SERVCORP LIMITED
ABN 97 089 222 506

APPENDIX 4E

Preliminary Final Report
For the financial year ended
30 June 2020

The information in this document should be read in conjunction with Servcorp Limited's Directors' Report and Financial Report for the twelve months ended 30 June 2020, the 2020 Annual Financial Report and public announcements made during the period in accordance with continuous disclosure obligations arising under the Corporations Act 2001 and ASX Listing Rules

.

Reporting Period

Current period:	1 July 2019 to 30 June 2020
Previous corresponding period:	1 July 2018 to 30 June 2019

Results for announcement to the market

				$m
Revenue and other income from ordinary activities	up	4.6%	to	352.9
Profit from ordinary activities after tax attributable to members	up	28.9%	to	6.9
Net profit for the period attributable to members	up	28.9%	to	6.9

Dividends	**Total amount** **$m**	**Amount per security** **(cents per share)**	**Franked amount per security** **(cents per share)**
Current period			
Final dividend declared	8.7	9.00c	none
Interim dividend paid	10.7	11.00c	2.75c
Previous corresponding period			
Final dividend paid	9.7	10.00c	6.00c
Interim dividend paid	12.6	13.00c	5.20c

Record date for determining entitlements to the dividend	11 September 2020
Dividend payment date	1 October 2020

The final dividend is 100% conduit foreign income.

	30 June 2020 **$**	**30 June 2019** **$**
Net tangible asset backing		
Net tangible asset backing per ordinary security	2.14	2.32

Additional 4E disclosures can be found in the Notes to the Servcorp Consolidated Financial Report for the year ended 30 June 2020 lodged with the ASX on 25 August 2020.

Management Discussion & Analysis

COVID-19 pandemic

The consequences of the COVID-19 pandemic for the flexible workspace industry have been unprecedented. In response, Servcorp has rapidly adapted to the present environment across our global footprint, with the first priority being to protect the health and safety of our team and clients.

While the first three quarters of FY20 delivered a solid start to the financial year, the subsequent spread of COVID-19 significantly impacted trading conditions from late March. Since this time, occupancy has been materially impacted, falling 7 percentage points from its highest point at 76% to 69% at 30 June 2020. Virtual office clients were also impacted however this client base has now somewhat stabilised. There has been a severe impact to coworking and we expect the recovery to take significantly longer than our serviced and virtual office offerings.

We have been sympathetic to the impact COVID-19 has had on the way we live and work, and continue to work closely with our clients who have been genuinely impacted, to provide them with the necessary support to manage through the pandemic and beyond.

Leading up to the COVID-19 pandemic Management had already committed to, and executed a global footprint consolidation. However, the pandemic forced some further footprint reduction, particularly in the USA where we closed 12 locations. We believe our consolidated global footprint will allow us to better navigate the current and future economic uncertainty stemming from the COVID-19 pandemic as well as capitalise on the recovery.

Servcorp is well positioned to manage through a range of potential recovery scenarios:

- **A strong liquidity position:** Since 2010 Servcorp has conservatively maintained a strong balance sheet. This conservatism will provide a buffer in handling the liquidity pressures brought on by COVID-19. Currently we have in excess of $100.0m in cash and no external debt.
- **Tightly controlled operating expenditure:** Implementation of cost reduction initiatives across our operations were enacted promptly in March resulting in a lower operating cost base. We believe in sharing the financial downside of the COVID-19 pandemic impact with our landlords through rental abatements, deferrals or other type of rental relief. Negotiations continue with all landlords, with approximately 26% of our portfolio resolved to date.
  Our global headcount has been reduced by approximately 20% and there have been temporary salary reductions of up to 20% in place including the Executive and Directors.
- **Strict capital expenditure allocation:** Other than maintenance, all capital expenditure programs have been temporarily suspended. That said, we do see medium term opportunities for growth particularly in mature markets with proven management performance. Any future allocation of capital will ultimately depend on the certainty of the post COVID-19 recovery period within each market.
- **Unique technology platforms:** Servcorp's technology platforms are market-unique and well placed to attract new clients post COVID-19. In particular, our best-in-market virtual product makes working from home seamless. Through our OneFone technology clients have uninterrupted access to landline telephone infrastructure and our team will answer calls 24 hours a day as directed thereby minimising the impact of any potential loss of business.

Despite the COVID-19 challenges, we remain cautiously optimistic due to our unique positioning, global reach, technology platforms, longstanding track record and cash generation ability.

Headline

A strong underlying performance in FY20 despite COVID-19[1] pandemic trading conditions in the last quarter of FY20:

- Revenue and other income up 5%
- Continued Operations revenue up 11%
- Underlying[2] NPBT up 17%
- Underlying Free Cash up 3%
- Operating performance in the first 9 months of FY20 up 17%

Given the current economic environment stemming from the COVID-19 pandemic it was considered prudent that the FY20 final dividend be reduced from previously expected 11.0 cps to 9.0 cps, unfranked.

Operating performance

Reconciliation of Statutory NPBT and NPAT to Underlying NPBT and NPAT:

	FY20	FY19
		$m
Statutory NPBT	**15.6**	**12.5**
Add:		
Restructure costs and write-offs	2.0	1.9
Deconsolidation loss[3]	19.4	-
Restricted losses[4]	0.5	-
Impairment of assets and goodwill	-	18.7
Less:		
Restricted earnings[4]	-	1.1
Underlying NPBT	**37.5**	**32.0**
Less:		
Underlying tax expense	6.9	2.8
Underlying NPAT	**30.6**	**29.2**
Less:		
Restructure costs and write-offs (after tax)	1.5	1.4
Deconsolidation loss	19.4	-
Restricted losses (after tax)	0.5	-
Impairment of assets and goodwill	-	18.7
Non-cash tax adjustment relating to deferred tax assets	2.3	4.5
Add:		
Restricted earnings (after tax)	-	0.7
Statutory NPAT	**6.9**	**5.4**

- Free Cash $80.4m, up 30% on FY19; Underlying Free Cash $66.1m, up 3% on FY19
- Statutory NPBT $15.6m, up $3.1m on FY19
- Statutory NPAT $6.9m, up $1.5m on FY19
- Underlying NPBT $37.5m excludes $2.0m in one-off, COVID-19-related restructure costs, $19.4m of deconsolidation losses and $0.5m of restricted losses (FY19 Underlying NPBT: $32.0m)

[1] *COVID-19 refers to the infectious disease caused by severe acute respiratory syndrome coronavirus 2.*
[2] *"Underlying" is a non-statutory measure and is the primary reporting measure used by the CEO, CFO, COO & Board of Directors for the purpose of assessing the performance of our business.*
[3] *Aggregate deconsolidation loss of USA and entity operating in a politically restricted country with exchange controls.*
[4] *Earnings or losses generated by a member of the consolidated entity operating in a politically restricted country with exchange controls.*

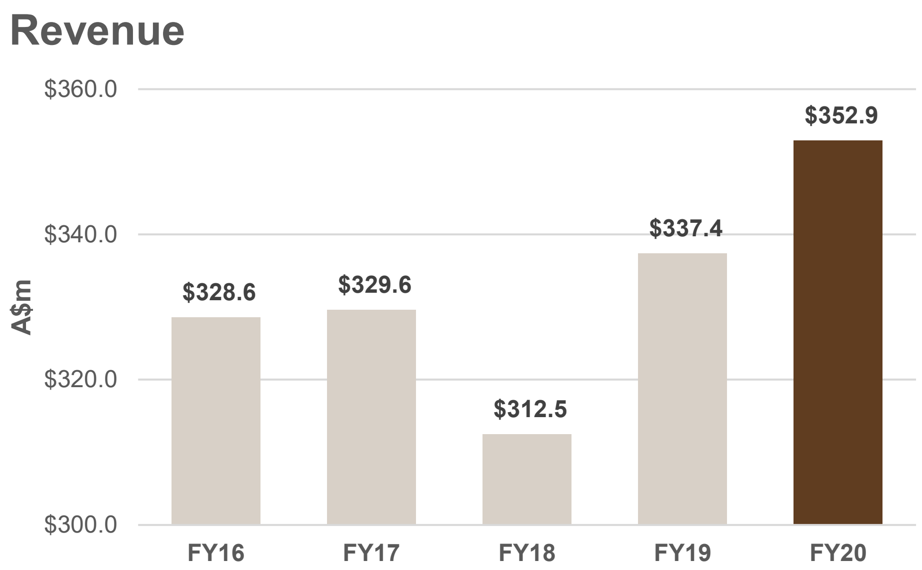
Operating performance - continued

Resilient balance sheet

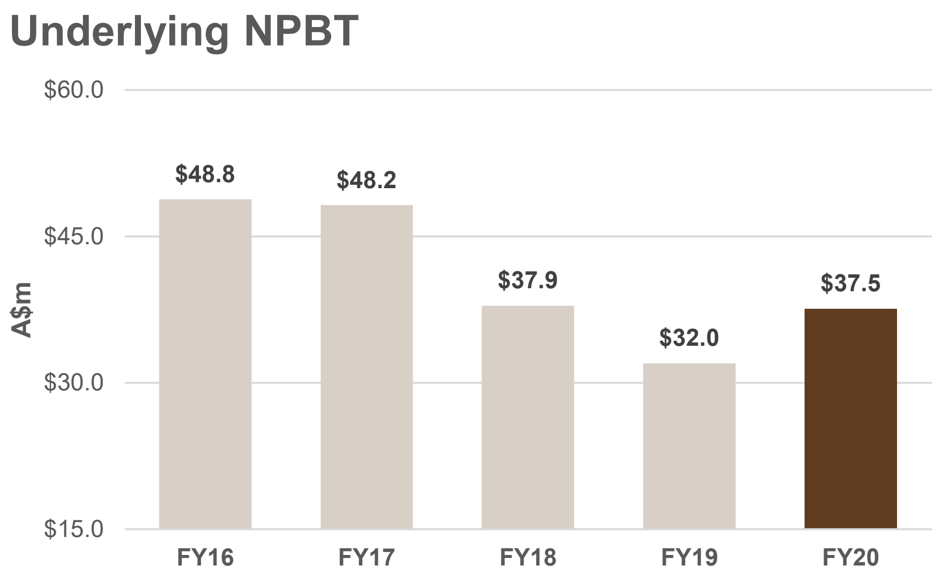
- Cash balances at 30 June 2020 of $101.4m, up $35.2m from 30 June 2019; driven by strong performance before the COVID-19 pandemic
- Cash balances currently in excess of $100.0m
- Underlying Free Cash 176% of Underlying FY20 NPBT, providing some buffer to navigate through the COVID-19 pandemic, supporting self-funded capital expenditure and dividends
- No external net debt
- Healthy cash generation enabling a FY20 final dividend of 9.0 cps, unfranked

FY20 – Overview

FY20 Revenue of $352.9m up 5% from $337.4m – a new Servcorp record. FY20 Continued Operations revenue of $327.5m was up 11% on the prior corresponding period.



FY20 Underlying NPBT of $37.5m underpinned by a strong North Asia result, improved results in the Middle East and United Kingdom offset by the underperformance of the USA and challenging trading conditions stemming from the COVID-19 pandemic in the last quarter of FY20.



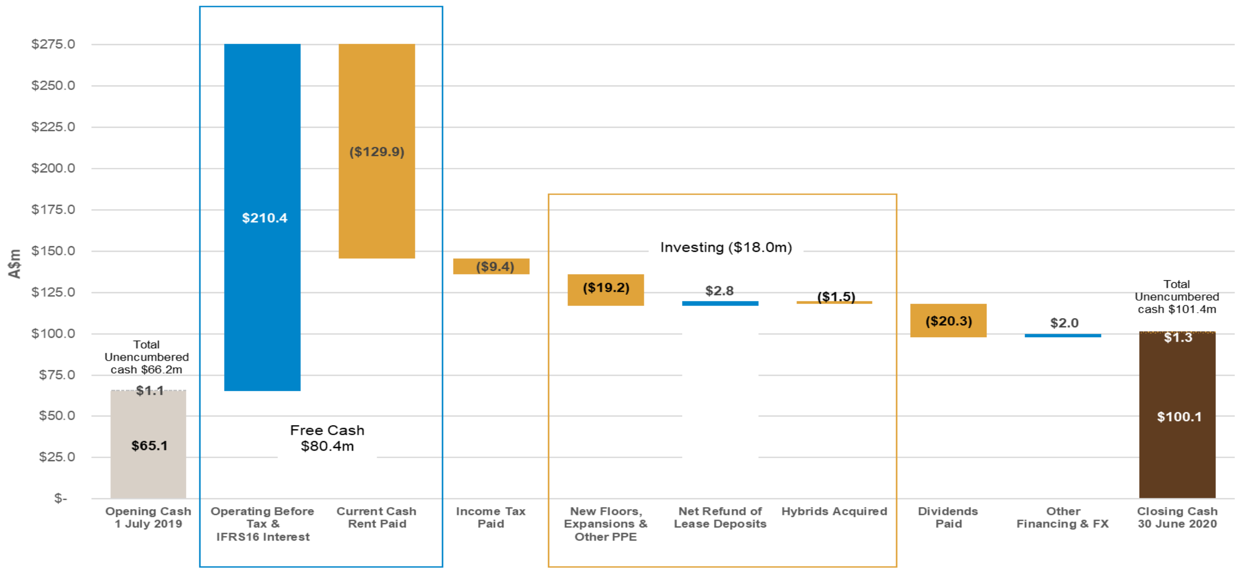
Cash Flow

Reconciliation of Net Operating Cash Flows to Free Cash and Underlying Free Cash:

	FY20	FY19
		$m
Net Operating Cash Flows	**182.3**	**51.0**
Add:		
Tax paid	9.4	11.1
Less:		
Lease liability Cash Rent[5] for FY20 paid in FY20	111.2	-
Free Cash	**80.4**	**62.1**
Add:		
Restructure costs[6] and write-offs	3.4	1.9
Less:		
Cash Rent for FY20 paid in FY19	8.8	-
Unpaid Cash Rent relating to FY20	8.9	-
Underlying Free Cash	**66.1**	**64.0**

Free Cash of $80.4m, up 30% compared to FY19. Underlying Free Cash of $66.1m, up 3% compared to FY19.

Cash flow & Liquidity



Capital expenditure was $19.2m, down $31.4m from $50.6m in FY19 representing new floors, expansions and completion of our coworking product ($10.5m), continued investment in our technology platforms ($4.5m) and maintenance capex ($4.2m).

We received $2.8m in net lease deposit refunds, invested an additional $1.5m in hybrid securities and paid $20.3m in dividends during the year.

Other financing and foreign exchange includes prepayment of Cash Rent of $7.3m offset by cash incentives received for fit-out of $1.0m, $4.9m in lease surrender proceeds and effects of exchange rate changes of $3.4m. Overall cash increased by $35.2m from 30 June 2019 to $101.4m at 30 June 2020.

