

27 April 2017

**By e-lodgement**

ASX Limited  
Company Announcements Office  
Level 4, North Tower  
Rialto  
525 Collins Street  
Melbourne VIC 3000

Dear Sir / Madam

**Target's Statement – Off-market takeover bid by Downer EDI Services Pty Ltd**

In accordance with item 14 of section 633(1) of the *Corporations Act 2001* (Cth), we enclose a copy of the target's statement dated 27 April 2017 (**Target's Statement**) prepared by Spotless Group Holdings Limited (ACN 154 229 562) (**Spotless**) in relation to the off-market takeover bid by Downer EDI Services Pty Ltd (**Downer**) for all of the fully paid ordinary shares in Spotless it does not already own.

The Target's Statement has today been lodged with the Australian Securities and Investments Commission and sent to Downer.

Yours sincerely



**Paul Morris**  
Company Secretary  
Spotless



# SPOTLESS

Integrated Facilities Services

SPOTLESS GROUP HOLDINGS LIMITED  
ACN 154 229 562

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES  
YOUR IMMEDIATE ATTENTION.**

If you are in any doubt about what to do, you should contact your broker or your legal, financial or other professional adviser as soon as possible.

## TARGET'S STATEMENT

This Target's Statement has been issued in response to the off-market takeover bid made by Downer EDI Services Pty Ltd, a wholly owned subsidiary of Downer EDI Limited.

THE SPOTLESS DIRECTORS  
UNANIMOUSLY RECOMMEND THAT YOU

# REJECT

THE OFFER FROM DOWNER SERVICES  
BY TAKING NO ACTION

Spotless Shareholders can call the Spotless Shareholder Information Line on 1300 963 991 (within Australia) or +61 1300 963 991 (outside Australia), on Monday to Friday between 8:30AM and 5:30PM (AEST) if they require assistance.

FINANCIAL ADVISER



Citi Australia & New Zealand

LEGAL ADVISER



Gilbert + Tobin

# IMPORTANT INFORMATION

To **REJECT** the Offer, you should **TAKE NO ACTION** in relation to all correspondence sent to you by Downer.

## Key Dates

	DATE
Announcement of the Offer Bidder's Statement lodged with Spotless, ASIC and ASX	21 March 2017
Replacement Bidder's Statement lodged with Spotless, ASIC and ASX	10 April 2017
Date of the Offer and commencement of Offer Period	12 April 2017
Date of this Target's Statement	27 April 2017
Date for Downer to provide Notice of Status of Conditions <sup>1</sup>	5 May 2017
Close of the Offer (unless extended or withdrawn)	7:00pm (AEST), 15 May 2017

## Nature of this document

This document is a Target's Statement issued by Spotless Group Holdings Limited (ACN 154 229 562) (**Spotless**) under Part 6.5 of the Corporations Act in response to the off-market takeover bid announced on 21 March 2017 by Downer EDI Services Pty Ltd (ACN 137 732 042) (**Downer Services**), a wholly owned subsidiary of Downer EDI Limited (ACN 003 872 848) (**Downer**), for all of the ordinary shares in Spotless.

## ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and sent to ASX on 27 April 2017. None of ASIC, ASX or any of their respective officers takes any responsibility for the content of this Target's Statement.

## Defined terms

Capitalised terms used in this Target's Statement are defined in section 11. The rules of interpretation that apply to this Target's Statement are also set out in section 11.

## No account of personal circumstances

The information contained in this Target's Statement does not constitute personal advice. In preparing this Target's Statement, Spotless has not taken into account the objectives, financial situation or needs of individual Spotless Shareholders. It is important that you consider the information in this Target's Statement in light of your particular circumstances. You should seek advice from your financial, legal or other professional adviser before deciding whether to accept or reject the Offer.

## Forward-looking statements

This Target's Statement contains forward-looking statements, including statements of current intention or expectation. Forward-looking statements are subject to inherent risks and uncertainties. Although Spotless believes that the expectations reflected in any forward-looking statement included in this Target's Statement are reasonable, no assurance can be given that such expectations will prove to be correct. Actual events, results or outcomes may differ materially from the events, results or outcomes expressed or implied in any forward-looking statement.

None of Spotless or its Directors, officers and advisers gives any representation, assurance or guarantee to Spotless Shareholders or any other person as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement. The forward-looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement. Except as required by applicable

<sup>1</sup> If the Offer Period is extended, this date will be taken to be postponed for the same period.

## IMPORTANT INFORMATION

law or the ASX Listing Rules, Spotless does not undertake to update or revise these forward-looking statements nor any other statements (written or oral) that may be made from time by or on behalf of Spotless, whether as a result of new information, future events or otherwise.

### Disclaimer as to information

The information on Downer and Downer Services contained in this Target's Statement has been prepared by Spotless using publicly available information (including information contained in the Bidder's Statement) and has not been independently verified by Spotless. Accordingly, subject to the Corporations Act, Spotless does not make any representation or warranty (express or implied) as to the accuracy or completeness of such information.

### Risk factors

Spotless Shareholders should note that there are a number of risk factors attached to their investment in Spotless and other risks which apply in the event the Offer is accepted. Section 7.2 of this Target's Statement sets out further information regarding those risks.

### Foreign jurisdictions

The release, publication or distribution of this Target's Statement may be restricted by law or regulation in some jurisdictions outside Australia. Accordingly, persons outside Australia who come into possession of this Target's Statement should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with laws and regulations outside Australia.

### Privacy

Spotless has collected your information from the Register for the purpose of providing you with this Target's Statement. Such information may include the name, contact details and shareholdings of Spotless Shareholders and the names of persons appointed to act as proxy, attorney or corporate representative of Spotless Shareholders. Without this information, Spotless would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of shareholders to be held in a public register. Personal information of the type described above may be disclosed on a confidential basis to Spotless and its related bodies corporate, holders of Spotless Shares and external service providers, and may be required to be disclosed to regulators, such as ASIC. If you would like details of information about you held by Spotless, please contact the Spotless Shareholder Information Line as set out below.

### Diagrams

Diagrams appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in charts, graphs and tables is based on information available at the Last Trading Date.

### Rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Target's Statement.

### Spotless Shareholder Information Line

If you have any questions in relation to the Offer, please contact the Spotless Shareholder Information Line on 1300 963 991 (for calls made from within Australia) or +61 1300 963 991 (for calls made from outside Australia), on Monday to Friday between 8:30AM and 5:30PM (AEST).

# TABLE OF CONTENTS

Chairman's Letter	3
1 Reasons why you should REJECT the Offer	4
2 Frequently asked questions	14
3 Your choices as a Spotless Shareholder	23
4 Important information about the Offer	25
5 Information relating to Spotless	31
6 Information relating to Downer Services and Downer	52
7 Risk Factors	54
8 Taxation considerations	60
9 Additional information	63
10 Approval of this Target's Statement	71
11 Glossary and Interpretation	73
Attachment A – Defeating Conditions of the Offer	76
Attachment B – Spotless ASX Announcements between 21 March 2017 and the Last Trading Date	79
Attachment C – Average broker forecasts	80

# CHAIRMAN'S LETTER

27 April 2017

Dear fellow Spotless Shareholder,

## **REJECT DOWNER'S OFFER for your Spotless Shares by simply TAKING NO ACTION**

You have recently received a Bidder's Statement from Downer outlining an unsolicited and highly conditional off-market takeover offer to acquire all your Spotless Shares for \$1.15 per Spotless Share (**the Offer**). This Target's Statement sets out Spotless' formal response to the Offer.

Your Board has carefully considered the Offer to assess whether it is in the best interests of Spotless Shareholders and do not believe that the Offer represents adequate value for your Spotless Shares. Your Directors unanimously recommend that you **REJECT** the Offer.

Each Director who holds or controls Spotless Shares intends to **REJECT** the Offer in relation to those Spotless Shares.

Your Board is unwavering in its belief in the fundamental strengths of the business. These include a blue chip customer base and a strong portfolio of long term Government, Health, Defence and PPP contracts. We have assessed the Downer Offer in the context of our announced strategy reset, which is expected to be a material driver of growth and is already delivering results, including increasing win rates, and a substantially increased pipeline of quality opportunities.

In summary, the reasons for your Directors' belief that the Offer does not represent adequate value for your Spotless Shares and recommendation with respect to the Offer are that:

- Downer's offer is opportunistic and timed to take advantage of a historical Spotless share price low
- Management and the Board have a clear plan to deliver earnings growth and long term value to shareholders
- Despite Spotless only recently implementing its strategy reset, early signs of success are evident and demonstrate its growth potential
- The Offer does not reflect Spotless' strong core business
- Spotless' earnings expectations are not fully reflected in current broker views
- The Offer does not recognise the strategic and financial value of Spotless to Downer
- The Offer is hostile, highly conditional and not certain to proceed
- Coltrane Asset Management has accumulated relevant interests in 10.37% of Spotless Shares on issue<sup>2</sup> and currently intends to REJECT the Offer at the current Offer Price (although it has not made any final decision and reserves the right to take any action it considers appropriate in relation to the Offer)<sup>3</sup>

Your Directors believe these are compelling reasons why you should **REJECT** the Offer and simply **TAKE NO ACTION** in relation to all documents sent to you from Downer.

I urge you to read this Target's Statement in full and to seek any independent financial, legal, taxation or other professional advice that you require before making a decision as to whether or not to accept the Offer.

Your Directors have been focussed, and continue to focus, on exploring all options to maximise value to shareholders – either in its current form as an independent listed entity executing on the strategy reset and returning to growth or advancing discussions in relation to a superior proposal to the current Offer.

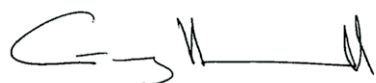
If we remain an independent listed entity, the Directors are confident that the fundamental strengths of Spotless' core business, together with management's execution of the strategy reset will deliver greater value to Spotless' shareholders than the Downer offer in the medium term.

