

**SERVCORP LIMITED**  
**ABN 97 089 222 506**

**APPENDIX 4D**

**Interim Financial Report**  
**For the six months ended**  
**31 December 2016**

The information in this document should be read in conjunction with Servcorp Limited's Directors' Report and Financial Report for the six months ended 31 December 2016, the 2016 Annual Report and public announcements made during the period in accordance with continuous disclosure obligations arising under Corporations Act 2001 and ASX Listing Rules

### Reporting Period

Current period: 1 July 2016 to 31 December 2016  
 Previous corresponding period: 1 July 2015 to 31 December 2015

### Results for announcement to the market

				<b>\$'000</b>
Revenue and other income from ordinary activities	up	2.3%	to	\$167,965
Profit from ordinary activities after tax attributable to members	down	3.6%	to	\$18,059
Net profit for the period attributable to members	down	3.6%	to	\$18,059

Dividends	Total amount \$'000	Amount per security (cents per share)	Franked amount per security (cents per share)
<i>Current period</i>			
Interim dividend declared	12,796	13.00c	6.50c
<i>Previous corresponding period</i>			
Interim dividend paid	10,828	11.00c	5.50c

Record date for determining entitlements to the dividend	10 March 2017
Dividend payment date	5 April 2017

There is no foreign conduit income attributed to this dividend.

	31 December 2016 \$	31 June 2016 \$
<b>Net tangible asset backing</b>		
Net tangible asset backing per ordinary security	\$2.52	\$2.50

#### Control Over Entities

Control was not gained or lost over any entity during the 1H17 that had a material effect on the profit for the period.

#### Material interest in entities

There were no material interests in entities that were not controlled entities.

#### Details of Associates or Joint Ventures

No new joint ventures were entered into in the 1H17.

## Management Discussion & Analysis

### NET PROFIT AFTER TAX OF \$18.1 MILLION, down 3.6%

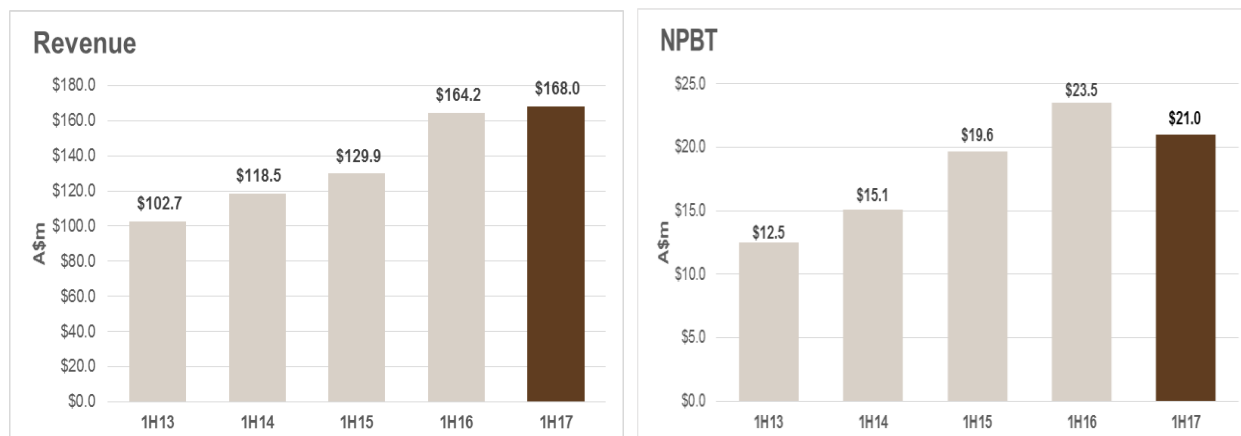
#### Headline Results

- Revenue of \$168.0 million, up 2.3%
- NPBT of \$21.0 million, down 10.5%
- NPAT of \$18.1 million, down 3.6%
- Like for Like NPBT of \$27.8 million, up 14.4%
- Floor closure costs in 1H17 of \$3.3 million, substantially higher than 1H16 of \$0.8 million
- Operating cash flow from operations of \$17.6 million, down 29.5%
- Unencumbered cash and investment balances of \$102.2 million, up 2.5%
- NTA backing of \$2.52 per share, up marginally from \$2.50 at 30 June 2016
- EPS of 18.3 cps, down 3.7%
- Interim dividend of 13.00 cps (up 18.2%), declared for 1H17, 50% franked
- Forecast FY17 final dividend of 13.00 cps, franking levels uncertain however expected to be similar to interim dividend
- Revised NPBT FY17 guidance of \$47.0 million, \$26 million in 2H17

#### 1H17 – Overview

Servcorp has a strong global business and while 1H17 NPBT of \$21.0 million was down 10.5% on the prior period, Like for Like NPBT was up 14.4% on the same period.

Despite the fact several regions performed ahead of forecast in 1H17 the result was substantially impacted by the underperformance of Singapore, New York City and Saudi Arabia.



To a lesser extent revenue and profits have been impacted by an overall marginally stronger Australian dollar as more than 80% of our revenue and profits are denominated in currencies other than Australian dollars.

