SERVCORP LIMITED
ABN 97 089 222 506

APPENDIX 4D

Interim Financial Report
For the six months ended
31 December 2017

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 2017, the 2017 Annual Report and public announcements made during the period in accordance with continuous disclosure obligations arising under Corporations Act 2001 and ASX Listing Rules

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Reporting Period

Current period:	1 July 2017 to 31 December 2017
Previous corresponding period:	1 July 2016 to 31 December 2016

Results for announcement to the market

				$'000
Revenue and other income from ordinary activities	down	6.5%	to	$157,024
Profit from ordinary activities before tax	down	8.7%	to	$19,174
Net profit after tax for the period attributable to members	down	85.7%	to	$2,589

Dividends	Total amount $'000	Amount per security (cents per share)	Franked amount per security (cents per share)
Current period			
Interim dividend declared	12,796	13.00c	0.98c
Previous corresponding period			
Interim dividend paid	12,796	13.00c	6.50c

Record date for determining entitlements to the dividend	9 March 2018
Dividend payment date	5 April 2018

There is no foreign conduit income attributed to this dividend.

	31 December 2017 $	30 June 2017 $
Net tangible asset backing		
Net tangible asset backing per ordinary security	$2.44	$2.56

Control Over Entities
Control was not gained or lost over any entity during the 1H18 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 1H18.

Management Discussion & Analysis

NET PROFIT BEFORE TAX OF $19.2 MILLION

Satisfactory operating performance in a rapidly evolving market

- Operating cash flow up 13.1% to $19.9 million
- Operating profit up 7.7% on 1H17
- NPBT $19.2 million, down 8.7% on 1H17
- Unbudgeted expenses incurred in 1H18 of $1.9 million relating to new strategic initiatives
- Operating NPAT of $15.6 million (1H17: $18.1 million) before one-off, non-cash adjustments to USA deferred tax asset balances of $13.0 million ($7.6 million USA tax rate changes and $5.4 million de-recognition of tax losses)
- USA operations are recovering slowly and de-recognising the related deferred tax asset is seen to be prudent
- Modest negative impact from the strengthening Australian dollar

Strong balance sheet and stable outlook

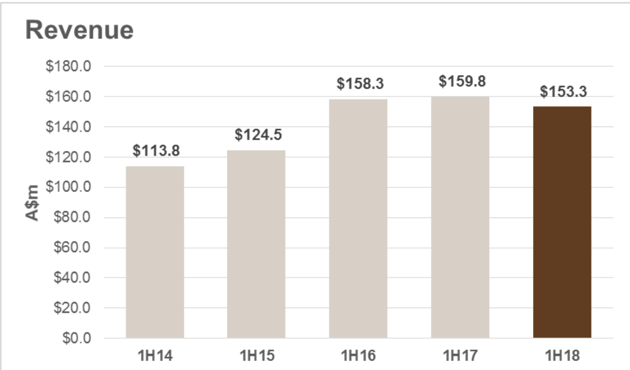
- Cash balances of $109.9 million, up 5.3% on 30 June 2017
- NPBT FY18 guidance of between $45.0 million to $55.0 million reaffirmed
- 1H18 interim dividend of 13.00 cps confirmed (7.5% franked)
- 2H18 final dividend of 13.00 cps forecast (franking uncertain)

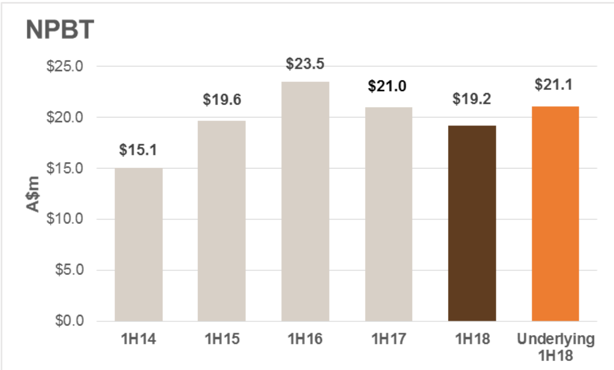
Significant strategic initiatives under way

Directors believe there is an unprecedented opportunity to take advantage of the tremendous growth and transformation in today's global workspace industry. As part of our investment into strategic initiatives, the Company is assessing a number of options to enhance shareholder value. Alternatives being considered include the acceleration of growth in various markets, accessing external sources of capital to aid in global expansion, the potential separation of geographies (including Europe and the Middle East), and unlocking value inherent in our footprint and technology platform. While there can be no certainty as to the outcome of these investigations, we will continue to work toward optimising the value and potential of Servcorp.