Your Directors will continue to keep you informed on all material developments in relation to the Offer.

If you have any questions in relation to this Target's Statement or your shareholding in Spotless, please call the Spotless Shareholder Information Line on 1300 963 991 (for calls made from within Australia) or +61 1300 963 991 (for calls made from outside Australia) Monday to Friday between 8.30am and 5.30pm (AEST).

Thank you for being a Spotless Shareholder.

Yours sincerely



Garry Hounsell  
**Chairman**

<sup>2</sup> As set out in Spotless' ASX release dated 3 April 2017, Coltrane's relevant interest in 10.37% of Spotless shares on issue is through cash-settled equity swaps and an expectation to be delivered upon request the ordinary shares the subject of those swaps. If it was to do so, Coltrane Asset Management would be Spotless' second largest shareholder.

<sup>3</sup> If it becomes the holder of those shares (see section 1.9 for further detail).

# SECTION 1

## REASONS WHY YOU SHOULD REJECT THE OFFER

# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

## 1.1 Your Directors do not believe the Downer Offer represents adequate value

Your Directors do not believe the Offer represents adequate value for your Spotless Shares because:

- Downer's Offer is opportunistic and timed to take advantage of a historical Spotless share price low;
- Management and the Board have a clear plan to deliver earnings growth and value to shareholders under the strategy reset;
- despite Spotless only recently implementing its strategy reset, early signs of success are evident and demonstrate its growth potential;
- the Offer does not reflect Spotless' strong core business;
- Spotless' earnings expectations are not fully reflected in current broker views;
- the Offer does not recognise the strategic and financial value of Spotless to Downer;
- the Offer is hostile, highly conditional and not certain to proceed; and
- Coltrane Asset Management has accumulated relevant interests in 10.37% of Spotless Shares on issue<sup>4</sup> and currently intends to REJECT the Offer at the current Offer Price (although it has not made any final decision and reserves the right to take any action it considers appropriate in relation to the Offer)<sup>5</sup>.

Refer to sections 1.2 – 1.9 for further information supporting your Director's belief that Downer's Offer does not represent adequate value for your Spotless Shares.

## 1.2 Downer's Offer is opportunistic and timed to take advantage of historical Spotless share price low

The Offer was announced when Spotless' share price was at a historical low due in part to factors Spotless believes were short term:

- there was short selling evident in Spotless stock<sup>6</sup> driven in part by market misconceptions that Spotless required equity capital market funding. Spotless can confirm that it remains well within its existing debt covenants and is implementing its stated initiatives to reduce net leverage to approximately 2.5x by June 2018; and
- a non-cash write down and costs of the contract portfolio rationalisation were announced with the release of 1H FY2017 results in late February 2017 and negatively impacted Spotless' share price performance. Each of these are one-off items, which are expected to contribute positively in the medium to long term. Management expects that the full benefits of this major strategic initiative will be realised over the medium term (see sections 1.3 and 5.2(a) for further details on Spotless' strategy reset).

<sup>4</sup> As set out in Spotless' ASX release dated 3 April 2017, Coltrane's relevant interest in 10.37% of Spotless shares on issue is through cash-settled equity swaps and an expectation to be delivered upon request the ordinary shares the subject of those swaps. If it was to do so, Coltrane Asset Management would be Spotless' second largest shareholder.

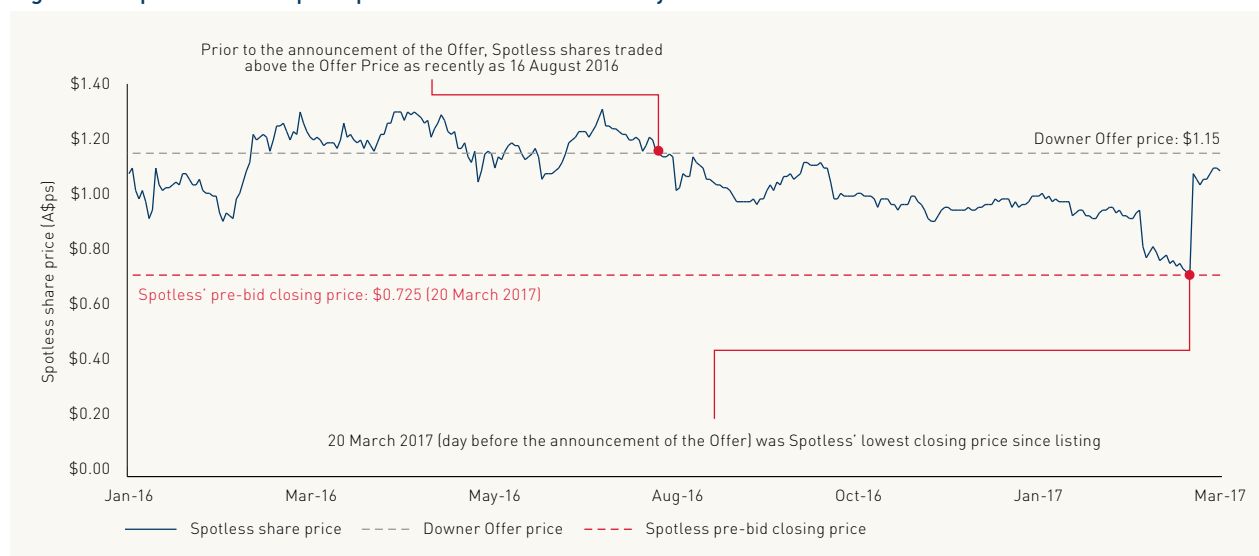
<sup>5</sup> If it becomes the holder of those shares (see section 1.8 for further detail).

<sup>6</sup> Short interest increased to a 3-month high (pre-bid) of 5.4% as at 15 March 2017 from a 3-month low of 3.0% as at 24 January 2017. Sourced from ASIC.



# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

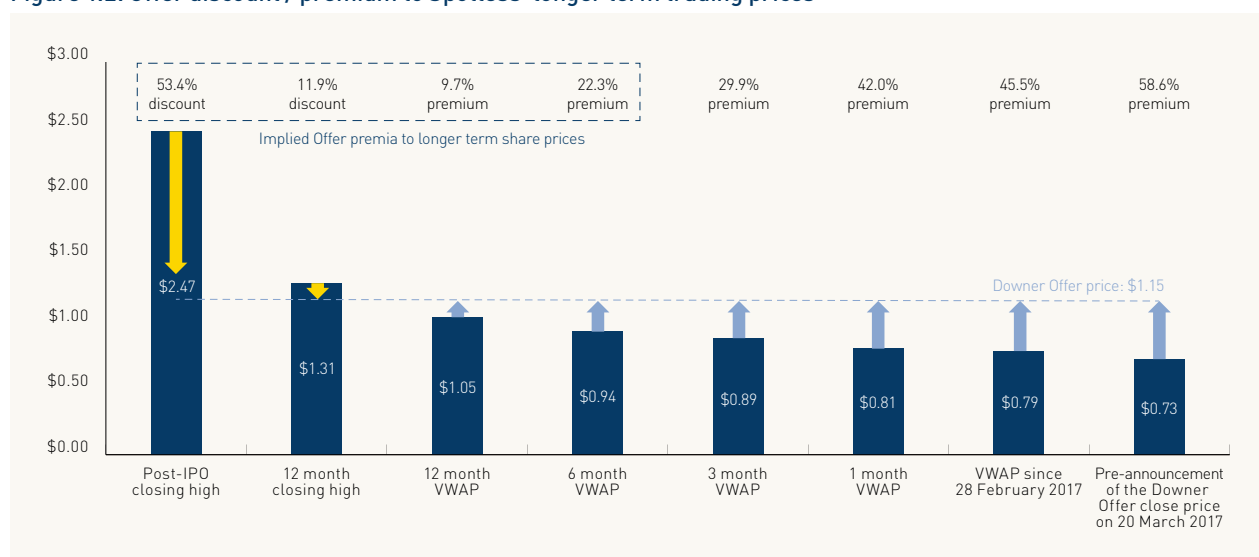
Figure 1.1: Spotless' share price performance since 1 January 2016



Source: IRESS.

While Downer Services has cited some short-term comparisons in its Bidder's Statement, it has not shown how the Offer compares against the trading prices of Spotless Shares over a broader period. Accordingly, the Directors believe that Spotless Shareholders should have regard to longer term as well as shorter term share prices when calculating premia implied by the Offer. At \$1.15 cash per Spotless Share, the implied Offer premia to trading prices over the longer term is demonstrably lower than the premium to the Spotless Share price immediately prior to the announcement of the Offer.

Figure 1.2: Offer discount / premium to Spotless' longer term trading prices



Source: IRESS.

Note: VWAPs based on market volume traded on ASX to 20 March 2017.

# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

## 1.3 Management and the Board have a clear plan to deliver earnings growth and value to shareholders

Since commencing as CEO and Managing Director in late 2015, Martin Sheppard along with the newly refreshed management team have implemented a number of changes within the business to drive the creation of value for Spotless Shareholders, including:

- strengthening the management team with a focus on business development, including making 6 new appointments to the organisation and 4 appointments to new roles;
- recent rationalisation of Spotless' existing contracts;
- greater expensing of contract bid costs versus capitalisation; and
- resetting the balance sheet through asset write-downs, reducing the risk of future asset impairments.

Concurrently, management clearly articulated its strategy reset to stimulate organic growth and optimise Spotless' business mix in order to enhance future earnings for Spotless Shareholders. Strategic reset initiatives include:

- prioritising high return, low capital intensive end markets;
- focusing on providing multi-service integrated solutions;
- increasing win rates with a focus on fewer but larger opportunities; and
- investing in business development capability to drive organic growth and better quality opportunities.

