in the decision to become a client of Servcorp. The following disclosures fall into this category.

A relative of Mr. B Corlett, has an interest in TDM Asset Management Pty Ltd. TDM Asset Management Pty Ltd is a client in New York. Mr. B Corlett has no interest in the affairs of TDM Asset Management Pty Ltd nor any involvement in the negotiation of the terms of the arrangement with TDM Asset Management Pty Ltd, which are at arm's length terms.

Mr. R Holliday-Smith, has an interest in and is the Chairman of ASX Limited. ASX Operations Pty Ltd, a subsidiary company of ASX Limited, is a client of Servcorp in London. Mr. R Holliday-Smith did not have any involvement in the negotiation of the terms of the arrangement with ASX Operations Pty Ltd, which are at arm's length terms.

Mr R. Holliday-Smith, has an interest in and is the Chairman of Cochlear Limited. Cochlear Limited is a client of Servcorp in Sydney, Guangzhou and Mumbai. Mr. R Holliday-Smith did not have any involvement in the negotiation of the terms of the arrangement with Cochlear Limited, which are at arm's length terms.

Mrs. W Graham has an involvement with Energy Capital Partners, a US-based private equity firm. Energy Capital Partners is a client of Servcorp in Sydney. Mrs. W Graham did not have any involvement in negotiation of the arrangement with Energy Capital Partners, which are at arm's length terms.

The terms and conditions of the transactions with Directors and their director-related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director-related parties on an arm’s length basis.

Notes to the Consolidated Financial Statements

G2 RELATED PARTIES (CONTINUED)

The value of the transactions during the year with Directors and their director-related entities were as follows:

Director	Director-related entity	Transaction	**2019 $**	2018 $
A G Moufarrige	Tekfon Pty Ltd	Premises rental	**92,807**	90,964
	Enideb Pty Ltd	Franchisee	**801,521**	745,357
	Sovori Pty Ltd	Strategic initiatives	**-**	1,700,000
	Sovori Pty Ltd	Reimbursements	**86,588**	210,605
T Moufarrige	Nualight AUSNZ Pty Ltd and Light Energy Australia Pty Ltd	Client	**9,335**	2,780
	Light Energy Australia Pty Ltd	Supplier	**-**	5,781
	Spigoli Pty Ltd	Client	**7,144**	6,506
	Taine Moufarrige	Reimbursements	**51,475**	26,845
B Corlett	Bruce Corlett	Client	**92,105**	79,340
	TDM Asset Management Pty Ltd	Client	**6,534**	10,005
R Holliday-Smith	ASX Operations Pty Ltd	Client	**248,935**	515,549
	Cochlear Ltd	Client	**118,933**	-
W Graham	Energy Capital Partners	Client	**2,524**	1,138

Amounts receivable from and payable to Directors and their director-related entities at balance sheet date arising from these transactions were as follows:

Current receivable/ (payable)	**2019 $**	2018 $
Tekfon Pty Ltd	**(15,574)**	-
Enideb Pty Ltd	**73,347**	45,162
Sovori Pty Ltd	**-**	-
Light Energy Australia Pty Ltd	**417**	69
Spigoli Pty Ltd	**573**	566
T Moufarrige	**-**	30,708
B Corlett	**6,724**	6,136
TDM Asset Management Pty Ltd	**1,799**	787
ASX Operations Pty Ltd	**20,616**	44,898
Cochlear Ltd	**16,546**	-
Energy Capital Partners	**215**	205

Notes to the Consolidated Financial Statements

G3 RECONCILIATION OF PROFIT TO OPERATING CASH FLOW

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash at bank and short term deposits at call.