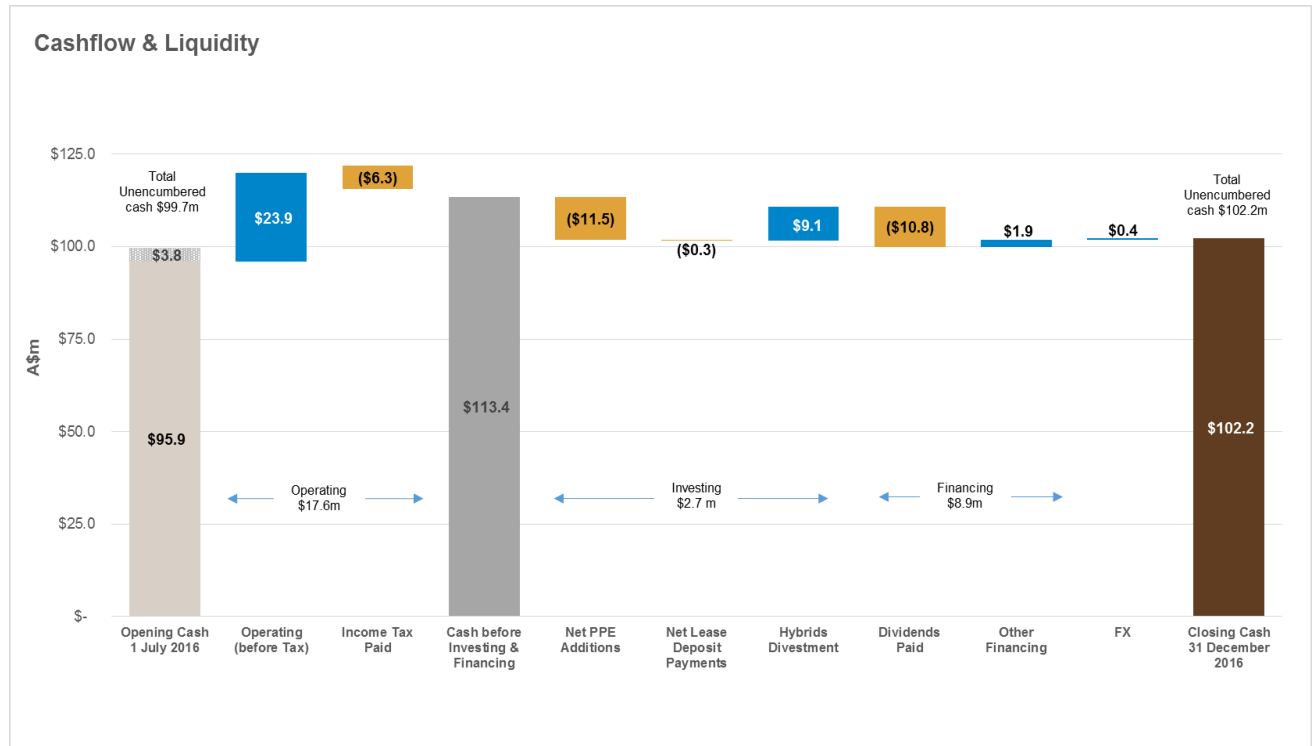
Like for Like floors occupancy was 77% at 31 December 2016 (31 December 2015: 77%). All floors occupancy was 73% at 31 December 2016 (31 December 2015: 73%). Beyond FY17 we have deferred growth to concentrate on consolidating existing floors and to accelerate the maturity of new floors.

**Servcorp Limited**  
**ABN 97 089 222 506**  
**Interim Financial Report**  
**31 December 2016**

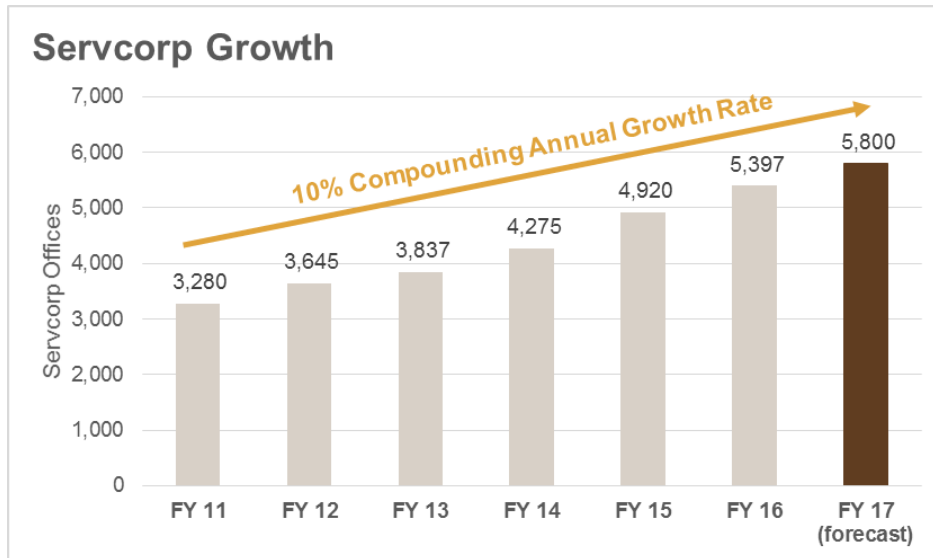
**1H17 – Overview (continued)**

Cash flows generated from operations of \$17.6 million, were down \$7.4 million in 1H17 compared to 1H16. The primary driver for this is lease costs for new floors in 1H17 compared to 1H16. We continued to expand organically in 1H17, investing \$11.5 million in capital expenditure to add net 5% to capacity. We paid the FY16 final dividend of \$10.8 million and divested \$9.1 million of hybrid securities during 1H17.

Overall cash increased by \$6.4 million from 30 June 2016 to \$102.2 million.



## The Servcorp Footprint



Servcorp has experienced an extended period of growth over the last 5 years demonstrated by a compounding annual growth rate in office stock of 10%. Available office stock has grown from 3,280 in FY11 to 5,397 in FY16. Servcorp's office expansion in 1H17 continued; we increased net capacity, growing available office stock by 5% to 31 December 2016.