The strategy reset focuses on priority end markets including Health, Education, Defence, Infrastructure and Government, most of which are expected to experience robust growth (see section 5.2(a) for more information on Spotless' strategy reset), while targeting long-dated, expandable multi-service contracts that leverage Spotless' scale, geographical footprint and breadth of capabilities.

This has positioned Spotless with a competitive advantage against its generally smaller, specialist competitors.

As part of execution of its strategy, Spotless undertook a detailed review of its contract book and identified potential areas to unlock value. A key constraint on achieving Spotless' stated strategy is the long "tail" of smaller, underperforming contracts. Spotless is taking action to rationalise the contract book to improve financial performance and reduce operational complexity (see section 5.2(a)(iii)).

Management is also in the process of implementing a number of other initiatives to drive improvements across the business (see section 5.2 for more information), including:

- acquiring businesses with strong alignment to its strategy, including the acquisition of Nuvo in 1H17, providing Spotless with a premium electrical, audio visual, energy, solar and technology capability. Nuvo operates in Spotless' key growth sectors, including tertiary education, health, aged care and infrastructure;
- a clear turnaround strategy for its laundries business;
- implementing a working capital improvement program (see section 5.2(d) for more details on Spotless's working capital initiatives) which is expected to result in an approximately \$80 million working capital improvement over FY18 and FY19;
- reducing net leverage to approximately 2.5x LTM EBITDA (by June 2018) and strengthening the Spotless balance sheet; and
- reorientation towards customer service, innovation and technology.

Spotless has made significant progress in implementation of the strategy reset and is confident that the strategy will drive both strong earnings and cashflow growth over the medium term.

If you accept the Offer, you will neither benefit from these initiatives nor, in the Board's view, be adequately compensated for the returns they are expected to generate for Downer, if it were to acquire control of Spotless.

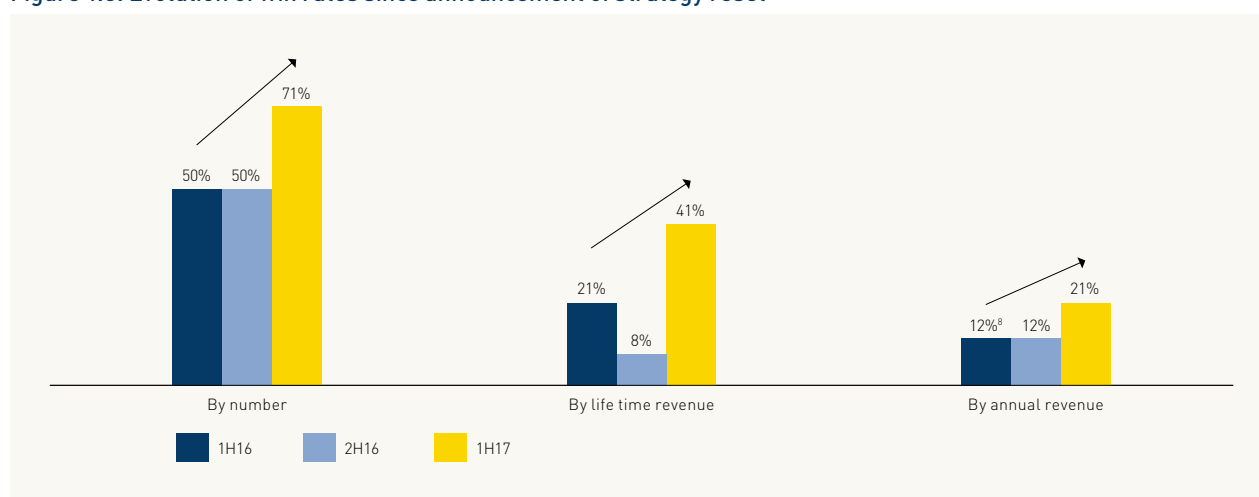
# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

## 1.4 Despite Spotless only recently implementing its strategy reset, early signs of success are evident and demonstrate its growth potential

Spotless' investment in its Business Development team to implement its strategy reset is already delivering results with improved win rates in long-dated, multi-service contracts. The pipeline of quality opportunities has grown from \$1.1 billion at August 2016 to \$1.6 billion at December 2016.<sup>7</sup>

Spotless has also improved contract win rates by number, lifetime and annual revenue (see Figure 1.3), reflecting the impact of targeted investment in business development. This is attributed to an enhanced business development framework, expanded capability, improved bid and tender quality and benefits flowing from refreshed branding and marketing collateral.

**Figure 1.3: Evolution of win rates since announcement of strategy reset**



Source: Spotless' 1H17 results presentation.

Spotless recently announced major renewals of contracts to provide integrated services to major facilities operators in the Australian health sector, including a five year integrated services contract extension with the Alfred Hospital in Victoria and a four year extension to the national Healthscope partnership. The contracts have combined revenue of approximately \$210 million over five years, taking the total value of key strategic contracts signed during March 2017 to approximately \$330 million.

See section 5.2(b) for further detail on Spotless' improved pipeline and win rates and section 5.2(c) for further detail on Spotless' recent contract renewals.

<sup>7</sup> Reflects the annualised revenue from new business opportunities expected to come to market in the next 24 months.

<sup>8</sup> Low win rate in 1H16 reflects Rio Tinto new business loss. Excluding this, the win rate was 23%.

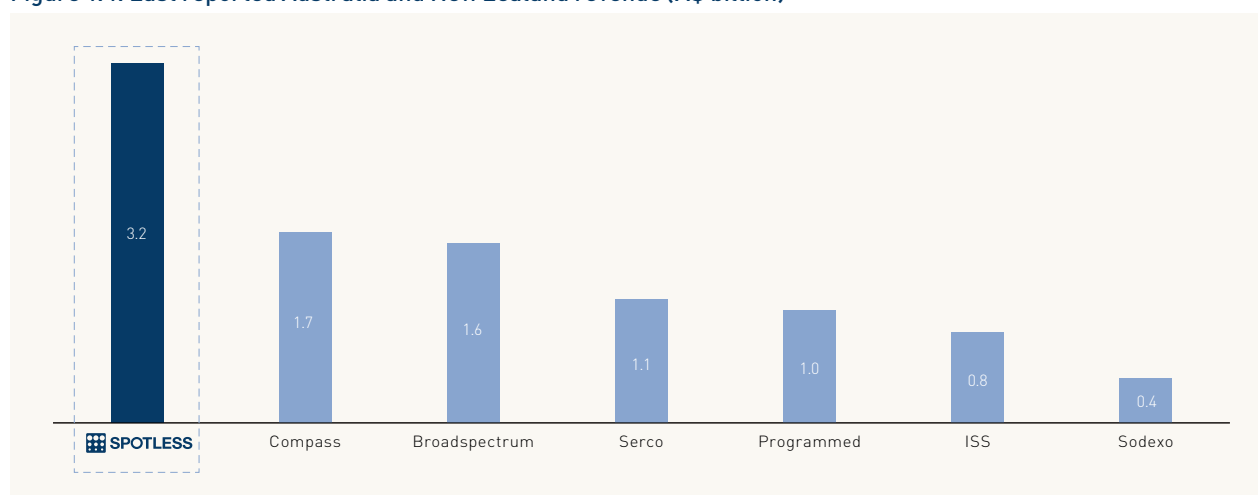
# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

## 1.5 The Offer does not recognise the strength of Spotless' core business

Spotless is the market leader in Australian and New Zealand facility services and has market leading capabilities in the delivery of large, long-dated, expandable multi-service contracts.

Spotless' market leadership position is evidenced by the size of its revenue (shown in Figure 1.4), number of employees and geographic locations relative to its facilities services competitors.<sup>9</sup>

Figure 1.4: Last reported Australia and New Zealand revenue (A\$ billion)<sup>10,11</sup>



Source: Company filings, ASIC.

Spotless is exposed to both growing (see Figure 5.9 in section 5.2(a)) and defensive end markets and has a high quality and diverse customer base<sup>12</sup>:

- approximately 53% of its revenues are backed by Government clients (see Figure 1.5);
- approximately 64% of its revenues are from priority end-markets including Health, Defence, Education, Infrastructure, Government and PPPs (see Figure 1.7);
- 96% of its revenues are contracted, with 94% having built in price escalation mechanisms;<sup>13</sup>
- Spotless' largest 150 contracts account for approximately 68% of revenue, whilst the largest single contract accounts for approximately 6% of revenue; and
- the weighted average contract tenure is approximately 5.2 years, with 7.4% of revenue due for renewal in FY18.<sup>14</sup>

<sup>9</sup> Spotless employs over 36,000 people making it one of Australia and New Zealand's largest employers.

<sup>10</sup> The market is defined by reference to the services Spotless currently provides to the four end-market customer sectors that Spotless currently serves, and includes both facility services and laundries services. It does not include potential revenue from adjacent customer sectors that Spotless does not currently serve but that may be regarded as part of a broader facility services industry.

<sup>11</sup> Estimate of revenue derived from Australian and New Zealand public filings – Compass (FY16, ANZ); Broadspectrum (FY16, ANZ, revenue from Defence, Social and Property segment only); Serco (FY15, ANZ); Programmed (FY16, ANZ); ISS (FY16, ANZ); Sodexo (FY16, ANZ). New Zealand Dollar revenues have been converted to Australian Dollars at 1.052 for Compass (30 Sep 2016) and 1.063 for Serco (31 Dec 2015); Danish Krone revenues (ISS only) converted to Australian Dollars at 0.196 (31 Dec 2016).

<sup>12</sup> Based on top 150 identified contracts by FY17 expected revenue. FY17 based on 1H17 actuals and 6 months of estimated revenue.

