# ASX / NZX Announcement

**18 February 2011**

## Spotless Interim Results Meets AGM Earnings Guidance

Spotless Group Limited (ASX/NZSX: SPT) today announced reported NPAT of $17.4 million declined 29.0 per cent on the prior period, whilst Underlying NPAT declined 8.4 per cent to $23.0 million.

Reported Group EBIT of $38.0 million declined 19.7 per cent on the prior period. This EBIT result is in line with the top end of the earnings guidance range provided at the 2010 Annual General Meeting. On an Underlying basis, excluding $8.0 million in mobilisation and start-up costs, Group EBIT was $46.0 million, slightly above the top end of AGM earnings guidance.

The effective tax rate was 34.6 per cent up from 30.2 per cent in the prior period, influenced by investment allowances in the prior period. Group revenue prior to pass-through revenue rose 10.9% to $1,281 million.

The Directors declared an interim dividend of 5.0 cents per share, franked to 60%.

Managing Director and CEO, Josef Farnik said "Our interim results reflect sustained organic growth in our core Australian and New Zealand service businesses, short-term costs associated with this growth and continued organic investment in line with our strategic plan. Challenging demand conditions were evident across our contract portfolio and in Braiform's major markets. Although retendering and cost inflation are placing pressure on margins, we are responding with renewed focus on pricing and costs.

"Organic revenue growth was 4.9 per cent[1], notwithstanding soft demand conditions and lack of government stimulus programs present in 2010. This growth is largely due to recent major Facility Services contract wins, with mobilisation currently nearing completion. Looking ahead to 2012, these contracts will have a full twelve months impact on performance. In addition, 2012 will be a big year on the events calendar, with Rugby World Cup in New Zealand, Presidents Cup in Australia and the London Olympics.

"For Braiform, hanger volumes rose only slightly during the half. Combined with intense competition for new orders and sharp increases in key inputs profitability was significantly impacted. Further cost reduction, pricing and sales initiatives are being implemented to minimise these market pressures. Importantly, during the period Braiform continued to grow its re-use offering and restructure its cost base.

"We are confident that our strategy of leveraging the common strengths of our businesses is on track to enable Spotless to fully realise its potential. The Spotless Group has strong underlying cash flows and a robust balance sheet to support reinvestment. A significant milestone in our strategic plan is the introduction of standardised and simplified core business processes, enabled by a modernised IT platform. We are confident that this transformation investment will deliver significant efficiencies and more profitable growth. Implementation will commence during calendar 2011 and the program is expected to take approximately two years.

"Amid continued tight market conditions we are maintaining a strong focus on discretionary expenditure. In the absence of major unforseen events, Spotless continues to expect that FY11 revenue and earnings will exceed FY10 levels.

[1] Organic revenue growth excludes acquired businesses owned for <12 months and pass-through revenue

**Facility Services**

Since the end of FY10, Facility Services has secured a number of major business wins including Qantas, BHP Billiton Nickel West and the New Royal Adelaide Hospital PPP.

Facility Services sales revenue, excluding pass-through revenue, rose by 10 per cent during the half. Excluding the impact of acquisitions, organic growth was 6.1 per cent, reflecting the impact of new contracts and higher revenues from the Leisure, Sports & Entertainment sector, including corporate hospitality spending and major event activity. Growth was dampened by lower activity levels within the Group's portfolio of contracts, including continued soft demand for discretionary cleaning, maintenance and laundry services.

Facility Services Underlying EBIT (after corporate administration) rose slightly to $45.6 million. Underlying EBIT margins declined in the first half, a direct reflection of strong revenue growth from new contracts and continued soft demand for discretionary cleaning, maintenance and laundry products and services. Additionally, higher levels of cost inflation were experienced across labour and other key inputs. Cost recoveries have been implemented where contractually appropriate, and further mitigation strategies are underway.

As at 31 December 2010 the Managed Services forward revenue order book stood at approximately $10.6 billion, up from $7.7 billion at 30 June 2010.

**International Services**

International Services comprises Spotless' Facility Services operations outside of Australia and New Zealand. The International Services operations were not owned by Spotless in the prior corresponding period. To support continued investor transparency, Spotless intends to report International Services as a separate segment.

During the half, Spotless completed the integration of Cleanevent and acquired UK-based Event Management Catering, forming the foundations of International Services. During the half, International Services generated $29.9 million of revenue.

As referenced at the 2010 AGM, an investment of $1.8 million was made to establish the International Services business platform, including strategic planning, acquisition-related costs, IT infrastructure, management relocation and legal costs associated with integrating new businesses into the Group. These costs are not expected to recur.

Prior to these start-up costs, International Services generated an EBIT loss of $0.6 million during the half, reflecting higher overheads due to expected business growth and international support.

**Braiform**

Braiform experienced continued soft demand for apparel in North America and the UK & Europe. Hanger unit sales rose by approximately 1 per cent, whilst key input costs such as resin, labour and freight rose sharply during the period, compressing margins.

In US dollar terms, revenue rose 2.0% on pcp to US$106.2 million. When translated into Australian dollars, revenue declined 6.2% to $111.3 million. The US dollar revenue result reflects modestly higher hanger unit sales, product mix shifts between hanger categories and no significant change in average unit selling prices.

Sharp rises in the cost of resin, labour and transport were unable to be offset through pricing responses during the half. As a result of these impacts and higher depreciation and amortisation expense, EBIT fell to US$1.0 million from US$2.8 million in the pcp. When reported in Australian dollars, EBIT fell to A$1.0 million from A$3.2 million in the pcp.

Braiform continued to improve its product mix with re-use hangers accounting for 39 per cent of units in the half, up from 34 per cent in the pcp. Mobilisation of the four European re-use contracts is approximately 75 per cent complete. The re-use of garment hangers offers Braiform and its clients a natural offset against input cost pressures, particularly resin, electricity and labour costs. Ongoing internal restructuring efforts are providing an additional buffer against market conditions.

**Gearing, Cash Flow and Tax**

Net debt was $267.0 million at 31 December, resulting in gearing (net debt to debt plus equity) at 31 December 2010 of 38.0 per cent, up from 30 June 2010 levels of 31.1 per cent. Current net debt levels reflect:

- seasonally higher levels of working capital at 31 December when compared to 30 June;
- higher levels of working capital and mobilisation costs relating to new contracts with less than twelve months of profit and cash flow generation; and
- higher levels of capital expenditure, reflecting organic growth, the new Brisbane laundry and the new business and IT platform.

Gearing levels remain within the Board's stated target range of 30 per cent to 50 per cent. During the half Spotless successfully issued US Private Placement notes, lowering refinancing risk and extending average debt maturities from 3 years to 10 years.

Spotless continues to demonstrate cash flow generation and conversion. The ratio of gross operating cash flow to EBITDA, adjusted for working capital investments, was 75 per cent, and 108 per cent on a rolling 12 month basis.

The Underlying effective tax rate was 34.6 per cent, above the pcp of 30.2 per cent. The largest driver of the change in tax rate was the investment allowance in the prior corresponding period. With the current mix of profits, the underlying effective tax rate is expected to be 33 - 34 per cent going forward.

**Dividend**

The Directors have declared an interim dividend of 5.0 cents per share, franked to 60 per cent, in line with pcp. This dividend reflects a payout ratio of 75 per cent to Reported EPS. Spotless continues to retain a low level of surplus franking credits.

**Outlook**

Facility Services

The new contract pipeline remains solid, however Spotless continues to experience demand softness across existing contracts. Competition for tenders remains intense, whilst rising cost inflation, particularly labour, is an emerging trend. Recent contract wins and acquisitions will support growth in the second half on both the prior corresponding period and the first half of 2011. Overall, Facility Services is expected to generate improved revenue and EBIT in FY11.

International Services

Prior to additional overheads to support expected growth, underlying profitability is sound, and Spotless is confident of declining losses in the second half and positive earnings from 2012.