5 *The interest component of Cash Rent of $18.7m is included in the Net Operating Cash Flows of $182.3m.*
6 *Includes $1.4m paid in relation to the USA deconsolidation; the balance of $3.1m (of total cash loss $4.5m) will be paid in FY21.*

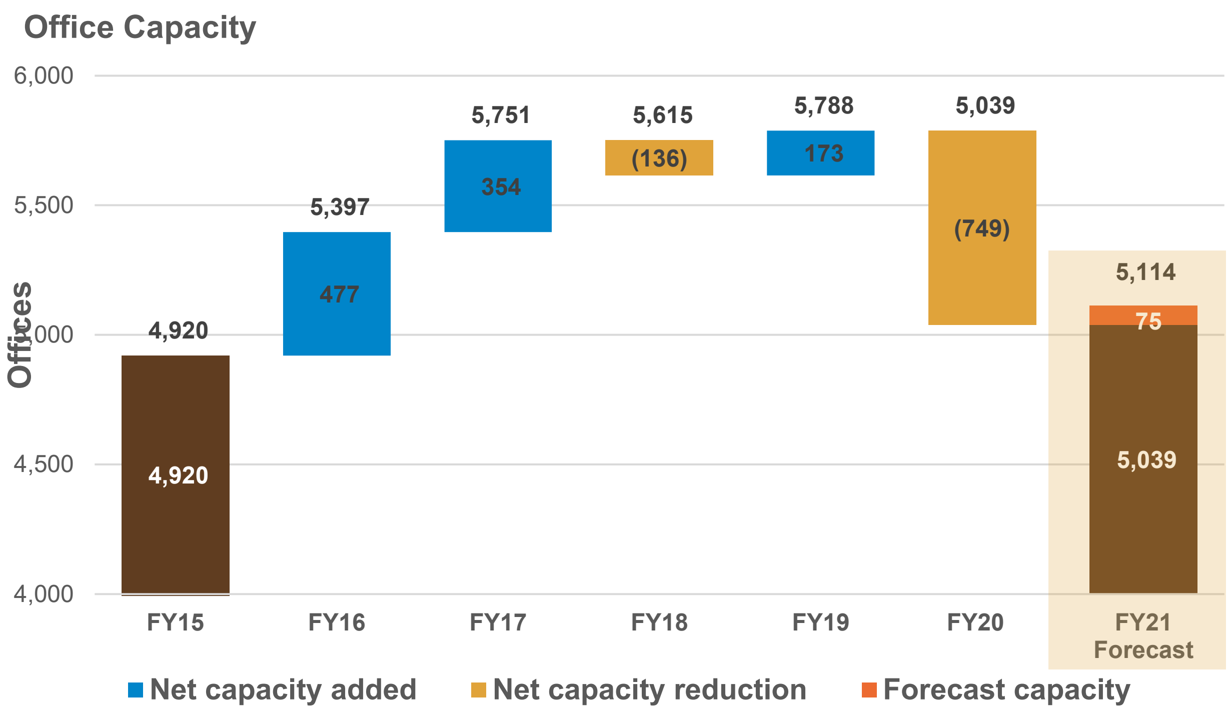
Office Capacity

During the first three quarters of FY20, we opened new floors in New York City and Shanghai and expanded existing locations in Brisbane and Hobart.

In FY20 we reduced capacity across 29 floors. Net capacity decreased by 749 offices in FY20 to 5,039 and FY21 capacity will increase to 5,114 stemming from a new floor opening in Manilla and a closure of our Park Avenue location in New York City in 1Q21. We have no further committed floor openings at this time.

Like for Like floors occupancy was 69% at 30 June 2020 (30 June 2019: 73%). All floors occupancy was 69% at 30 June 2020 (30 June 2019: 72%).

July 2020 all floors occupancy was 70%.



Our global footprint encompasses 126 floors, in 43 cities across 21 countries.

Coworking

Recent growth in the flexible workspace industry has been underpinned by the expansion of coworking spaces. The COVID-19 pandemic has had a significant impact on coworking.

Given the nature of coworking and its inherent lack of social distancing, coworking is expected to take significantly longer to recover from COVID-19.

We are still of the view that coworking is an important part of not only our offering but also the industry and that our investment in reshaping our portfolio for coworking will realise a return on investment in the longer term.

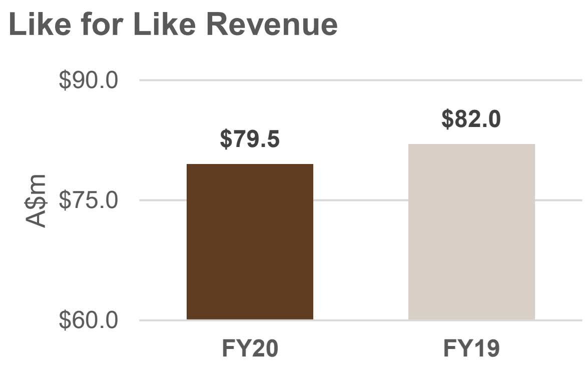
Operating Summary by Region

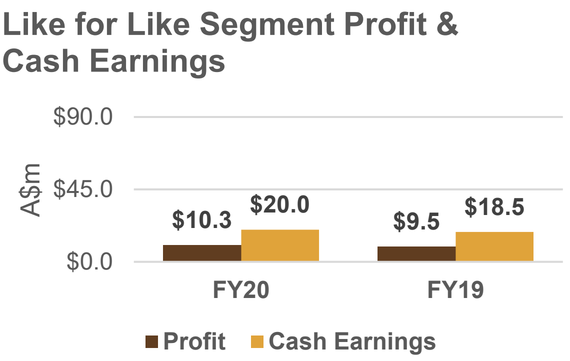
General

On 1 July 2019 we transitioned to the new accounting standard *AASB16 – Leases*. The transition to the new accounting standard has not had any commercial impact on our business, including cash. However, the new accounting standard has materially impacted the calculation of EBITDA from the transitional date. Therefore, from the transitional date, we have introduced "Cash Earnings"[7] which is calculated as "EBITDA minus Cash Rent paid". EBITDA still applies to the prior corresponding period.

Supplementary information relating to the transition to the new accounting standard is set out in the Servcorp Consolidated Financial Report for the year ended 30 June 2020.

ANZ & South East Asia

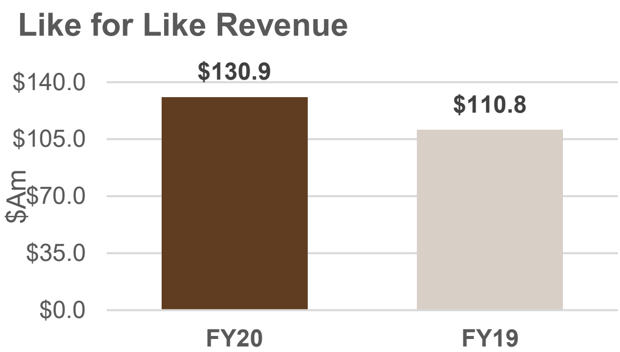


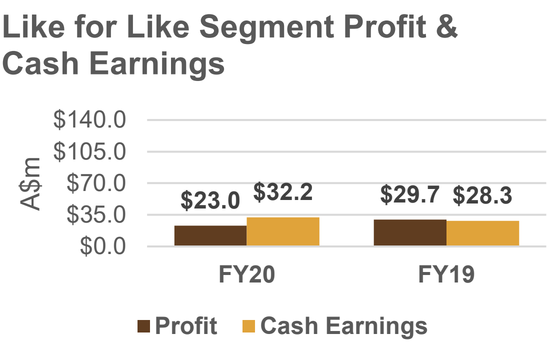


Like for Like segment profit in ANZ & SEA was up 8% in FY20, slowed in the third quarter of FY20 as a result of the impact of the COVID-19 pandemic.

Like for Like Cash Earnings were up 8% in FY20 compared to FY19. We closed 7 floors in the region in FY20.

North Asia





Despite the impact of COVID-19 North Asia as a whole produced a solid result with the drag on profit attributed to China (including Hong Kong). Like for like revenue was up 18% from $110.8m to $130.9m. Like for Like Cash Earnings increased 14% in FY20 compared to FY19.

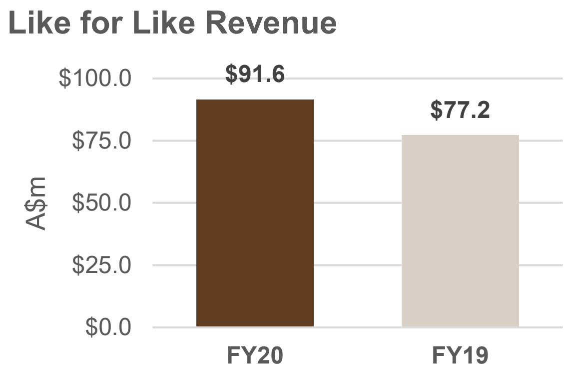
We closed 5 floors in the region in FY20 including 4 in China. Through the year Management has focused on consolidating our footprint in China and depending on the COVID-19 recovery trajectory, we expect to see China return to healthy profitability in FY21.

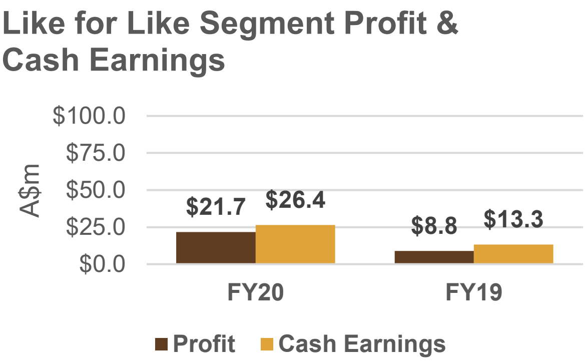
---

[7] *For FY20, Cash Earnings is calculated as EBITDA minus Cash Rent paid whereas FY19 is EBITDA only.*

Operating Summary by Region – continued

Europe & Middle East

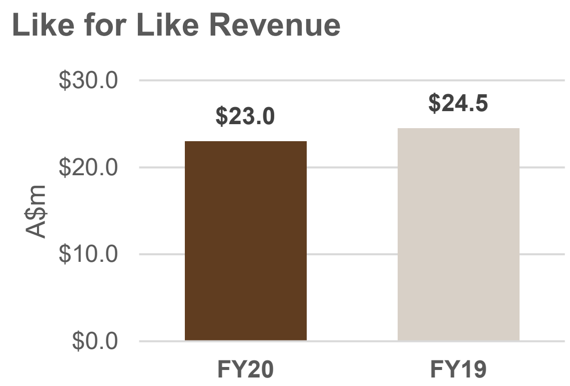


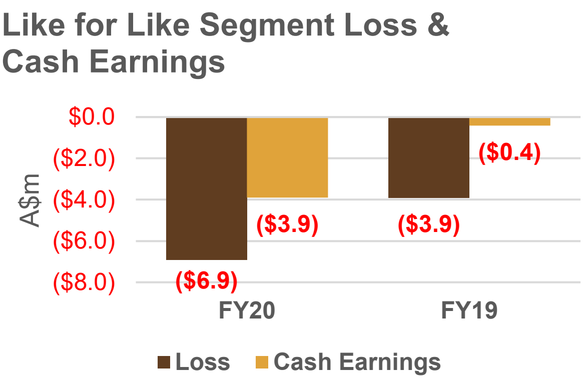


Despite the impact of COVID-19 EME produced an outstanding result with significant contributions from Saudi Arabia, UAE and Qatar partially offset by a poor performance from France.

Like for Like segment profit and revenue were up 19% and 147% respectively in FY20. Like for Like Cash Earnings doubled in FY20 compared to FY19.

USA





We implemented some significant structural changes in our USA business in 2020. Firstly, we replaced the General Manager in the USA. Ms. Colleen Susini (based in New York) joined us in April and comes with extensive flexible workspace industry experience. We are excited to have Colleen on the team.

Secondly, as a result of the restructure, we closed 12 floors across 8 cities resulting in a deconsolidation loss of $14.3m (split $4.5m cash and $9.8m non-cash). This smaller footprint, concentrated in 3 cities on the east coast and Houston in Texas, will allow Management to focus on improving performance. Any improvement in trading conditions in the short to medium term are heavily dependent on the COVID-19 recovery path, but we feel the current size of our operations will be better able to withstand near-term uncertainty.

On a Like for Like basis revenue and Cash Earnings were both down on FY19 performance.

Financial Summary

FY20 revenue and other income was up 5% to $352.9m (FY19: $337.4m). The Australian dollar continued to weaken through FY20 particularly in the last quarter of the year. FY20 Like for Like revenue expressed in constant currency terms (i.e. at FY20 exchange rates) increased by 5% compared to FY19.

FY20 NPBT was $15.6m, up $3.1m or 25% from FY19 NPBT of $12.5m.

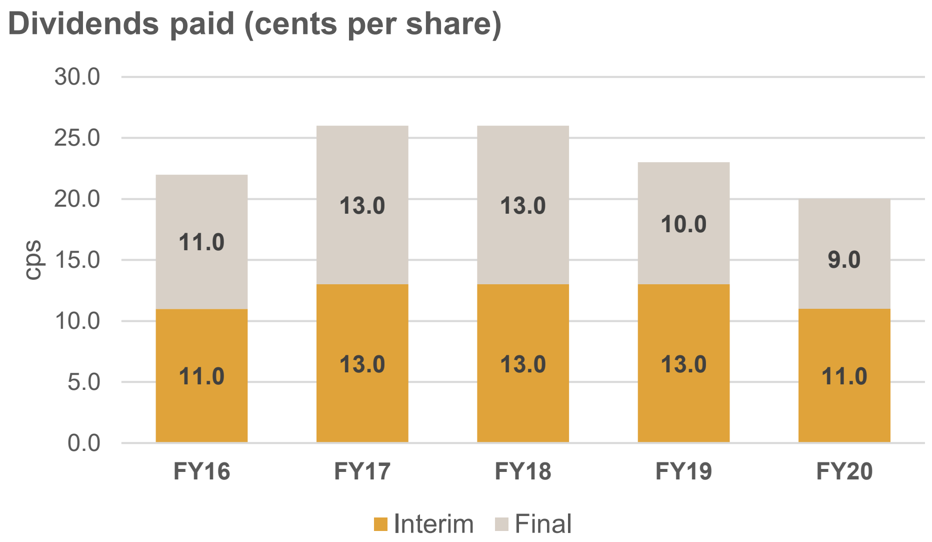
Excluding $2.0m in one-off, COVID-19-related restructure costs, $19.4m of deconsolidation losses and $0.5m of restricted losses, Underlying NPBT was $37.5m, up 17% on FY19 Underlying NPBT of $32.0m.

Net Tangible Assets per share is down to $2.14 per share from $2.32 per share at 30 June 2019 owing largely to the transition to the new accounting standard *AASB16 - Leases*.

Cash balances as at 30 June 2020 remained healthy at $101.4m, up $35.2m from $66.2m at 30 June 2019.

Other financial assets includes mark-to-market investments in bank hybrid variable rate securities of $9.2m (30 June 2019: $7.9m).

Dividends



The Directors have declared a final dividend of 9.0 cps, unfranked, payable on 1 October 2020.

This brings total dividends payable in relation to FY20 to 20.0 cps, unfranked (FY19 dividends: 23.0 cps).

FY21 dividends are uncertain however, we would expect to make dividend payments consistent with our long term history and commitment to shareholders.

Future dividends are subject to currencies remaining constant, continued strong cash generation, and the continued impacts of the COVID-19 pandemic on our operations.

Outlook

While it remains unclear how long global COVID-19 restrictions will continue, and the recovery profiles as restrictions are eased, Servcorp's operations are likely to remain adversely impacted at least in the short term.

The focus for the next 12 months is on controllable measures:

- Continued focus on controlling operating expenditure, including finalising the rental relief programs with each landlord.
- Ensuring we maintain strong liquidity.
- Making clients feel safe through full, unwavering adherence to any government requirements.
- Preparing for recovery in each market in which we operate.
- Looking for opportunities for growth in mature markets with proven management performance.

We have undertaken a detailed review of our business. For FY21 we anticipate that even at a low case, Servcorp will remain profitable, consequently, we expect the underlying business to continue to generate substantial Underlying Free Cash. In those circumstances we would expect to make dividend payments consistent with our long term history and commitment to shareholders.

At this time, given the current economic environment, we consider it prudent that the FY20 final dividend be reduced from previously expected 11.0 cps to 9.0 cps, unfranked.

We expect COVID-19 to continue to significantly impact the way we live and work for the foreseeable future. When we emerge from the COVID-19 pandemic, we envisage that flexible workspaces will be more important than ever, so we will continue to tailor our offering to serve those ever-evolving trends.

Despite the COVID-19 challenges we are facing, we remain cautiously optimistic due to our unique positioning, global reach, technology platforms, longstanding track record and cash generation.