	2019 $'000	2018 $'000
Profit for the year	**5,380**	10,062
Add/ (less) non-cash items:		
Movements in provisions	**(279)**	(708)
Deferred tax expense relating to change in tax rate	**-**	7,560
Deferred tax expense relating to derecognition of tax losses	**3,283**	5,405
Depreciation of non-current assets	**27,586**	24,894
Share of losses of joint venture	**(627)**	(93)
Impairment of goodwill	**1,030**	-
Impairment of non-current assets	**17,769**	-
Loss on disposal of non-current assets	**196**	928
(Gain) from financial assets	**(105)**	(32)
(Increase)/ decrease in current tax liability	**(4,092)**	349
(Decrease) in deferred tax balances	**(869)**	(8,994)
Unrealised foreign exchange (loss)/ gain	**(1,598)**	5,303
(Increase) in deferred lease incentives	**(578)**	(603)
Change in net assets and liabilities		
Decrease in prepayments	**1,345**	224
Increase in trade debtors and other receivables	**(2,483)**	(2,287)
Increase in current assets	**(86)**	(1,102)
Increase in deferred contract liabilities	**342**	2,229
Increase in client security deposits	**4,069**	510
Increase in accounts payable	**754**	6,432
Net cash inflows from operating activities	**51,037**	50,077

Notes to the Consolidated Financial Statements

G4 AUDITORS' REMUNERATION

	2019 $'000	2018 $'000
Auditor of the parent entity		
(Deloitte Touche Tohmatsu Australia (DTT))		
Audit and review of financial reports	**705**	632
Other services – tax	**25**	104
Strategic initiatives – tax (i)	**-**	334
Strategic initiatives – advisory (i)	**-**	80
	730	1,150
Other auditors		
(Deloitte international associates)		
Audit and review of financial reports	**792**	682
Other services – tax	**214**	116
Other services – financial statements preparation	**88**	221
Strategic initiatives – tax (i)	**-**	613
Strategic initiatives – advisory (i)	**-**	804
Strategic initiatives – audit (i)	**-**	738
	1,094	3,174
Total auditors' remuneration	**1,824**	4,324

Note:

i During the financial year ended 30 June 2018 Servcorp initiated an investment review of its operations in Europe and the Middle East to accelerate growth pathways to take advantage of the expansion in the demand for shared offices and to unlock more of the inherent value in its business and technology platform. The outcome of the strategic review will benefit Servcorp in the long run, however a decision was made to not proceed with the identified alternatives at this time. These expenses related to the strategic initiatives undertaken.

Directors' Declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note A to the Consolidated financial report;

(c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:

(i) compliance with accounting standards; and

(ii) giving a true and fair view of the financial position and performance of the Consolidated Entity;

(d) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors

A G Moufarrige AO

Managing Director and CEO

Dated at Sydney this 27th day of August 2019

Deloitte.

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Independent Auditor's Report to the Members of Servcorp Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Servcorp Limited (the "Entity"), and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by directors.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to directors of the Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter

Accounting for lease agreements as tenant
 	
Refer to Notes A and C7.
 	
The Group frequently enters into agreements for the leasing of new floors or renegotiates or extends existing leases.
 	
These leasing agreements typically establish base rents for the floor and contain additional terms and conditions that impact the occupancy expenses to be recognised. These may include lease incentives received, rent review clauses, make-good provisions or other relevant terms and conditions.
 	
The identification of the relevant terms and conditions is a manual process and the accounting treatment involves non-systematic calculations and judgements to be exercised by management.
 	
In addition, the current year's financial statements include disclosures in respect to the expected impact of the first time adoption of AASB 16 *Leases* which is effective from 1 July 2019 and replaces AASB 117 *Leases*. Management has performed their assessment of the impact of the transition to the new accounting standard and this requires the determination of the expected lease terms, incremental borrowing rates, and the calculation of right-of-use assets and lease liabilities.
 	
Management have disclosed in Note A to the financial statements that the expected impact is the recognition of right-of-use assets of between $365 million and $446 million, and lease liabilities of between $422 million to $517 million.
	Our procedures included, but were not limited to:
	
	- obtaining an understanding of key controls management has in place to identify and accurately account for key terms and conditions of lease agreements;
	- on a sample basis:
	    o assessing new, renewed and/or amended lease agreements;
	    o identifying terms that may give rise to specific accounting implications;
	    o independently calculating the rent expense and other associated balances over the life of the agreement and comparing results to management's calculation for those leases selected for detailed analysis;
	- inquiring of management to identify changes to existing leases;
	- on a sample basis, testing existing leases to assess whether any changes had been made to the agreements, and as a result, the associated accounting;
	- evaluating management's assessment on floors to be closed in the coming 18 months, and the appropriateness of the Group's accounting policy for recording any make-good provisions;
	- obtaining management's calculation of the impact of transitioning to the new leases accounting standard and assessing the appropriateness of the model and completeness of leases included in the assessment;
	- assessing management's key assumptions in determination of the future right-of-use assets and lease liabilities, including but not limited to the expected lease terms and incremental borrowing rates of the Group; and
	- assessing the appropriateness of the disclosures in the Notes to the financial statements.