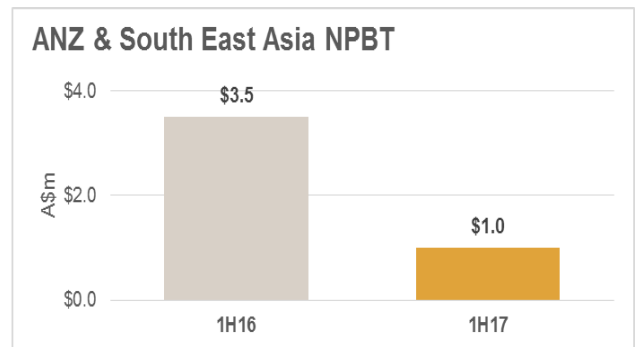
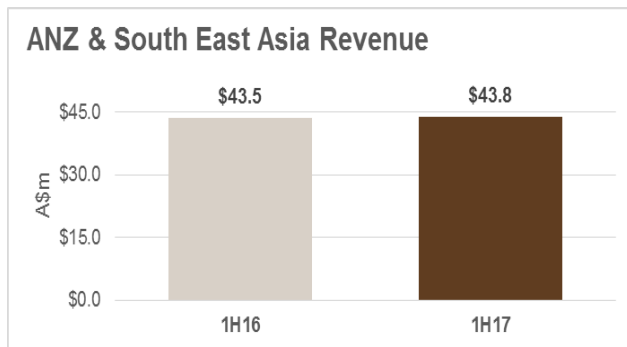
Given Servcorp's extended period of growth we have reached a period of consolidation with a renewed focus to increase overall occupancy of existing office stock.

During 1H17 we added new locations including Tri-Seven in Tokyo, IFC in Jakarta, Schuman in Brussels and Barangaroo in Sydney. River Point in Chicago opened in January 2017.

As at 31 December 2016 our global footprint encompassed 154 floors, in 55 cities across 23 countries.

## Operating Summary by Region

### ANZ & South East Asia

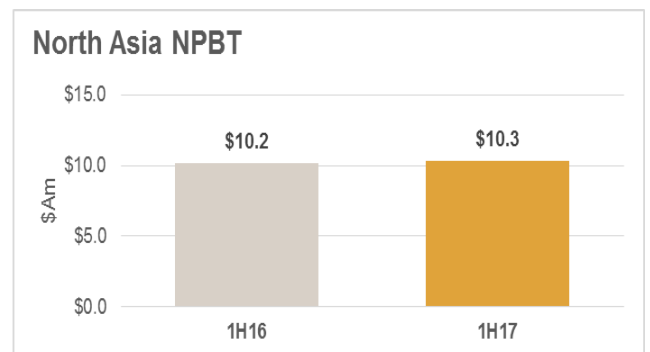
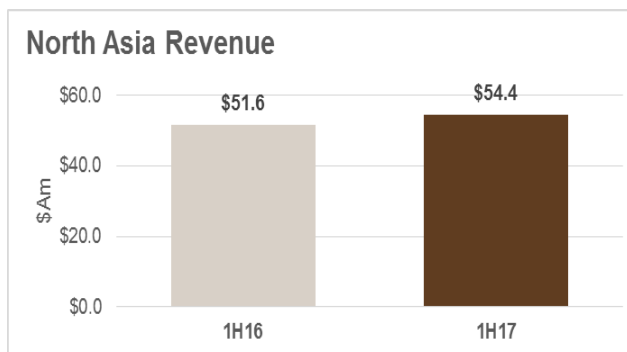


On a Like for Like basis NPBT performance in ANZ / SEA increased by 10%. Singapore and Malaysia underperformed.

Excluding Barangaroo in Sydney, which opened in November 2016, occupancy in Australia and New Zealand is healthy.

The region opened two new floors in 1H17, namely Barangaroo in Sydney and IFC in Jakarta.

### North Asia

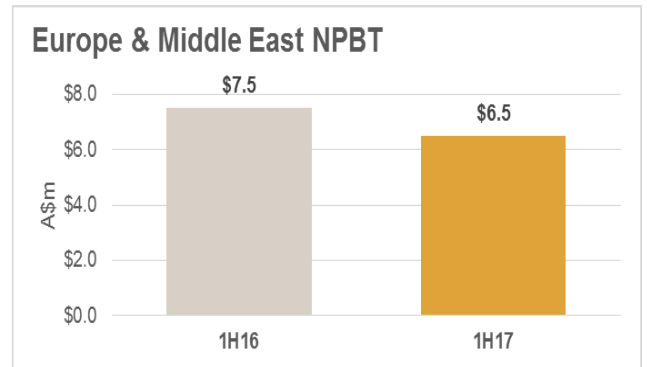
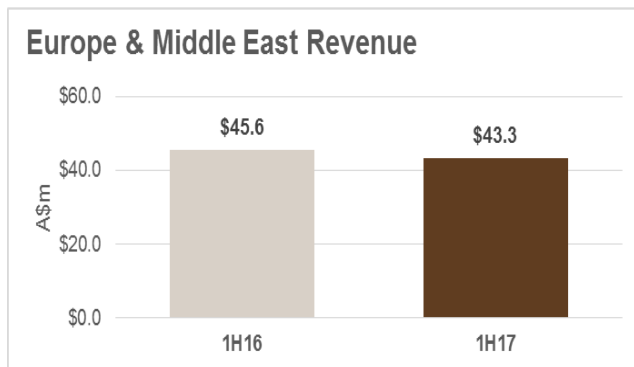


North Asia as a whole produced a solid result in 1H17, reporting Like for Like NPBT growth of 12%. Hong Kong underperformed.