Future dividends are subject to currencies remaining constant, continued strong cash generation, and the continued impacts of the COVID-19 pandemic on our operations.

Key

FY	Financial year
1H	First half of financial year - six months to 31 December
2H	Second half of financial year - six months to 30 June
NPBT	Net Profit Before Tax
NPAT	Net Profit After Tax
Statutory NPBT	Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Financial Report
Statutory NPAT	Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Financial Report
Underlying NPBT	Is the Statutory NPBT adjusted for significant items (before tax) that are one-off in nature and that do not reflect the underlying performance of our business
Underlying NPAT	Is the Statutory NPAT adjusted significant items (net of tax) that are one-off in nature and that do not reflect the underlying performance of our business
Segment Profit/(Loss)	Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Financial Report
Cash Rent	Cash Rent is the amount paid to a landlord (or lessor) by Servcorp as a lessee under the terms of a signed lease agreement
Free Cash	Is the Net Operating Cash Flows before tax as reported in the Consolidated Statement of Cash Flows contained in the Servcorp Consolidated Financial Report *minus* Cash Rent paid
Underlying Free Cash	Is Free Cash adjusted for significant items (before tax) which relate to the reported financial year however, because of timing, either occurred in the preceding financial year or will occur in the subsequent financial year
EBITDA	Earnings before interest, tax, depreciation and amortisation
Cash Earnings	Is EBITDA *minus* Cash Rent paid
cps	Cents per share
m	Million
Like for Like	Like for Like include results for floors that were open in both the current and comparative reporting periods i.e. it excludes new floor openings in the current reporting period and closed floors
ANZ	Australia & New Zealand
SEA	South East Asia
EME	Europe & Middle East
USA	United States of America

Servcorp Limited

and its controlled entities

2020 Statutory Accounts

For the 12 months ended

30 June 2020

Contents

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 25 August 2020 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 four Directors (one executive and three non-executive). All three non-executive Directors are considered to be independent.

The changes to the Board since the last annual report were the appointment of Mr Tony McGrath on 27 August 2019; the resignation of Mr Bruce Corlett on 13 November 2019; and the resignation of Mr Rick Holliday-Smith on 30 April 2020.

The Chairman of the Board, The Hon. Mark Vaile, 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 7 and 8 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.

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 2020 AGM	SEEKING RE-ELECTION
A G Moufarrige	24 August 1999	No	No	No	N/A
M Vaile	27 June 2011	Yes	Yes	Yes	Yes
W Graham	3 October 2017	Yes	Yes	No	N/A
T McGrath	27 August 2019	Yes	Yes	No	N/A

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

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	694	84%	16%
Senior executive	18	50%	50%
Board	4	25%	75%

"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 2020 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.

AUDIT AND RISK COMMITTEE

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

- Mr T McGrath (Chair) (appointed 4 December 2019)
- Mrs W Graham
- The Hon. M Vaile (ceased 4 December 2019) (re-appointed 27 May 2020)
- Mr R Holliday-Smith (ceased 30 April 2020)

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

NOMINATION COMMITTEE

The Nomination Committee members during the year were:

- The Hon. M Vaile (Chair)
- Mrs W Graham
- Mr T McGrath (appointed 4 December 2019)
- Mr B Corlett (ceased 13 November 2019)

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 two 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:

- Mrs W Graham (Chair) (appointed 4 December 2019)
- The Hon. M Vaile
- Mr T McGrath (appointed 4 December 2019)
- Mr B Corlett (ceased 13 November 2019)
- Mr R Holliday-Smith (ceased 4 December 2019)

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 17 to 28 of this annual report.

The Remuneration Committee met two 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 2020.

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.

THE HON. MARK VAILE AO

Chair

Independent Non-executive Director

FAICD

Appointed June 2011

Member of Audit and Risk Committee

Member of Remuneration Committee

Chair 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

Chair of Remuneration Committee

Member of Nomination Committee

Wallis has had over 20 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.

MR TONY MCGRATH

Independent Non-executive Director

BBus (Accounting and Finance) CA

Appointed August 2019

Chair of Audit and Risk Committee

Member of Remuneration Committee

Member of Nomination Committee

Tony has many years of experience in the Australian financial sector, specialising in corporate restructuring and governance advisory related matters. During his career Tony has undertaken some of Australia's largest and most complex insolvencies and restructurings.

Tony's initial career was with KPMG where he led the Sydney restructuring team. In 2004 Tony founded McGrathNicol, a national restructuring and insolvency practice. Tony retired as a partner of McGrathNicol in 2018 and remains a consultant to the firm.

Tony has a range of experience with governance issues, advising boards and undertaking roles on audit committees. Over the last 5 years Tony has developed a range of specific board skills in undertaking non-executive roles in both the corporate and NFP sectors.

Directorships of listed entities in the last three years:

- None.

BRUCE CORLETT AM

Independent Non-executive Director

BA, LLB

Appointed October 1999

Resigned 13 November 2019

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 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

Resigned April 2020

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).

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 and is a Fellow of the Governance Institute of Australia.

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**	**2**	**2**
NUMBER OF MEETINGS ATTENDED				
A G Moufarrige	7			
M Vaile	7	3	2	2
W Graham	7	4	1	2
T McGrath (i)	5	2	1	
B Corlett (ii)	3		1	1
R Holliday-Smith (iii)	5	3	1	

Note:

i Mr T McGrath was appointed as a non-executive Director on 27 August 2019 The attendance recorded is only for meetings held during his directorship.

ii Mr B Corlett ceased as a non-executive Director on 13 November 2019. The attendance recorded is only for meetings held during his directorship period.

iii Mr R Holliday-Smith ceased as a non-executive Director on 30 April 2020. 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 5 and 6.

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.

	ORDINARY SHARES IN SERVCORP LIMITED		
DIRECTOR	DIRECT	INDIRECT	OPTIONS OVER ORDINARY SHARES
M Vaile	-	20,600	-
A G Moufarrige	547,436	51,090,669	-
W Graham	-	-	-
T MGrath	-	-	-

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.

OPTIONS GRANTED

During the year, or since the end of the financial year, no Options over unissued ordinary shares of the Company were issued (2019: 1,281,000).

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 24.

OPTIONS ON ISSUE

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

Number of shares	160,000	-
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, 172,250 Options over unissued shares expired or were cancelled (2019: 135,000).

Since the end of the financial year, 1,108,750 Options over unissued shares lapsed, as the EPS Performance of the Company did not meet the applicable Vesting Percentage.

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 18 March 2020, the Company announced it was establishing an on-market buy-back program to enable the Company to repurchase shares in itself from 2 April 2020 for a maximum period of 6 months. No shares were bought back. On 12 May 2020 the Company announced it had ceased the share buy-back. During the previous financial year, the Company did not buy back any shares.

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 McGrath, 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 2 to 6 of this annual report and on Servcorp's website, servcorp.com.au/en/about-us/corporate-governance/

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 $6.93 million (2019: $5.38 million). Underlying net profit after tax was $30.06 million (2019: $29.20 million). Operating revenue was $352.87 million (2019: $337.42 million). Basic and diluted earnings per share was 7.2 cents (2019: 5.6 cents).

	2020 $'000	**2019 $'000**
Revenue & other income	352,872	**337,422**
Net profit before tax	15,611	**12,511**
Underlying net profit before tax (i)	37,580	**32,037**
Net profit after tax	6,934	**5,380**
Underlying free cash (ii)	66,132	**64,000**
Net operating cash flows	182,266	**51,037**
Cash & investment balances	109,100	**72,961**
Net assets	220,961	**238,593**
Earnings per share	$0.072	**$0.056**
Dividends per share	$0.200	**$0.230**

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 2020 financial year it excludes restructure costs and write-offs of $2.0 million (2019: $1.9 million), deconsolidation loss of $19.4 million (2019: $nil) and restricted losses of $0.5 million generated by a member of the Consolidated Entity operating in a politically restricted country with exchange controls (2019: restricted earnings of $1.1 million). In the 2019 financial year it also excluded impairment of leasehold improvements and goodwill of $18.7 million incurred during the year.

ii. Underlying free cash is net operating cash flows before tax paid, adjusted for significant items (before tax) which relate to the reported financial year however, because of timing, occurred in the preceding financial year or will occur in the subsequent financial year.

DIVIDENDS PAID AND DECLARED

Dividends totalling $19.36 million have been paid or declared by the Company in relation to the financial year ended 30 June 2020 (2019: $22.27 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: 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%
In respect of the current financial year: 2020						
Interim	Ordinary shares	11.00	10,650	2 April 2020	25%	30%
Final	Ordinary shares	9.00	8,714	1 October 2020	0%	30%

REVIEW OF OPERATIONS

Revenue and other income from ordinary activities for the twelve months ended 30 June 2020 was $352.87 million, an all-time Servcorp record, up 4.6% from the twelve months ended 30 June 2019. The Australian dollar continued to weaken during the year, particularly in the last quarter. In constant currency terms, like for like revenue increased by approximately 5.0% compared to the 2019 year.

Net profit before tax for the twelve months to 30 June 2020 was $15.61 million, up 24.8% from $12.51 million in the prior year.

Underlying net profit before tax, excluding restructure costs and write offs of $2.0 million, deconsolidation losses of $19.4 million incurred during the year and restricted losses of $0.5 million, was $37.58 million.

Net profit after tax for the twelve months to 30 June 2020 was $6.93 million, up from $5.38 million in the prior year.

Underlying net profit after tax for the 12 months to 30 June 2020 was $30.60 million.

Cash and investment balances were $109.10 million at 30 June 2020 (30 June 2019: $72.96 million).

The business generated strong net operating cash flows during the 2020 financial year of $182.27 million, up 257.1% compared to the 2019 financial year (2019: $51.04 million). Free cash generated during the 2020 financial year was $80.43 million (2019: $62.11 million). After adjusting for restructure costs and write-offs, and for the timing differences with respect to lease rental payments, the underlying free cash generated during the 2020 financial year was $66.13 million (2019: $64.00 million).

COVID-19

The consequences of the COVID-19 pandemic for the flexible workspace industry have been unprecedented. In response, Servcorp has rapidly adapted to the present environment across our global footprint, with the first priority being to protect the health and safety of our team and clients.

While the first three quarters of the 2020 financial year delivered a solid start, the subsequent spread of COVID-19 severely impacted trading conditions from late March. Since this time, occupancy has been materially impacted, falling seven percentage points from its highest point at 76% to 69% at 30 June 2020. Virtual office clients were also affected, however this client base has now somewhat stabilised. There has been a severe impact to coworking and we expect the recovery to take significantly longer than our serviced and virtual office offerings.

We have been sympathetic to the impact COVID-19 has had on the way we live and work, and continue to work closely with our clients who have been genuinely impacted, to provide them with the necessary support to manage through the pandemic and beyond.

Leading up to the COVID-19 pandemic, management had already committed and executed a global footprint consolidation. The pandemic forced some further footprint reduction, particularly in the USA, where we closed 12 locations in June. We believe our consolidated global footprint will allow us to better navigate the current and future economic uncertainty stemming from the COVID-19 pandemic, as well as capitalise on the recovery.

Servcorp is well positioned to manage through a range of potential recovery scenarios:

- A strong liquidity position; since 2010 Servcorp has conservatively maintained a strong balance sheet. This conservatism will provide a buffer in handling the liquidity pressures brought on by COVID-19. Currently we have in excess of $100.00 million in cash and no external debt.
- Tightly controlled operating expenditure; implementation of cost reduction initiatives across our operations were enacted promptly in March, resulting in a lower operating cost base. We believe in sharing the financial downside of the COVID-19 pandemic impact with our landlords through rental abatements, deferrals or other type of rental relief. Negotiations continue with all landlords, with approximately 26% of our portfolio resolved favourably to date. Our global headcount has been reduced by approximately 20% and there have been temporary salary reductions of up to 20% in place, including the non-executive Directors and executives.
- Strict capital expenditure allocation; other than maintenance, all capital expenditure programs have been temporarily suspended. That said, we do see medium term opportunities for growth, particularly in mature markets with proven management performance. Any future allocation of capital will ultimately depend on the certainty of the post COVID-19 recovery period within each market.
- Unique technology platforms; Servcorp's technology platforms are market-unique and well placed to attract new clients post COVID-19. In particular, our best-in-market virtual product makes working from home seamless. Through our OneFone technology, clients have uninterrupted access to landline telephone infrastructure, and our team will answer calls 24 hours a day as directed, thereby minimising the impact of any potential loss of business.

Despite the COVID-19 challenges, we remain cautiously optimistic due to our unique positioning, global reach, technology platforms, longstanding record of accomplishment and cash generation ability.

SERVCORP FOOTPRINT

In the 2020 financial year, net capacity decreased by 749 offices, including 271 in the USA. During the year three floors were opened and 29 floors were closed, including 12 floors closed as part of the restructure in the USA in June 2020.

During the 2020 financial year we opened new locations at Madison Avenue in New York and One Museum Place in Shanghai. In addition, two floors were expanded in Hobart and Brisbane locations.

Occupancy of like for like floors open at 30 June 2020 was 69% (30 June 2019: 73%). All floor occupancy was 69%.

As at 30 June 2020, Servcorp operated 126 floors in 43 cities across 21 countries.

FLEXIBLE WORKSPACE INDUSTRY

Recent growth in the flexible workspace industry has been underpinned by the expansion of coworking spaces. The COVID-19 pandemic has had a significant impact on coworking. Given the nature of coworking, and its inherent lack of social distancing, it is expected to take significantly longer to recover from COVID-19.

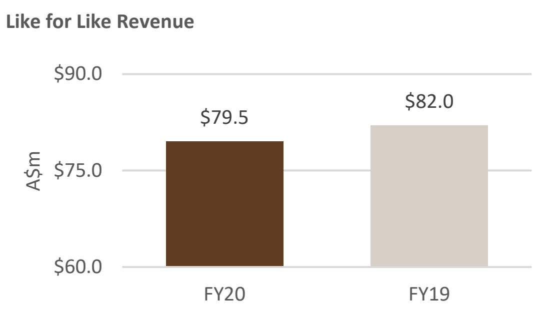
We are still of the view that coworking is an important part of not only our offering but the industry too, and that our investment in reshaping our portfolio for coworking will realise a return on investment in the longer term.

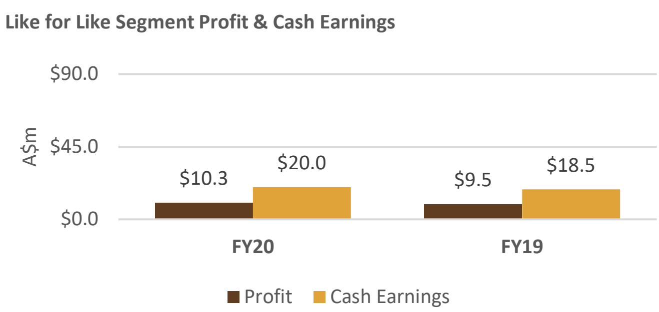
AUSTRALIA, NEW ZEALAND AND SOUTHEAST ASIA (ANZ/ SEA)

Like for like segment profit in ANZ/ SEA was up 8% in the 2020 financial year, slowed in the third quarter of the financial year as a result of the impact of the COVID-19 pandemic.

Like for like cash earnings were up 8% in the 2020 financial year compared to 2019.

We closed seven floors in the region in the 2020 financial year.