Impairment assessment of goodwill and leasehold improvements Refer to Note C5, and C6. As at 30 June 2019 the Group's goodwill value totals $13.8 million and capitalised leasehold improvements totals $140.4 million. The Group performs impairment assessments on an annual basis on goodwill and leasehold improvements. For goodwill and leasehold improvements	Our procedures included, but were not limited to: - obtaining an understanding of key controls over the preparation and review of the impairment indicator assessment and value-in-use models; - inspecting management's assessment of whether impairment indicators exist and considering whether management has used all available internal and external sources of information. For impairment indicators where assumptions are used, assessing these assumptions and where

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with indicators of impairment (or indicators of reversal of previously recorded impairment), the Group has prepared value-in-use models in order to determine the recoverable amounts of these assets to compare to their carrying values to determine whether an impairment loss (or impairment reversal) should be recorded. The value-in-use models use forecast pre-tax free cash flows discounted to present value using the pre-tax weighted average cost of capital ("WACC"). The value-in-use models are sensitive to several key assumptions, which are subject to management judgement, including but not limited to, revenue growth rates, earnings before interest, tax, depreciation and amortisation ("EBITDA"), margins, changes in working capital, capital expenditures and WACC rates.	possible, comparing these assumptions to third party information; - engaging internal valuation specialists to assist in the assessment of management's cash flow forecasts and valuation assumptions; - evaluating management's determination of cash-generating units to test that the appropriate considerations have been made in accordance with the relevant accounting standards; - testing and evaluating the cash flow assumptions in management' s value-in-use models to determine whether any impairment (or impairment reversal) identified is properly recorded and the carrying value of the assets is supportable; - assessing the cost and production assumptions used in the impairment model by examining the retrospective performance of a particular assumption (e.g. sales) and determining whether the prospective forecast is reasonable based on historical performance; - assessing growth rates, occupancy rates and discount rate assumptions by performing a sensitivity analysis; - testing that the model mechanics and integrity are appropriate; and - assessing the appropriateness of the disclosures in the Notes to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Governance Statement, Directors' Report, and Shareholder Information and Corporate Information, which we obtained prior to the date of this auditor's report. The other information also includes the following documents which will be included in the annual report (but does not include the financial report and our auditor's report thereon): '2019 in review', 'Global locations', 'Chairman's message', 'CEO's message', 'Our work place', 'Servcorp's community', 'Information & communication technology', 'Global communications network', 'Our environmental commitment', 'Community service' and 'Directors & Executives', which are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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When we read the '2019 in review', 'Global locations', 'Chairman's message', 'CEO's message', 'Our work place', 'Servcorp's community', 'Information & communication technology', 'Global communications network', 'Our environmental commitment', 'Community service' and 'Directors & Executives', if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

The directors of the Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 40 to 51 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Servcorp Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of Servcorp Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants
Sydney, 27 August 2019

Shareholder Information

The shareholder information set out below is provided in accordance with the Listing Rules and was applicable as at 4 September 2019.

CLASS OF SHARES AND VOTING RIGHTS

Ordinary shares

There were 2,331 holders of the ordinary shares of the Company.

At a general meeting:

- on a show of hands, every member present in person or by direct vote, proxy, attorney or representative has one vote;
- on a poll, every member present has one vote for each fully paid share held.

Options

There were 65 holders of options over 1,441,000 unissued ordinary shares of the Company, granted to employees under the Servcorp Executive Share Option Scheme.