Braiform

Despite patchy signs of retail recovery in both Europe and North America, unemployment levels remain high and volumes for apparel remain subdued. Input costs such as resin, freight and labour continue to rise strongly. Braiform has recently implemented price increases where possible. Subject to no further material deterioration in market conditions or resin prices, Braiform now expects to deliver FY11 EBIT broadly in line with FY10 levels, when expressed in US dollars.

Group

Delivery of profitable organic growth and necessary Transformation investments remain the key focus for Management. Acquisitions will only be considered where they meet the company's strategic and financial filters.

Substantial internal investment will continue in 2011 and beyond as Spotless undertakes an overhaul of Facility Services business processes and IT platforms. Substantial efficiencies are expected to be realised at the completion of the program, with further benefits to flow from a substantially more scalable platform from which to drive shareholder value.

We remain confident that we have the right strategy to enable Spotless to fully realise its potential and remain committed to delivering sustainable value for our clients, shareholders and our people.

In the absence of major unforseen events, Spotless expects FY11 revenue and earnings to exceed FY10 levels.

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**ABOUT SPOTLESS** www.spotless.com

*Spotless is a leading international services company comprised of two distinct operations, Facility Services and Retailer Services. Established in 1946, Spotless is listed on the Australian and New Zealand Stock Exchanges. Spotless employs more than 40,000 people and skilled sub-contractors to deliver over 125 specialist services in thousands of locations. The Group's Facility Services operations supply catering, cleaning, maintenance, facility management and laundry services across a broad range of industry sectors. Retailer Services, operating under the brand Braiform, provides customised garment hanger and packaging solutions to retailers and garment manufacturers in 32 countries.*

# ASX / NZX Announcement
## 18 February 2011

### Attachment 1 - Income Statement

| Sales Revenue<br>A$ million | 1H11 | 1H10 | Change | | Base Currency 1H11 | Base Currency 1H10 | Change |
|---|---|---|---|---|---|---|---|
| Cleaning Services | 208.3 | 133.1 | 56.5% | | | | |
| Food Services | 296.5 | 271.7 | 9.1% | | | | |
| Laundry Services | 123.1 | 118.4 | 4.0% | | | | |
| Managed Services[1] | 512.3 | 513.2 | (0.2)% | | | | |
| **Facility Services[1]** | **1,140.2** | **1,036.4** | **10.0%** | | | | |
| International Services | 29.9 | - | n.a. | GBP | 18.2 | - | n.a. |
| Braiform | 111.3 | 118.6 | (6.2)% | USD | 106.2 | 104.1 | 2.0% |
| **Group[1]** | **1,281.4** | **1,155.0** | **10.9%** | | | | |

| EBIT<br>A$ million | 1H11 | 1H10 | Change | | Base Currency 1H11 | Base Currency 1H10 | Change |
|---|---|---|---|---|---|---|---|
| Cleaning Services | 7.2 | 6.9 | 4.3% | | | | |
| Food Services | 11.3 | 10.7 | 5.6% | | | | |
| Laundry Services | 14.4 | 14.8 | (2.7)% | | | | |
| Managed Services | 18.2 | 17.1 | 6.4% | | | | |
| Corporate Administration | (5.5) | (4.6) | 19.6% | | | | |
| **Underlying EBIT - Facility Services[2]** | **45.6** | **44.9** | **1.6%** | | | | |
| International Services | (0.6) | - | n.a. | GBP | (0.4) | - | n.a. |
| Braiform | 1.0 | 3.2 | (68.8)% | USD | 1.0 | 2.8 | (64.3)% |
| **Underlying EBIT - Group[2]** | **46.0** | **48.1** | **(4.4)%** | | | | |
| **Mobilisation, start-up and transaction costs** | | | | | | | |
| Mobilisation | | | | | | | |
| Cleaning Services | **1.2** | **-** | n.a. | | | | |
| Food Services | **0.5** | **-** | n.a. | | | | |
| Laundry Services | **2.0** | **-** | n.a. | | | | |
| Managed Services | **2.0** | **0.8** | >100% | | | | |
| International Start Up Costs | **1.8** | **-** | n.a. | | | | |
| Transaction Costs | **0.5** | **-** | n.a. | | | | |
| **Group Mobilisation, start-up and transaction costs** | **8.0** | **0.8** | **>100%** | | | | |
| **Reported EBIT** | | | | | | | |
| Cleaning Services | 6.0 | 6.9 | (13.0)% | | | | |
| Food Services | 10.8 | 10.7 | 0.9% | | | | |
| Laundry Services | 12.4 | 14.8 | (16.2)% | | | | |
| Managed Services | 16.2 | 16.3 | (0.6)% | | | | |
| Corporate Administration | (6.0) | (4.6) | 30.4% | | | | |
| **Reported EBIT - Facility Services** | **39.4** | **44.1** | (10.7)% | | | | |
| International Services | (2.4) | - | n.a. | GBP | (1.5) | - | n.a. |
| Braiform | 1.0 | 3.2 | (68.8)% | USD | 1.0 | 2.8 | (64.3)% |
| **Reported EBIT - Group** | **38.0** | **47.3** | **(19.7)%** | | | | |

*[1] Excludes Pass- through revenue which is generated by Spotless at zero profit margin.*

*[2] Prior to mobilisation, start up and transaction costs*

| NPAT<br>A$ million | 1H11 | 1H10 | Change |
|---|---|---|---|
| Underlying EBIT - Group[2] | 46.0 | 48.1 | (4.4)% |
| Net interest expense | (11.4) | (11.5) | (0.9)% |
| **Underlying Profit Before Tax [2]** | **34.6** | **36.6** | **(5.5)%** |
| Tax Expense[2] | (11.6) | (11.0) | 5.5% |
| Non-controlling interest | - | (0.5) | (100.0)% |
| **Underlying NPAT after non-controlling interests[2]** | **23.0** | **25.1** | **(8.4)%** |
| Mobilisation, start up and transaction costs (pre-tax) | 8.0 | 0.8 | >100% |
| Mobilisation, start up and transaction costs (post-tax) | 5.6 | 0.6 | >100% |
| **Reported NPAT after non-controlling interests** | **17.4** | **24.5** | **(29.0)%** |
| **Underlying EPS[2] (cents)** | **8.8** | **10.3** | **(14.6)%** |
| **Reported EPS (cents)** | **6.7** | **10.0** | **(33.0)%** |

[1] *Excludes Pass- through revenue which is generated by Spotless at zero profit margin.*

[2] *Prior to mobilisation, start up and transaction costs*

# Spotless Group Limited

## ABN 77 004 376 514

## APPENDIX 4D

## Half Year Report

## Half Year Ended 31 December 2010

# Spotless Group Limited

## Results for announcement to the market

## Current Period: Half Year ended 31 December 2010

Prior corresponding period: Half Year ended 31 December 2009

| **Results** | **Current Period** | **% Movement compared to prior period** |
|---|---|---|
| Revenue from operating activities | $1,353.4 million | Up 11.7% |
| Earnings before interest, tax (prior to mobilisation, transaction and start-up costs) | $46.0 million | Down 4.4% |
| Net Profit (prior to mobilisation, transaction and start-up costs) | $23.0 million | Down 8.4% |
| Reported Net Profit attributable to members | $17.4 million | Down 29.0% |
| Reported earnings per share (cents) | 6.7 cents | Down 33.0% |

| **Dividends** | **Interim Dividend 2011** | **Interim Dividend 2010** |
|---|---|---|
| Amount per share | 5.0 c | 5.0 c |
| Franked amount | 60% | 60% |

| **Ratios** | **Dec 2010** | **Dec 2009** |
|---|---|---|
| Net tangible assets per share (cents) | (3.6) c | 12.7 c |

**Record Date for determining dividend entitlement:** 4 March 2011

**Interim Dividend Payment Date:** 13 April 2011

The amount of conduit foreign income for the interim dividend is 2.0c per ordinary share.

**Dividend Reinvestment Plan (DRP)**
The DRP will operate for the interim dividend. The DRP is optional and offers shareholders the opportunity to acquire fully paid ordinary shares, without transaction costs. A shareholder can elect to participate, vary or terminate involvement in the DRP at any time. The Directors have also decided the minimum number of shares that will be eligible to participate in the Plan for this dividend is 350 shares per shareholding.