1H18 – Overview

1H18 NPBT of $19.2 million underpinned by a strong North Asia result offset by continued underperformance of Singapore and the USA and an unbudgeted $1.9 million of expenses relating to strategic initiatives.





1H18 – Overview (continued)

Following a USA Federal corporate tax rate reduction in December 2017 from 35% to 21%, and a review of the carried forward loss recoverability, the tax expense includes a one-off, non-cash $13.0 million adjustment relating to the USA deferred tax asset.

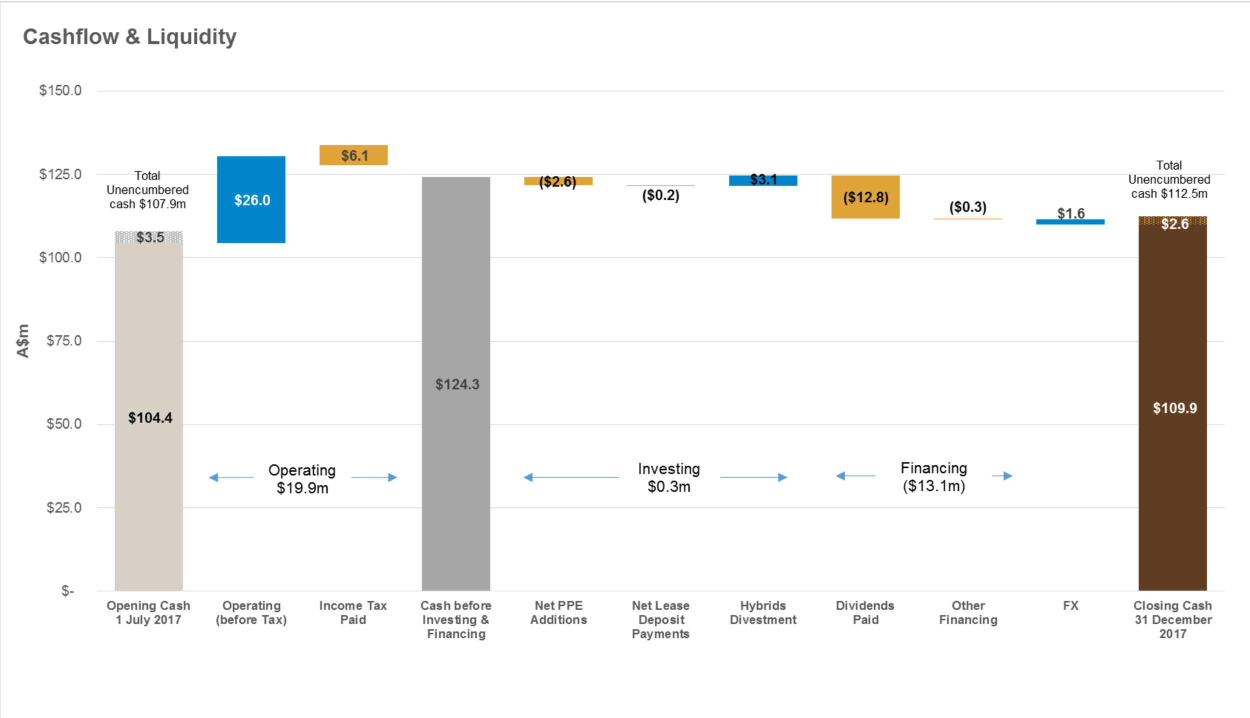
Like for Like floors occupancy was 72% at 31 December 2017 (30 June 2017: 74%). All floors occupancy was 71% at 31 December 2017 (30 June 2017: 73%).

Cash flows generated from operations (before tax) of $26.0 million, were up $2.1 million in 1H18 compared to 1H17. The primary driver for this is lower payments to suppliers and employees partly offset by investment into major strategic initiatives in 1H18 compared to 1H17.