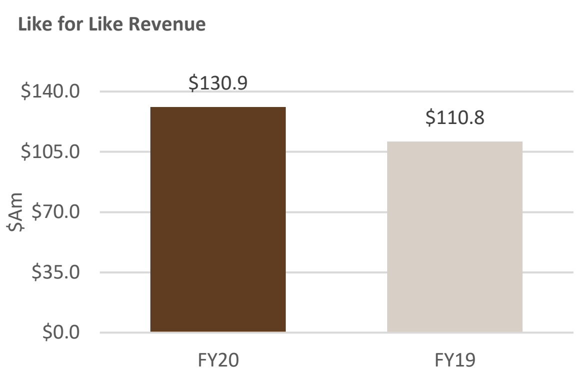


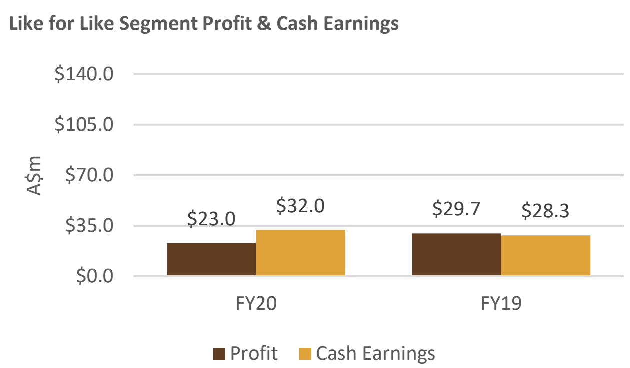


NORTH ASIA

Despite the impact of COVID-19, North Asia as a whole produced a solid result, with the drag on profit attributed to China and Hong Kong. Like for like revenue was up 18% in the 2020 financial year, from $110.8 million to $130.9 million. Like for like cash earnings increased 14% in the 2020 financial year compared to 2019.

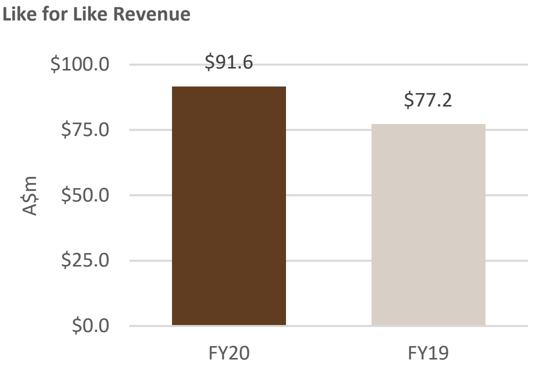
We closed five floors in the region in the 2020 financial year, including four in China. Through the year, management has focused on consolidating our footprint in China and, depending on the COVID-19 recovery trajectory, we expect to see China return to healthy profitability in the 2021 financial year.

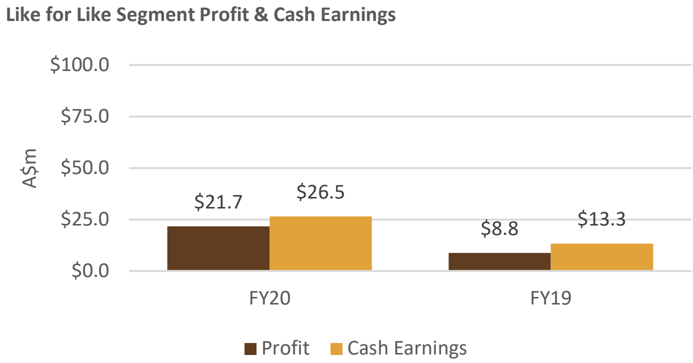




EUROPE AND THE MIDDLE EAST (EME)

Despite the impact of COVID-19, EME produced an outstanding result with significant contributions from Saudi Arabia, the UAE and Qatar, partially offset by a poor performance from France. Like for like segment profit and revenue were up 19% and 147% respectively in the 2020 financial year. Like for like cash earnings doubled in the 2020 financial year compared to 2019.



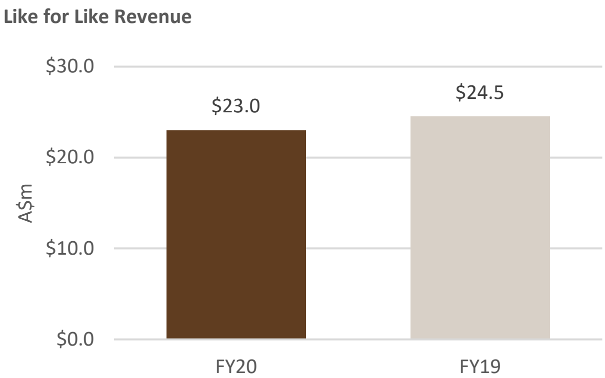


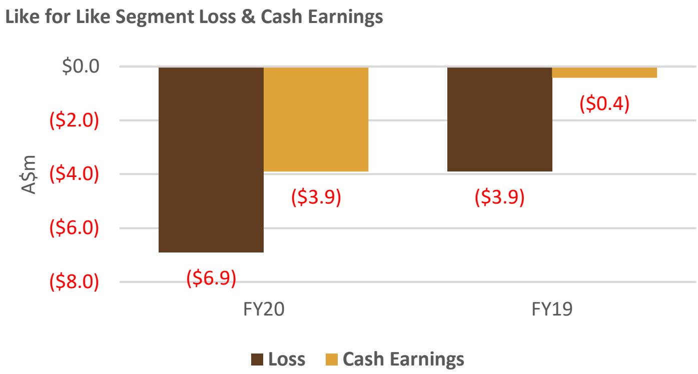
USA

During the 2020 financial year, significant structural changes were implemented in our USA business. We replaced the Vice President; Ms Colleen Susini being appointed as General Manager in April, based in New York. Ms Susini brings extensive flexible workspace industry experience. We are excited to have Ms Susini on the team.

The restructure resulted in the closure of 12 locations across eight cities. The restructure resulted in a deconsolidation loss of $14.3 million ($4.5 million cash loss and $9.8 million non-cash loss). This smaller footprint, focused on three cities on the East coast and in Houston, will allow management to focus on improving performance. Any improvement in trading conditions in the short to medium term are heavily dependent on the COVID-19 recovery path, but we feel the current size of our operations will be better able to withstand near term uncertainty.

On a like for like basis, revenue and cash earnings were both down in the 2020 financial year compared to the 2019 performance.





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
New York	Levels 4 & 5, 667 Madison Avenue	43	July 2019
Shanghai	Level 40, One Museum Place	116	February 2020

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

CITY	LOCATION	ADDITIONAL OFFICES	OPENED
Hobart	Level 6, Reserve Bank Building	33	November 2019
Brisbane	Level 27, Santos Place	15	November 2019

EVENTS SUBSEQUENT TO BALANCE DATE

Dividend

On 25 August 2020 the Directors declared an unfranked final dividend of 9.00 cents per share, payable on 1 October 2020.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2020.

Options

Since the end of the financial year, 1,108,750 Options over unissued shares lapsed, as the EPS Performance of the Company did not meet the applicable Vesting Percentage.

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.

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 29 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 2020 is set out on pages 17 to 28 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 25th day of August 2020

Remuneration Report

CONTENTS

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 2020, 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 2020 financial year:

- the Board has not introduced any new executive remuneration components;
- in recognition of the profit expectations going forward, the Board has not reset the global gateway net profit before tax for the 2021 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 2020 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 2020.

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 2020
Non-executive Directors		
The Hon. Mark Vaile	Chairman Member, Audit & Risk Committee Member, Remuneration Committee Chair, Nomination Committee	Full year | No change
Wallis Graham	Director Member, Audit & Risk Committee Chair, Remuneration Committee Member, Nomination Committee	Full year | No change
Tony McGrath	Director Chair, Audit & Risk Committee Member, Remuneration Committee Member, Nomination Committee	Appointed 27 August 2019
Bruce Corlett	Chairman Member, Remuneration Committee Chair, Nomination Committee	Resigned as Director effective 13 November 2019
Rick Holliday-Smith	Director Chair, Audit & Risk Committee Member, Remuneration Committee	Resigned as Director effective 30 April 2020
Executive Directors		
Alf Moufarrige	Chief Executive Officer	Full year | No change
Other executive KMP		
Anton Clowes	Chief Financial Officer	Full year | No change
David Godchaux	CEO Middle East, Europe & India	Full year | No change
Liane Gorman	General Manager - Australia & New Zealand	Full year | No change
Colleen Susini	General Manager - USA	Commenced effective 14 April 2020
Olga Vlietstra	General Manager - Japan	Full year | No change
Charles Robinson	Senior Vice President - USA	Resigned effective 9 April 2020

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 6.

Use of remuneration consultants

During the 2020 financial year, no remuneration consultancy contracts were entered into by Servcorp.

During the 2019 financial year, remuneration consultancy contracts were entered into by Servcorp with respect to the grant and valuation of Options.

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.

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 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.

In response to the COVID-19 pandemic, effective 1 April 2020, all non-executive Directors agreed to a 20% reduction of Directors' fees.

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 2020 are set out in the table on page 26.

Minimum shareholding requirement

Servcorp does not have a minimum shareholding requirement for non-executive Directors. It is noted, however, that one non-executive Director is a shareholder 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 2020 financial year and changes from 2020 are set out in the table on pages 27 and 28.

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 2020 financial year ranged between $84,000 and $200,000. The target STI opportunity as a percentage of fixed remuneration ranged between 18% and 36% with the average being 32%. The target STI opportunity range for achieving target and percentage of fixed remuneration will be similar for the 2021 financial year.

STI targets will be set in advance each year and will be challenging. The STI targets for the 2020 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, for all executive KMP, was 50% of their total potential STI.

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 will be applied for the 2021 financial year. In recognition of the impact of COVID-19, the gateway consolidated net profit before tax will remain unchanged, as provided in the following table.

FINANCIAL YEAR ENDING 30 JUNE	2020 GATEWAY	2020 ACTUAL	2021 GATEWAY
Consolidated net profit before tax ($ million)	38.0	15.6	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 $579,000.

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.

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

Since the end of the financial year, the Options issued on 22 March 2019 lapsed, as the EPS Performance of the Company did not meet the applicable Vesting Percentage.

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 11 to 15.

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

	FINANCIAL YEAR ENDED 30 JUNE				
MEASURE	**2016**	**2017**	**2018**	**2019**	**2020**
Total revenue ($million)	329	330	312	337	**352**
Net profit before tax ($million)	48.8	48.2	32.1	12.5	**15.6**
Net profit after tax ($million)	39.7	40.7	10.1	5.4	**6.9**
Basic earnings per share (cents)	40.4	41.4	10.2	5.6	**7.2**
Dividend per share (cents)	22.0	26.0	26.0	23.0	**20.0**
Share price as at 30 June ($)	$6.91	$5.70	$4.16	$3.51	**$2.32**
Offices	5,397	5,751	5,615	5,788	**5,039**
Number of locations	134	138	135	137	**126**

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 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' were encouraged by a strong second half profit.

The first three quarters of the 2020 financial year continued the improvement shown in the second half of the 2019 financial year. The Company's strong performance was evident across all key metrics including occupancy, operating margins, net profit after tax and free cash, with record revenues recorded, despite a very challenging competitive environment. COVID-19 impacted on trading conditions in the last quarter, however the Company still recorded a strong underlying performance; revenue and other income was up 5%, underlying net profit before tax was up 17% and underlying free cash was up 3%.

Underlying cash flows have remained strong, and the interim dividend paid with respect to the 2020 financial year was 10% higher than initially forecast. Given the current economic environment stemming from the COVID-19 pandemic, the final dividend to be paid with respect to the 2020 financial year has been reduced.

Servcorp's share price had decreased due to the reduced profits in 2017, 2018 and 2019, however the improved performance in the second half of the 2019 financial year and first half of the 2020 financial year had been reflected in a steady increase in share price during the first three quarters of the 2020 financial year. The uncertainties created by COVID-19 have significantly affected the share market, and this has had an impact on Servcorp's share price. Despite a lower share price at 30 June 2020, we are confident that Servcorp will emerge from the COVID-19 crisis in a financially sound position and will return to higher profit levels, which will result in a satisfactory total shareholder return (TSR) performance over the coming years.

The COVID-19 pandemic has impacted the Consolidated Entity's performance, share price and the dividend to be paid to shareholders, however in response, effective 1 April 2020, most executive KMP agreed to a 20% reduction in base salary. The CEO reduced his salary by 50%.

With the decreased earnings in the 2020 financial year, global net profit before tax targets were not achieved. Four regions met their targets.

The table below sets out the STI awarded to each executive KMP. Three executive KMP met their individual region targets and two out-performed their target, and in the Board's opinion achieved 'super out-perform' profits, resulting in a payment in excess of their target opportunity. One executive KMP was paid a portion of their STI, at the discretion of the Board, in recognition of their overall contribution in a difficult environment. The variable pay opportunity for executive KMP paid out represents 112.2% of the maximum opportunity due to certain regions achieving 'super out-perform' profits. The individual 'at risk' rewards paid in the 2020 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.
Anton Clowes	30,000	35.7%	-
David Godchaux	150,000	150.0%	-
Liane Gorman	70,000	50.0%	-
Olga Vlietstra	338,112	169.1%	-
Charles Robinson	-	0%	-

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.

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. The ESOS was amended by the Board on 24 March 2016 to update it to comply with current legislation.

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

In the 2019 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 the Board.

It is proposed to grant Options in the 2021 financial year, subject to similar vesting conditions as the Options granted in the 2019 financial year.

Details of Options granted, on issue and lapsed are provided in the Directors' Report on page 10.

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.

In July 2020, the Board resolved to extend the expiry date of the incentive for an additional two years, on the condition that Ms Vlietstra remain in continuous service for an additional two years. 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 2022
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	Four years, from vesting date to expiry date
Expiry date	30 June 2023

EMPLOYMENT AGREEMENTS

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

NON-EXECUTIVE DIRECTOR REMUNERATION

Amount in AUD		Short term benefits	Post-employment benefits	Total
Name & title	Year	Fees	Superannuation benefits	
M Vaile	**2020**	**129,947**	**12,345**	**142,292**
Non-Executive Director	2019	91,325	8,675	100,000
W Graham	**2020**	**86,759**	**8,242**	**95,001**
Non-Executive Director	2019	91,325	8,675	100,000
T McGrath	**2020**	**72,943**	**6,930**	**79,873**
Non-Executive Director (iii)				
B Corlett	**2020**	**59,932**	**5,694**	**65,626**
Non-Executive Director (iv)	2019	159,818	15,182	175,000
R Holliday-Smith	**2020**	**82,040**	**7,793**	**89,833**
Non-Executive Director (v)	2019	100,457	9,453	110,000
Aggregate	**2020**	**431,621**	**41,004**	**472,625**
	2019	442,925	42,075	485,000

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

iii. T McGrath was appointed as a non-executive Director effective 27 August 2019.

iv. B Corlett ceased as non-executive Director effective 13 November 2019.

v. R Holliday-Smith ceased as non-executive Director 30 April 2020.

vi. In response to the COVID-19 pandemic, effective 1 April 2020, all non-executive Directors agreed to a 20% reduction of Director fees.