The region opened one new floor in July 2017, namely Tri-Seven in Tokyo.

Operating Summary by Region (continued)

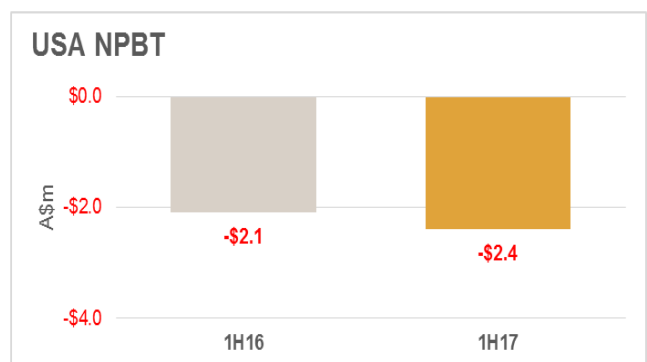
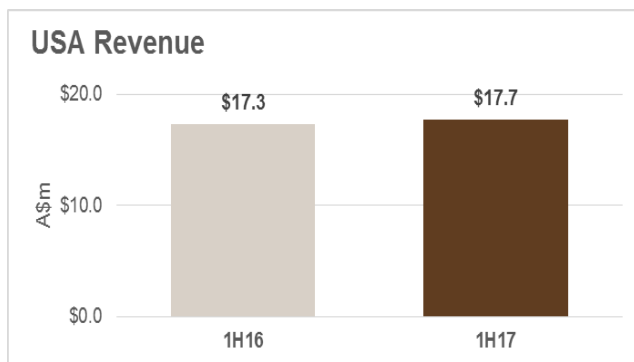
Europe & Middle East



Like for Like floors in the Europe and Middle East segment produced a weaker result in 1H17.

Two new floors in Schuman in Brussels were opened during 1H17.

USA



Notwithstanding acceptable performances across a range of locations, the USA underperformed and has not met its forecast for 1H17. That said the USA continues to produce positive EBITDA.

Our Chief Operating Officer, Mr. Marcus Moufarrige, is relocating to New York City for the remainder of 2017.

River Point in Chicago opened in January 2017.

## Financial Summary

1H17 revenue and other income was up 2.3% to \$168.0 million (1H16: \$164.2 million). 1H17 generally witnessed an overall strengthening of the Australian dollar against the currencies in which we transact. 1H17 revenue expressed in constant currency terms (i.e. at 1H17 exchange rates) increased by 4.0% compared to 1H16.

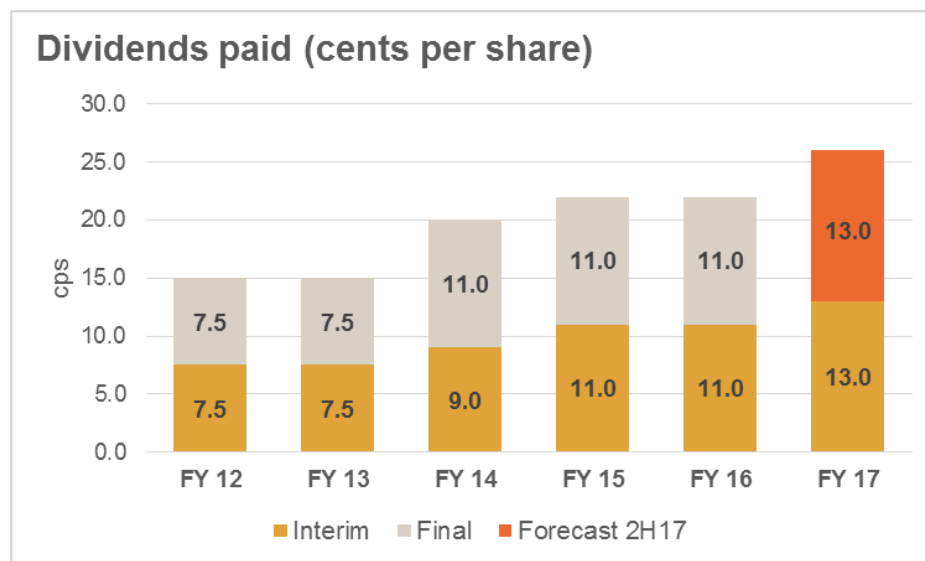
1H17 NPBT was \$21.0 million, down 10.5% from 1H16 NPBT of \$23.5 million. When expressed in constant currency terms (1H17 exchange rates) 1H17 NPBT decreased by 10.4% compared to 1H16.

Net Tangible Assets per share is marginally up to \$2.52 per share from \$2.50 per share at 30 June 2016.

Cash and investment balances as at 31 December 2016 remained healthy at \$112.9 million (30 June 2016: \$114.6 million). Of this balance, \$10.7 million was lodged with banks as collateral for bank guarantees and facilities, leaving unencumbered free cash and investment balances of \$102.2 million as at 31 December 2016 (30 June 2016: \$99.7 million).

The cash and investment balances includes mark-to-market investments in bank hybrid variable rate securities of \$10.7 million (30 June 2016: \$18.7 million).

## Dividends



The Directors have declared an interim dividend of 13.00 cps, 50% franked, payable on 5 April 2017.

A final dividend of 13.00 cps is anticipated to be paid in relation to FY17. Franking levels remain uncertain, but are expected to be similar to the interim dividend.

*Future dividends are subject to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.*



## **Outlook**

Servcorp has a strong, diversified global business and is in a financially sound position. We have expressed our confidence in the future of the business by increasing the 2017 dividends from 22.00 cps to 26.00 cps. That said we have initiated several objectives to arrest underperforming locations and turn them profitable.