DRP election notices must be received by Spotless' Share Registry at Computershare Investor Services, Yarra Falls, 452 Johnston Street, Abbotsford, Vic 3067, by 5.00pm on 4 March 2011 (the Record Date). No discount will apply to the DRP.

**Reviewed Results**

This report is based on the financial statements that have been the subject of an independent review and are not subject to any dispute or qualification. The detailed half year financial statements are attached to this report.

# Review of Operations

## Half-year ended 31 December 2010

**FINANCIAL PERFORMANCE SUMMARY**
**Half Year ended 31 December 2010**

### Summary Group Income Statement

| EBIT<br>A$ million | 1H11 | 1H10 | Change |
|---|---|---|---|
| **Sales Revenue** | **1,348.8** | **1,206.3** | **11.8%** |
| Sales Revenue (excluding pass-through revenue)[1] | 1,281.4 | 1,155.0 | 10.9% |
| **Underlying Group EBITDA[2]** | **82.8** | **82.4** | **0.5%** |
| Depreciation and amortisation | (36.8) | (34.3) | 7.3% |
| Underlying EBIT - Facility Services (excluding corporate admin) | 51.1 | 49.5 | 3.2% |
| Underlying EBIT - International Services | (0.6) | - | n.a. |
| Underlying EBIT - Braiform | 1.0 | 3.2 | (68.8)% |
| Corporate Administration | (5.5) | (4.6) | 19.6% |
| **Underlying Group EBIT[2]** | **46.0** | **48.1** | **(4.4)%** |
| Mobilisation and transaction costs - Facility Services | 6.2 | 0.8 | >100% |
| Start-up costs - International Services | 1.8 | - | n.a. |
| **Mobilisation, start-up and settlement costs** | **8.0** | **0.8** | >100% |
| Reported EBIT - Facility Services (excluding corporate admin) | 45.4 | 48.7 | (6.8)% |
| Reported EBIT - International Services | (2.4) | - | n.a. |
| Reported EBIT - Braiform | 1.0 | 3.2 | (68.8)% |
| Corporate Administration | (6.0) | (4.6) | 30.4% |
| **Reported Group EBIT** | **38.0** | **47.3** | **(19.7)%** |

| NPAT<br>A$ million | 1H11 | 1H10 | Change |
|---|---|---|---|
| Underlying Group EBIT | 46.0 | 48.1 | (4.4)% |
| Net interest expense | (11.4) | (11.5) | (0.9)% |
| **Underlying Profit Before Tax [2]** | **34.6** | **36.6** | **(5.5)%** |
| Tax Expense[2] | (11.6) | (11.0) | 5.5% |
| Non-controlling interest | - | (0.5) | (100.0)% |
| **Underlying NPAT after non-controlling interests[2]** | **23.0** | **25.1** | **(8.4)%** |
| Mobilisation, start-up and transaction costs (pre-tax) | 8.0 | 0.8 | >100% |
| Mobilisation, start-up and transaction costs (post-tax) | 5.6 | 0.6 | >100% |
| **Reported NPAT after non-controlling interests** | **17.4** | **24.5** | **(29.0)%** |
| **Underlying EPS[2] (cents)** | **8.8** | **10.3** | **(14.6)%** |
| **Reported EPS (cents)** | **6.7** | **10.0** | **(33.0)%** |

[1] *Excludes Pass- through revenue which is generated by Spotless at zero profit margin.*

[2] *Prior to mobilisation, transaction and start up costs.*

## Summary Divisional Income Statement

| Divisional Results<br>A$ million | 1H11 | 1H10 | Change | | Base Currency<br>1H11 | Base Currency<br>1H10 | Change |
|---|---|---|---|---|---|---|---|
| **Sales Revenue** | | | | | | | |
| Cleaning Services | 208.3 | 133.1 | 56.5% | | | | |
| Food Services | 296.5 | 271.7 | 9.1% | | | | |
| Laundry Services | 123.1 | 118.4 | 4.0% | | | | |
| Managed Services[1] | 512.3 | 513.2 | (0.2)% | | | | |
| **Sales Revenue - Facility Services[1]** | **1,140.2** | **1,036.4** | **10.0%** | | | | |
| International Services | 29.9 | - | n.a. | GBP | 18.2 | - | n.a. |
| Braiform | 111.3 | 118.6 | (6.2)% | USD | 106.2 | 104.1 | 2.0% |
| **Sales Revenue - Group[1]** | **1,281.4** | **1,155.0** | **10.9%** | | | | |
| **Underlying EBIT** | | | | | | | |
| Cleaning Services | 7.2 | 6.9 | 4.3% | | | | |
| Food Services | 11.3 | 10.7 | 5.6% | | | | |
| Laundry Services | 14.4 | 14.8 | (2.7)% | | | | |
| Managed Services | 18.2 | 17.1 | 6.4% | | | | |
| Corporate Administration | (5.5) | (4.6) | 19.6% | | | | |
| **Underlying EBIT - Facility Services[2]** | **45.6** | **44.9** | **1.6%** | | | | |
| International Services | (0.6) | - | n.a. | GBP | (0.4) | - | n.a. |
| Braiform | 1.0 | 3.2 | (68.8)% | USD | 1.0 | 2.8 | (64.3)% |
| **Underlying EBIT - Group[2]** | **46.0** | **48.1** | **(4.4)%** | | | | |
| **Underlying EBIT Margin** | | | | | | | |
| Cleaning Services | 3.5% | 5.2% | (173) bp | | | | |
| Food Services | 3.8% | 3.9% | (13) bp | | | | |
| Laundry Services | 11.7% | 12.5% | (80) bp | | | | |
| Managed Services | 3.6% | 3.3% | 22 bp | | | | |
| International Services | (2.0)% | n.a. | n.a. | | | | |
| Braiform | 0.9% | 2.7% | (180) bp | | | | |
| **Underlying EBIT Margin - Group** | **3.6%** | **4.2%** | **(57) bp** | | | | |
| **Mobilisation, start-up and transaction costs** | | | | | | | |
| Mobilisation | | | | | | | |
| Cleaning Services | **1.2** | **-** | n.a. | | | | |
| Food Services | **0.5** | **-** | n.a. | | | | |
| Laundry Services | **2.0** | **-** | n.a. | | | | |
| Managed Services | **2.0** | **0.8** | >100% | | | | |
| International Start Up Costs | **1.8** | **-** | n.a. | | | | |
| Transaction Costs | **0.5** | **-** | n.a. | | | | |
| **Group Mobilisation, start-up and transaction costs** | **8.0** | **0.8** | **>100%** | | | | |
| **Reported EBIT** | | | | | | | |
| Cleaning Services | 6.0 | 6.9 | (13.0)% | | | | |
| Food Services | 10.8 | 10.7 | 0.9% | | | | |
| Laundry Services | 12.4 | 14.8 | (16.2)% | | | | |
| Managed Services | 16.2 | 16.3 | (0.6)% | | | | |
| Corporate Administration | (6.0) | (4.6) | 30.4% | | | | |
| **Reported EBIT - Facility Services** | **39.4** | **44.1** | (10.7)% | | | | |
| International Services | (2.4) | - | n.a. | GBP | (1.5) | - | n.a. |
| Braiform | 1.0 | 3.2 | (68.8)% | USD | 1.0 | 2.8 | (64.3)% |
| **Reported EBIT - Group** | **38.0** | **47.3** | **(19.7)%** | | | | |
| **Reported EBIT Margin** | | | | | | | |
| Cleaning Services | 2.9% | 5.2% | (230) bp | | | | |
| Food Services | 3.6% | 3.9% | (30) bp | | | | |
| Laundry Services | 10.1% | 12.5% | (243) bp | | | | |
| Managed Services | 3.2% | 3.2% | (1) bp | | | | |
| International Services | (8.0)% | n.a. | n.a. | | | | |
| Braiform | 0.9% | 2.7% | (180) bp | | | | |
| **Reported EBIT Margin - Group** | **3.0%** | **4.1%** | **(113) bp** | | | | |

[1] *Excludes Pass- through revenue which is generated by Spotless at zero profit margin.*

[2] *Prior to mobilisation, transaction and start up costs*

## REVIEW OF OPERATIONS

**For the Half Year ended 31 December 2010**

*Note: any references to Underlying earnings throughout this document reflect adjustments made for mobilisation costs, start-up costs and transaction costs. A reconciliation between Underlying and Reported earnings is provided within this document.*

**Spotless Group Results**
Prior to pass-through revenues, Group revenues rose 10.9% to $1,281.4 million. Underlying EBIT declined 4.4% to $46.0 million, whilst Reported EBIT declined 19.7% to $38.0 million. Start-up, mobilisation and transaction costs of $8.0 million were incurred during the period. Underlying NPAT declined 8.4% to $23.0 million, whilst Reported NPAT declined 29.0% to $17.4 million. Underlying EPS declined 14.6% to 8.8 cents per share, whilst reported EPS declined 33.0% to 6.7 cents per share.