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 (v)	**2020**	**424,794**	**-**	**25,501**	**24,938**	**-**	**-**	**-**	**-**	**475,233**	**0.0%**
CEO	2019	458,856	-	24,870	28,500	-	-	-	-	512,226	0.0%
A Clowes	**2020**	**282,150**	**30,000**	**-**	**28,215**	**-**	**-**	**-**	**14,322**	**354,687**	**27.1%**
CFO	2019	276,750	-	-	26,291	-	-	-	4,931	307,972	27.7%
D Godchaux	**2020**	**490,468**	**150,000**	**22,395**	**29,759**	**-**	**-**	**-**	**9,548**	**702,170**	**18.4%**
GM EMEI	2019	499,236	21,739	17,541	31,549	-	-	-	3,287	573,352	9.1%
L Gorman	**2020**	**356,000**	**70,000**	**-**	**35,625**	**-**	**-**	**-**	**19,097**	**480,722**	**35.7%**
GM AUNZ	2019	350,000	15,000	-	33,250	-	-	-	19,549	417,799	36.5%
C Susini (vi)	**2020**	**94,380**	**-**	**2,268**	**-**	**-**	**-**	**-**	**-**	**96,648**	**0.0%**
GM USA											
O Vlietstra	**2020**	**771,647**	**338,112**	**21,635**	**-**	**-**	**-**	**-**	**38,193**	**1,169,587**	**25.2%**
GM Japan	2019	621,328	250,000	29,397	-	-	-	-	31,314	932,039	26.9%
C Robinson (vii)	**2020**	**295,256**	**-**	**49,507**	**-**	**-**	**-**	**75,890**	**-**	**420,653**	**0.0%**
Senior VP USA	2019	356,481	-	44,758	-	-	-	-	3,287	404,526	12.5%
T Moufarrige (viii)											
Executive Director	2019	270,621	-	60,397	23,750	27,688	-	-	-	382,456	49.3%
M Moufarrige (viii)											
COO	2019	335,000	-	388,423	31,825	75,621	256,798	670,000	-	1,757,667	23.8%
L Lahdo (viii)											
GM Middle East	2019	209,695	-	12,961	52,640	54,003	-	209,695	-	538,994	18.2%
Aggregate	**2020**	**2,714,695**	**588,112**	**121,306**	**118,537**	**-**	**-**	**75,890**	**81,160**	**3,699,700**	**17.7%**
	2019	3,377,967	286,739	578,347	227,805	157,312	256,798	879,695	62,368	5,827,031	21.6%

Notes:

i. In response to the COVID-19 pandemic, effective 1 April 2020, most executive KMP agreed to a 20% reduction in base salary. The CEO agreed to a 50% reduction in base salary.

ii. Amounts disclosed as short term cash STI in the 2020 year represent STI paid in August 2020 based on 2020 financial year global and region targets.

iii. 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.

iv. 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.

v. The salary of A G Moufarrige includes a component paid in Yen, and the amount disclosed above will vary based on the foreign currency exchange rates.

vi. C Susini commenced employment with Servcorp effective 14 April 2020.

vii. C Robinson ceased employment with Servcorp effective 9 April 2020.

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

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	**2020**	**-**	**-**	**-**	**-**
CEO	2019	-	-	-	-
A Clowes	**2020**	**35.7%**	**0.0%**	**64.3%**	**-**
CFO	2019	0.0%	0.0%	100.0%	-
D Godchaux (ix)	**2020**	**150.0%**	**0.0%**	**50.0%**	**-**
GM EMEI	2019	43.5%	0.0%	56.5%	-
L Gorman	**2020**	**50.0%**	**0.0%**	**50.0%**	**-**
GM AUNZ	2019	10.7%	0.0%	89.3%	-
C Susini	**2020**	**-**	**-**	**-**	**-**
GM USA					
O Vlietstra (ix)	**2020**	**169.1%**	**0.0%**	**50.0%**	**-**
GM Japan	2019	142.9%	0.0%	42.9%	-
C Robinson	**2020**	**0.0%**	**0.0%**	**100.0%**	**-**
Senior VP USA	2019	0.0%	0.0%	100.0%	-
T Moufarrige					
Executive Director	2019	0.0%	0.0%	100.0%	-
M Moufarrige					
COO	2019	0.0%	0.0%	100.0%	-
L Lahdo					
GM Middle East	2019	0.0%	0.0%	100.0%	-
Aggregate	**2020**	**112.2%**	**0.0%**	**52.3%**	**-**
	2019	**31.7%**	**0.0%**	**84.9%**	**-**

Notes:

ix. D Godchaux and O Vlietstra both forfeited their global STI opportunity, which equated to 50% of their potential total STI target opportunity. Both KMP achieved ‘super out-perform’ profits for their region and as a result achieved greater than 100% of their region STI opportunity.

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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

25 August 2020

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 2020, 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

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants

Servcorp
Consolidated financial statements
For the year ended 30 June 2020

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	**2020 $'000**	2019 $'000
Revenue	B3	**349,116**	334,875
Other revenue & income	B3	**3,756**	2,547
		352,872	337,422
Service expenses		**(81,435)**	(83,191)
Marketing expenses		**(20,670)**	(20,418)
Occupancy expenses		**(166,369)**	(174,975)
Finance costs attributable to lease liability		**(18,698)**	-
Rent – fixed annual impact	B4	**-**	(342)
Administrative expenses		**(29,895)**	(27,042)
Share of gains/(losses) of joint venture		**383**	(627)
Loss from deconsolidation of subsidiaries	B2	**(19,429)**	-
Net foreign exchange gain (realised & unrealised)		**1,555**	1,297
Impairment of goodwill	B4	**-**	(1,030)
Impairment of property, plant & equipment	B4	**-**	(17,679)
Borrowing expenses		**(1)**	(5)
Other expenses		**(2,702)**	(899)
Total expenses		**(337,261)**	(324,911)
Profit before income tax expense	B1	**15,611**	12,511
Income tax expense	B6	**(8,677)**	(7,131)
Profit for the year		**6,934**	5,380
Other comprehensive income			
Translation of foreign operations (item may be reclassified subsequently to profit or loss)		**11,208**	8,178
Other comprehensive income for the year (net of tax)		**11,208**	8,178
Total comprehensive income for the year		**18,142**	13,558
Earnings per security		**Cents**	Cents
Basic and diluted EPS	B7	**0.07**	0.06

The Consolidated statement of profit or loss and other 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 2020

	Note	**2020 $'000**	2019 $'000
Current assets			
Cash and cash equivalents	C1	**99,887**	65,091
Trade and other receivables	C2	**31,090**	46,420
Other financial assets	C3	**10,736**	9,385
Current tax assets	B6	**2,179**	1,408
Prepayments and other assets	C4	**7,185**	16,137
Total current assets		**151,077**	138,441
Non-current assets			
Other financial assets	C3	**45,666**	47,170
Property, plant and equipment and right of use asset	C5	**476,362**	145,554
Deferred tax assets	B6	**37,047**	27,093
Goodwill	C6	**13,775**	13,775
Total non-current assets		**572,850**	233,592
Total assets		**723,927**	372,033
Current liabilities			
Trade and other payables	C7	**44,755**	59,831
Other financial liabilities	C8	**32,744**	35,025
Lease liabilities	C9	**104,398**	-
Provisions	C10	**9,963**	7,774
Total current liabilities		**191,860**	102,630
Non-current liabilities			
Trade and other payables	C7	**-**	28,219
Other financial liabilities	C8	**-**	530
Lease liabilities	C9	**309,954**	-
Provisions	C10	**1,122**	854
Deferred tax liabilities	B6	**30**	1,207
Total non-current liabilities		**311,106**	30,810
Total liabilities		**502,966**	133,440
Net assets		**220,961**	238,593
Equity			
Contributed equity	E2	**151,594**	151,594
Reserves		**8,323**	(3,085)
Retained earnings		**61,044**	90,084
Total equity attributable to equity holders of the parent		**220,961**	238,593

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 2020

	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 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
Payment of dividends	-	-	-	-	(25,173)	(25,173)
Balance 30 June 2019	151,594	(4,733)	1,406	242	90,084	238,593
Balance 1 July 2019	151,594	(4,733)	1,406	242	90,084	238,593
Adjustment resulting from adoption of AASB16 (i)	-	-	-	-	(15,642)	(15,642)
Balance 1 July 2019 - restated	**151,594**	**(4,733)**	**1,406**	**242**	**74,442**	**222,951**
Profit for the period	-	-	-	-	6,934	6,934
Translation of foreign operations (net of tax)	-	-	11,208	-	-	11,208
Total comprehensive income for the period	**-**	**-**	**11,208**	**-**	**6,934**	**18,142**
Share-based payments	-	-	-	200	-	200
Payment of dividends	**-**	-	-	-	(20,332)	(20,332)
Balance 30 June 2020	**151,594**	**(4,733)**	**12,614**	**442**	**61,044**	**220,961**

(i) Please refer to Adoption of new and revised accounting standards note

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

	Note	**2020 $'000**	2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**384,279**	363,621
Payments to suppliers and employees (inclusive of GST)		**(174,155)**	(304,419)
		210,124	59,202
Franchise fees received		**158**	575
Tax paid		**(9,365)**	(11,069)
Interest and other items of similar nature received		**1,402**	2,334
Payments for deconsolidation of subsidiaries		**(1,355)**	-
Interest and other costs of finance paid		**(18,698)**	(5)
Net operating cash inflows	G3	**182,266**	51,037
Cash flows from investing activities			
Payments for variable rate bonds		**(1,504)**	(660)
Payments for strategic initiatives		**-**	(640)
Payments for property, plant and equipment		**(19,233)**	(50,572)
Payments for landlord lease deposits		**(2,151)**	(5,265)
Proceeds from sale of variable rate bonds		**-**	4,290
Proceeds from refund of lease deposits		**4,922**	767
Net investing cash outflows		**(17,966)**	(52,080)
Cash flows from financing activities			
Dividends paid		**(20,332)**	(25,173)
Repayment of lease liabilities relating to current period occupancy (i)		**(111,199)**	-
Repayment of lease liabilities relating to future occupancy periods (i)		**(7,345)**	-
Proceeds from surrender of leases		**4,959**	-
Borrowings		**-**	(317)
Landlord capital incentives received		**967**	1,133
Net financing cash outflows		**(132,950)**	(24,357)
Net increase/ (decrease) in cash and cash equivalents		**31,350**	(25,400)
Cash and cash equivalents at the beginning of the financial year		**65,091**	93,444
Effects of exchange rate changes on cash transactions in foreign currencies		**3,446**	(2,953)
Cash and cash equivalents at the end of the year	C1	**99,887**	65,091

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

Note:

i Refer to Adoption of new and revised accounting standards note.

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 25 August 2020.

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 J. 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.

GOING CONCERN

These Consolidated Financial Statements are prepared on the going concern basis. The impact of COVID-19 pandemic has resulted in unprecedented restrictions to economic activity including limiting office access and travel bans being imposed by various governments. There has been a fall in demand and intake of serviced offices with uncertainty surrounding the timing of rebound which has impacted the Consolidated Entity's operations.

The Consolidated Entity has prepared an assessment of its ability to continue as a going concern, taking into account information available up to the date of signing the financial report. The Directors have also considered that the Consolidated Entity is in a net current asset deficiency position of $40.8 million at balance date.

Whilst the economic impacts of COVID-19 pandemic are uncertain and evolving, the Directors remain confident that the Consolidated Entity will be able to continue as a going concern. This assumes the Consolidated Entity will be able to continue trading, realise assets and discharge liabilities in the ordinary course of business for at least 12 months from the date of the financial statements. In reaching this position, the following factors have been considered:

- The Consolidated Entity has cash and cash equivalents totalling $99.9 million
- The Consolidated Entity has positive cash from operations of $182.3 million ($68.8 million on a like for like basis adjusted for the adoption of AASB 16 Leases which has classified repayments of lease liabilities into Financing activities, 2019: $52.1 million).
- Net current liabilities are impacted by the current portion of lease liabilities of $104.4 million which is forecast to be funded out of operating cash flows, while the related Right of Use Asset is classified as non-current asset in full
- The Consolidated Entity has no external debt and capital expenditure programs have been suspended
- The Consolidated Entity has net Equity of $221.0 million as at balance sheet date.
- The Consolidated Entity took immediate steps to introduce a number of resiliency protocols, including redundancies, introduction of salary cuts, curbing discretionary spending and maintaining a strong focus on cost control
- Globally there have been various support measures including government grants (e.g. Jobkeeper) and tax deferrals which the Consolidated Entity has qualified for and will continue to monitor.

On the basis of these factors, the Directors believe that the going concern basis of preparation is appropriate and that the Consolidated Entity will be able to pay its debts as and when they fall due.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Consolidated Entity has adopted AASB 16 *Leases* (AASB 16) for the first time on 1 July 2019. The impact of the adoption of the new standard have been explained below.

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 adopted:

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 brings all major leases on balance sheet. AASB 16 replaces existing leases guidance, including AASB 117 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
Impact on financial statements	**Impact on lessor accounting** AASB 16 does not change substantially how a lessor accounts for leases. Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, AASB 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets. Under AASB 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under AASB 117). The Consolidated Entity's principal activities are the provision of Executive Serviced and Virtual Offices, Coworking and IT, Communications and Secretarial Services. The Consolidated Entity enters into sub-lease arrangements for its properties and, consistent with the practice under AASB 117, continues to classify and account for these leases as operating sublease agreements under AASB 16. Rental revenue from sub-leases with customers in the capacity as lessor, is accounted for in accordance with AASB 16 on a straight line basis according to contractual terms, the average term being less than 12 months. The implementation of AASB 16 has not resulted in any required changes to the financial statements and its disclosures. **Impact on lessee accounting** On adoption of AASB 16, the Consolidated Entity recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.8%. The adoption of AASB 16 resulted in the recognition of significant right-of-use assets together with corresponding lease liabilities as well as the recognition of interest expense on the lease liability and depreciation on the right of use asset during the period. The Consolidated Entity adopted the modified cumulative catch-up approach, which adjusts opening retained profits on 1 July 2019 for the net effect of AASB 16 for the first time, adjusted for deferred tax and the reversal of the existing straight-line lease and incentive liability. The pattern of expense recognition will change going forward 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 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 have been impacted due to the different classification of lease payments as interest and repayment as lease liability (rather than operating lease payments). The adoption of AASB 16 has not impacted on the Consolidated Entity's strategy, commercial lease negotiations, growth or financing arrangements. On adoption, under the cumulative catch-up method of AASB 16, the Right of Use Asset has been accounted for as if AASB 16 has always applied since the commencement of the lease. The impact of adopting AASB 16 is set out below.

Recognised as at 1 July 2019	Notes	$'000
Property, plant and equipment	C5	389,955
Current lease liabilities		(111,454)
Non-current lease liabilities		(341,833)
Removal of previously capitalised costs		(2,350)
Removal of prepaid rent		(5,476)
Removal of deferred rent incentive		37,136
Tax		10,864
Removal of fixed rent increase		7,164
Other		352
Net impact on Retained Earnings (i)		**15,642**

Note:

(i) The opening balance adjustment has been refined through the year from the number disclosed in the 31 December 2019 half year financial statements.

As at 30 June 2019 the off balance sheet operating lease commitments totalled $588 million. The impact of AASB 16 *Leases* on retained earnings as at 1 July 2019 totalled $436 million. The difference between the two amounts is attributable to the present value of items included under AASB 16 which were previously recognised separately under the old standard:

	$'000
Operating lease commitments at 30 June 2019	588,295
Effect of discounting commitments previously disclosed on a gross basis	(78,901)
Reassessment of lease terms on adoption of AASB 16	(8,016)
Non-lease service expenses previously included in commitments	(39,995)
Prepaid rent previously presented gross of commitments	(5,476)
Other	(2,620)
Lease liabilities recognised at 1 July 2019	**453,287**

In applying AASB 16 for the first time, the Consolidated Entity has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of use asset at the date of initial application,
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease, and
- Elected not to reassess whether a contract is, or contains a lease at the date of initial application.

With the exception of one lease with a total lease term of less than 12 months, 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 terminable at our option within six months.

Significant judgement in determining the lease term of contracts with renewal options

The Consolidated Entity leases various offices and properties around the world. Lease terms are determined as the non-cancellable term of the lease, together with periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

Rental contracts are typically made for fixed periods of 2 to 10 years but may have extension options. The Consolidated Entity applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Consolidated Entity reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Until the 2020 financial year, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

New accounting policies under AASB 16

The Consolidated Entity as lessee

The Consolidated Entity assesses whether a contract is or contains a lease, at inception of the contract. For lease arrangements in which the Consolidated Entity is a lessee, a right-of-use asset and a corresponding liability is recognised at the date at which the leased asset is available for use by the Consolidated Entity.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Consolidated Entity's estimate of the amount expected to be payable under a residual value guarantee, or if the Consolidated Entity changes its assessment of whether it will exercise a purchase, extension or termination option.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentives receivables
- Variable lease payment that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercised price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the term reflects the lessee exercising that option.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Consolidated Entity recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying assets is available for use), measured at cost.