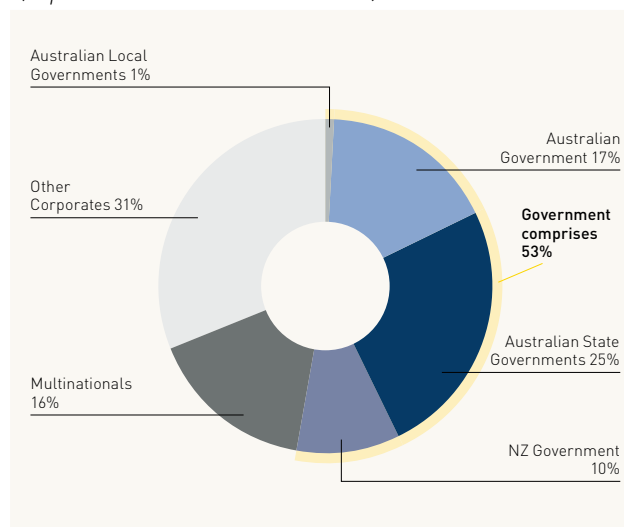
<sup>13</sup> Revenue that is contracted through FY17 as percentage of FY17 expected revenue.

<sup>14</sup> Annualised revenue for contracts due for renewal in FY18 as a percentage of full year FY18 revenue, excludes Alfred Hospital.

# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

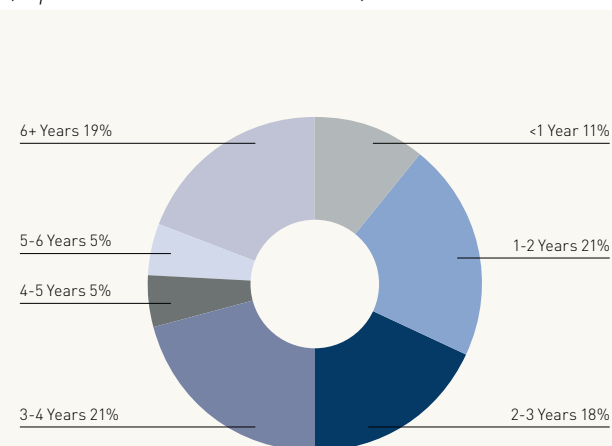
**Figure 1.5: Major customer type**

(Top 150 contracts as % of revenue)<sup>15</sup>



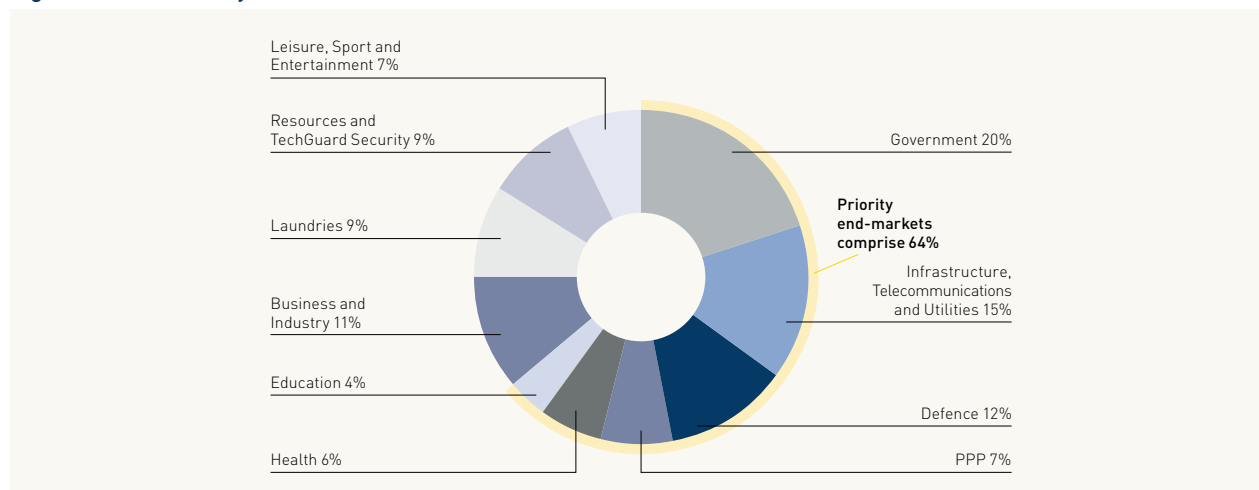
**Figure 1.6: Contract length**

(Top 150 contracts as % of revenue)<sup>16</sup>



Source: Management.

**Figure 1.7: Revenue by end-market (%)<sup>17</sup>**



Source: Management.

Spotless has a large portfolio of PPP contracts which are higher margin, longer in tenure and often multi-service, consistent with Spotless' strategy reset. Spotless' 18 PPP contracts have a lifetime revenue of \$10.8 billion.

See section 5.1 for more information on Spotless' business.

<sup>15</sup> Based on Top 150 Contracts, as a percentage of FY17 expected revenue.

<sup>16</sup> Revenue that is contracted through FY17 as a percentage of FY17 expected revenue as at 31 December 2016.

<sup>17</sup> Based on FY17 expected revenue. Infrastructure, Telecommunications and Utilities includes AE Smith, UASG and Nuvo.

# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

## 1.6 Spotless' earnings expectations are not fully reflected in current broker views

Spotless re-affirms its FY17 NPAT guidance of \$80 to \$90 million.<sup>18</sup>

Spotless management do not believe that current broker forecasts for FY18 fully reflect the expected performance of the company due to a number of factors, including the following:

- Spotless expects benefits of the contract book rationalisation will remove the 'drag' of uneconomic contracts on earnings and re-orientate the portfolio to higher margin contracts in attractive, high growth end-markets (refer to section 5.2(a)(iii));
- the contract book rationalisation referred to above is expected to deliver a simplified business model and reduced sector and corporate overhead post restructure which is expected to support earnings growth over the period to which the NPAT Guidance relates; and
- an improvement in Spotless' net leverage position and resultant reduction in net interest expense, driven by net debt reduction initiatives including:
  - implementation of a working capital improvement program which is expected to result in approximately \$80m working capital release over FY18 and FY19, (for further detail see section 5.2(d));
  - improved capital expenditure controls; and
  - proceeds from certain potential asset sales.

Within the context of the above expected benefits and subject to the risk factors in section 7.2, the Directors provide the following forecast NPAT (pre-exceptional items);

\$ MILLION	FY17 (SPOTLESS GUIDANCE)	FY18 (SPOTLESS GUIDANCE)	FY18 (AVERAGE BROKER FORECAST)
NPAT (pre-exceptional items)	\$80-90m	\$85-100m	\$83m <sup>19</sup>

For further information regarding the basis of preparation of the above guidance, key assumptions and other discussion, please see section 5.4 and risk factors in section 7.

<sup>18</sup> Refer to Spotless' 1H17 results announcement dated 28 February 2017. Your Directors continue to consider that the earnings guidance provided in that announcement is sound and is given on a reasonable basis.

<sup>19</sup> A summary of the selection criteria, number of broker forecasts comprising the average, range and date of the broker forecasts is provided in Attachment C to this Target's Statement. The broker forecasts have been included solely as an indication of market views.

# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

## 1.7 The Offer does not recognise the strategic and financial value of Spotless to Downer

Downer itself has recognised and highlighted the strategic and financial value it sees in Spotless in its communications to Spotless and Downer shareholders to date, describing Spotless as contributing a “complementary, high quality customer base” and helping Downer to create an “integrated service provider with a comprehensive range of capabilities” and “leading market positions across key sectors”.<sup>20</sup>

Downer has indicated Spotless would “de-risk Downer’s portfolio” and deliver Downer a “higher proportion of earnings from stable services businesses with resilient earnings”.<sup>21</sup> Earnings accretion to Downer shareholders has been estimated by Downer in the “mid-high teens” based on a “conservative” estimate of run-rate pre-tax synergies of \$20 million per annum.<sup>22</sup>

Relevantly, in early stage merger discussions that took place between Spotless and Downer in June 2016 (and which progressed no further), the companies discussed the potential for the combination of their respective businesses to generate up to \$60 million in potential synergies in a preliminary base case analysis. Availability of the potential synergies was expected (subject to further confirmatory analysis) to be achieved via increased operating flexibility (e.g. workforce management), streamlining business development and middle office functions as well as potential savings available across procurement, back office and corporate functions. This analysis confirms the “conservative” nature of the \$20 million to \$40 million estimate announced by Downer.

## 1.8 The Offer is hostile, highly conditional and not certain to proceed

The Offer is highly conditional and subject to a number of third party and regulatory approvals and consents which are outside the control of both Spotless and Downer.

Key conditions of the Offer include (the Defeating Conditions):

- a 90% minimum acceptance condition (including Downer’s existing holding);
- no reduction to the FY17 earnings guidance;
- financiers to Spotless’ debt facilities providing all required consents to, and waivers and releases (as applicable) in respect of certain rights arising from Downer acquiring Spotless Shares, a change of control of Spotless or the announcement of Downer’s Offer;
- all necessary regulatory approvals, including approval of the Offer by the New Zealand Overseas Investment Office;
- other conditions including no regulatory restraints and no Spotless Prescribed Occurrences;
- no material acquisitions, disposals or significant events; and
- no termination of the Downer underwriting agreement before the end of the Offer Period.

These conditions are set out in full at Attachment A of this Target’s Statement.

All Defeating Conditions need to be satisfied, or waived by Downer before payment can be made to accepting Spotless Shareholders.

There is no certainty that these Defeating Conditions will be satisfied or waived prior to the close of the Offer. Spotless shareholders should refer to section 4.5 of this Target’s Statement for more information on the status of the Defeating Conditions

Accordingly, even if Spotless Shareholders accept the Offer, they will not be paid for their Spotless Shares unless all Defeating Conditions are satisfied or waived by Downer.