**Cleaning Services**
Cleaning Services comprises operations across Australia and New Zealand. Sales revenue rose 56.5% on pcp to $208.3 million. This significant growth is driven by the Cleanevent acquisition, significant business success in the Education Sector in the second half of 2010 and new contracts won during the first half. Excluding the Cleanevent acquisition, organic revenue growth was 29.2% during the half. Australian revenues outpaced this growth rate, whilst sales revenue declined in New Zealand as a result of several contract retenders and losses. Overall, the rate of contract retention rose in the first half.

Significant new contracts won during the first half include:

- Stockland portfolio of 46 commercial and Retail shopping centres across the eastern seaboard of Australia;
- Westfield shopping centres (3) in NSW and SA including the flagship Centrepoint centre in Sydney;
- Qantas terminals, lounges and catering facilities nationally;
- V8 Supercar events;
- Hyatt Hotel (Auckland);
- Westpac banks in the South Island of NZ; and
- Mater Hospital (Brisbane).

Strong organic growth in the Retail sector reflects the additional capabilities acquired with the Cleanevent transaction.

Underlying EBIT rose by 4.3% on pcp to $7.2 million. Reported EBIT fell by 13.0% on pcp to $6.0 million. New business success and Cleanevent were the key driver of Underlying earnings growth. Lower underlying EBIT margins reflect:

- continued industry pressure on margins in single service Cleaning, evident in the collapse of a major competitor in September 2010;
- significantly higher Australian wage inflation;
- a significantly higher proportion of recently mobilised contracts as part of the total contract portfolio;
- tighter margins for recently re-tendered contracts; and
- activity levels within contracts renegotiated during the GFC continue to be slow to recover.

**Food Services**
Food Services operates in two business segments across Australia and New Zealand. Hospitality and Retail Catering ("HRC") includes stadia, major events, airports and function venues. Alliance Catering operations include catering at over 700 sites within client facilities across the Business, Dining, Education and Aged Care sectors.

Food Services sales revenue increased 9.1% on pcp to $296.5 million. Australian revenue growth outpaced growth in New Zealand.

HRC grew at a faster rate than the overall Food Services result. All sectors recorded solid growth. A highlight was a 25% increase in stadia revenues relating to additional football finals, the U2 and Bon Jovi concert tours, and an emerging recovery in corporate hospitality spending. Airport revenues rose solidly, reflecting increasing levels of departing passengers and customer spend rates. Venues revenue grew strongly with strong levels of pre-Christmas function activity. Key new contract success in the half included integrated catering and cleaning services to nine major V8 Motor Sports events in Australia and New Zealand from 2011. Additionally, Food Services will provide all retail catering services at the new Royal Adelaide Hospital.

Alliance Catering generated positive revenue growth, albeit at a slower rate than overall Food Services result. The Business sector generated growth, relating to strong growth in corporate functions and new business, which included 4 Mars Group sites, Lion Nathan, Queensland News and Johnson & Johnson. Aged Care grew modestly, mainly relating to the full year impact of new contracts opened in 2010. Education revenues contracted slightly on pcp, reflecting increasing levels of competition in this sector. Contract renewal activity was strong, with 35 contracts renewed in the half including major contracts such as GE Money, Cadbury, The Southport School, Bethany Aged Care and Massey University.

Food Services Underlying EBIT increased 5.6% on pcp to $11.3 million. Reported EBIT rose by 0.9% on pcp to $10.8 million. HRC earnings rose strongly, with margin improvements in corporate hospitality and stadia offsetting reduced margins in some redeveloped airport outlets. Alliance Catering margins declined overall, a result of contract mobilisation costs and pressure on margins flowing from the high level of contract renewal activity. Improvement in New Zealand EBIT was achieved through increased event activity and improved performance in several contracts.

**Laundry Services**

Revenue rose 4.0% on pcp to $123.1m. Linen and related products to the Healthcare sector, across both public and private healthcare providers, remains the largest source of revenue within Laundry Services. Competitive pressures have led to an overall decline in price yield per kilogram laundered despite volume growth. Further, Tourism & Leisure sector activity was softer during the half, particularly in New Zealand, impacting demand for Accommodation and Hospitality Linen.

Demand for higher margin Garments remains soft, driven by customer workforce and activity reductions impacting the Group’s throughput of products.

New business won during the period includes Anglo Coal, Ramsay Health Care, Western Health VIC, Oaks Hotels and Resorts QLD, Stamford Sydney Airport and Sofitel Wentworth.

During the period the Group acquired a laundry operation from a major healthcare client, with integration now complete.

The new Brisbane laundry is fully commissioned, with efficient operation of the plant - one of the most environmentally sustainable and technologically advanced laundries in the world - a key focus.

Underlying EBIT declined 2.7% to $14.4m. Reported EBIT declined 16.2% to $12.4m. Further to the volume growth and revenue yield comments above, margins were impacted by significant cost inflation experienced during the half, notwithstanding a range of efficiency and productivity initiatives across all plants. Prices of key inputs including cotton (a key input for linen, garments and related products), gas and electricity rose significantly. Initiatives to respond to cost inflation are underway, including pricing, product design, more energy efficient equipment and distribution optimisation to reduce fuel consumption.

**Managed Services**
Managed Services revenue rose 2.7% across Australia and New Zealand to $579.7m. Excluding pass-through revenues, which carry zero profit margin to Spotless, revenue was broadly flat on the pcp at $512.3m. Revenue mix shifted significantly however, given significant government fiscal stimulus revenues during the first half of 2010, which ceased by 30 June 2010. This reduction in stimulus activity was fully offset by revenues from new contracts won throughout the current half and the 2010 financial year.

In December 2010, Managed Services commenced a new integrated facility services contract at Anglo American Metallurgical Coal across six mine sites in the Hunter Valley and Bowen Basin. The Qantas integrated maintenance and cleaning services contract also commenced in 2Q11 which contributed to the increased revenue. Other new contracts in the Facilities Maintenance business included contracts with Murdoch University, Edith Cowan University, Scania and FaHCSIA.

In New Zealand, Managed Services business generated strong revenue growth due to new government contracts awarded in 2010, including the Department of Corrections and New Zealand Housing.

Underlying EBIT rose by 6.4% to $18.2m, whilst reported EBIT declined by 0.6% to $16.2m. Growth was achieved within Defence, existing Government contracts and New Zealand operations. Discretionary and project spending remains uncertain. Higher margin project work within Public Housing and Agency portfolios was slower to be issued during the half across both Australia and New Zealand.

Significant mobilisation and transition costs were incurred during the half, largely due to new contracts including Anglo Coal (commenced November 2010) and the facilities maintenance at 17 airports nationally on behalf of Qantas (commenced October 2010).

Spotless' strong success in the Resources sector continued during the past six months. Integrated facility services will be provided to BHP Nickel West at Mt Keith and Leinster mines near Kalgoorlie in Western Australia (commenced January 2011). Village support and maintenance services will be provided to manage 3,000 rooms and 280 houses for the next four years.