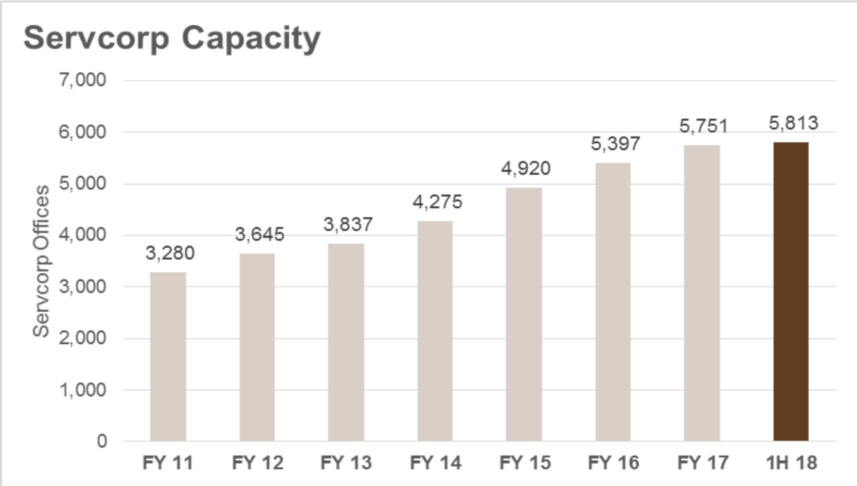
As we continue to focus on increasing the overall occupancy of existing office stock in 1H18, partly offset by our co-working expansion which commenced later in calendar 2017, capital expenditure was $2.8 million lower compared to 1H17.

We paid the FY17 final dividend of $12.8 million and divested $3.1 million of hybrid securities during 1H18.

After the impact of foreign exchange rates, overall cash increased by $5.5 million from 30 June 2017 to $109.9 million.



Servcorp Capacity



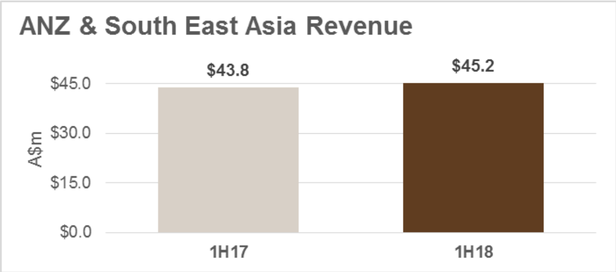
During 1H18 we added two small new locations, Louis Vuitton Building in Beirut and Mercury Tower in Bangkok.

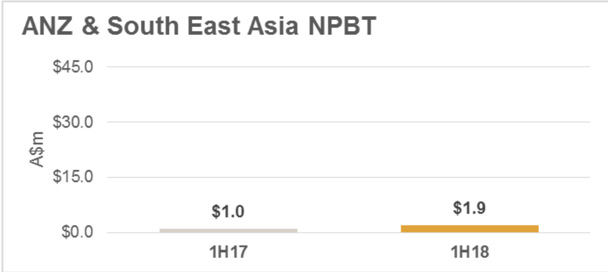
As announced at the 2017 AGM, we have started investing in reshaping our portfolio to modernise current fit-outs and to embellish their ecosystem to incorporate coworking as an integral piece. We have completed 26 locations to date and expect to complete a further 64 locations during the remainder of calendar 2018.

Our global footprint encompasses 154 floors, in 53 cities across 23 countries.

Operating Summary by Region

ANZ & South East Asia

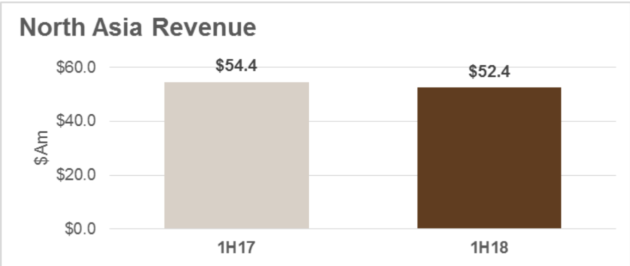


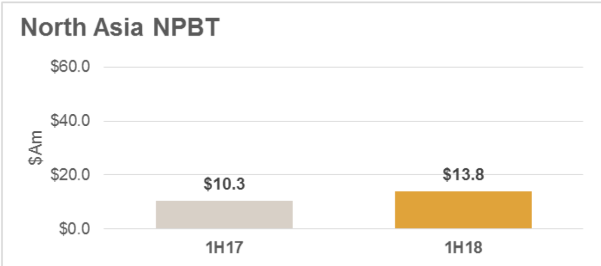


NPBT performance in ANZ / SEA increased by 90.0%. Singapore and Indonesia continue to underperform.

The balance of the region is healthy.