The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and are adjusted for any remeasurement of lease liabilities.

Whenever the Consolidated Entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Consolidated Entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Right-of-use assets are subject to impairment in accordance with AASB 136 *Impairment of Assets*. Any identified impairment loss is accounted for in line with our accounting policy for ‘Property, plant and equipment’.

The Consolidated Entity as lessor

The Consolidated Entity enters into sub-lease agreements as a lessor with respect to some of its leased properties. As an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Leases for which the Consolidated Entity is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Consolidated Entity’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Consolidated Entity’s net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Consolidated Entity applies AASB 15 to allocate the consideration under the contract to each component.

COVID-19

The Consolidated Entity as lessee

The Consolidated Entity is currently party to a lease portfolio of 118 leases as lessee. As a result of the COVID-19 pandemic, the Consolidated Entity negotiated a range of concessions and modifications to lease terms with the lessors. The resultant outcome of concessions and varied lease terms fall in two categories:

- Reduced rentals for a period of time ranging from 1 to 12 months and no amendments to any other contractual terms of the lease (Rent Reductions), and
- Reduced rentals for a period of time ranging from 1 to 36 months, but with several other changes to terms negotiated resulting in substantive modifications to the original lease agreement (Modifications).

The COVID-19 pandemic has resulted in amendments to accounting standards to provide lessees with a practical expedient not to assess whether COVID-19 related rent concessions are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. The practical expedient utilised by the Consolidated Entity only applies to rent concessions as a consequence of COVID-19 that meet all of the following conditions:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change,
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021,
- There is no substantive change to other terms and conditions.

The Consolidated entity applied the practical expedient to the lease agreements where Rent Reductions were negotiated and accounted for the forgiveness or waiver of lease payments as a variable lease payment. The Consolidated Entity has therefore derecognised that part of the lease liability that has been extinguished by the forgiveness of lease payments with a corresponding credit in profit or loss, presented in occupancy expense, the timing of which will depend on the facts and circumstances.

Multiple lease term amendments (referred to Modifications as described above) has been accounted for as a lease modification to the existing lease by remeasuring the lease liability using a revised discount rate with the corresponding change in lease liability reflected against the right of use asset.

The Consolidated Entity is also still in the process of negotiating with landlords for a number of leases in the portfolio. The accounting for these leases remain unchanged until such time as the renegotiated terms are agreed between the parties.

The Consolidated Entity as lessor

Due to the short-term nature of lease agreements where the Consolidated Entity is the lessor, no modifications to contractual lease terms were negotiated with tenants as a result of the impact of COVID-19.

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.

As a consequence of the COVID-19 pandemic significant judgement has been exercised in determining key assumptions for impairment testing and their sensitivity to change.

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 Consolidated Entity 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.

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 B6.

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 as at the date of this report.

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. Refer to note E4 and the Remuneration Report.

Lease term and incremental borrowing rates

The Consolidated Entity leases various offices and properties around the world. Lease terms are determined as the non-cancellable term of the lease, together with periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

Rental contracts are typically made for fixed periods of 2 to 10 years but may have extension options. The Consolidated Entity applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Consolidated Entity reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

The Consolidated entity estimates the incremental borrowing rates applicable to each lease by assessing the financial position of the entity to which the lease is signed. There is judgement in applying the credit rating applicable to the entity in relation to the remaining lease term. Refer to note C9.

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 profit or loss and other 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. Refer to Note B2 for details of loss of control in a politically restricted country and twelve USA operations.

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 profit or loss and other 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 profit or loss and other comprehensive income immediately.

d. Revenue recognition

Rental and services revenue

Rental revenue from leases with customers in the capacity as lessor, is accounted for in accordance with AASB 16 *Leases* on a straight line basis according to contractual terms. The Consolidated entity adopted AASB 16 for the first time on 1 July 2019. The revised accounting policies and details on the adoption of AASB16 has been outlined in the section on "Adoption of new and revised Accounting Standards"

Services revenue, communications revenue and franchise fees are accounted for according to AASB 15 *Revenue from Contracts with Customers*.(AASB 15).

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Consolidated Entity will comply with the conditions attaching to them and that the grants will be received. They are separately recognised as other income.

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.

When a foreign operation is deconsolidated or borrowings that form part of the net investment are repaid, the cumulative exchange differences are recognised in the Consolidated statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

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.

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 profit or loss and other 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.

Current and deferred tax for the period

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

Refer to note l. Financial assets below for the expected credit loss policy.

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.

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 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' and carried at amortised cost. The Group recognises a loss allowance for expected credit losses on trade receivables, loans and other receivables that are measured at amortised cost and, where applicable, contract assets. 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

The Consolidated Entity recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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.

m. Property, plant and equipment (continued)

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.

n. Leased assets

The Consolidated entity adopted AASB 16 for the first time on 1 July 2019. The revised accounting policies and details on the adoption of AASB16 has been outlined in the section on “Adoption of new and revised Accounting Standards”.

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 profit or loss and other 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 profit or loss and other comprehensive income as they are incurred.

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.

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'*.

B1 SEGMENT INFORMATION (CONTINUED)

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. Revenue from contracts with customers has been disaggregated into geographical regions. All revenue from contracts with customers relate to services for which revenue is recognised over time.

	Lease revenue	Contract revenue[1]	Total revenue	Lease revenue	Contract revenue	Total revenue	Segment profit/ (loss)	
	2020	**2020**	**2020**	2019	2019	2019	**2020**	2019
	$'000	**$'000**	**$'000**	$'000	$'000	$'000	**$'000**	$'000
Continuing operations								
Australia, New Zealand & Southeast Asia	**60,987**	**18,499**	**79,486**	62,452	19,589	82,042	**10,347**	9,451
USA	**17,717**	**5,319**	**23,036**	19,606	4,853	24,458	**(6,888)**	(3,918)
Europe & Middle East	**65,132**	**26,470**	**91,602**	57,210	20,021	77,231	**21,652**	8,781
North Asia	**99,031**	**31,881**	**130,912**	83,511	27,286	110,797	**12,127**	21,008
Other	**1,647**	**794**	**2,441**	225	601	826	**256**	169
	244,514	**82,963**	**327,477**	223,004	72,350	295,354	**37,494**	35,491
Closed floors								
Australia, New Zealand & Southeast Asia	**2,532**	**777**	**3,309**	6,560	2,116	8,676	**1,864**	(2,450)
USA	**9,705**	**1,263**	**10,968**	11,320	3,336	14,656	**(6,309)**	(3,208)
Europe & Middle East	**1,719**	**619**	**2,338**	5,215	2,718	7,933	**(650)**	(990)
North Asia	**3,774**	**1,092**	**4,866**	5,922	1,764	7,686	**2,781**	(418)
Other	**-**	**-**	**-**	-	-	-	**-**	-
	17,730	**3,751**	**21,481**	29,017	9,934	38,951	**(2,314)**	(7,065)
Franchise Fee income		**158**	**158**		570	570	**158**	570
Consolidated total	**262,244**	**86,871**	**349,116**	252,021	82,854	334,875	**35,338**	28,996
Finance costs							**-**	(5)
Interest revenue	**-**	**1,343**	**1,343**	-	2,071	2,071	**1,343**	2,071
Foreign exchange gains							**1,555**	1,297
Centralised unrecovered head office overheads							**(13)**	388
Rent – fixed rent increase (i)							**-**	(342)
Share of profit/ (losses) of joint venture							**383**	(627)
Loss on asset disposal							**(2,740)**	265
Restructure costs (ii)							**-**	(1,167)
Loss from deconsolidation (v)							**(19,429)**	-
Impairment of goodwill (iii)							**-**	(1,030)
Impairment of property, plant & equipment (iv)							**-**	(17,679)
Unallocated	**-**	**(246)**	**(246)**	-	476	476	**(826)**	344
Profit before tax							**15,611**	12,511
Income tax expense							**(8,677)**	(7,131)
Consolidated segment revenue and profit for the period	**262,244**	**87,968**	**350,213**	252,021	85,401	337,422	**6,934**	5,380

[1] Contract revenue refers to AASB 15 Revenue from contracts with customers.

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 2020, the Consolidated Entity's Virtual Office revenue and Serviced Office revenue were $96.9 million and $ 252.2 million respectively (2019: $93.8 million and $241.1 million, respectively).

Notes:

i Refer to Note B4.

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

iii During the financial year ended 30 June 2019 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.

iv During the financial year ended 30 June 2019, 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.

V. The Consolidated entity lost control of an entity in a politically restricted country and 8 entities in the USA and lost the power to govern the financial and operating policies of these entities on 31 May 2020 and 26 June 2020 respectively. Therefore, the Consolidated entity deconsolidated these entities from the Consolidated financial statements from that date. Refer to note B2.

B2 DECONSOLIDATION OF SUBSIDIARIES DUE TO LOSS OF CONTROL

On 31 May 2020 the consolidated entity lost control of an entity in a politically restricted country and deconsolidated. Limitations from the imposition of sanctions have placed restrictions on the Consolidated entity's ability to operate and effective 31 May 2020 the landlord is now operating the location. Servcorp Limited as the ultimate parent entity lost control when the landlord assumed control of the operational activities and bank accounts including making all management decisions.

On 26 June 2020, the Consolidated entity lost control of 7 USA entities and these entities were deconsolidated. The USA in general has performed poorly and several attempts to remedy the operation have failed. Following negotiations with landlords and in context of the COVID-19 pandemic, a decision was made to close twelve USA locations. The USA locations closed include Atlanta (2), Boston (1), Dallas (2), Los Angeles (2), Miami (1), Philadelphia (1), San Francisco (2) and Washington DC (1). The closure method selected was an Assignment for the Benefit of Creditors. Under this approach, an independent assignee was selected and is charged with liquidating the companies' assets for the benefit of creditors. The process consists of asset sales followed by wind-down of each entity in accordance with state law, supervised by a state court process. . The process consists of asset sales followed by wind-down of each entity in accordance with state law, supervised by a state court process.

The Consolidated Entity recognised a total loss on deconsolidation of $19.4 million for an entity in a politically restricted country and the 7 entities in the USA. The loss represents the carrying value of net assets included in the consolidated financial statements in respect of these entities at the date of deconsolidation.

Details of the loss of control of the subsidiaries:

	2020 $'000
Total consideration	-
Carrying amount of net assets	**(19,429)**
Loss before income tax	**(19,429)**
Income tax expense	-
Loss on loss of control of subsidiaries after income tax	**(19,429)**

B2 DECONSOLIDATION OF SUBSIDIARIES DUE TO LOSS OF CONTROL (CONTINUED)

Net assets of the entities at the time of loss of control were as follows:

	2020 $'000
Current assets	
Cash and cash equivalents	131
Other current assets	4,150
Total current assets	**4,281**
Property Plant and Equipment	9,266
Other assets	24,090
Total non current assets	**33,356**
Total assets	**37,637**
Payables	(49,988)
Current tax liability	(630)
Other current liabilities	(6,001)
Total current liabilities	**(56,619)**
Non current liabilities	(16,591)
Total Liabilities	**(73,210)**
Net Liabilities	**(35,573)**

Impact of loss on deconsolidation in Statement of profit or loss and other comprehensive income:	
Write-off of net liabilities	**35,573**
Intercompany receivable write-off in relation to deconsolidated subsidiaries and costs of deconsolidation	**(55,002)**
Loss before income tax	**(19,429)**
Income tax expense	**-**
Loss on loss of control of subsidiaries after income tax	**(19,429)**

B3 REVENUE & OTHER INCOME

The Consolidated Entity has four main revenue streams: lease, communications, service and franchise fee income.

	2020 $'000	2019 $'000
Revenue		
Lease revenue	**262,245**	252,223
Communications revenue	40,790	38,177
Service revenue	45,923	43,905
Revenue from contracts with customers	**86,713**	82,082
Franchise fee income	158	570
Total revenue	**349,116**	334,875
Other income		
Interest income – bank deposits	1,343	2,071
Jobkeeper payments received from Australian Government	1,073	-
Other income	1,340	476
Total other income	**3,756**	2,547

B4 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 and the right of use asset is calculated on a straight-line basis over the estimated useful life of the asset.

	2020 $'000	2019 $'000
Profit before income tax was arrived at after charging/ (crediting) the following from/(to) continuing operations:		
Amortisation of right of use assets	**121,262**	-
Depreciation of leasehold improvements	**19,858**	18,324
Depreciation of property, plant and equipment	**11,353**	9,262
Loss/ (gain) on disposal of property, plant & equipment	**2,659**	196
Loss/ (gain) on disposal of financial assets	**81**	(105)
(Increase)/ decrease in fair value of financial assets classified as fair value through the profit & loss	**(723)**	652
Bad debts written off	**2,529**	2,350
Rent – fixed annual impact (i)	**-**	342
Impairment of goodwill (ii)	**-**	1,030
Loss on deconsolidation (v)	**19,429**	-
Impairment of property, plant & equipment (iii)	**-**	17,679
Restructure costs (iv)	**2,035**	1,167
Interest on bank overdrafts and loans	**-**	5

Notes:

i For the financial year ended 30 June 2019 the rent fixed annual impact represents the straight-lining of fixed annual increases ranging between 0% and 10% in accordance with AASB117. Under AASB16 fixed annual increases are included in the present value of lease liabilities. Refer to note C5.

ii In the financial year ended 30 June 2019 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.

iii During the financial year ended 30 June 2019, 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.

iv Key personnel redundancy costs during the financial year.

v. The Consolidated entity recognised a loss on deconsolidation of $5.1 million and $14.3 million for the entity in the politically restricted country and the USA, respectively. The loss represents the difference between the carrying value and fair value of the remaining interest as of the transaction date.

B5 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.

COVID-19

The Consolidated Entity continues to closely monitor the unprecedented global pandemic and its impact on the global and Australian economy. The expected duration and magnitude of this pandemic and its potential impacts on the economy and financial markets is unclear. Should the impact of the virus be severe or prolonged, it is expected to have an impact on the performance and position of the Consolidated Entity. The Consolidated Entity is actively managing the impacts and risks arising from the pandemic on its people and operations.

Dividend

On 25th August 2020 the Directors declared a final dividend of 9.00 cents per share unfranked, payable on 1 October 2020.

Options

Since the end of the financial year, 1,108,750 Options over unissued shares lapsed, as the EPS Performance of the Company did not meet the applicable Vesting Percentage.

Jobkeeper

Changes in Jobkeeper government assistance was announced on 23 July 2020 and 7 August 2020 and further refinements may be made by the Australian Government. Management continue to monitor the Consolidated Entity's results and continued qualification for the assistance payments. Any changes to the Jobkeeper qualification requirements or payout amounts do not have a material effect on the judgements and estimates underpinning the Consolidated Entity's impairment calculations as at 30 June 2020.

B5 EVENTS OCCURRING AFTER THE END OF THE YEAR (CONTINUED)

The financial effect of the above transactions has not been brought to account in the financial statements for the year ended 30 June 2020.

B6 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	**2020 $'000**	2019 $'000
Profit before income tax	**15,611**	12,511
Income tax expense calculated at 30%	**4,683**	3,753
Deductible local taxes	**(612)**	(589)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(23)**	1,745
Other deductible/non assessable items	**(1,916)**	(329)
Tax losses of controlled entities recovered	**-**	(402)
Derecognition of previously recognised tax losses	**-**	3,283
Income tax under/(over) provision in prior years	**(551)**	(2,771)
Unused tax losses and tax offsets not recognised as deferred tax assets (i)	**7,096**	2,441
Income tax expense	**8,677**	7,131

Notes:

i During the financial year ended 30 June 2020, $5.9M of unused tax losses and offsets related to USA operations, with the balance related to other jurisdictions.