20 Page 10, Downer’s “Offer for Spotless and Equity Raising” presentation, released to the ASX on 21 March 2017.

21 Page 19, Downer’s “Offer for Spotless and Equity Raising” presentation, released to the ASX on 21 March 2017.

22 Page 8, Downer’s “Offer for Spotless and Equity Raising” presentation, released to the ASX on 21 March 2017.

# 1 REASONS WHY YOU SHOULD REJECT THE OFFER

## 1.9 Coltrane Asset Management has accumulated relevant interests in 10.37% of Spotless Shares on issue and currently intends to REJECT the Offer at the current Offer Price

Coltrane currently has a relevant interest in 10.37% of shares on issue in Spotless through cash-settled equity swaps and an expectation to be delivered upon request the ordinary shares the subject of those swaps. If it was to do so, Coltrane would be Spotless' second largest shareholder.

Coltrane has indicated to Spotless that its present intention, if it was to be delivered the shares the subject of the swap, would be to reject the Offer at the current Offer Price (although it has not made any final decision and reserves the right to take any action it considers appropriate in response to the Offer).

If Coltrane rejects the Offer, this means that the Offer cannot proceed, and Spotless Shareholders who accept the Offer will not be paid, unless Downer Services waives its 90% minimum acceptance condition. Downer Services has not made any public disclosures to date which indicate that it intends to waive the 90% minimum acceptance condition.



# SECTION 2

## FREQUENTLY ASKED QUESTIONS

## 2 FREQUENTLY ASKED QUESTIONS

This section answers some frequently asked questions about the Offer. It is not intended to address all relevant issues for Spotless Shareholders. This section should be read together with all other parts of this Target's Statement.

*Note: Section numbers refer to this Target's Statement unless otherwise indicated.*

QUESTION	ANSWER	REFERENCE
<b>WHAT IS THIS ABOUT?</b>		
<b>What is this Target's Statement?</b>	This Target Statement is Spotless' formal response to Downer Services' Offer, including the recommendation of your Directors to <b>REJECT</b> the Offer.	N/A
<b>What is the Bidder's Statement?</b>	The Bidder's Statement is the document prepared by Downer and Downer's Services setting out the terms of the Offer, a copy of which was originally dated and lodged with ASIC and released on ASX on 21 March 2017, and was replaced by a replacement Bidder's Statement dated and lodged with ASIC and released to ASX on 10 April 2017.	N/A
<b>Who is making the Offer?</b>	Downer EDI Services Pty Ltd ( <b>Downer Services</b> ), a wholly owned subsidiary of Downer EDI Limited ( <b>Downer</b> ).  Information in relation to Downer Services and Downer is set out in section 5 of this Target's Statement and section 1 of the Bidder's Statement.	Section 5  Section 1 of the Bidder's Statement
<b>Does Downer or Downer Services already have an interest in Spotless Shares?</b>	As at the Last Trading Date, Downer and Downer Services had: <ul style="list-style-type: none"> <li>a relevant interest in 164,743,526 Spotless Shares or 15% of Spotless' total issued capital; and</li> <li>an economic interest of 4.99% of Spotless Shares pursuant to a total return cash-settled equity swap referenced over 54,804,679 Spotless Shares. As at the date of this Target's Statement, Downer has not disclosed whether it has any intention to convert its economic interest into a physical holding in the relevant reference shares.</li> </ul> See section 6 of the Bidder's Statement for further details.	Section 6 of the Bidder's Statement

## 2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	REFERENCE
What is the Offer?	<p>Downer Services has made an Offer for all Spotless Shares on the terms set out in section 7 of the Bidder's Statement.</p> <p>Downer Services is offering to acquire all of your Spotless Shares. The Offer also extends to all of the Spotless Shares in respect of which a person becomes registered or in respect of which the person becomes entitled to be registered as the holder prior to the end of the Offer Period as a result of:</p> <ul style="list-style-type: none"> <li>the vesting of, conversion of, or the exercise of rights attached to any LTI Options that are on issue at the Register Date; and</li> <li>subject to ASIC granting any necessary relief from the Corporations Act (or confirming that no relief is needed), the vesting of, conversion of, or exercise of rights attaching to any LTI Rights which are on issue as at the Register Date.</li> </ul> <p>Downer Services has stated that you may only accept the Offer for all (and not just part) of your Spotless Shares.</p>	<p>Section 4</p> <p>Section 7 of the Bidder's Statement</p>
What is the Offer Price?	The Offer Price is \$1.15 per Spotless Share.	Section 7 of the Bidder's Statement
<b>WHAT SHOULD I DO?</b>		
What do your Directors recommend?	<p>Your Directors unanimously recommend that you <b>REJECT</b> the Offer by <b>TAKING NO ACTION</b>.</p> <p>The reasons for this recommendation are set out section 1. If there is any change in this recommendation or any material developments in relation to the Offer, Spotless will lodge a supplementary target's statement.</p>	Section 1
What do the Directors intend to do with their own Spotless Shares?	Each Director who holds or controls Spotless Shares intends to <b>REJECT</b> the Offer in relation to their Spotless Shares.	Section 9.5

## 2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	REFERENCE
What choices do I have as a Spotless Shareholder?	<p>As a Spotless Shareholder, you have the choice to:</p> <ul style="list-style-type: none"> <li>reject the Offer by doing nothing;</li> <li>sell some or all of your Spotless Shares on market (unless you have already accepted the Offer); or</li> <li>accept the Offer for all (and not just a part) of your Spotless Shares.</li> </ul> <p>You should carefully consider the Directors' unanimous recommendation to <b>REJECT</b> the Offer and other important issues set out in this Target's Statement.</p> <p>You may wish to seek independent financial and taxation advice from your professional adviser in relation to the action you should take in relation to the Offer.</p>	Section 3
Why should I <b>REJECT</b> the Offer?	<p>You should <b>REJECT</b> the Offer because your Directors do not believe it represents adequate value for your Spotless Shares, for the following reasons:</p> <ol style="list-style-type: none"> <li>1. Downer's offer is opportunistic and timed to take advantage of a historical Spotless share price low;</li> <li>2. Management and the Board have a clear plan to deliver earnings growth and value to shareholders under the strategy reset;</li> <li>3. Despite Spotless only recently implementing its strategy reset, early signs of success are evident and demonstrate its growth potential;</li> <li>4. The Offer does not reflect Spotless' strong core business;</li> <li>5. Spotless' earnings expectations are not fully reflected in current broker views;</li> <li>6. The Offer does not recognise the strategic and financial value of Spotless to Downer;</li> <li>7. The Offer is hostile, highly conditional and not certain to proceed; and</li> <li>8. Coltrane has accumulated relevant interests in 10.37% of Spotless Shares on issue and currently intends to <b>REJECT</b> the Offer at the current Offer Price (although it has not made any final decision and reserves the right to take any action it considers appropriate in relation to the Offer).<sup>24</sup></li> </ol>	Section 1

<sup>24</sup> As set out in Spotless' ASX release dated 3 April 2017, Coltrane's relevant interest in 10.37% of Spotless shares on issue is through cash-settled equity swaps and an expectation to be delivered upon request the ordinary shares the subject of those swaps. If it was to do so, Coltrane Asset Management would be Spotless' second largest shareholder.

## 2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	REFERENCE
What is the status of Spotless' discussions regarding an alternative proposal?	<p>Following Downer's announcement on 21 March 2017, Spotless and its advisers engaged with discussions with several parties, including detailed discussions with a global facilities services company. The discussions with that party included exploring a potential merger transaction valuing Spotless at a superior value than the Downer offer. The potential merger discussions required agreement on a merger ratio reflecting agreed valuations of each party and the extent to which synergies would be shared by both sets of shareholders.</p> <p>Those discussions ended on 22 April 2017, when the parties could not reach agreement on the terms of a transaction and the shareholders of the other party also advised that they were considering alternate strategic options for their business.</p> <p>While the Board will continue to explore any interest it receives from third parties, no superior proposal has emerged to date (and there can be no certainty that any alternative proposal will proceed or result in a superior proposal).</p>	Section 9.3
How do I REJECT the Offer?	To reject the Offer, you should simply <b>DO NOTHING</b> and <b>TAKE NO ACTION</b> in relation to any documents sent to you from Downer.	N/A
Can I be forced to sell my Spotless Shares?	<p>You cannot be forced to sell your Spotless Shares unless Downer Services proceeds to compulsorily acquire Spotless Shares under Chapter 6A of the Corporations Act.</p> <p>In summary, Downer Services will need to acquire at least 90% of Spotless Shares (under the Offer or otherwise) in order to exercise compulsory acquisition rights. If Downer Services acquires 90% or more of Spotless Shares and proceeds to compulsorily acquire all Spotless Shares on issue, then you will be paid the same consideration as is payable by Downer Services under the Offer.</p>	N/A
What are the risks of accepting or rejecting the Offer?	Non-exhaustive lists of key risks in accepting or rejecting the Offer are set out in section 7 of this Target's Statement.	Section 7

## 2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	REFERENCE
<b>OFFER INFORMATION</b>		
<b>Is the Offer conditional?</b>	<p>Yes. The Offer is subject to a range of conditions described in section 7.11 of the Bidder's Statement (<b>Defeating Conditions</b>), being (in summary form):</p> <ul style="list-style-type: none"> <li>• a 90% minimum acceptance condition;</li> <li>• all necessary approvals required by law of a Public Authority (including consent from the New Zealand Overseas Investment Office);</li> <li>• no action by any Public Authorities which may adversely affect the Offer;</li> <li>• counterparties to Spotless Debt Facilities providing all required waivers, consents and releases in relation to their various rights which arise as a result of the Offer or Downer Services acquiring a relevant interest in Spotless;</li> <li>• no termination of Downer's Underwriting Agreement;</li> <li>• no Spotless profit downgrade;</li> <li>• no material acquisitions, disposals or significant events; and</li> <li>• no Prescribed Occurrences.</li> </ul> <p>The Defeating Conditions to the Offer are discussed in more detail in section 4.3 of this Target's Statement and are set out in full at Attachment A.</p>	<p>Section 4.3 and Attachment A</p> <p>Section 7.11 of the Bidder's Statement</p>
<b>What happens if the Defeating Conditions are not fulfilled or waived?</b>	<p>If the Defeating Conditions are not fulfilled or waived by Downer Services by the end of the Offer Period,<sup>25</sup> your acceptance of the Offer will be void and you will not receive any consideration from Downer Services. You will then be free to deal with your Spotless Shares as you see fit.</p> <p>If the Defeating Conditions are satisfied or waived by this time, you will be paid the Offer Price by Downer Services (subject to the terms of the Offer in the Bidder's Statement).</p> <p>Shareholders should note that Downer Services cannot waive the Defeating Condition requiring approvals from Public Authorities, as that Defeating Condition includes a requirement for New Zealand OIO approval.</p>	Section 4.4

<sup>25</sup> Or, in the case of the Defeating Conditions relating to no Prescribed Occurrences, within 3 business days after the end of the Offer Period.