North Asia



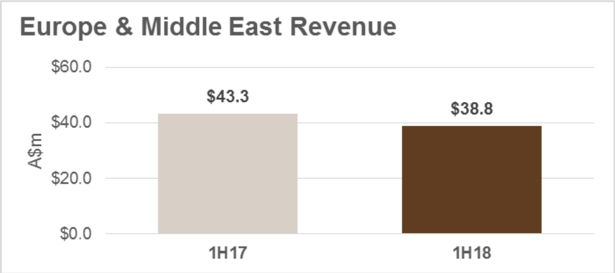


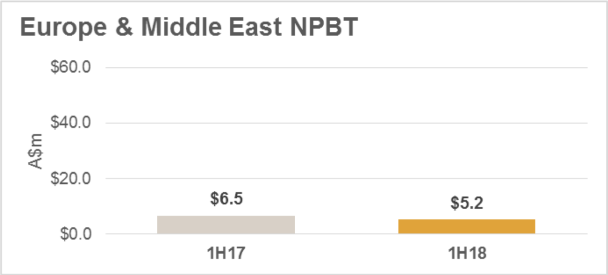
North Asia as a whole produced an outstanding result. Net profit before tax for the half year ended 31 December 2017 was $13.8 million, up 34% from $10.3 million for the half year ended 31 December 2016.

The decline in revenue period on period is reflective of a strong Australian dollar.

Operating Summary by Region (continued)

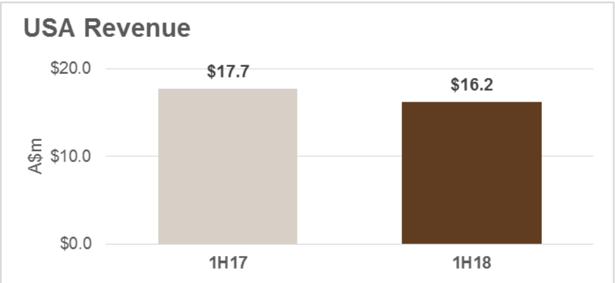
Europe & Middle East

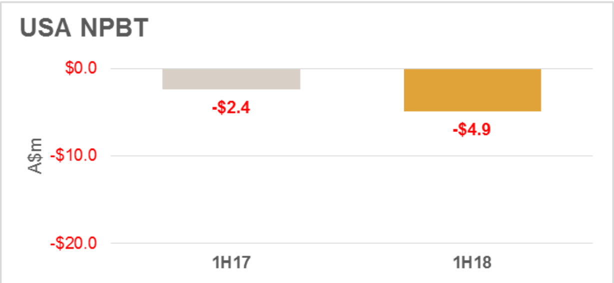




Like for Like floors in the Europe and Middle East segment produced a weaker result in 1H18 mainly due to tough markets in Saudi Arabia. However after stronger sales to date in 3Q18 we expect a strong 2H18 for this region.

USA





Notwithstanding acceptable performances across a range of locations, the USA continues to underperform.

Following a USA Federal corporate tax rate reduction in December 2017 from 35% to 21%, and a review of the carried forward loss recoverability, the tax expense includes a one-off, non-cash $13.0 million adjustment relating to the USA deferred tax assets ($7.6 million USA tax rate changes and $5.4 million de-recognition of tax losses).

Financial Summary

1H18 revenue and other income was down 6.5% to $157.0 million (1H17: $168.0 million). 1H18 generally witnessed an overall strengthening of the Australian dollar against the currencies in which we transact. 1H18 revenue expressed in constant currency terms (i.e. at 1H18 exchange rates) decreased by 3.2% compared to 1H17.

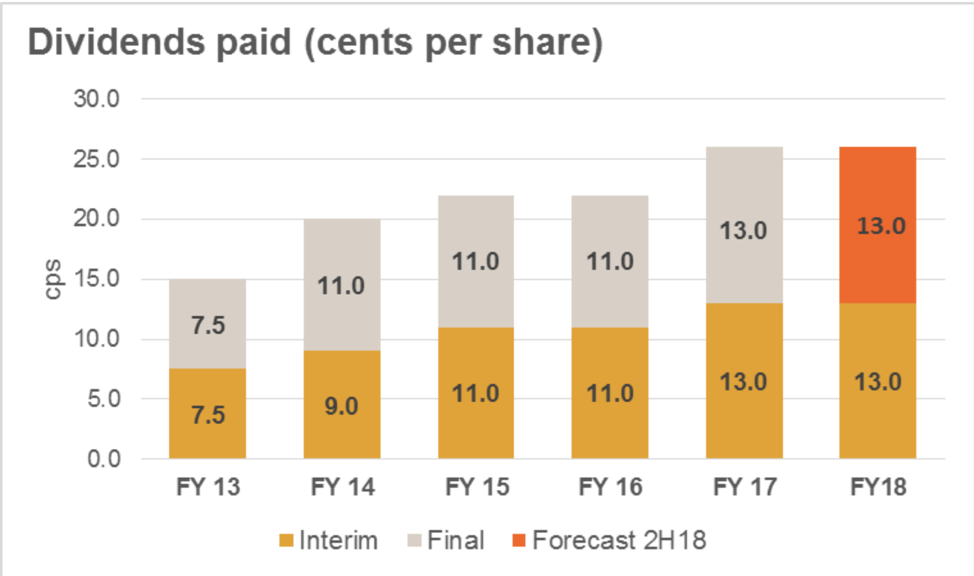
1H18 NPBT was $19.2 million, down 8.7% from 1H17 NPBT of $21.0 million. Excluding unbudgeted expenses relating to strategic initiatives of $1.9 million, underlying NPBT was $21.1 million, flat on 1H17 while Operating profit is up 7.7% on 1H17.