During the financial year ended 30 June 2019, 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	**2020 $'000**	2019 $'000
Tax expenses comprises:		
Current tax expense	**9,033**	10,594
(Over)/ under provision in prior years – current tax	**(482)**	(2,124)
Over provision in prior years – deferred tax	**(69)**	(648)
Deferred tax expense relating to derecognition of tax losses	**-**	3,283
Deferred tax income relating to the origination and reversal of temporary differences and previously unrecognised tax losses	**195**	(3,974)
Income tax expense	**8,677**	7,131

Current tax assets and liabilities	**2020 $'000**	2019 $'000
Current tax assets		
Tax refunds receivable	**2,179**	1,408
Current tax payables		
Income tax attributable to:		
Parent entity	**-**	-
Subsidiaries	**-**	-

B6 INCOME TAX (CONTINUED)

Deferred tax balances	2020 $'000	2019 $'000
Deferred tax assets comprises:		
Tax losses – revenue	**3,303**	3,710
Temporary differences	**33,744**	23,383
	37,047	27,093
Deferred tax liabilities comprises:		
Temporary differences	**(30)**	(1,207)
	37,017	25,886
The gross movement of the deferred tax accounts are as follows:		
Balance at the beginning of the financial year	**25,886**	23,472
Lease accounting transition	**10,870**	-
Tax loss derecognition	**-**	(3,283)
Movements in foreign exchange rates	**290**	405
Statement of profit or loss and other comprehensive income charge	**(29)**	5,292
Balance at the end of the financial year	**37,017**	25,886
Deferred tax assets		
Movements in temporary differences:		
Accruals not currently deductible	**3,293**	1,031
Doubtful debts	**(70)**	4
Depreciable and amortisable assets	**(529)**	2,926
Tax losses	**(421)**	1,654
Foreign exchange	**(321)**	559
Deferred rent incentive	**(5,378)**	(1,470)
Lease asset and liability	**2,687**	-
Tax loss derecognition	**-**	(3,283)
Other	**(467)**	801
Deferred tax asset movements	**(1,206)**	2,222
Balance at the beginning of the financial year	**27,093**	24,466
Lease accounting transition	**10,870**	-
Tax loss derecognition	**-**	(3,283)
Movements in foreign exchange rates	**290**	405
Statement of profit or loss and other comprehensive (credit)/ income	**(1,206)**	5,505
Balance at the end of the financial year	**37,047**	27,093

B6 INCOME TAX (CONTINUED)

Deferred tax balances (continued)	2020 $'000	2019 $'000
Deferred tax liabilities		
Movements in temporary differences:		
Depreciable and amortisable assets	**(1,106)**	(7)
Accruals and provisions not currently deductible	**1,062**	4
Lease accounting transition	**(6)**	-
Lease asset and liability	**(1,363)**	-
Other	**230**	215
Deferred tax liabilities	**(1,183)**	212
Balance at the beginning of the financial year	**1,207**	994
Movements in foreign exchange rates	**-**	1
Lease accounting transition	**6**	-
Statement of profit or loss and other comprehensive income/ (credit)	**(1,183)**	212
Balance at the end of the financial year	**30**	1,207

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	**20,182**	14,011
	22,284	16,113

B7 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.

	2020	2019
Profit attributable to securityholders used to calculate basic and diluted EPS($'000)	**6,934**	5,380
WANOS used in calculating basic EPS ('000)	**96,818**	96,818
WANOS used in calculating diluted EPS ('000)	**96,818**	96,818

C ASSETS AND LIABILITIES

C1 CASH & CASH EQUIVALENTS

	2020 $'000	2019 $'000
Cash (i) (iii) (iv)	**66,956**	27,101
Bank short term deposits (i) (ii)	**32,931**	37,990
	99,887	65,091

Notes:

i Servcorp's unencumbered cash and investment balance is $101.4 million as at 30 June 2020 (2019: $66.2 million).

ii Bank short term deposits mature within an average of 114 days (2019: 90 days) and are considered cash and cash equivalents on the basis of being short term and subject to an insignificant risk of change in value. These deposits and the interest-earning portion of the cash balance earn interest at a weighted average rate of 0.91% (2019: 2.10%).

iii Included in cash balance is restricted cash of Nil (2019: $0.9 million) held by a member of the Consolidated Entity in a politically restricted country with exchange controls.

iv. Included in 30 June 2020 cash balance is restricted cash of $3m held within Servcorp Phoenicia SAL.

C2 TRADE & OTHER RECEIVABLES

	2020 $'000	2019 $'000
Current		
At amortised cost		
Trade receivables (i)	**30,672**	40,198
Less: Expected credit loss	**(1,499)**	(1,038)
Other debtors	**1,917**	7,260
	31,090	46,420

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 2020 the Directors believe no further provisions are required.

	2020 $'000	2019 $'000
Expected credit loss		
As at 1 July	**(1,038)**	(1,042)
(Increased)/decreased provisions	**(461)**	4
As at 30 June	**(1,499)**	(1,038)

Trade receivables – days past due	Current $'000	<30 days $'000	31 – 60 days $'000	> 61 days $'000	Total $'000
2020					
Trade receivables	11,553	11,206	1,657	6,256	30,672
Expected credit loss rate	0%	0%	1%	24%	
2019					
Trade receivables	13,209	19,081	2,308	5,600	40,198
Expected credit loss rate	0%	0%	1%	18%	

The Consolidated Entity calculated expected credit losses based on the anticipated impact of default events arising either in the 12 months after reporting date, or the entire lifetime of the asset. The increased provisions during the year ended 30 June 2020 represents Management's judgement based on information available at the time on the impact of COVID-19 and the recoverability of its debtors. The movement of $461,000 (2019: $4,000) was recognised through the Consolidated statement of profit or loss and other comprehensive income during the period.

C3 OTHER FINANCIAL ASSETS

	2020 $'000	2019 $'000
Current		
At fair value through profit or loss		
Investment in bank hybrid variable rate securities (i)	**9,213**	7,870
At amortised cost		
Lease deposits	**1,523**	1,515
	10,736	9,385
Non-current		
At fair value through profit or loss		
Forward foreign currency exchange contracts	**276**	-
At amortised cost		
Lease deposits (ii)	**44,366**	46,583
Other	**1,024**	587
	45,666	47,170

Note:

i Australia has $7.7 million in securities which is encumbered (2019: $6.8 million).

ii No expected credit loss has been provided on lease deposits as, based on past experience, these are expected to be recovered in full.

C4 PREPAYMENTS & OTHER ASSETS

	2020 $'000	2019 $'000
Current		
Prepayments	**2,759**	12,930
Other	**4,426**	3,207
	7,185	16,137

C5 PROPERTY, PLANT & EQUIPMENT

	Land & buildings at cost	Lease-hold improve-ments owned at cost	Lease-hold improve-ments leased at cost	Office furniture & fittings owned at cost	Office furniture & fittings leased at cost	Office equip-ment & soft-ware owned at cost	Office equip-ment leased at cost	Motor vehicles owned at cost	WIP at cost	Right of use	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amounts											
Balance at 1 July 2019	**8,850**	**241,317**	**1,354**	**43,531**	**145**	**61,989**	**127**	**333**	**2,578**	**-**	**360,224**
AASB16 adoption adjustment(i)	-	(2,350)	-	-	-	-	-	-	-	389,955	387,605
Balance at 1 July 2019 – restated	**8,850**	**238,967**	**1,354**	**43,531**	**145**	**61,989**	**127**	**333**	**2,578**	**389,955**	**747,829**
Additions	-	10,498	-	2,947	-	6,933	-	-	(1,146)	105,198	124,430
Disposals/deconsolidation	-	(37,546)	-	(5,430)	-	(6,341)	-	-	-	(24,238)	(73,555)
Effect of foreign currency exchange differences	212	2,128	29	519	3	8	3	7	(46)	(26,506)	(23,643)
Balance at 30 June 2020	**9,062**	**214,047**	**1,383**	**41,567**	**148**	**62,589**	**130**	**340**	**1,386**	**444,409**	**775,061**
Accumulated depreciation											
Balance at 1 July 2019	**738**	**140,362**	**1,226**	**25,902**	**147**	**45,950**	**127**	**218**	**-**	**-**	**214,670**
Depreciation expense	149	19,858	1	4,238	-	6,926	-	39	-	121,262	152,473
Disposals/deconsolidation	-	(29,745)	-	(4,349)	-	(5,641)	-	-	-	-	(39,735)
Effect of foreign currency exchange differences	18	2,611	27	366	3	158	3	5	-	(31,900)	(28,709)
Balance at 30 June 2020	**905**	**133,086**	**1,254**	**26,157**	**150**	**47,393**	**130**	**262**	**-**	**89,362**	**298,699**
Net book value											
Balance at 1 July 2019	**8,112**	**100,955**	**127**	**17,629**	**(2)**	**16,039**	**-**	**115**	**2,578**	**-**	**145,554**
AASB 16 adoption adjustment(i)	-	(2,350)	-	-	-	-	-	-	-	389,955	**387,605**
Balance at 1 July 2019 - restated	**8,112**	**98,605**	**127**	**17,629**	**(2)**	**16,039**	**-**	**115**	**2,578**	**389,955**	**533,158**
Balance at 30 June 2020	**8,157**	**80,961**	**129**	**15,410**	**(2)**	**15,196**	**-**	**78**	**1,386**	**355,047**	**476,362**

Note:

(i) Please refer to Adoption of new and revised accounting standards note

C6 GOODWILL

Allocation of goodwill to cash-generating units

Each of the following countries is a stand-alone cash-generating unit:

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

Goodwill was allocated to the cash-generating unit in which goodwill arose. Not every cash-generating unit has goodwill allocated to it.

The carrying amounts of goodwill relating to each group of cash-generating unit as at 30 June 2020 were as follows:

	2020 $'000	2019 $'000
Japan	**9,161**	9,161
Australia	**2,636**	2,636
New Zealand	**785**	785
Singapore	**706**	706
Thailand	**326**	326
China	**161**	161
	13,775	13,775

The Consolidated Entity tested goodwill for impairment as at 30 June 2020. The recoverable amount of a CGU or group of CGUs to which goodwill is allocated is determined based on the greater of its value in use and its fair value less costs of disposal. Fair value is determined as being the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. If relevant, this fair value assessment less costs of disposal is conducted by the Directors based on their extensive knowledge of the industry including the current market conditions prevailing. The value in use (ViU) assessment is conducted using a discounted cash flow methodology requiring the Directors to estimate the discounted future cash flows expected to arise from the cash generating units. When applying the ViU approach to calculate the recoverable amount for each CGU, we incorporate the use of projected financial information and a discount rate that are developed using market participant based assumptions. The cash-flow projections are based on five-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth. The selected discount rate considers the risk and nature of the respective reporting unit's cash flows and the rates of return market participants would require to invest their capital in our reporting units. Our methodology for determining recoverable amounts remained consistent for the periods presented.

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 growth rate of 0%. For the year ended 30 June 2020, the post-tax discount rate applied to the above countries, inclusive of country risk premium, was as follows: Japan 8.3%, Australia 7.6%, New Zealand 7.6%, Singapore 7.6%, Thailand 9.1% and China 8.3% (2019: Japan 10.3%, Australia 9.3%, New Zealand 9.3%, Singapore 9.3%, Thailand 11.5% and China 10.3%). A terminal growth rate of 0% (2019: between 0.4% and 2.1%) has been applied to extrapolate the cash flow projections for each cash-generating unit.

Downside sensitivity analysis has been performed on the assumptions used in the model, including increasing discount rates by up to 10.5%. The Consolidated Entity undertook a valuation at 30 June 2020 updated for COVID-19 impacts to the business. The valuation updates included assumptions regarding revenue, operating expenses, capital expenditure and interest rates. Furthermore, refer to the Going Concern note in section A 'Basis of Preparation' for an assessment of COVID-19 impacts.

After completing the annual impairment reviews, the Consolidated Entity concluded that goodwill was not materially impaired and that no reasonable changes in the key assumptions on which the recoverable amounts are based will cause any of the CGUs to be materially impaired.

C7 TRADE & OTHER PAYABLES

	2020 $'000	2019 $'000
Current		
At amortised cost		
Trade creditors	**3,894**	8,078
Deferred contract liabilities	**19,741**	24,039
Deferred lease incentive	**-**	8,331
Other creditors and accruals	**21,120**	19,383
	44,755	59,831
Non-current		
At amortised cost		
Deferred lease incentive	**-**	28,219
	-	28,219

C8 OTHER FINANCIAL LIABILITIES

	2020 $'000	2019 $'000
Current		
At amortised cost		
Security deposits	**32,744**	35,025
	32,744	35,025
Non-current		
Other	**-**	530
	-	530

C9 LEASE LIABILITIES

	2020 $'000	2019 $'000

The Consolidated Entity holds 118 leasing arrangements as lessee comprising leased offices as at year end 30 June 2020.These leases have been accounted for in line with AASB 16,refer to Note A – "Adoption of new and revised accounting standards" above for further details of AASB16 application and accounting policies.

Refer to note C1 for a detailed breakdown of the right of use asset amount. Information about lease liabilities and variable lease payments incurred during the year presented below:

	2020 $'000	2019 $'000
Lease liabilities included in the statement of financial position:		
Current	**104,398**	-
Non-current	**309,954**	-
	414,352	-
Amounts recognised in profit or loss		
Interest on lease liabilities	**18,698**	-
Amortisation on right of use assets	**121,262**	-
Variable lease payment relating to COVID-19 Rent Reductions	**762**	-
	140,722	-
Amounts recognised in the statement of cash flows		
Interest on lease liabilities (operating cashflows)	**(18,698)**	-
Repayment of lease liabilities relating to current period occupancy (financing cashflows)	**(111,199)**	-
Repayment of lease liabilities relating to future occupancy periods (financing cashflows)	**(7,345)**	-
	(137,242)	-

	2020 $'000	2019 $'000
Future minimum lease payments:		
Maturity analysis – contractual undiscounted cash flows		
Less than one year	113,997	152,214
One to five years	275,712	330,422
More than five years	60,943	115,348
Total undiscounted lease liabilities	**450,652**	**597,984**

C10 PROVISIONS

	2020 $'000	2019 $'000
Current		
Employee benefits (i)	**7,653**	7,620
Other	**2,310**	154
	9,963	7,774
Non-current		
Employee benefits	**1,122**	854
	1,122	854

Note:

i The current provision for employee benefits includes $6.9 million of annual leave and vested long service leave entitlements accrued (2019: $7.0 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. Operating cash flows are used to maintain and expand the Consolidated Entity, as well as to make routine outflows of tax and dividend payments.

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.

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.

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

	2020 $'000	2019 $'000
Total facilities available		
Bank guarantees	**37,000**	37,000
Bank overdrafts and loans	**567**	1,078
Bill acceptance/payroll/other facilities	**4,150**	4,150
	41,717	42,228
Facilities utilised at balance sheet date		
Bank guarantees	**25,482**	26,628
Bank overdrafts and loans	**65**	80
	25,547	26,708
Facilities not utilised at balance sheet date		
Bank guarantees	**11,518**	10,372
Bank overdrafts and loans	**502**	998
Bill acceptance/payroll/other facilities	**4,150**	4,150
	16,170	15,520

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.

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 profit or loss and other 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	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Pre-tax gain/ (loss)				
AUD/ USD +4% (2019: +7%)	**(1,356)**	(2,621)	**574**	1,014
AUD/ USD - 4 % (2019: -7%)	**1,303**	3,002	**(618)**	(1,161)
AUD/ JPY + 8 % (2019: +7%)	**(1,107)**	(945)	**1,636**	1,394
AUD/ JPY - 8 % (2019: -7%)	**807**	179	**(1,913)**	(1,611)
AUD/ EUR + 3 % (2019: +3%)	**(11)**	(13)	**162**	146
AUD/ EUR - 3 % (2019: -3%)	**(1)**	14	**(173)**	(155)
AUD/ RMB + 3 % (2019: +7%)	**(181)**	(251)	**48**	52
AUD/ RMB - 3 % (2019: -7%)	**84**	287	**(54)**	(60)
AUD/ SGD + 3 % (2019: +6%)	**(402)**	(819)	**-**	-
AUD/ SGD - 3 % (2019: -6%)	**383**	919	**-**	-

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 2020. These are level 2 fair value measurements derived from inputs as defined in Note D4.