It was pleasing to note that contract awards were received by Spotless for outstanding safety performance within the Resources sector by both BHP Billiton for services at Olympic Dam, and Rio Tinto for services at Argyle Diamond Mine.

Spotless also received the Facility Management Association of Australia award for Excellence in Facilities Management for services provided under the Company's contract with the Department of Education and Training in NSW, as well as being a Finalist in three other categories.

**International Services**
International Services comprises Spotless' Facility Services operations outside of Australia and New Zealand. To support continued investor transparency, Spotless intends to report International Services as a separate segment.

During the half, Spotless completed the integration of Cleanevent and acquired UK-based Event Management Catering ("EMC"). Spotless' International Services operations consist of cleaning, waste management, security, catering and related services capability with a presence in:

- UK and Europe: 3,000 staff working across 50 sites in England, Scotland and Northern Ireland, with selected events in Europe such as the French Open;

- US: 1,000 staff working across 25 locations with a focus on Leisure, Sports & Entertainment venues, events and major shopping mall services; and
- Middle East: operations in Dubai and Abu Dhabi in the UAE with the provision of cleaning services to major shopping malls.

International Services has a strong local capability within the Leisure, Sports & Entertainment and Retail sectors. During the half, International Services generated revenue of $29.9 million. The International Services operations were not owned by Spotless in the prior corresponding period.

As flagged at the 2010 AGM, an investment of $1.8 million was made to establish the International Services business platform, including strategic planning, acquisition-related costs, IT infrastructure, management relocation and legal costs associated with integrating new businesses into the Group. These costs are not expected to recur.

Prior to these start-up costs, International Services generated an Underlying EBIT loss of $0.6 million during the half, reflecting higher overheads due to expected business growth and international support. Underlying profitability is sound.

Internationally, Spotless continues to focus very selectively on preferred geographies and sectors. International Services has already delivered organic growth with the January 2011 announcement that Spotless would provide cleaning, housekeeping and linen & laundry services to the London 2012 Olympic Games.

**Braiform**

In US dollar terms, sales revenue increased 2 per cent on the prior corresponding period to US$106.2 million. Growth in hanger units over the period was approximately 1 per cent against a pre-GFC average of around 5 per cent.

Price increases during the period were not able to offset increases in the cost of key inputs such as resin, labour and transportation. In US dollar terms, EBITDA decreased to US$8.5 million, down from US$9.9 million in the pcp. Higher depreciation and amortisation charges led to US dollar EBIT declining to U$1.0 million from US$2.8 million in the prior corresponding period.

Re-use hangers accounted for 39 per cent of units in the first half, compared with 34 per cent in the prior corresponding period, demonstrating further progress. Mobilisation of the four European re-use contracts is currently over 75 per cent complete. These contracts will fully contribute from the 2012 financial year.

Braiform is well positioned for future sustained improvements in global apparel demand. We continue to operate the Braiform business as efficiently as possible, and Management continues to focus on key issues including :

- The recovery of recent COGS increases;
- Retailer interest in new closed loop reuse contracts;
- Completing the Braiform IT system rollout, which will deliver performance improvements and efficiencies; and
- Continued focus on efficient supply chain performance amid changing sourcing patterns.

**Corporate Administration**

Corporate administration costs of $5.5 million rose by 19.6%, reflecting higher compliance and governance expenses, along with higher share based compensation expenses on unvested performance rights.

**Other Items**

Several items are highlighted as part of the result due to quantum. These items are not classified as non-recurring items. The $8.0 million in pre-tax expenses excluded from reported earnings to arrive at Underlying earnings include:

- Mobilisation costs of $5.7 million relate to the start-up costs of new long-term contracts. Costs include recruitment, (interviewing, safety inducting and training new staff), legal, IT and procurement. Further, mobilisation costs include the cost of transition from two existing Queensland laundries into a greenfields Queensland plant.
- Transaction costs of $0.5 million relating to the costs of recent acquisitions.
- International Services start-up costs of $1.8 million. These costs include strategic planning, acquisition-related costs, IT infrastructure, management relocation and legal costs associated with integration.

**Cash Flow, Gearing and Tax**

Net debt was $267.0 million at 31 December, resulting in gearing (net debt to debt plus equity) at 31 December 2010 of 38.0 per cent, up from 30 June 2010 levels of 31.1 per cent. Current net debt levels reflect:

- seasonally higher levels of working capital at 31 December when compared to 30 June;
- higher levels of working capital and mobilisation costs relating to new contracts with less than twelve months of profit and cash flow generation; and
- higher levels of capital expenditure, reflecting organic growth, the new Brisbane laundry and the new business and IT platform.

Gearing levels remain within the Board's stated target range of 30 per cent to 50 per cent. During the half Spotless successfully issued US Private Placement notes, lowering refinancing risk and extending average debt maturities from 3 years to 10 years.

Spotless continues to demonstrate cash flow generation and conversion. The ratio of gross operating cash flow to EBITDA, adjusted for working capital investments, was 75 per cent, and 108 per cent on a rolling 12 month basis.

The Underlying effective tax rate was 34.6 per cent, above the pcp of 30.2 per cent. The largest driver of the change in tax rate was the investment allowance in the prior corresponding period. With the current mix of profits, the underlying effective tax rate is expected to be 33 - 34 per cent going forward.

**Dividend**

The Directors have declared an interim dividend of 5.0 cents per share, franked to 60 per cent, in line with pcp. This dividend reflects a payout ratio of 75 per cent to Reported EPS. Spotless continues to retain a low level of surplus franking credits.

**Outlook**

<u>Facility Services</u>

The new contract pipeline remains solid, however Spotless continues to experience demand softness across existing contracts. Competition for tenders remains intense, whilst rising cost inflation, particularly labour, is an emerging trend. Recent contract wins and acquisitions will support growth in the second half on both the prior corresponding period and the first half of 2011. Overall, Facility Services is expected to generate improved revenue and EBIT in FY11.

<u>International Services</u>

Prior to additional overheads to support expected growth, underlying profitability is sound, and Spotless is confident of declining losses in the second half and positive earnings from 2012.

Braiform

Despite patchy signs of retail recovery in both Europe and North America, unemployment levels remain high and volumes for apparel remain subdued. Input costs such as resin, freight and labour continue to rise strongly. Braiform has recently implemented price increases where possible. Subject to no further material deterioration in market conditions or resin prices, Braiform now expects to deliver FY11 EBIT broadly in line with FY10 levels, when expressed in US dollars.

Group

Delivery of profitable organic growth and necessary Transformation investments remain the key focus for Management. Acquisitions will only be considered where they meet the company's strategic and financial filters.

Substantial internal investment will continue in 2011 and beyond as Spotless undertakes an overhaul of Facility Services business processes and IT platforms. Substantial efficiencies are expected to be realised at the completion of the program, with further benefits to flow from a substantially more scalable platform from which to drive shareholder value.

We remain confident that we have the right strategy to enable Spotless to fully realise its potential and remain committed to delivering sustainable value for our clients, shareholders and our people.

In the absence of major unforseen events, Spotless expects FY11 revenue and earnings to exceed FY10 levels.

# Spotless Group Limited

**ABN 77 004 376 514**

**Half Yearly Financial Report**
**for the half year ended 31 December 2010**

**SPOTLESS GROUP LIMITED**
***and controlled entities***

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## Directors' Report

Your Directors are pleased to present their report for the half year ended 31 December 2010. In order to comply with the provisions of the *Corporations Act 2001* , the Directors report as follows:

**Directors**

The names of the Directors of Spotless Group Limited in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

P J Smedley (Chairman)
J P Farnik (Managing Director and Chief Executive Officer)
A E Beanland
B K Morris
D A Pritchard
E M Proust
G T Ricketts

**Principal activities**

The principal activities of the Spotless Group of companies during the reporting period were the provision of an extensive range of services and products to Business, Industry, Healthcare, Education, Resources, Government and Leisure activities in Australia and New Zealand and to garment based Retailers and Manufacturers throughout the world.