Net Tangible Assets per share is down to $2.44 per share from $2.56 per share at 30 June 2017 stemming largely from the $13.0 million adjustment to the USA deferred tax asset.

Cash and cash equivalents as at 31 December 2017 remained healthy at $109.9 million (30 June 2017: $104.4 million).

Other financial assets includes mark-to-market investments in bank hybrid variable rate securities of $11.4 million (30 June 2017: $14.4 million).

Dividends



The Directors have declared an interim dividend of 13.00 cps, 7.5% franked, payable on 5 April 2018.

A final dividend of 13.00 cps is anticipated to be paid in relation to FY18. Franking levels remain uncertain.

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

Outlook

As we reported with our 2017 results, the flexible workspace industry is undergoing a period of unprecedented transition and the global market for shared workspaces is growing rapidly.

To address this opportunity, during the last six months we focused our normal capital investment of approximately $20.0 million on pivoting and enhancing our floor design and customer experience across our existing office footprint, with encouraging early results. This program will continue during the remainder of the 2018 calendar year.

In parallel, we have also made a significant investment to develop growth pathways that offer attractive potential to take advantage of the expansion in demand for shared offices and to unlock more of the value inherent in our business and our technology platform. This investment amounted to approximately $1.9 million, and a further $3.0 million is earmarked for the current half year. These initiatives are at an early stage and we will keep shareholders appraised as to developments.

Over the last decade, we have invested over $100 million in our technology, communications and business management platform, as well as knowledge-building and market research in our sector. The platform we have created, which reflects 25 years of experience, enables us to provide our clients with seamless access to all of our products and services in a highly automated and cost-efficient manner wherever they are in the world.

Commenting on the outlook and strategic initiatives under way, Mr. Alf Moufarrige, Founder and CEO of Servcorp, said:
"Servcorp's long-term experience of operating a truly global business and our best-in-class technology platform mean that we can offer more clients in more locations a more attractive proposition than ever before. The initiatives we launched in 2017 open the door to the next phase of our growth."

The above operational and strategic initiatives are designed to position Servcorp to take advantage of significant growth in the sector over the medium term. Meanwhile, in the short term, we expect the underlying profitability of the business to remain stable as we complete the redesign of our office network and continue to improve our product and service offering to clients. Accordingly, we have reaffirmed that we expect NPBT for FY18 to be between $45.0 million and $55.0 million.

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

Key

FY	Financial year
1H	First half of financial year - six months to 31 December
2H	Second half of financial year - six months to 30 June
NPBT	Net Profit Before Tax
NPAT	Net Profit After Tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
cps	Cents per share
Like for Like	Like for Like include results for floors that were open in both the current and comparative reporting periods i.e. it excludes new floor openings in the current reporting period and closed floors.
ANZ	Australia & New Zealand
SEA	South East Asia
EME	Europe & Middle East
USA	United States of America

SERVCORP LIMITED

AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

Level 63, MLC Centre, 19-29 Martin Place, Sydney NSW 2000, Australia
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Australia Bahrain Belgium China France Hong Kong India Indonesia Iran Japan Kuwait Lebanon
Malaysia New Zealand Philippines Qatar Saudi Arabia Singapore Thailand Turkey UAE UK USA

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 2017. 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 2017 are:

Name	**Date Appointed**
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 (Executive Director)	November 2004
The Hon Mark Vaile (Independent Non-Executive Director)	June 2011
Mrs Wallis Graham (Independent Non-Executive Director)	October 2017

Review of operations

Revenue and other income from operating activities was down 6.5% to $157.0 million for the half year ended 31 December 2017 (31 December 2016: $168.0 million). In constant currency terms, revenue decreased by 3.2% compared to the half year ended 31 December 2016.

Net profit before tax for the half year ended 31 December 2017 was $19.2 million, down 8.7% from $21.0 million for the half year ended 31 December 2016. Excluding unbudgeted expenses relating to strategic initiatives of $1.9 million, underlying net profit before tax was $21.1 million.