## 2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	REFERENCE
<b>What are the consequences of accepting the Offer now?</b>	<p>If you accept the Offer, unless you withdraw your acceptance in accordance with the terms of the Offer (see below), you will give up your right to:</p> <ul style="list-style-type: none"> <li>• accept a competing proposal in relation to Spotless, should one emerge;</li> <li>• sell your Spotless Shares on market; or</li> <li>• otherwise deal with your Spotless Shares while the Offer remains open.</li> </ul> <p>Importantly, if you accept the Offer, you will be unable to accept any potential superior offer which may eventuate, unless the Offer is still conditional and you withdraw your acceptance. You will not be able to withdraw your acceptance if the Offer becomes unconditional.</p> <p>Downer Services will also be entitled to all Rights (including dividends, but excluding the 1H17 dividend declared by Spotless in its 1H17 Results Announcement and any franking credits attached to any dividends) for as long as your acceptance remains valid.</p>	Section 3.3
<b>If I accept, can I withdraw my acceptance of the Offer?</b>	<p>Yes, if you accept the Offer, you may withdraw your acceptance at any time until all the Defeating Conditions to the Offer are fulfilled or waived. You will not be able to withdraw your acceptance if the Offer is declared unconditional by Downer Services.</p> <p>For instructions on how to withdraw your acceptance, please refer to section 6.11 of the Bidder's Statement.</p>	<p>Section 4.7</p> <p>Section 6.11 of the Bidder's Statement</p>
<b>Can I withdraw my acceptance of the Offer if the Defeating Conditions are fulfilled or waived?</b>	<p>No, you will not be able to withdraw your acceptance if the Offer becomes unconditional. Subject to applicable laws, Downer Services may waive all of the conditions at any time during the Offer Period.</p>	Sections 4.2 and 4.7

## 2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	REFERENCE
<b>When does the Offer close?</b>	The Offer is currently scheduled to close at 7.00 pm (AEST) 15 May 2017, but the Offer Period can be extended in certain circumstances.	Section 4.2
<b>Can Downer Services withdraw its Offer?</b>	<p>Before you accept the Offer, Downer Services may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.</p> <p>However, the Offer is conditional on a number of conditions (the Defeating Conditions), which are described in section 4.3 of this Target's Statement and set out in section 7.11 of the Bidder's Statement. If the Defeating Conditions are not fulfilled or waived by the end of the Offer Period the Offer will lapse, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your Spotless Shares as you see fit.</p>	N/A
<b>When will I receive the Offer Price?</b>	<p>If you accept the Offer, you will not receive the Offer Price unless all Defeating Conditions are waived or satisfied before the end of the Offer Period.<sup>26</sup></p> <p>Subject to the Corporations Act and you providing Downer Services with any documents required to be given with your acceptance to enable Downer Services to become the holder of your Spotless Shares (such as a power of attorney), if you accept the Offer, Downer Services will pay you the consideration for your Spotless Shares to which Downer Services acquires good title on or before the earlier of:</p> <ul style="list-style-type: none"><li>• the day one month after you accept this Offer or, if this Offer is subject to a Defeating Condition when accepted, one month after the contract resulting from your acceptance becomes unconditional; and</li><li>• the day 21 days after the end of the Offer Period.</li></ul>	Section 4.9



## 2 FREQUENTLY ASKED QUESTIONS

QUESTION	ANSWER	REFERENCE
<b>FURTHER CONSIDERATIONS</b>		
<b>What is the progress of Spotless' strategy reset?</b>	Since commencing as CEO and Managing Director in late 2015, Martin Sheppard along with the newly refreshed management team have implemented a number of changes within the business to drive the creation of value for Shareholders, including strengthening the management team with a focus on business development, recent rationalisation of Spotless' existing contracts, greater expensing of contract bid costs versus capitalisation and resetting the balance sheet through asset write-downs. The strategy reset is expected to drive material improvements in the medium term and has already shown signs of success, including significantly improving the pipeline of quality opportunities available to Spotless.	Sections 1.3, 1.4 and 5.2
<b>What are Downer Services' intentions with respect to the Spotless business?</b>	Downer Services' intentions in relation to the continuation of or changes to the Spotless businesses (including any redeployment of the fixed assets of Spotless), changes to the Spotless Board and the future employment of present employees of Spotless are set out in section 2 of the Bidder's Statement.	Section 2 of the Bidder's Statement
<b>What is Downer's proposed dividend policy for Spotless?</b>	Downer Services has stated in its Bidder's Statement that, if Spotless were to be part owned or controlled by Downer Services, Downer Services will seek to review Spotless' dividend policy (and capital management policy) as part of its general review of Spotless to determine if these are adequate, sustainable or appropriate for Spotless.	Section 2.3(b) of the Bidder's Statement
<b>What are the tax implications of accepting the Offer?</b>	<p>A general outline of the tax implications of accepting the Offer is set out in section 8 of this Target's Statement and section 5 of the Bidder's Statement.</p> <p>As those sections provide a general overview only, Spotless Shareholders are encouraged to seek their own personal advice on the taxation implications applicable to their circumstances.</p>	<p>Section 8</p> <p>Section 5 of the Bidder's Statement</p>
<b>Is there a number I can call if I have any questions?</b>	If you have any queries regarding the Offer, please contact the Spotless Shareholder Information Line on 1300 963 991 (for calls made from within Australia) or +61 1300 963 991 (for calls made from outside Australia), on Monday to Friday between 8:30AM and 5:30PM (AEST).	N/A

# **SECTION 3**

 **YOUR CHOICES AS A  
SPOTLESS SHAREHOLDER**

## 3 YOUR CHOICES AS A SPOTLESS SHAREHOLDER

**Your Directors unanimously recommend that you REJECT the Offer and intend to do the same in respect of Spotless Shares which they hold or control.**

Spotless encourages you to consider your personal risk profile, investment objectives and tax and financial circumstances before making any decision in relation to your Spotless Shares.

As a Spotless Shareholder, you have the following three choices available to you in relation to the Offer:

### 3.1 Option 1 – REJECT the Offer by DOING NOTHING

If you do not wish to accept the Offer and want to retain your Spotless Shares, simply do nothing and take no action in relation to documents sent to you from Downer. This is the recommendation of your Directors.

### 3.2 Option 2 – Sell your Spotless Shares on market

You can still sell your Spotless Shares on market at any time if you have not already accepted the Offer.

If you sell your Spotless Shares on market, you:

- will not receive the benefits of:
  - any future growth potential of Spotless;
  - any potential higher competing offer for your Spotless Shares; or
  - any potential higher offer from Downer Services,

(although there is no certainty as to whether such events will occur);

- may incur a brokerage charge; and
- may be liable for capital gains tax or income tax on the sale.

You should seek your own specific professional advice regarding the taxation consequences of selling your Spotless Shares on market.

### 3.3 Option 3 – Accept the Offer

If you accept the Offer, you must accept the Offer in relation to all of your Spotless Shares.

If you accept the Offer, you:

- will lose your exposure to any future growth potential of Spotless, although there can be no certainty this will occur and there are risks associated with an investment in Spotless (refer to the risks factors in section 7.2 for more information);
- will not receive the Offer Price unless and until each of the Defeating Conditions is satisfied or waived;
- will not be able to accept a higher price from a competing bidder if such a bid eventuates, unless the Offer remains conditional and you withdraw your acceptance (see section 4.6 for more information); and
- may be liable to pay capital gains tax or income tax on the disposal of your Spotless Shares which may have financial consequences for some Spotless Shareholders (refer to section 8 of this Target's Statement and section 5 of the Bidder's Statement for further details of the tax consequences of the Offer).

Downer Services will also be entitled to all Rights (including dividends, but excluding the 1H17 dividend declared by Spotless in its 1H17 Results Announcement and any franking credits attached to any dividends) for as long as your acceptance remains valid.

Importantly, if you accept the Offer, you will be unable to accept any potential offer which may eventuate, unless the Offer is still conditional and you withdraw your acceptance.

Spotless Shareholders who wish to accept the Offer should refer to the Bidder's Statement for instructions on how to do so.

# **SECTION 4**

 **IMPORTANT INFORMATION  
ABOUT THE OFFER**

## 4 IMPORTANT INFORMATION ABOUT THE OFFER

### 4.1 Summary of the Offer

Downer Services is offering \$1.15 cash per Spotless Share. This will only be payable if all the Defeating Conditions of the Offer are satisfied or waived by the end of the Offer Period.<sup>26</sup>

The Offer is made for all Spotless Shares on the terms set out in section 7 of the Bidder's Statement.

The Offer also extends to all of the Spotless Shares in respect of which a person becomes registered or in respect of which the person becomes entitled to be registered as the holder prior to the end of the Offer Period as a result of:

- the vesting of, conversion of, or the exercise of rights attached to, any LTI Options that are on issue at the Register Date; and
- the vesting of, conversion of, or exercise of rights attaching to, LTI Rights which are on issue as at the Register Date.

You may only accept the Offer in respect of all (and not just a part of) your Spotless Shares.