Firstly, our Chief Operating Officer, Mr Marcus Moufarrige, will be relocating to New York City for the remainder of 2017 to lead our USA business.

Consequently, Servcorp's Chief Executive Officer, Mr Alf Moufarrige, is now responsible for South East Asia. There are some early signs of recovery reflecting good work by Marcus and his team.

Non-executive director, Mr Taine Moufarrige, will assist Management on a consulting basis with Indonesia, Malaysia, Saudi Arabia and Turkey. Taine was previously an executive of Servcorp and his experience will be valuable.

With the Board and Management focussed on achieving our short term objectives we have deferred footprint growth beyond FY17. We have reached a period of consolidation with a renewed focus to increase overall occupancy of existing office stock.

Servcorp's revised FY17 NPBT guidance is \$47.0 million, \$26 million in 2H17.

*This forecast is subject to currencies remaining constant, global financial markets remaining stable and no further unforeseen circumstances.*

## **Key**

<b>FY</b>	Financial year
<b>1H</b>	First half of financial year - six months to 31 December
<b>2H</b>	Second half of financial year - six months to 30 June
<b>NPBT</b>	Net Profit Before Tax
<b>NPAT</b>	Net Profit After Tax
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>cps</b>	Cents per share
<b>Like for Like</b>	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.
<b>ANZ</b>	Australia & New Zealand
<b>SEA</b>	South East Asia
<b>EME</b>	Europe & Middle East
<b>USA</b>	United States of America

# SERVCORP LIMITED

## AND ITS CONTROLLED ENTITIES



# INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED  
31 DECEMBER 2016

WORLD'S FINEST SERVICED OFFICES, VIRTUAL OFFICES AND CO-WORKING SOLUTIONS

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

T +61 2 9231 7616 F +61 2 9231 7665 Servcorp Limited ABN 97 089 222 506 [SERVCORP.COM.AU](http://SERVCORP.COM.AU)



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NEW ZEALAND PHILIPPINES QATAR SAUDI ARABIA SINGAPORE THAILAND TURKEY UAE UK USA

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# INTERIM FINANCIAL REPORT

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## DIRECTORS' REPORT

The directors of Servcorp Limited ('the Company') submit herewith the condensed consolidated financial report for the six months ended 31 December 2016. In order to comply with the provisions of the Corporations Act 2001 the directors' report as follows:

The names of the directors of the Company during or since the end of the six months ended 31 December 2016 are:

<b>Name</b>	<b>Date Appointed</b>
Mr Alf Moufarrige (Managing Director and CEO)	August 1999
Mr Bruce Corlett (Chairman and Independent Non-Executive Director)	October 1999
Mr Rick Holliday-Smith (Independent Non-Executive Director)	October 1999
Mr Taine Moufarrige (Non-Executive Director)	November 2004
The Hon Mark Vaile (Independent Non-Executive Director)	June 2011

### Review of operations

Revenue and other income from operating activities was up 2.3% to \$168.0 million for the half year ended 31 December 2016 (31 December 2015: \$164.2 million). In constant currency terms, revenue increased by 4.0% compared to the half year ended 31 December 2015.

Net profit before tax for the half year ended 31 December 2016 was \$21.0 million, down 10.5% from \$23.5 million for the half year ended 31 December 2015. When expressed in constant currency terms, net profit before tax decreased by 10.4%. Net profit after tax was \$18.1 million.

Cash and investment balances as at 31 December 2016 remained healthy at \$112.9 million (30 June 2016: \$114.6 million). Of this balance, \$10.7 million was lodged with banks as collateral for bank guarantees and facilities, leaving unencumbered free cash and investment balances of \$102.2 million in the business as at 31 December 2016 (30 June 2016: \$99.7 million). The cash and investment balances include investments in bank hybrid variable rate securities of \$10.7 million.

The business produced net operating cash flows during the half year ended 31 December 2016 of \$17.6 million (31 December 2015: \$25.0 million), a decrease of 29.5%.

The Directors have declared an interim dividend of 13.00 cents per share, 50% franked, payable on 5 April 2017.

### Business Overview

Servcorp has a strong global business, and while net profit before tax of \$21.0 million for the half year ended 31 December 2016 was down 10.5% when compared to 31 December 2015, like for like net profit before tax of \$27.8 million was up 14.4% on the same period.

Revenue and profits have been impacted by an overall marginally stronger Australian dollar as more than 80% of revenue and profits are denominated in currencies other than Australian dollars.

Like for like occupancy at 31 December 2016 was 77% (31 December 2015: 77%). Management has deferred growth beyond the 2017 financial year to concentrate on consolidating existing floors and to accelerate the maturity of new floors.

Net tangible assets was up marginally to \$2.52 per share as at 31 December 2016, compared to \$2.50 as at 31 December 2015.

### Expansion

Servcorp has experienced an extended period of growth over the last 5 years, demonstrated by a compounding annual growth rate in office stock of 10%. Available office stock has grown from 3,280 as at 30 June 2011 to 5,397 as at 30 June 2016. Given Servcorp's extended period of growth the Company has reached a period of consolidation with a renewed focus to increase overall occupancy of existing office stock.

A total of five floors were opened and one floor was expanded during the half year ended 31 December 2016. New floors were opened in Tokyo, Brussels (two floors), Sydney and Jakarta. One floor in Chicago was opened in January 2017.

As at 31 December 2016 Servcorp's global footprint encompassed 154 floors in 55 cities across 23 countries.