	Average exchange rate		Foreign currency		Fair value	
	2020	2019	**2020 Million**	2019 Million	**2020 $'000**	2019 $'000
Outstanding contracts						
Sell JPY						
No later than one year	**74.78**	76.70	**650**	800	**(102)**	(304)
Later than one year and not later than five years	**72.19**	74.32	**800**	1,000	**214**	(282)
Sell EUR						
No later than one year	**0.584**	0.584	**1**	1	**80**	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	
	2020 $'000	2019 $'000
Pre-tax gain/ (loss)		
AUD balances		
125 basis point increase	**429**	397
125 basis point decrease	**(205)**	(392)
Other balances		
125 basis point increase	**77**	114
125 basis point decrease	**(53)**	(70)

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	%
2020							
Non-interest bearing							
Receivables	32,589	-	-	-	-	32,589	
Lease deposits	290	905	10,979	21,071	11,359	44,604	
Forward foreign currency exchange contracts	-	1,278	1,711	18,499	-	21,488	
Interest bearing							
Cash and cash equivalents	66,956	-	-	-	-	66,956	0.64
Bank short term deposits	19,025	24,667	11	-	-	43,703	0.91
Variable rate securities	9,213	-	-	-	-	9,213	4.31
	128,073	**26,850**	**12,701**	**39,570**	**11,359**	**218,553**	

	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	47,458	-	-	-	-	47,458	
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
	111,697	**18,125**	**16,757**	**36,597**	**11,716**	**194,892**	

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 $'000	1 to 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	5 + years $'000	Total $'000	Weighted average effective interest rate %
2020							
Non-interest bearing							
Payables	3,894	19,382	-	-	-	23,276	
Security deposits	-	-	32,744	-	-	32,744	
Forward foreign currency exchange contracts	-	1,628	1,342	18,119	-	21,089	
Interest bearing							
Lease liability	10,337	30,035	72,081	248,298	-	360,751	4.06
	14,231	**51,045**	**106,167**	**266,417**	**-**	**437,861**	

	Less than 1 month $'000	1 to 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	5 + years $'000	Total $'000	Weighted average effective interest rate %
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	**20,193**	**45,594**	**14,831**		**88,696**	

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.

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:

				2020				2019
	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	**9,213**	**-**	**-**	**9,213**	7,870	-	-	7,870
Forward foreign currency exchange contracts	**-**	**276**	**-**	**276**	-	-	-	-
	9,213	**276**	**-**	**9,489**	7,870	-	-	7,870

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 2020 $'000	Fair value as at 30 June 2019 $'000	Fair value hierarchy	Valuation technique(s) & key input(s)
Financial assets				
Bank hybrid variable rate securities	**9,213**	7,870	1	Quoted prices in an active market
Forward foreign currency exchange contracts	**276**	-	2	Future cash flows are estimated based on observable forward exchange rates

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						
2020						
Final	Fully paid ordinary shares	10.00	9,682	2 Oct 2019	30%	60%
Interim	Fully paid ordinary shares	11.00	10,650	2 Apr 2020	30%	25%
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%
Unrecognised amounts						
Since the end of the financial year, the directors have declared the following dividend:						
Final	Fully paid ordinary shares	**9.00**	**8,714**	**1 Oct 2020**	**30%**	**0%**

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.

	2020 $'000	2019 $'000
Dividend franking account		
30% franking credit available	**1,286**	1,390
Impact on franking account balance of dividends not recognised	**-**	2,490

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 balance sheet date.

E2 CONTRIBUTED EQUITY

Movements in paid up equity

	2020		2019	
	No. securities '000	**Securities $'000**	No. securities '000	Securities $'000
Balance 1 July	**96,818**	**151,594**	96,818	151,594
Balance 30 June	**96,818**	**151,594**	96,818	151,594

E3 RESERVES

Foreign currency translation reserve (FCTR)

Servcorp has controlled entities operating in 21 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.

	2020 $'000	2019 $'000
Balance 1 July	**1,406**	(6,772)
Exchange difference on translation of foreign operations	**11,208**	8,178
Balance 30 June	**12,614**	1,406

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 FY20 (i)	**1,441,000**	**-**	**-**	**(172,250)**	**1,268,750**
Total rights FY19	295,000	1,281,000	-	(135,000)	1,441,000

Note:

i On 29 May 2020, some Servcorp Limited unquoted options on issue were cancelled. The options were cancelled due to the option holder ceasing to be an employee of Servcorp Limited. Subsequent to year end, additional options lapsed, refer to note B5.

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

	2020 $'000	2019 $'000
Balance 1 July	**242**	199
Total expense taken to reserve	**201**	43
Balance 30 June	**443**	242

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 2020**	Number 2019
Australia	**47**	47
Bahrain	**1**	1
Belgium	**1**	1
China	**9**	8
France	**2**	2
Germany	**1**	1
Indonesia	**1**	1
Iran (i)	**-**	1
Japan	**4**	4
Kuwait	**1**	1
Lebanon	**1**	1
Malaysia	**4**	4
New Zealand	**5**	5
Philippines	**2**	1
Qatar	**1**	1
Saudi Arabia	**1**	1
Singapore	**9**	9
Thailand	**3**	3
Turkey	**2**	1
United Arab Emirates	**4**	4
United Kingdom	**5**	5
United States of America	**10**	17

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

Note:

i The Consolidated Entity had an investment in a profitable, cash producing flexible workspace business in a politically restricted country with exchange controls. Given the various sanctions imposed on the country and the current significant political risk, on 31 May 2020 the consolidated entity lost control of the entity and was deconsolidated. Refer to note B2 for details. Limitations from the imposition of sanctions have placed restrictions on the Consolidated entity's ability to operate. Effective 31 May 2020 the landlord is now operating the location. Servcorp Limited as the ultimate parent entity lost control when the landlord assumed control of the operational activities and bank accounts including making all management decisions.

F1 ORGANISATIONAL STRUCTURE (CONTINUED)

The following subsidiaries are not wholly owned by the Consolidated Entity. However, the Consolidated Entity still controls these subsidiaries because it 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. These entities are fully consolidated from the date control is obtained until the date that control ceases. Inter-entity transactions and balances are eliminated. The table below sets out the Company's ownership interest:

Name of subsidiary	Principal place of business	**2020 %**	2019 %
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	**2020 %**	2019 %
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	**2020 $'000**	2019 $'000
Current assets	**113,415**	135,976
Non-current assets	**42,108**	22,445
Total assets	**155,523**	158,421
Current liabilities	**10,930**	768
Total liabilities	**10,930**	768
Net Assets	**144,593**	157,653
Equity		
Contributed equity	**151,594**	151,594
Share buy-back reserve	**(4,733)**	(4,733)
Retained earnings	**(2,268)**	10,792
Total equity	**144,593**	157,653
(Loss)/Profit and total comprehensive income for the year	**(9,317)**	19,658

As at 30 June 2020:

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. Refer to note D2 for details.

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.

v. Dividends of $54 million were declared by a subsidiary to the parent entity subsequent to 30 June 2020.

G OTHER INFORMATION

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

Refer to the Remuneration Report for full details of Key Management Personnel.

G1 COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments – property, plant & equipment

	2020 $'000	2019 $'000
Committed but not provided for and payable:		
Not later than 1 year	**85**	5,682
Later than 1 year but not later than 5 years	**-**	-
Later than 5 years	**-**	-
	85	5,682

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 29 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.

Mr. A G Moufarrige has an interest in and is a Director of Sovori Pty Ltd (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.

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, Perth, Adelaide, Brisbane, Auckland, London and Beijing.

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

Mr. B Corlett was provided an office in Sydney for use as necessary in carrying out his duties as Chairman. Mr. B Corlett still uses the office and 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.

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.

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.

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.

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	**2020 $**	2019 $
A G Moufarrige	Tekfon Pty Ltd	Premises rental	**94,508**	92,807
	Enideb Pty Ltd	Franchisee	**480,868**	801,521
	Sovori Pty Ltd	Reimbursements	**210,182**	86,588
W Graham	Energy Capital Partners	Client	**3,091**	2,524
T Moufarrige	Nualight AUSNZ Pty Ltd and Light Energy Australia Pty Ltd	Client	**3,334**	9,335
	Ility Pty Ltd and Spigoli Pty Ltd	Client	**35,569**	7,144
B Corlett	Bruce Corlett	Client	**64,008**	92,105
	TDM Asset Management Pty Ltd	Client	**3,346**	6,534
R Holliday-Smith	ASX Operations Pty Ltd	Client	**254,614**	248,935
	Cochlear Ltd	Client	**58,066**	118,933

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)	**2020 $**	2019 $
Tekfon Pty Ltd	**(7,920)**	(15,574)
Enideb Pty Ltd	**29,173**	73,347
Sovori Pty Ltd	**-**	-
Energy Capital Partners	**-**	215
Light Energy Australia Pty Ltd	**39**	417
Ility Pty Ltd and Spigoli Pty Ltd	**5,284**	573
B Corlett	**-**	6,724
TDM Asset Management Pty Ltd	**314**	1,799
ASX Operations Pty Ltd	**22,312**	20,616
Cochlear Ltd	**49**	16,546

The remuneration of the Directors and other key management personnel of the Consolidated Entity, is set out below in aggregate for each of the categories specified in AASB 124:

Remuneration of key management personnel	**2020 $'000**	2019 $'000
Short term employee benefits	**3,856**	4,686
Post-employment benefits	**160**	427
Other long term benefits	**-**	257
Termination benefits	**76**	880
Share-based payments	**81**	62
Total Remuneration	**4,173**	6,312

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.

	2020 $'000	2019 $'000
Profit for the year	**6,934**	5,380
Add/ (less) non-cash items:		
Movements in provisions	**(2,456)**	(279)
Deferred tax expense relating to derecognition of tax losses	**-**	3,283
Depreciation of non-current assets	**31,211**	27,586
Share of profits/ (losses) of joint venture	**383**	(627)
Impairment of goodwill	**-**	1,030
Impairment of non-current assets	**-**	17,769
(Loss)/ gain on disposal of non-current assets	**(2,659)**	196
Net loss on deconsolidation of subsidiaries	**19,429**	-
Loss/ (gain) from financial assets	**81**	(105)
Amortisation of right of use assets	**121,262**	-
Increase in current tax asset	**(771)**	(4,092)
(Increase) in deferred tax balances	**(11,131)**	(869)
Unrealised foreign exchange gain/ (loss)	**5,164**	(1,598)
(Increase) in deferred lease incentives	**-**	(578)
Change in net assets and liabilities		
Decrease in prepayments	**10,171**	1,345
Decrease/ (increase) in trade debtors and other receivables	**15,330**	(2,483)
(Increase) in current assets	**(1,656)**	(86)
(Decrease)/ increase in deferred contract liabilities	**(4,298)**	342
(Decrease)/ increase in client security deposits	**(2,281)**	4,069
(Decrease)/increase in accounts payable	**(2,447)**	754
Net cash inflows from operating activities	**182,266**	51,037

G4 AUDITORS' REMUNERATION

	2020 $	2019 $
Deloitte and related network firms		
Audit or review of financial reports:		
- Australia	604,507	705,000
- Rest of Group	1,035,493	792,000
	1,640,000	1,497,000
Other services:		
- Tax consulting services	401,007	25,302
- ERP consulting services	33,000	-
	434,007	25,302
Total auditors' remuneration	2,074,007	1,522,302

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 25th day of August 2020

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

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 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 directors' declaration.

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 2020 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 (including Independence Standards)* (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 the directors of the Company, 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 for 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.

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, C5 and C9.
 	
The Group's current year financial statements include the first time adoption of AASB 16 *Leases* which was effective from 1 July 2019 and replaced AASB 117 *Leases,* which resulted in the recognition of right-of-use assets of $389.9 million and lease liabilities of $453.3 million. Upon adoption management has exercised judgement in the determination of the expected lease terms, incremental borrowing rates, and the calculation of right-of-use assets and lease liabilities.
 	
The Group frequently enters into agreements for the leasing of new floors or renegotiates or extends existing leases. These leasing agreements typically establish base rent for the floor and contain additional terms and conditions that impact the lease costs to be recognised. These may include lease incentives received, rent review clauses, make-good provisions or other relevant terms and conditions.
 	
Further, management have assessed the impact of negotiations with landlords as a result of the impact of COVID 19 on Servcorp's lease portfolio and, where appropriate, applied the practical expedient available under the amendment to AASB 16 *Leases* published by the International Accounting Standards Board (IASB) in May 2020, titled *Covid-19-Related Rent Concessions* (the "Practical Expedient").
	Our procedures included, but were not limited to:
	
	- obtaining an understanding of relevant controls management has in place to identify and accurately account for key terms and conditions of lease agreements;
	- inquiring of management to identify changes to existing leases;
	- on a sample basis:
	    o assessing new, renewed and/or amended lease agreements including leases that have been amended due to the impact of COVID-19;
	    o identifying terms that may give rise to specific accounting implications including testing whether amended leases meet the requirements for applying the Practical Expedient;
	    o independently calculating the right of use asset and lease liability over the life of the agreement and comparing results to management's calculation for those leases selected for detailed analysis;
	- obtaining management's calculation of the impact of transitioning to the new leases accounting standard and assessing the appropriateness of the calculations 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;
	- evaluating management's assessment on floors to be closed in the coming 18-month period and the appropriateness of the Group's accounting policy for recording any make-good provisions; and
	- assessing the appropriateness of the disclosures in the Notes to the financial statements.

Impairment of non-current assets *Refer to Note C5 and C6.* As at 30 June 2020 the Group's goodwill value totals $13.8 million, capitalised leasehold improvements totals $80.9 million and right of use assets totals $355.0 million. The Group performs impairment assessments on an annual basis on goodwill, leasehold improvements and right-of-use assets. For assets with indicators of impairment (or indicators of reversal of previously recorded	Our procedures included, but were not limited to: - obtaining an understanding of relevant controls over the preparation and review of the impairment indicator assessment and value-in-use models; - evaluating management's assessment of whether impairment indicators exist and whether management has used all available internal and external sources of information. For impairment indicators where assumptions are used, assessing these assumptions and where possible, comparing these assumptions to third party information;

Deloitte.

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 assess whether an impairment loss (or impairment reversal) should be recorded. The value-in-use models use forecast post-tax free cash flows discounted to present value using the post-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, growth rates, occupancy rates, WACC, the terminal value growth rate (for goodwill) and capital expenditure.	- 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 impact of COVID-19 on managements key assumptions, including, but not limited to, cash flows, occupancy rates and future market outlook; - risk assessing growth rates, occupancy rates, WACC, the terminal value growth rate (for goodwill) and capital expenditure, by performing sensitivity analyses; - engaging internal valuation specialists to assist in the assessment of management's cash flow forecasts and valuation assumptions including WACC; - 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): '2020 Results', 'Global Locations', 'Chairman's Message', 'CEO's Message', 'Global Expansion', 'Information and Communication Technology', 'Servcorp's Global Networking Map', 'Environmental Commitment', 'Community Service' and 'The Board and Executive', 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 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.

When we read the '2020 Results', 'Global Locations', 'Chairman's Message', 'CEO's Message', 'Global Expansion', 'Information and Communication Technology', 'Servcorp's Global Networking Map', 'Environmental Commitment', 'Community Service' and 'The Board and Executive', 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 Company 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 the 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.

- 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 the 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 the 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the 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 17 to 28 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Servcorp Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company 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, 25 August 2020