**Results**

The consolidated profit of the Spotless Group for the half year ended was \$17.4 million (2009: \$24.5 million) after income tax and minority interests.

**Review of operations**

The consolidated profit for the half year ended 31 December 2010 was impacted by mobilisation, start-up and transaction costs totalling \$8.0 million (2009: \$0.8 million). The majority of these costs relate to direct employee expenses. Please refer to the attached commentary on the review of operations.

**Subsequent events**

Subsequent to 31 December 2010, parts of Queensland and eastern Australia experienced severe weather events, including flooding and cyclones. Spotless experienced business disruption at a number of client and Spotless sites, including asset losses and lost revenue opportunities. Spotless is working with its clients and insurers to quantify the impact of these events on the 2011 financial results. As at the date of this report, business disruption continues to be experienced. Early indications suggest the impact is unlikely to be material.

Other than the above, there has not been any matter or circumstance since 31 December 2010 that has significantly or may significantly affect the operations, results of those operations or the state of affairs of the entity or consolidated entity in future financial years.

**Rounding of amounts**

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998 and in accordance with the Class order amounts in the Directors' report and financial report are rounded off to the nearest hundred thousand dollars unless otherwise stated.

**Auditor's independence declaration**

A copy of the Auditor's declaration made pursuant to s.307C of the *Corporations Act 2001* in relation to the review for the half year is contained on page 13 of this report.

Signed in accordance with a resolution of the Directors made pursuant to s.306(3) of the *Corporations Act 2001* .

On behalf of the Directors

P J Smedley
Chairman

Sydney, 18 February 2011

J P Farnik
Managing Director

Sydney, 18 February 2011

## SPOTLESS GROUP LIMITED
*and controlled entities*
## Condensed Consolidated Statement of Comprehensive Income
## for the half year ended 31 December 2010

| | Consolidated | |
|---|---|---|
| | **Half year ended 31 Dec 2010 $m** | **Half year ended 31 Dec 2009 $m** |
| Revenue | **1,351.0** | 1,208.5 |
| Other income | **2.4** | 3.4 |
| | **1,353.4** | 1,211.9 |
| Direct employee expenses | **(571.1)** | (439.6) |
| Subcontractor expenses | **(320.6)** | (309.9) |
| Cost of goods used | **(234.1)** | (239.9) |
| Occupancy costs | **(36.6)** | (34.1) |
| Professional costs | **(10.7)** | (7.8) |
| Transportation costs | **(21.3)** | (20.2) |
| Catering rights | **(34.0)** | (28.8) |
| Other expenses | **(50.2)** | (50.0) |
| Profit before depreciation, amortisation, finance costs and income tax expense (EBITDA) | **74.8** | 81.6 |
| Depreciation and amortisation expense | **(36.8)** | (34.3) |
| Profit before finance costs and income tax expense (EBIT) | **38.0** | 47.3 |
| Finance costs - interest expense | **(11.9)** | (12.0) |
| Finance costs - interest revenue | **0.5** | 0.5 |
| Profit before income tax expense | **26.6** | 35.8 |
| Income tax expense | **(9.2)** | (10.8) |
| **Profit for the half year** | **17.4** | 25.0 |
| *Other Comprehensive Income* | | |
| Foreign currency translation differences for foreign operations | **(9.5)** | (3.7) |
| Effective portion of changes in fair value of cash flow hedges | **(4.0)** | 4.3 |
| Net change in fair value of equity instruments measured at fair value through other comprehensive income | **(2.5)** | 2.1 |
| Income tax on effective portion of changes in fair value of cash flow hedges | **1.8** | (1.4) |
| Other comprehensive income for the half year, net of income tax | **(14.2)** | 1.3 |
| **Total Comprehensive income for the half year** | **3.2** | 26.3 |
| **Profit attributable to:** | | |
| Equity holders of the parent | **17.4** | 24.5 |
| Non-controlling interest | **-** | 0.5 |
| **Profit for the half year** | **17.4** | 25.0 |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the parent | **3.2** | 25.9 |
| Non-controlling interest | **-** | 0.4 |
| **Total comprehensive income** | **3.2** | 26.3 |
| **Earnings per share** | **Cents per share** | **Cents per share** |
| Basic and diluted earnings per share | **6.7** | 10.0 |

*The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

**SPOTLESS GROUP LIMITED**
***and controlled entities***

## Condensed Consolidated Balance Sheet
## as at 31 December 2010

| | Consolidated | | |
|---|---|---|---|
| | **As at 31 Dec 2010 $m** | **As at 30 Jun 2010 $m** | **As at 31 Dec 2009 $m** |
| **Current assets** | | | |
| Cash and cash equivalents | **83.7** | 48.9 | 48.6 |
| Current tax assets | **0.9** | 1.7 | 2.5 |
| Trade and other receivables | **308.3** | 297.1 | 291.7 |
| Inventories | **47.5** | 50.1 | 43.7 |
| Other financial assets | **3.5** | 1.6 | 3.2 |
| Prepayments | **13.8** | 10.4 | 11.1 |
| **Total current assets** | **457.7** | 409.8 | 400.8 |
| **Non-current assets** | | | |
| Investments accounted for using the equity method | **4.5** | 4.8 | 4.9 |
| Other financial assets | **35.3** | 34.0 | 26.8 |
| Property, plant and equipment | **214.7** | 214.1 | 192.7 |
| Investment property | **7.8** | 7.5 | - |
| Goodwill | **409.5** | 412.5 | 393.5 |
| Intangible assets | **35.5** | 28.3 | 19.2 |
| Deferred tax assets | **40.6** | 37.5 | 33.5 |
| Prepayments | **3.5** | 3.5 | 5.2 |
| **Total non-current assets** | **751.4** | 742.2 | 675.8 |
| **Total assets** | **1,209.1** | 1,152.0 | 1,076.6 |
| **Current liabilities** | | | |
| Trade and other payables | **311.8** | 346.3 | 290.4 |
| Borrowings | **4.2** | 14.1 | 10.5 |
| Current tax payables | **5.2** | 2.9 | 3.5 |
| Provisions | **75.4** | 78.8 | 70.9 |
| Other | **0.7** | 4.8 | 2.5 |
| **Total current liabilities** | **397.3** | 446.9 | 377.8 |
| **Non-current liabilities** | | | |
| Borrowings | **284.6** | 196.5 | 192.3 |
| Other financial liabilities | **61.9** | 36.7 | 38.0 |
| Deferred tax liabilities | **19.8** | 19.1 | 16.7 |
| Provisions | **9.2** | 6.1 | 5.4 |
| Other | **0.9** | 0.8 | 0.7 |
| **Total non-current liabilities** | **376.4** | 259.2 | 253.1 |
| **Total liabilities** | **773.7** | 706.1 | 630.9 |
| **Net assets** | **435.4** | 445.9 | 445.7 |
| **Equity** | | | |
| Issued capital | **610.8** | 607.0 | 606.1 |
| Reserves | **(52.3)** | (36.2) | (30.0) |
| Retained profits | **(123.1)** | (124.9) | (130.4) |
| Parent entity interest | **435.4** | 445.9 | 445.7 |
| Non-controlling interest | **-** | - | - |
| **Total equity** | **435.4** | 445.9 | 445.7 |

*The Condensed Consolidated Balance Sheet should be read in conjunction with the accompanying notes.*