## **DIRECTORS' REPORT (CONT.)**

### **Australia, New Zealand and Southeast Asia**

On a like for like basis net profit before tax in ANZ / SEA was up 10% when compared to the prior period.

Malaysia and Singapore underperformed.

One floor in Sydney and one floor in Jakarta opened in the 6 months ended 31 December 2016.

### **North Asia**

North Asia continues to produce solid results, reporting like for like net profit before tax growth of 12%. Hong Kong underperformed.

One floor opened in Tokyo in the 6 months ended 31 December 2016.

### **Europe and the Middle East**

Like for like net profit before tax in Europe and Middle East decreased 12.8% when compared to the prior period.

Two floors in Brussels opened in the 6 months ended 31 December 2016.

### **USA**

Notwithstanding acceptable performances across a range of locations, the USA underperformed but continues to produce positive earnings before interest, tax, depreciation and amortisation.

One floor in Chicago opened in January 2017.

### **State of affairs**

During the six months ended 31 December 2016 there were no significant changes in the state of affairs of the Company.

### **Auditor's independence declaration**

The auditor's independence declaration, as required under section 307C of the Corporations Act 2001, is set out on page 4 and forms part of this report.

### **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.

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

On behalf of the directors



**A G Moufarrige**  
**Managing Director and CEO**

Dated at Sydney this 22nd day of February 2017

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

22 February 2017

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 review of the financial statements of Servcorp Limited for the half-year ended 31 December 2016, 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



S C Gustafson  
Partner  
Chartered Accountants

## DIRECTORS' DECLARATION

The directors declare that:

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

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

On behalf of the directors



**A G Moufarrige**  
**Managing Director and CEO**

Sydney, 22nd day of February 2017

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2016

	Note	6 months ended 31 December 2016 \$'000	6 months ended 31 December 2015 \$'000
Revenue	2	159,814	158,253
Other revenue and income	2	8,151	5,983
		167,965	164,236
Service expenses		(42,183)	(40,574)
Marketing expenses		(9,398)	(9,382)
Occupancy expenses		(81,559)	(76,680)
Rent - fixed annual impact		(843)	(711)
Administrative expenses		(12,850)	(13,181)
Share of losses of joint venture		(105)	(135)
Borrowing expenses		(17)	(88)
<b>Total expenses</b>		<b>(146,955)</b>	<b>(140,751)</b>
<b>Profit before income tax expense</b>		<b>21,010</b>	<b>23,485</b>
Income tax expense	4	(2,951)	(4,759)
<b>Profit for the period</b>		<b>18,059</b>	<b>18,726</b>
<b>Other comprehensive profit</b>			
Translation of foreign operations (Item may be reclassified subsequently to profit or loss)		(5,587)	(31)
<b>Other comprehensive loss for the period (net of tax)</b>		<b>(5,587)</b>	<b>(31)</b>
<b>Total comprehensive profit for the period</b>		<b>12,472</b>	<b>18,695</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share		\$0.183	\$0.190

The Condensed consolidated statement of comprehensive income is to be read in conjunction with the notes to the condensed consolidated financial report.



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Note	31 December 2016 \$'000	30 June 2016 \$'000
<b>Current assets</b>			
Cash and cash equivalents		102,218	95,849
Trade and other receivables		43,715	40,264
Other financial assets		12,452	19,341
Current tax assets		227	-
Prepayments and other assets		17,981	15,162
<b>Total current assets</b>		<b>176,593</b>	<b>170,616</b>
<b>Non-current assets</b>			
Other financial assets		37,761	39,874
Property, plant and equipment		130,439	132,018
Deferred tax assets		33,705	35,231
Goodwill	6	14,805	14,805
<b>Total non-current assets</b>		<b>216,710</b>	<b>221,928</b>
<b>Total assets</b>		<b>393,303</b>	<b>392,544</b>
<b>Current liabilities</b>			
Trade and other payables		58,540	55,331
Other financial liabilities	7	32,794	33,563
Current tax liabilities		3,197	8,001
Provisions		6,756	6,664
<b>Total current liabilities</b>		<b>101,287</b>	<b>103,559</b>
<b>Non-current liabilities</b>			
Trade and other payables		26,379	21,715
Other financial liabilities	7	1,165	4,372
Provisions		685	691
Deferred tax liabilities		1,076	1,187
<b>Total non-current liabilities</b>		<b>29,305</b>	<b>27,965</b>
<b>Total liabilities</b>		<b>130,592</b>	<b>131,524</b>
<b>Net Assets</b>		<b>262,711</b>	<b>261,020</b>
<b>Equity</b>			
Contributed equity	8	154,122	154,122
Reserves		(6,962)	(1,422)
Retained earnings		115,551	108,320
<b>Equity attributable to equity holders of the parent</b>		<b>262,711</b>	<b>261,020</b>
<b>Total equity</b>		<b>262,711</b>	<b>261,020</b>

The Condensed consolidated statement of financial position is to be read in conjunction with the notes to the condensed consolidated financial report.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2016

Consolidated	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	154,122	(2,477)	-	90,253	241,898
Profit for the period	-	-	-	18,726	18,726
Translation of foreign operations (net of tax)	-	(31)	-	-	(31)
Total comprehensive income for the period	-	(31)	-	18,726	18,695
Payment of dividends	-	-	-	(10,828)	(10,828)
Balance at 31 December 2015	154,122	(2,508)	-	98,151	249,765
Balance at 1 July 2016	154,122	(1,444)	22	108,320	261,020
Profit for the period	-	-	-	18,059	18,059
Translation of foreign operations (net of tax)	-	(5,587)	-	-	(5,587)
Total comprehensive income for the period	-	(5,587)	-	18,059	12,472
Share based payment	-	-	47	-	47
Payment of dividends	-	-	-	(10,828)	(10,828)
Balance at 31 December 2016	154,122	(7,031)	69	115,551	262,711