Operating net profit after tax was $15.6 million (31 December 2016: $18.1 million) before one-off, non-cash adjustments to USA deferred tax asset balances of $13.0 million ($7.6 million USA tax rate changes and $5.4 million de-recognition of tax losses).

Cash and cash equivalents as at 31 December 2017 remained healthy at $109.9 million (30 June 2017: $104.4 million).

The business produced net operating cash flows during the half year ended 31 December 2017 of $19.9 million (31 December 2016: $17.6 million), an increase of 13.1%.

The Directors have declared an interim dividend of 13.00 cents per share, 7.50% franked, payable on 5 April 2018.

Business Overview

Servcorp's net profit before tax of $19.2 million for the half year ended 31 December 2017 was underpinned by a strong North Asia result offset by continued underperformance of Singapore and the USA, and an unbudgeted $1.9 million of expenses relating to strategic initiatives.

Following a USA Federal corporate tax rate reduction in December 2017 from 35% to 21%, and a review of the carried forward loss recoverability, the tax expense includes a one-off, non-cash $13.0 million adjustment relating to the USA deferred tax asset.

Like for like occupancy at 31 December 2017 was 72% (30 June 2017: 74%). All floors occupancy was 71% at 31 December 2017 (30 June 2017: 73%).

Cash flows generated from operations (before tax) of $26.0 million, were up $2.1 million for the half year ended 31 December 2017 compared to 31 December 2016. The primary driver for this is lower payments to suppliers and employees partly offset by investment into major strategic initiatives.

As we continue to focus on increasing the overall occupancy of existing office stock, partly offset by our co-working expansion which commenced later in calendar 2017, capital expenditure was $2.8 million lower compared to 31 December 2017.

Directors believe there is an unprecedented opportunity to take advantage of the tremendous growth and transformation in today's global workspace industry. As part of our investment into strategic initiatives, the Company is assessing a number of options to enhance shareholder value. Alternatives being considered include the acceleration of growth in various markets, accessing external sources of capital to aid in global expansion, the potential separation of geographies (including Europe and the Middle East), and unlocking value inherent in our footprint and technology platform. While there can be no certainty as to the outcome of these investigations, we will continue to work toward optimising the value and potential of Servcorp.

DIRECTORS' REPORT (CONT.)

Servcorp Capacity

During the half year ended 31 December 2017 we added two small new locations, Louis Vuitton Building in Beirut and Mercury Tower in Bangkok.

As announced at the 2017 annual general meeting, we have started investing in reshaping our portfolio to modernise current fit-outs and to embellish their ecosystem to incorporate coworking as an integral piece. We have completed 26 locations to date and expect to complete a further 64 locations during the remainder of calendar 2018.

Our global footprint encompasses 154 floors, in 53 cities across 23 countries.

Australia, New Zealand and Southeast Asia

Net profit before tax increased by 90.0%. Singapore and Indonesia continue to underperform.

The balance of the region is healthy.

North Asia

North Asia as a whole produced an outstanding result. Net profit before tax for the half year ended 31 December 2017 was $13.8 million, up 34% from $10.3 million for the half year ended 31 December 2016.

The decline in revenue period on period is reflective of a strong Australian dollar.

Europe and the Middle East

Like for Like floors in Europe and Middle East produced a weaker result during the half year ended 31 December 2017 mainly due to tough markets in Saudi Arabia. However after stronger sales to date we expect a strong performance for the second half of the 2018 financial year for this region.

USA

Notwithstanding acceptable performances across a range of locations, the USA continues to underperform.

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State of affairs

During the six months ended 31 December 2017 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 2018

Deloitte.

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

22 February 2018

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 2017, 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

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 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2017

	Note	6 months ended 31 December 2017 $'000	6 months ended 31 December 2016 $'000
Revenue	2	153,267	159,814
Other revenue and income	2	3,757	8,151
		157,024	167,965
Service expenses		(38,577)	(42,183)
Marketing expenses		(8,776)	(9,398)
Occupancy expenses		(79,352)	(81,559)
Rent - fixed annual impact		(489)	(843)
Administrative expenses		(10,576)	(12,850)
Share of losses of joint venture		(66)	(105)
Borrowing expenses		(14)	(17)
Total expenses		(137,850)	(146,955)
Profit before income tax expense		19,174	21,010
Income tax expense	4	(16,585)	(2,951)
Profit for the period		2,589	18,059
Other comprehensive profit			
Translation of foreign operations (Item may be reclassified subsequently to profit or loss)		(1,927)	(5,587)
Other comprehensive loss for the period (net of tax)		(1,927)	(5,587)
Total comprehensive profit for the period		662	12,472
Earnings per share			
Basic and diluted earnings per share		$0.026	$0.183