## Condensed Consolidated Statement of Changes in Equity
## for the half year ended 31 December 2010

| | Consolidated $m | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of the parent | | | | | | | | |
| | Issued Capital | Foreign Currency Translation Reserve | Debt Hedging Reserve | Investment Revaluation Reserve | Share Based Payment Reserve | Retained earnings | Total | Non-controlling Interest | Total |
| **At 30 June 2009** | **521.5** | **(22.8)** | **1.4** | **-** | **(2.7)** | **(141.8)** | **355.6** | **8.1** | **363.7** |
| Profit for the half year | - | - | - | - | - | 24.5 | 24.5 | 0.5 | 25.0 |
| Other comprehensive income | | | | | | | | | |
| Currency translation differences | - | (3.6) | - | - | - | - | (3.6) | (0.1) | (3.7) |
| Movement in foreign exchange swap | - | - | (4.2) | - | - | - | (4.2) | - | (4.2) |
| Movement in loan balance | - | - | 8.5 | - | - | - | 8.5 | - | 8.5 |
| Gain on available-for-sale financial assets | - | - | - | 2.1 | - | - | 2.1 | - | 2.1 |
| Tax effect of movements | - | - | (1.4) | - | - | - | (1.4) | - | (1.4) |
| Total other comprehensive income | - | (3.6) | 2.9 | 2.1 | - | - | 1.4 | (0.1) | 1.3 |
| Total comprehensive income | - | (3.6) | 2.9 | 2.1 | - | 24.5 | 25.9 | 0.4 | 26.3 |
| Dividends reinvested | 0.6 | - | - | - | - | - | 0.6 | - | 0.6 |
| Dividends paid | - | - | - | - | - | (13.1) | (13.1) | (0.4) | (13.5) |
| Recognition of share based payment | - | - | - | - | 0.4 | - | 0.4 | - | 0.4 |
| Proceeds from shares issued | 86.2 | - | - | - | - | - | 86.2 | - | 86.2 |
| Transaction costs on shares issued | (2.2) | - | - | - | - | | (2.2) | - | (2.2) |
| Acquisition of non-controlling interest | - | - | - | (7.7) | - | - | (7.7) | (8.1) | (15.8) |
| **At 31 December 2009** | **606.1** | **(26.4)** | **4.3** | **(5.6)** | **(2.3)** | **(130.4)** | **445.7** | **-** | **445.7** |
| **At 30 June 2010** | **607.0** | **(25.4)** | **1.1** | **(9.8)** | **(2.1)** | **(124.9)** | **445.9** | **-** | **445.9** |
| Profit for the half year | - | - | - | - | - | 17.4 | 17.4 | - | 17.4 |
| Other comprehensive income | | | | | | | | | |
| Currency translation differences | - | (10.2) | - | 0.7 | - | - | (9.5) | - | (9.5) |
| Movement in foreign exchange swap | - | - | (22.7) | - | - | - | (22.7) | - | (22.7) |
| Movement in loan balance | - | - | 18.7 | - | - | - | 18.7 | - | 18.7 |
| Loss on fair value of equity instruments measured at fair value through other comprehensive income | - | - | - | (2.5) | - | - | (2.5) | - | (2.5) |
| Tax effect of movements | - | - | 1.8 | - | - | - | 1.8 | - | 1.8 |
| Total other comprehensive income | - | (10.2) | (2.2) | (1.8) | - | - | (14.2) | - | (14.2) |
| Total comprehensive income | - | (10.2) | (2.2) | (1.8) | - | 17.4 | 3.2 | - | 3.2 |
| Dividends reinvested | 3.8 | - | - | - | - | - | 3.8 | - | 3.8 |
| Dividends paid | - | - | - | - | - | (15.6) | (15.6) | - | (15.6) |
| Recognition of share based payment | - | - | - | - | 1.4 | - | 1.4 | - | 1.4 |
| Re-purchase of shares | - | - | - | - | (3.6) | - | (3.6) | - | (3.6) |
| Tax effect of movements | - | - | - | - | 0.3 | - | 0.3 | - | 0.3 |
| **At 31 December 2010** | **610.8** | **(35.6)** | **(1.1)** | **(11.6)** | **(4.0)** | **(123.1)** | **435.4** | **-** | **435.4** |

Total number of fully paid ordinary shares on issue at 31 December 2010 was 261,070,153 (30 June 2010: 259,309,656)

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

# SPOTLESS GROUP LIMITED

*and controlled entities*

## Condensed Consolidated Cash Flow Statement
## for the half year ended 31 December 2010

| | Consolidated | |
|---|---|---|
| | Half year ended 31 Dec 2010 $m | Half year ended 31 Dec 2009 $m |
| **Cash flows from operating activities** | | |
| Receipts from customers | **1,431.0** | 1,296.9 |
| Payments to suppliers and employees | **(1,400.0)** | (1,245.8) |
| Interest received | **0.4** | 0.4 |
| Other receipts | **2.8** | 3.2 |
| Interest and other costs of finance paid | **(11.2)** | (10.8) |
| Income tax paid | **(6.7)** | (6.1) |
| **Net cash provided by operating activities** | **16.3** | 37.8 |
| **Cash flows from investing activities** | | |
| Payment for property, plant and equipment | **(50.0)** | (41.7) |
| Proceeds from sale of property, plant and equipment | **-** | 0.5 |
| Payment for business | **(8.8)** | (0.4) |
| Payment for available-for-sale financial assets | **-** | (2.1) |
| Payment for intangible assets | **(8.1)** | (1.1) |
| Proceeds from repayment of Security Plan Loans | **-** | 0.2 |
| Payment for non-controlling interests (Taylors Group Limited) | **-** | (16.0) |
| Dividends received | **0.1** | 0.1 |
| **Net cash used in investing activities** | **(66.8)** | (60.5) |
| **Cash flows from financing activities** | | |
| Proceeds from shares issued | **-** | 86.2 |
| Payments for transaction costs on shares issued | **-** | (2.2) |
| Payment for share scheme | **(3.6)** | - |
| Proceeds from borrowings | **410.6** | 209.1 |
| Repayment of borrowings | **(306.7)** | (262.2) |
| Dividends paid | | |
| - members of the parent entity | **(11.8)** | (12.5) |
| - non-controlling interest | **-** | (0.4) |
| **Net cash provided by financing activities** | **88.5** | 18.0 |
| **Net increase/(decrease) in cash and cash equivalents** | **38.0** | (4.7) |
| **Cash and cash equivalents at the beginning of the half year** | **48.9** | 56.0 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | **(3.2)** | (2.7) |
| **Cash and cash equivalents at the end of the half year** | **83.7** | 48.6 |

*The Condensed Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.*

## 1. Statement of Compliance

This general purpose condensed financial report for the half year ended 31 December 2010 has been prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *'*Interim Financial Reporting*'*.

The half year financial report does not include all notes of the type normally included within the annual report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half year financial report be read in conjunction with the annual report for the year ended 30 June 2010 and considered together with any public announcements made by the consolidated entity during the half year ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX listing rules.

## 2. Basis of Preparation

The condensed financial statements have been prepared on a historical cost basis, except for financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the half year financial report are rounded to the nearest hundred thousand dollars, unless otherwise indicated.

Apart from changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report for the financial year ended 30 June 2010.

### Changes in Accounting Policy

From 1 July 2010 the consolidated entity has adopted the following Standards and Interpretations. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the consolidated entity.

- AASB 2009-5 'Further amendments to Australian Accounting Standards arising from the Annual Improvements Process'
- AASB 2009-8 'Amendments to Australian Accounting Standards - Group Cash-Settled Share-Based Payment Transaction'
- AASB 2009-10 'Amendments to Australian Accounting Standards - Classification of Rights Issues'
- AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process'
- Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'

The consolidated entity has not elected to early adopt any new standards or amendments.