*The Condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the condensed consolidated financial report.*

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2016

	6 months ended 31 December 2016 \$'000	6 months ended 31 December 2015 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	167,646	169,230
Payments to suppliers and employees	(145,815)	(138,307)
Franchise fees received	312	296
Income tax paid	(6,341)	(7,674)
Interest and other costs of finance paid	(16)	(88)
Interest and other items of similar nature received	1,846	1,558
<b>Net operating cash flows</b>	<b>17,632</b>	<b>25,015</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(11,500)	(18,017)
Payments for variable rate securities	-	(1,318)
Payments for lease deposits	(294)	(532)
Proceeds from sale of variable rate bonds	9,087	-
Proceeds from refund of lease deposits	29	121
<b>Net investing cash flows</b>	<b>(2,678)</b>	<b>(19,746)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(10,828)	(10,828)
Landlord capital incentives received	2,111	359
Borrowings	(284)	(4,385)
<b>Net financing cash flows</b>	<b>(9,001)</b>	<b>(14,854)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>5,953</b>	<b>(9,585)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>95,849</b>	<b>97,837</b>
Effect of exchange rate changes on cash transactions in foreign currencies	416	2,213
<b>Cash and cash equivalents at the end of the period</b>	<b>102,218</b>	<b>90,465</b>

*The Condensed consolidated statement of cash flows is to be read in conjunction with the notes to the condensed consolidated financial report.*

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 1 SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

The half year financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and AASB134 Interim Financial Reporting. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS34 Interim Reporting. The half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

#### Basis of preparation

The condensed financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments which are recognised at fair value. 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 of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

#### Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new accounting standards did not have any material impact.

At the date of authorisation of the financial report, the following Standards and Interpretations relevant to the Group were on issue but not yet effective:

- AASB 15 'Revenue from Contracts with Customers'. Effective for annual reporting periods beginning 1 January 2018.
- AASB16 'Leases'. Effective for annual reporting periods beginning 1 January 2019.
- AASB 9 'Financial Instruments'. Effective for annual reporting periods beginning on or after 1 January 2018.

The directors are currently in the process of assessing the future period impact of AASB 15 'Revenue from Contracts with Customers' and AASB 16 'Leases' on the financial statements. The remaining Standards and Interpretations on issue not yet effective will not have a material impact on the financial statements of the entity.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 2 PROFIT FROM OPERATIONS

	6 months ended 31 December 2016 \$'000	6 months ended 31 December 2015 \$'000
<b>a. Revenue</b>		
Revenue from continuing operations consisted of the following:		
Revenue from the rendering of services	159,502	157,957
Franchise fee income	312	296
	159,814	158,253
<b>b. Other revenue and income</b>		
Interest income - bank deposits	1,594	1,686
Net foreign exchange gain (realised and unrealised)	5,718	4,029
Other income	839	268
Total other revenue and income	8,151	5,983
<b>c. Expenses</b>		
Rent - fixed annual impact (i)	843	711

Note:

(i) The rent fixed annual impact represents the straight-lining of fixed annual increases ranging between 0% to 4.25% per annum in accordance with AASB 117 'Leases', and represents the difference between the actual cash paid and the rent expensed.

### 3 DISTRIBUTIONS PAID AND PROPOSED

Dividends paid (recognised) during the six month period or proposed (unrecognised) in respect of the period by the Company are:

	Cents per share	Total amount \$'000	Date of payment	Tax rate for franking credit	Percentage franked
<b>Recognised amounts</b>					
<b>2016</b>					
Final - fully paid ordinary shares	11.00	10,828	6 Oct 2016	30%	50%
Interim - fully paid ordinary shares	11.00	10,827	23 Mar 2016	30%	50%
<b>2015</b>					
Final - fully paid ordinary shares	11.00	10,828	24 Sep 2015	30%	40%
Interim - fully paid ordinary shares	11.00	10,827	1 Apr 2015	30%	20%
<b>Unrecognised amounts</b>					
Interim - fully paid ordinary shares	13.00	12,796	5 Apr 2017	30%	50%

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 Company 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 4 INCOME TAXES

	6 months ended 31 December 2016 \$'000	6 months ended 31 December 2015 \$'000
<b>Income tax recognised in the Condensed consolidated statement of comprehensive income</b>		
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the Condensed consolidated financial report as follows:		
Profit before income tax expense	21,010	23,485
Income tax expense calculated at 30%	6,303	7,045
Deductible local taxes	(142)	(248)
Effect of different tax rates on overseas income	(636)	(1,586)
Other non-assessable	(792)	(92)
Tax losses of controlled entities recovered	(77)	-
Income tax over provision in prior years	(2,647)	(329)
Prior year tax losses recognised for deferred tax assets	942	(31)
Income tax expense	2,951	4,759

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 5 SEGMENT INFORMATION

Servcorp Serviced Offices are fully-managed, fully-furnished CBD 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 Group's 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.