### 4.2 Offer Period

The Offer is open for acceptance from 12 April 2017 until 7.00 pm (AEST) on 15 May 2017, unless extended or withdrawn.

While the Offer is subject to conditions, Downer may extend the Offer Period at any time:

- before giving the notice of status of the Defeating Conditions, which, as at the date of this Target's Statement, must be given by Friday, 5 May 2017<sup>27</sup>; and
- after giving the notice of status of Defeating Conditions in the circumstances described in section 650C(2) of the Corporations Act.

However, if the Offer is unconditional (that is, all the Defeating Conditions are satisfied or waived), Downer may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- Downer improves the consideration offered under the Offer; or
- Downer's voting power in Spotless increases to more than 50%.

If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

Before you accept the Offer, Downer Services may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

Subject to applicable laws, Downer Services may waive all of the conditions at any time during the Offer Period, at which point a Spotless Shareholder will no longer be able to withdraw its acceptance.

<sup>26</sup> Or, in the case of the Defeating Conditions relating to no Prescribed Occurrences, within 3 business days after the end of the Offer Period.

<sup>27</sup> If the Offer Period is extended, this date will be taken to be postponed for the same period.

## 4 IMPORTANT INFORMATION ABOUT THE OFFER

### 4.3 Defeating Conditions of the Offer

The Offer is subject to the satisfaction or waiver (as applicable) of various Defeating Conditions which are set out in full in section 7.11 of the Bidder's Statement.

The key Defeating Conditions are summarised as follows:

- a 90% minimum acceptance condition in respect of Spotless Shares on issue or which may be issued as a result of the exercise of any LTI Options or LTI Rights on issue as at the Register Date;
- all necessary approvals required by law of a Public Authority (including consent from the OIO and a number of approvals from various government agencies pursuant to the relevant state based liquor licensing laws. For further details, see section 6.5 of the Bidder's Statement);
- no action by or application made to any Public Authorities (other than certain applications, for example, by Downer) which may adversely affect the Offer;
- counterparties to the Spotless Debt Facilities providing all required waivers, consents and releases in relation to their various rights which arise as a result of the Offer or Downer Services acquiring a relevant interest in Spotless Shares, change of control of Spotless or the announcement of the Offer;
- no termination of Downer's Underwriting Agreement in respect of the capital raising announced by Downer on 21 March 2017 to partly fund the Offer;
- no revised Spotless earnings guidance which is lower than the earnings guidance announced to ASX on 28 February 2017;
- no material acquisitions, disposals or significant events over \$100 million; and
- no Prescribed Occurrences occur (for example, Spotless entering to a buy-back agreement or granting options over its shares).

The above is a summary only. The conditions to the Offer are set out in full in Attachment A to this Target's Statement and in section 7.11 of the Bidder's Statement.

### 4.4 Effect of non-satisfaction of Defeating Condition

If any Defeating Condition is not satisfied or waived prior to the end of the Offer Period,<sup>28</sup> the Offer will lapse and all acceptances of the Offer will be void and have no effect.

<sup>28</sup> Or, in the case of the Defeating Conditions relating to no Prescribed Occurrences, within 3 business days after the end of the Offer Period.

## 4 IMPORTANT INFORMATION ABOUT THE OFFER

### 4.5 Status of Defeating Conditions

As at the date of this Target's Statement:

- no Defeating Condition has been satisfied or waived; and
- Spotless is not aware of any fact, matter or circumstance that would result in any Defeating Condition becoming incapable of being satisfied.

Many of these Defeating Conditions are wholly or partly out of Spotless' control. These include the 90% minimum acceptance, approvals required by law to be obtained from Public Authorities and the condition requiring financier consent. There can be no certainty whether these Defeating Conditions will be satisfied, or the length of time that will pass before these Defeating Conditions are satisfied.

In respect of the Defeating Condition that requires Downer Services to have a relevant interest in 90% of more (by number) of Spotless Shares on issue (or that may be issued) before the end of the Offer, it should be noted that Coltrane has disclosed a relevant interest in 10.37% of Spotless Shares on issue<sup>29</sup> and currently intends to REJECT the Offer at the current Offer Price (although it has not made any final decision and reserves the right to take any action it considers appropriate in relation to the Offer)<sup>30</sup>.

Further, the Defeating Condition requiring approvals from Public Authorities includes a requirement for New Zealand OIO approval. Spotless understands that Downer submitted an application to the OIO in early April 2017. For the period from July 2016 to February 2017, the average time for assessing an application in respect of sensitive land (such as that submitted by Downer) was over 5 months. Downer is not able to waive this condition to the Offer, and accordingly, the Offer Period would need to be extended in order to avoid the Offer lapsing (which Downer has not indicated it intends to allow).

In respect of other Defeating Conditions, Spotless notes that:

- section 6.5(b) of the Bidder's Statement refers to liquor licence related approvals in Western Australia and South Australia that may be required to satisfy the Defeating Condition in section 7.11(b)(i) of the Bidder's Statement. Spotless is not aware of any information which it considers would be likely to result in any required relevant approvals not being obtained. Spotless further notes that the relevant Public Authority in Western Australia has confirmed to Downer that its approval is not required and that applications have been made to the relevant Public Authority in South Australia; and
- the Defeating Condition in section 7.11(b)(i) of the Bidder's Statement includes a requirement that all other approvals are obtained which are required to permit the Offer to be made and to be accepted by Spotless Shareholders in applicable jurisdictions. Spotless is not aware of any additional material regulatory approvals which were not specified in the Bidder's Statement which are required to be obtained.

A number of these Defeating Conditions also require Spotless to refrain from taking various actions, where satisfying these Defeating Conditions may not be in the interests of Spotless Shareholders. These Defeating Conditions include not entering into any material transactions (such as acquisitions or disposals of greater than \$100 million in aggregate in each case) and that no Prescribed Occurrences occur.

Given that the Defeating Conditions restrict Spotless' activities over a potentially lengthy period (in particular the condition restricting material transactions), it is possible that by pursuing opportunities in the interests of Spotless Shareholders, one or more of these Defeating Conditions could be breached in the future. In doing so, the Spotless Board will at all times consider the best course of action that is in the interests of all Spotless Shareholders, having regard to the fiduciary duties of the Directors and the applicable policies of the Takeovers Panel.

<sup>29</sup> As set out in Spotless' ASX release dated 3 April 2017, Coltrane's relevant interest in 10.37% of Spotless shares on issue is through cash-settled equity swaps and an expectation to be delivered upon request the ordinary shares the subject of those swaps. If it was to do so, Coltrane Asset Management would be Spotless' second largest shareholder.

<sup>30</sup> If it becomes the holder of those shares (see section 1.8 for further detail).

## 4 IMPORTANT INFORMATION ABOUT THE OFFER

### 4.6 Effect of acceptance

The effect of accepting the Offer is described in section 3.3 of this Target's Statement. In summary, Spotless Shareholders who accept the Offer while it remains subject to Defeating Conditions will give up their right to sell their Spotless Shares on ASX or otherwise deal with their Spotless Shares while the Offer remains open, unless they withdraw their acceptance in accordance with the terms of the Offer.

Such Spotless Shareholders will also lose their ability to accept a superior competing offer, if one emerges, unless the Offer is still conditional and they withdraw their acceptance in accordance with the terms of the Offer.

Downer Services will also be entitled to all Rights (including dividends, but excluding the 1H17 dividend declared by Spotless in its 1H17 Results Announcement and any franking credits attached to any dividends) for as long as your acceptance remains valid.

Under the terms of the Offer, if you accept the Offer, unless and until all the conditions to the Offer are fulfilled or waived, you will be able to withdraw your acceptance of the Offer.

### 4.7 How to withdraw your acceptance

If you have already accepted the Offer, as long as the Offer is subject to any Defeating Conditions, you are entitled to withdraw your acceptance.

For details on how to withdraw your acceptance, please refer to section 6.11 of the Bidder's Statement.

### 4.8 Consequences of Downer Services acquiring 90% or more of Spotless Shares

If Downer Services acquires 90% of the Spotless Shares (by number) and the Offer becomes unconditional, Downer Services will be entitled to proceed to compulsory acquisition of all outstanding Spotless Shares. Downer Services' intentions with respect to compulsory acquisition are set out in section 2 of the Bidder's Statement. In summary, Downer Services has stated that if it becomes entitled to do so under the Corporations Act, it intends to give notices to compulsorily acquire any outstanding Spotless Shares in accordance with Part 6A.1 of the Corporations Act (**Post Bid Compulsory Acquisition**).

If Downer Services does not become entitled to undertake a Post Bid Compulsory Acquisition, Downer Services may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6B.2 of the Corporations Act if it subsequently acquires sufficient Spotless Shares to give it a relevant interest in 90% (by number) of Spotless Shares (**General Compulsory Acquisition**).

#### (a) Post Bid Compulsory Acquisition

Downer Services will be entitled to compulsorily acquire any Spotless Shares in respect of which it has not received an acceptance of the Offer on the same terms as the Offer if, during or at the end of the Offer Period, Downer Services (together with its associates):

- has a relevant interest in at least 90% (by number) of the Spotless Shares; and
- has acquired at least 75% (by number) of the Spotless Shares that Downer Services offered to acquire under the Offer.

If these thresholds are met, Downer Services will have up to one month after the end of the Offer Period within which to give compulsory acquisition notices to Spotless Shareholders who have not accepted the Offer. Spotless Shareholders have statutory rights to challenge the compulsory acquisition, subject to the Corporations Act.