There are no voting rights attached to the options. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The options are unquoted.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

DISTRIBUTION OF SHAREHOLDERS

	ORDINARY SHARES			OPTIONS		
SIZE OF HOLDING	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF SHARES	NUMBER OF HOLDERS	NUMBER OF OPTIONS	% OF OPTIONS
1 – 1,000	1,004	477,749	0.49%	-	-	-
1,001 – 5,000	866	2,255,827	2.33%	8	35,000	2.43%
5,001 – 10,000	225	1,713,945	1.77%	36	278,500	19.33%
10,001 – 100,000	205	5,157,170	5.33%	20	927,500	64.36%
100,001 and over	31	87,213,197	90.08%	1	200,000	13.88%
Totals	**2,331**	**96,817,888**	**100.00%**	**65**	**1,441,000**	**100.00%**

There were 187 holders of ordinary shares holding less than a marketable parcel, based on the closing market price at the specified date.

SUBSTANTIAL SHAREHOLDERS

The following organisations have given a substantial shareholder notice to Servcorp.

NAME	NUMBER OF SHARES	% OF VOTING POWER
FMR LLC	5,871,684	6.06%
Sovori Pty Ltd	51,338,105	53.03%

Shareholder Information

TWENTY LARGEST SHAREHOLDERS

HOLDER NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD
BNP Paribas Nominees Pty Ltd <IOOF Invmt Mngt Ltd DRP>	353,607	0.37%
BNP Paribas Noms Pty Ltd <DRP>	325,762	0.34%
Bond Street Custodians Limited <Laman D05019 A/C>	305,301	0.32%
Citicorp Nominees Pty Limited	5,392,033	5.57%
Ecapital Nominees Pty Limited <Accumulation A/C>	273,725	0.28%
Eniat Pty Ltd	1,800,000	1.86%
HSBC Custody Nominees (Australia) Limited	17,463,311	18.04%
HSBC Custody Nominees (Australia) Limited - A/C 2	1,792,780	1.85%
JP Morgan Nominees Australia Pty Limited	2,187,201	2.26%
MFLE Pty Ltd	1,800,000	1.86%
Morgan Stanley Australia Securities (Nominee) Pty Ltd <No 1 Account>	395,968	0.41%
Moufarrige, Alfred George	547,436	0.57%
Mutual Trust Pty Ltd	306,278	0.32%
National Nominees Limited	3,814,743	3.94%
Omnioffices Pty Ltd	1,012,592	1.05%
Sandhurst Trustees Ltd <Wentworth Williamson A/C>	1,486,843	1.54%
Sovori Pty Ltd	42,878,077	44.29%
UBS Nominees Pty Ltd	3,085,793	3.19%
UBS Nominees Pty Ltd	880,366	0.91%
Uvira Superannuation Pty Limited (Uvira Holdings Employees Super Fund Account)	455,034	0.47%
Totals for Top 20	**86,556,850**	**89.40%**

Corporate Information

DIRECTORS

Bruce Corlett	Chairman & non-executive Director, independent
Wallis Graham	Non-executive Director, independent
Rick Holliday-Smith	Non-executive Director, independent
Anthony McGrath	Non-executive Director, independent
Alf Moufarrige	CEO & Managing Director
Mark Vaile	Non-executive Director, independent

COMPANY SECRETARY

Gregory Pearce

REGISTERED OFFICE AND PRINCIPAL OFFICE

Level 63, MLC Centre
19-29 Martin Place
Sydney NSW 2000

Telephone: + 61 (2) 9231 7500
Facsimile: + 61 (2) 9231 7665

AUDITOR

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

SHARE REGISTRY

Boardroom Pty Limited
Level 12, Grosvenor Place
225 George Street
Sydney NSW 2000

GPO Box 3993
Sydney NSW 2001

Telephone: 1300 737 760
+ 61 (2) 9290 9600

Email: enquiries@boardroomlimited.com.au

STOCK EXCHANGE

Servcorp Limited shares are quoted on the Australian Securities Exchange under the code **SRV**.

The Home Exchange is Sydney.

ANNUAL GENERAL MEETING

The annual general meeting of Servcorp Limited will be held at 4.30pm on Wednesday, 13 November 2019 at:

Servcorp Limited
Level 63, MLC Centre
19-29 Martin Place
Sydney NSW 2000


SERVCORP
Annual Report
2019