The Group's reportable operating segments under AASB 8 are presented below. The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under audit:

	Revenue		Segment Profit / (Loss)	
	31 December 2016 \$'000	31 December 2015 \$'000	31 December 2016 \$'000	31 December 2015 \$'000
<b>Continuing operations</b>				
Australia, New Zealand & Southeast Asia (i)	43,761	43,474	971	3,471
USA (i)	17,703	17,338	(2,433)	(2,057)
Europe & Middle East	43,274	45,571	6,547	7,504
North Asia	54,368	51,623	10,323	10,220
Other	395	219	(24)	88
	159,501	158,225	15,384	19,226
Finance costs	-	-	(17)	(88)
Interest revenue	1,594	1,686	1,594	1,686
Foreign exchange gains	5,718	4,029	5,718	4,029
Centralised unrecovered head office overheads	-	-	(693)	4
Franchise fees	312	296	312	296
Rent - fixed annual increase (ii)	-	-	(843)	(711)
Share of losses of joint venture	-	-	(105)	(135)
Unallocated	840	-	(340)	(822)
Profit before tax			21,010	23,485
Income tax expense			(2,951)	(4,759)
Consolidated segment revenue and profit for the period	167,965	164,236	18,059	18,726

The revenue reported above represents revenue generated from external customers. Intersegment sales were eliminated in full for the six months ended 31 December 2016. The Group's Virtual Office revenue and Serviced Office revenue were \$41,900,000 and \$117,601,000 respectively (31 December 2015: \$40,487,000 and \$117,738,000, respectively).

Note:

- (i) During December 2016 \$2.5M of unplanned one off expenses were incurred related to the restructure of the USA operations and the closure of one location in Australia.  
 (ii) Refer to Note 2 (c)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 6 GOODWILL

	31 December 2016 \$'000	30 June 2016 \$'000
<b>Gross carrying amount and net book value</b>		
Balance at the beginning of the period	14,805	14,805
Balance at the end of the period	14,805	14,805

### 7 OTHER FINANCIAL LIABILITIES

<b>Current</b>		
<b>At fair value through profit or loss</b>		
Forward foreign currency exchange contracts	-	299
<b>At amortised cost</b>		
Security deposits	32,222	32,631
External borrowings (i)	572	633
	32,794	33,563

<b>Non-current</b>		
<b>At fair value through profit or loss</b>		
Forward foreign currency exchange contracts	297	3,427
<b>At amortised cost</b>		
External borrowings (i)	868	945
	1,165	4,372

Note

(i) On 21 November 2013 Japan borrowed JPY240M at 2.42% p.a fixed for 5 years.

### 8 CONTRIBUTED EQUITY

Fully paid ordinary shares 98,432,275 (June 2016: 98,432,275)	154,122	154,122
<b>Movements in issued capital</b>		
Balance at the beginning of the period	154,122	154,122
Balance at the end of the period	154,122	154,122



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 9 JOINT VENTURE

Name of joint venture	Principal activity	Country of incorporation	31 Dec 2016 %	30 June 2016 %
Etihad Towers Service Offices LLC	Serviced offices and virtual offices	UAE	49	49

On 13 March 2014, a company in the Consolidated group entered into a joint venture with Emirates Consortium LLC. The name of the joint venture is Etihad Towers Service Offices LLC.

The above joint venture is accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with AASBs (adjusted by the Group for equity and accounting purposes).

	31 December 2016 \$'000	30 June 2016 \$'000
<b>FINANCIAL POSITION</b>		
<b>ASSETS</b>		
Current assets	519	730
Non-current assets	2,096	2,127
<b>Total assets</b>	<b>2,615</b>	<b>2,857</b>
<b>LIABILITIES</b>		
Current liabilities	3,650	3,650
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>3,650</b>	<b>3,650</b>
<b>Net assets/ (liabilities)</b>	<b>(1,035)</b>	<b>(793)</b>
<b>FINANCIAL PERFORMANCE</b>		
Revenue	605	1,409
Loss for the year	(215)	(345)
Other comprehensive loss for the period	-	-
<b>Total comprehensive loss for the period</b>	<b>(215)</b>	<b>(345)</b>
Reconciliation of the above summarised information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:		
<b>Share of net assets in joint venture</b>	<b>(507)</b>	<b>(389)</b>
<b>Share of losses in joint venture</b>	<b>(105)</b>	<b>(169)</b>

As at 31 December 2016 the share of losses in the joint venture consists of \$105,089 (30 Jun 2016: \$169,065) of losses recognised against Servcorp's contributions totalling \$1,473,021 (30 June 2016 totalling \$1,431,184).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000
<b>Consolidated</b>			
<b>31 December 2016</b>			
Bank hybrid variable rate securities	10,708	-	-
Forward foreign currency exchange contracts	-	(297)	-
<b>31 December 2015</b>			
Bank hybrid variable rate securities	17,601	-	-
Forward foreign currency exchange contracts	-	(1,190)	-

Some of the Group's financial assets are measured at fair value at the end of each reporting period. 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).

Financial assets/ (liabilities)	Fair value as at 31 Dec 2016	Fair value as at 31 Dec 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
	\$'000	\$'000		
Bank hybrid variable rate securities	10,708	17,601	1	Quoted prices in an active market
Forward foreign currency exchange contracts	(297)	(1,190)	2	Future cash flows are estimated based on observable forward exchange rates

### 11 SUBSEQUENT EVENTS

Other than the matters noted below, there has not arisen in the interval between reporting date and the date of this Financial Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

#### Dividend

On 22 February 2017, the Directors declared an interim dividend of 13.00 cents per share, 50% franked, payable on 5 April 2017.

## Independent Auditor's Review Report to the Members of Servcorp Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Servcorp Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, and the condensed consolidated statement of comprehensive income, the condensed statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 5 to 16.

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

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### *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 a Financial Report 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 Servcorp Limited's financial position as at 31 December 2016 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 Servcorp 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

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

## *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 Servcorp Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2016 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



S C Gustafson  
Partner  
Chartered Accountants  
Sydney, 22 February 2017