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 2017

	Note	31 December 2017 $'000	30 June 2017 $'000
Current assets			
Cash and cash equivalents		109,898	104,376
Trade and other receivables		36,641	41,650
Other financial assets		12,000	14,942
Current tax assets		-	625
Prepayments and other assets		18,005	16,435
Total current assets		176,544	178,028
Non-current assets			
Other financial assets		38,249	38,407
Property, plant and equipment		120,612	125,800
Deferred tax assets		20,938	33,620
Goodwill	6	14,805	14,805
Total non-current assets		194,604	212,632
Total assets		371,148	390,660
Current liabilities			
Trade and other payables		50,954	51,551
Other financial liabilities	7	29,325	31,005
Current tax liabilities		254	3,658
Provisions		6,685	6,948
Total current liabilities		87,218	93,162
Non-current liabilities			
Trade and other payables		26,518	27,915
Other financial liabilities	7	258	561
Provisions		759	693
Deferred tax liabilities		1,309	1,154
Total non-current liabilities		28,844	30,323
Total liabilities		116,062	123,485
Net Assets		255,086	267,175
Equity			
Contributed equity	8	154,122	154,122
Reserves		(14,236)	(12,354)
Retained earnings		115,200	125,407
Equity attributable to equity holders of the parent		255,086	267,175
Total equity		255,086	267,175

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 2017

Consolidated	Issued capital	Foreign currency translation reserve	Employee equity settled benefits reserve	Retained earnings	Total
	$'000	$'000	$'000	$'000	$'000
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
Balance at 1 July 2017	154,122	(12,465)	111	125,407	267,175
Profit for the period	-	-	-	2,589	2,589
Translation of foreign operations (net of tax)	-	(1,927)	-	-	(1,927)
Total comprehensive income for the period	-	(1,927)	-	2,589	662
Share based payment	-	-	45	-	45
Payment of dividends	-	-	-	(12,796)	(12,796)
Balance at 31 December 2017	154,122	(14,392)	156	115,200	255,086

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 2017

	6 months ended 31 December 2017 $'000	6 months ended 31 December 2016 $'000
Cash flows from operating activities		
Receipts from customers	164,870	167,646
Payments to suppliers and employees	(140,363)	(145,815)
Franchise fees received	307	312
Income tax paid	(6,108)	(6,341)
Interest and other costs of finance paid	(14)	(16)
Interest and other items of similar nature received	1,254	1,846
Net operating cash flows	19,946	17,632
Cash flows from investing activities		
Payments for property, plant and equipment	(8,697)	(11,500)
Proceeds from sale of property, plant and equipment	6,048	-
Payments for lease deposits	(182)	(294)
Proceeds from sale of variable rate bonds	3,078	9,087
Proceeds from refund of lease deposits	-	29
Net investing cash flows	247	(2,678)
Cash flows from financing activities		
Dividends paid	(12,796)	(10,828)
Landlord capital incentives received	-	2,111
Borrowings	(273)	(284)
Net financing cash flows	(13,069)	(9,001)
Net increase/ (decrease) in cash and cash equivalents	7,124	5,953
Cash and cash equivalents at the beginning of the period	104,376	95,849
Effect of exchange rate changes on cash transactions in foreign currencies	(1,602)	416
Cash and cash equivalents at the end of the period	109,898	102,218

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 9 'Financial Instruments'. Effective for annual reporting periods beginning 1 January 2018. No material impact is expected on the financial statements.
- AASB 15 'Revenue from Contracts with Customers'. Effective for annual reporting periods beginning 1 January 2018. No material impact is expected on the financial statements.
- AASB 16 'Leases'. Effective for annual reporting periods beginning 1 January 2019. The extent of the impact has not been determined. The adoption of IFRS 16 will result in the recognition of a significant right-of-use asset together with corresponding lease liabilities. The extent of the impact is currently being determined.

The Consolidated Entity has not early adopted any standard, interpretation or amendment that has been issued but is not yet effecetive.