### 3. Segment Information

The consolidated entity's reportable segments under AASB 8 are as follows:

| | External Sales Revenue | | Segment Result | |
|---|---|---|---|---|
| | Half year ended | | Half year ended | |
| | 31 Dec 2010 | 31 Dec 2009 | 31 Dec 2010 | 31 Dec 2009 |
| **Operating Segments** | $m | $m | $m | $m |
| Cleaning Services | **208.3** | 133.1 | **6.0** | 6.9 |
| Food Services | **296.5** | 271.7 | **10.8** | 10.7 |
| Laundry Services | **123.1** | 118.4 | **12.4** | 14.8 |
| Managed Services | **579.7** | 564.5 | **16.2** | 16.3 |
| | **1,207.6** | 1,087.7 | **45.4** | 48.7 |
| Braiform | **111.3** | 118.6 | **1.0** | 3.2 |
| International Services | **29.9** | - | **(2.4)** | - |
| Total Operating Segments | **1,348.8** | 1,206.3 | **44.0** | 51.9 |
| Unallocated corporate administration costs | | | **(6.0)** | (4.6) |
| Earnings before interest and tax (EBIT) | | | **38.0** | 47.3 |
| Net finance costs | | | **(11.4)** | (11.5) |
| Profit before income tax expense | | | **26.6** | **35.8** |
| Income tax expense | | | **(9.2)** | (10.8) |
| Total for the half year | **1,348.8** | 1,206.3 | **17.4** | 25.0 |

*Inter-segment transactions are immaterial.*

**Cleaning Services**: provide commercial and specialised cleaning services to a wide range of critical sectors including hospitals, schools, airports and shopping centres as well as sports stadiums and major events.

**Food Services**: offer food services to a diverse range of customers including sport stadiums, function centres, airports and business and education institutions.

**Laundry Services**: wash and supply workwear for large supermarket chains, food manufacturing and general industry customers. Specialise in linen and laundry for the healthcare sector, including sterilised linen and surgical packs.

**Managed Services**: is comprised of Spotless' facilities management, asset maintenance operations and painting and refurbishment services. Managed Services supports a variety of sectors such as defence, education, health, industry and mining.

**Braiform**: this division manages the supply of garment hanger and apparel packaging products, servicing clients globally.

**International Services**: provides commercial and specialised cleaning services to a wide range of critical sectors across the UK, USA and UAE and food services to sports stadiums in the UK. This is a new segment for the half year ended 31 December 2010 and is as a result of the acquisitions of Cleanevent and Event Management Catering Limited.

The accounting policies of the reportable segments are the same as the consolidated entity's accounting policies.

Segment result represents the profit earned by each segment without allocation of corporate administration costs, transaction costs, non-recurring items, finance costs and income tax expense.

### 4. Revenue from Operations

| | Half year ended 31 Dec 2010 $m | Half year ended 31 Dec 2009 $m |
|---|---|---|
| Revenue from operating activities | | |
| Sales revenue | **1,348.8** | 1,206.3 |
| Royalties | **2.0** | 2.1 |
| Dividends | **0.2** | 0.1 |
| Other income | **2.4** | 3.4 |
| | **1,353.4** | 1,211.9 |

### 5. Net Finance Costs

| | 31 Dec 2010 $m | 31 Dec 2009 $m |
|---|---|---|
| Interest expense | **11.3** | 11.7 |
| Costs of borrowing | **0.6** | 0.3 |
| | **11.9** | 12.0 |
| Interest revenue | | |
| Third party entities | **0.4** | 0.4 |
| Securities Plan Loans | **0.1** | 0.1 |
| | **0.5** | 0.5 |
| Net Finance Costs | **11.4** | 11.5 |

### 6. Dividends

| | Half year ended 31 Dec 2010 | | Half year ended 31 Dec 2009 | |
|---|---|---|---|---|
| | Cents per share | Total $m | Cents per share | Total $m |
| **Fully Paid Ordinary Shares** | | | | |
| Recognised or paid amounts | | | | |
| 2010 Final dividend - 60% franked | 6.0 | 15.6 | - | - |
| 2009 Final dividend - 100% franked | - | - | 6.0 | 13.1 |
| **Fully Paid Ordinary Shares** | | | | |
| Unrecognised and declared amounts | | | | |
| 2011 Interim dividend - 60% franked | 5.0 | 13.1 | - | - |
| 2010 Interim dividend - 100% franked | - | - | 5.0 | 10.9 |

### 7. Changes in the composition of the consolidated entity

There have been no significant changes in the composition of the consolidated entity since 30 June 2010.

## 8. Commitments and Contingencies

There have been no significant changes to the commitments and contingencies disclosed in the most recent annual financial report. These are again specified below.

**Legal claims**

a) In 2008, two entities in the consolidated entity, Spotless Services Australia Limited and Spotless Facility Services Pty Ltd (formerly Spotless P&F Proprietary Ltd) were charged under the Occupational Safety and Health Act 1984 (WA), in relation to two deaths and serious harm caused to seven persons during Cyclone George in March 2007. The charges were made by WorkSafe WA, which also brought charges against six other companies, who are not part of the consolidated entity. On 24 May 2010, 14 charges against Spotless Services Australia Limited were dropped. The trial date for the two remaining charges against Spotless Facility Services Pty Ltd is yet to be set.

b) A number of entities in the consolidated entity are required to guarantee their performance for certain contracts. These guarantees relate to contracts in the Food Services, Cleaning Services and Managed Services segments. The extent to which an outflow of funds will be required is dependent on the future operations.

## 9. Subsequent Events

Subsequent to 31 December 2010, parts of Queensland and eastern Australia experienced severe weather events, including flooding and cyclones. Spotless experienced business disruption at a number of client and Spotless sites, including asset losses and lost revenue opportunities. Spotless is working with its clients and insurers to quantify the impact of these events on the 2011 financial results. As at the date of this report, business disruption continues to be experienced. Early indications suggest the impact is unlikely to be material.

Other than the above, there has not been any matter or circumstance since 31 December 2010 that has significantly or may significantly affect the operations, results of those operations or the state of affairs of the entity or consolidated entity in future financial years.

## 10. Issuances, repurchases and repayments of securities

During the reporting period, Spotless Group Limited issued 1,760,497 ordinary shares for $3.8 million (2009: 231,986 ordinary shares for $0.6 million) under its Dividend Reinvestment Plan and no shares under the Spotless Group Securities Plan (2009: Nil). The Securities Plan is now closed.

## 11. Borrowings

During the period, the Company secured funding of US$160 million in the US Private Placement debt market through an issue of senior unsecured notes. The notes were issued in the following tranches:

- US$50 million – 12 years.
- US$50 million – 15 years.
- US$60 million – 20 years.

US$110 million of these notes were drawn on 16 December 2010. The remaining US$50 million were drawn on 4 January 2011.
The principal and interest payments under these notes have been swapped into Australian Dollars at a fixed exchange rate and interest rate. Accordingly, the Company has no economic exposure to movements in the foreign exchange rate or interest rates.
The proceeds of the issue have been used to repay committed bank debt, lower refinancing risk and rebalance and extend the maturity profile of the Company's debt facilities.

## 12. Acquisition of Business

On 30 November 2010, Spotless Group Limited acquired the share capital of Event Management Catering Limited ("EMC), a UK based catering business servicing the Leisure, Sports and Entertainment sector for $3.2m. The accounting for the acquisition of EMC is provisional at reporting date as the completion process is still underway and will be finalised within 12 months of the acquisition. Spotless' investment in EMC is included in non-current "other financial assets" as at 31 December 2010.

# Directors' Declaration
# for the half year ended 31 December 2010

The Directors declare that;

(a) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* , including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(b) 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.

Signed in accordance with a resolution of the Directors made pursuant to section 303(5) of the *Corporations Act 2001* .

On behalf of the Directors

P J Smedley
Chairman

Sydney, 18 February 2011

J P Farnik
Managing Director

Sydney, 18 February 2011

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The Board of Directors
Spotless Group Limited
Level 3, 350 Queen Street
MELBOURNE VIC 3000

18 February 2011

Dear Board Members

**Spotless Group 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 Spotless Group Limited.

As lead audit partner for the review of the financial statements of Spotless Group Limited for the financial half-year ended 31 December 2010, 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 review; and

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

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountants

Deloitte.

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**Independent Auditor's Review Report to the members of Spotless Group Limited**

We have reviewed the accompanying half-year financial report of Spotless Group Limited, which comprises the condensed consolidated balance sheet as at 31 December 2010, and the condensed consolidated statement of comprehensive income, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 4 to 12.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Spotless Group Limited's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Spotless Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Spotless Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Sanders

Ian Sanders
Partner
Chartered Accountants
Melbourne, 18 February 2011

Member of
Deloitte Touche Tohmatsu