The Directors are currently in the process of assessing the future period impact of 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 2017 $'000	6 months ended 31 December 2016 $'000
a. Revenue		
Revenue from continuing operations consisted of the following:		
Revenue from the rendering of services	152,960	159,502
Franchise fee income	307	312
	153,267	159,814
b. Other revenue and income		
Interest income - bank deposits	1,337	1,594
Net foreign exchange gain (realised and unrealised)	1,064	5,718
Other income	1,356	839
Total other revenue and income	3,757	8,151
c. Expenses		
Rent - fixed annual impact (i)	489	843

Note:
(i) The rent fixed annual impact represents the straight-lining of fixed annual increases ranging between 1.8% 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
Recognised amounts					
2017					
Final - fully paid ordinary shares	13.00	12,796	5 Oct 2017	30%	50%
Interim - fully paid ordinary shares	13.00	12,796	5 Apr 2017	30%	50%
2016					
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%
Unrecognised amounts					
2018					
Interim - fully paid ordinary shares	13.00	12,796	5 April 2018	30%	7.50%

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 2017 $'000	6 months ended 31 December 2016 $'000
Income tax recognised in the Condensed consolidated statement of comprehensive income		
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	19,174	21,010
Income tax expense calculated at 30%	5,752	6,303
Deductible local taxes	(220)	(142)
Effect of different tax rates on overseas income	(1,888)	(636)
Other non-assessable	(628)	(792)
Derecognition of previously recognised tax losses	5,405	-
Effect of change in tax rates (i)	7,560	(77)
Income tax over provision in prior years	(515)	(2,647)
Prior year tax losses recognised for deferred tax assets	1,119	942
Income tax expense	16,585	2,951

Note:
(i) On 22 December 2017, the US enacted the Tax Cuts and Jobs Act (the "TCJA") The TCJA reduces the corporate tax rate from 35% to 21%. The consequence of this change is a downward remeasurement of deferred tax assets of the USA operations. This is based on the Group's best estimates, assumptions and interpretation of the TCJA.

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 2017 $'000	31 December 2016 $'000	31 December 2017 $'000	31 December 2016 $'000
Continuing operations				
Australia, New Zealand & Southeast Asia (i)	45,163	43,761	1,868	971
USA (i)	16,222	17,703	(4,873)	(2,433)
Europe & Middle East	38,778	43,274	5,170	6,547
North Asia	52,393	54,368	13,838	10,323
Other	345	395	(63)	(24)
	152,901	159,501	15,940	15,384
Finance costs	-	-	(14)	(17)
Interest revenue	1,337	1,594	1,337	1,594
Foreign exchange gains	1,064	5,718	1,064	5,718
Centralised unrecovered head office overheads	-	-	1,280	(693)
Franchise fees	307	312	307	312
Rent - fixed annual increase (ii)	-	-	(489)	(843)
Share of losses of joint venture		-	(66)	(105)
Loss on asset disposal	(90)	-	(90)	-
Unallocated	1,505	840	(95)	(340)
Profit before tax			19,174	21,010
Income tax expense (iii)			(16,585)	(2,951)
Consolidated segment revenue and profit for the period	157,024	167,965	2,589	18,059

The revenue reported above represents revenue generated from external customers. Intersegment sales were eliminated in full for the six months ended 31 December 2017. The Group's Virtual Office revenue and Serviced Office revenue were $40.1M and $112.8M respectively (31 December 2016: $41.9M and $117.6M, 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)
(iii) On 22 December 2017, the US enacted the Tax Cuts and Jobs Act (the "TCJA") The TCJA reduces the corporate tax rate from 35% to 21%. The consequence of this change is a downward remeasurement of deferred tax assets of the USA operations. This is based on the Group's best estimates, assumptions and interpretation of the TCJA.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

6 GOODWILL

	31 December 2017 $'000	30 June 2017 $'000
Gross carrying amount and net book value		
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

Current		
At amortised cost		
Security deposits	28,775	30,446
External borrowings (i)	550	559
	29,325	31,005

At fair value through profit or loss		
At amortised cost		
External borrowings (i)	258	561
	258	561

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 2017: 98,432,275)	154,122	154,122
Movements in issued capital		
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 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
Consolidated			
31 December 2017			
Bank hybrid variable rate securities	11,440	-	-
Forward foreign currency exchange contracts	-	888	-
31 December 2016			
Bank hybrid variable rate securities	10,708	-	-
Forward foreign currency exchange contracts	-	(297)	-

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 2017 $'000	Fair value as at 31 Dec 2016 $'000	Fair value hierarchy	Valuation tecnhique(s) and key input(s)
Bank hybrid variable rate securities	11,440	10,708	1	Quoted prices in an active market
Forward foreign currency exchange contracts	888	(297)	2	Future cash flows are estimated based on observable forward exchange rates

10 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, 7.50% franked, payable on 5 April 2018.

Deloitte.

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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 (the "entity"), which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of comprehensive income, the condensed consolidated 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 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 2 to 15.

The Directors' Responsibility for the Financial Report

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

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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2017 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 review of the 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*. 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 consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants
Sydney, 22 February 2018