## 4 IMPORTANT INFORMATION ABOUT THE OFFER

### (b) General Compulsory Acquisition

If Downer Services does not become entitled to proceed to Post Bid Compulsory Acquisition, Downer Services will nevertheless become entitled to compulsorily acquire any outstanding Spotless Shares if Downer Services' voting power in Spotless is at least 90% and Downer Services (either in its own right or through Related Bodies Corporate) acquires full beneficial interests in at least 90% (by value) of the aggregate of all Spotless Shares and:

- Downer Services lodges a compulsory acquisition notice with ASIC within 6 months of achieving that 90% holding;
- Downer Services proposes a cash sum for the compulsory acquisition of the Spotless Shares; and
- obtains the report of an expert stating whether, in the expert's opinion, the terms proposed in the notice represent fair value for the Spotless Shares.

If Spotless Shareholders with at least 10% of Spotless Shares the subject of the compulsory acquisition notice object to the acquisition before the end of the one month objection period, Downer Services may apply to a court for approval of the acquisition of the Spotless Shares the subject of the compulsory acquisition notice.

### 4.9 When you will receive the Offer Price

You will not receive the Offer Price unless all Defeating Conditions are waived or satisfied before the end of the Offer Period.<sup>31</sup>

Subject to the Corporations Act and you providing Downer Services with any documents required to be given with your acceptance to enable Downer Services to become the holder of your Spotless Shares (such as a power of attorney), if you accept the Offer, Downer Services will pay you the consideration for your Spotless Shares to which Downer Services acquires good title on or before the earlier of:

- the day one month after you accept the Offer or, if the Offer is subject to a Defeating Condition when accepted, one month after the contract resulting from your acceptance becomes unconditional; and
- the day 21 days after the end of the Offer Period.

Refer to section 7.17 of the Bidder's Statement for further details on when you will be sent your payment from Downer Services.

31 Or, in the case of the Defeating Conditions relating to no Prescribed Occurrences, within 3 business days after the end of the Offer Period.

# **SECTION 5**

 **INFORMATION RELATING  
TO SPOTLESS**

## 5 INFORMATION RELATING TO SPOTLESS

### 5.1 Overview of Spotless

Spotless has origins dating back to 1946 and has been listed on the Australian Securities Exchange since 2014 (ASX code: SPO). Spotless' stated objectives are to deliver business growth greater than GDP growth; and drive customer value through long-dated, expandable, multi-service contracts which leverage its scale, geographical footprint and breadth of capabilities.

Spotless employs over 36,000 people across 120 offices comprised of full-time, part-time and casual employees, making it one of Australia's and New Zealand's largest employers (see Figure 5.1 below)<sup>32</sup>. Spotless provides more than 100 integrated services and delivers solutions for over 6,500 contracts.

Figure 5.1: Spotless' geographic footprint by number of employees (approximate)

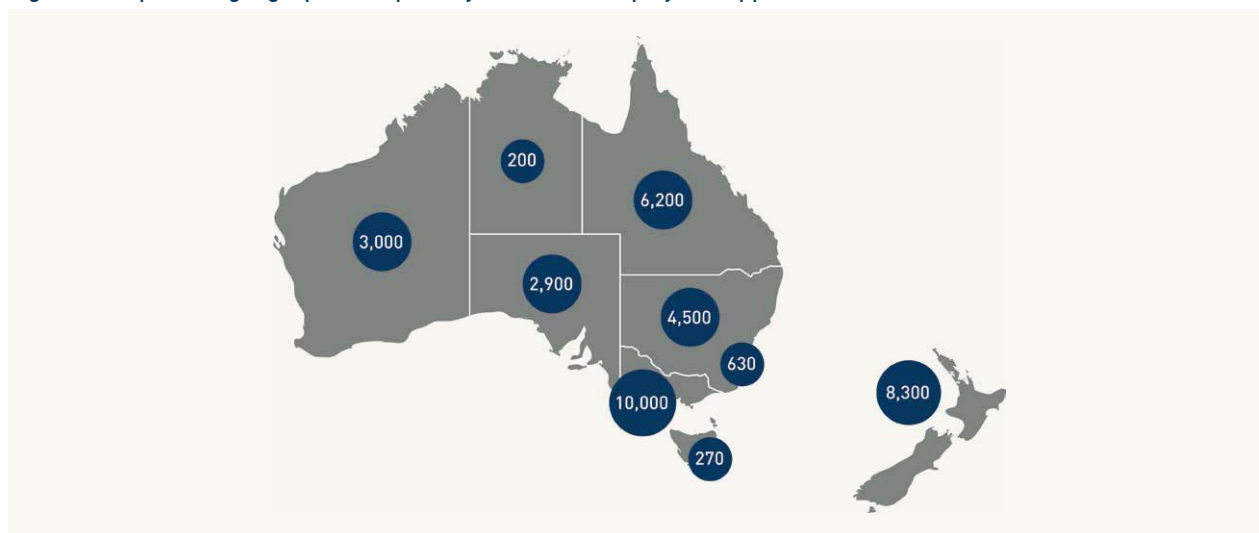


Figure 5.2: Spotless at a glance in FY16

- ✓ Served food to 68 million customers
- ✓ Catered for six million sports fans at stadia and major events
- ✓ Maintained 75,000 homes in public housing estates
- ✓ Washed 33 million sheets and 18 million industrial garments
- ✓ Managed 2.2 million room nights and 315,000 check-ins in 23 remote mining accommodation camps
- ✓ Delivered 4.4 million hours of service to a wide range of Australian and New Zealand healthcare providers
- ✓ Purchased 5,013 tonnes of meat, poultry and seafood
- ✓ Managed more than 52 million meter reads

32 Figures represent the number of individuals employed by Spotless over the 12 month period ended 30 June 2016.

## 5 INFORMATION RELATING TO SPOTLESS

Spotless is the market leading provider of integrated facility services and laundry and linen services in Australia and New Zealand. Within the markets it serves, Spotless is the leader by revenue, scale and breadth of services. The Spotless Group operates across a collection of high-quality brands as depicted below:

Figure 5.3: Spotless Group brands



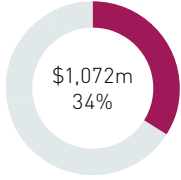
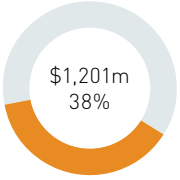
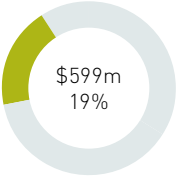
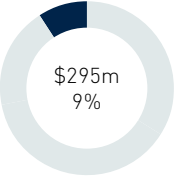
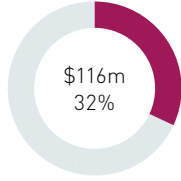
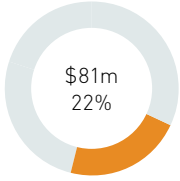
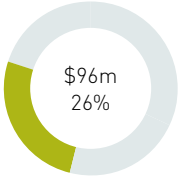
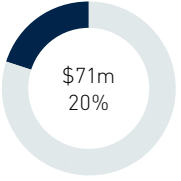
### Spotless' end-markets

Spotless' portfolio of operations is categorised across Health, Education and Government, Commercial and Leisure, Base and Township, and Laundry and Linen.

## 5 INFORMATION RELATING TO SPOTLESS

Performance of these sectors and key customer sub-sectors for FY16 is outlined below:

Figure 5.4: Segment overview<sup>33,34</sup>

SEGMENTS	FACILITY SERVICES			LAUNDRIES
Customer sectors	Health, Education & Government	Commercial & Leisure	Base & Township	Laundry & Linen
% of Spotless FY16 Underlying Revenue	 \$1,072m 34%	 \$1,201m 38%	 \$599m 19%	 \$295m 9%
% Spotless FY16 Underlying EBITDA	 \$116m 32%	 \$81m 22%	 \$96m 26%	 \$71m 20%
FY16 EBITDA Margin	10.8%	6.7%	16.0%	24.2%
Customer Sub-sectors Served	<b>Health</b> <ul style="list-style-type: none"> <li>Public and private hospitals</li> <li>Aged care facilities</li> </ul> <b>Education</b> <ul style="list-style-type: none"> <li>Universities and colleges</li> <li>High schools</li> </ul> <b>Government</b> <ul style="list-style-type: none"> <li>Buildings and agencies</li> <li>Public housing</li> <li>Correctional facilities</li> </ul>	<b>Commercial</b> <ul style="list-style-type: none"> <li>Commercial offices and major retail space</li> <li>Airports and airline terminals</li> <li>Other transport, manufacturing and utilities</li> </ul> <b>Leisure, Sport &amp; Entertainment</b> <ul style="list-style-type: none"> <li>Major sporting stadia</li> <li>Entertainment, leisure and function facilities</li> </ul>	<b>Defence</b> <ul style="list-style-type: none"> <li>Residential housing</li> <li>Barracks and bases</li> </ul> <b>Resources</b> <ul style="list-style-type: none"> <li>Remote mining townships</li> <li>Mining support facilities</li> </ul>	<b>Health laundry</b> <ul style="list-style-type: none"> <li>Public and private hospitals</li> <li>Day procedure centres</li> <li>Aged care facilities</li> </ul> <b>Accommodation Laundry</b> <ul style="list-style-type: none"> <li>Hotels</li> <li>Serviced apartments</li> <li>Motels</li> </ul> <b>Other laundry (Garments)</b> <ul style="list-style-type: none"> <li>Various workplaces (e.g. food, manufacturing etc)</li> </ul>
Overview of Services Provided	Facility management, catering and cleaning services for social infrastructure providers	Facility management, catering and cleaning services for private sector companies, major events and large stadia, electrical and technology services	Integrated services contracts for large defence bases, remote mines and mining townships	Centralised laundry services for linen & uniforms

33 Revenue figures represent proportion of total underlying FY16 sales revenue, excludes pass through revenue.

34 EBITDA figures represent proportion of total underlying FY16 EBITDA, pre-corporate overheads.

## 5 INFORMATION RELATING TO SPOTLESS

Across these sectors, Spotless provides its clients with a range of services and support, broadly categorised as: integrated services, engineering services and asset maintenance, utility services, electrical and technology, food solutions, cleaning, security, linen supply and laundry management.

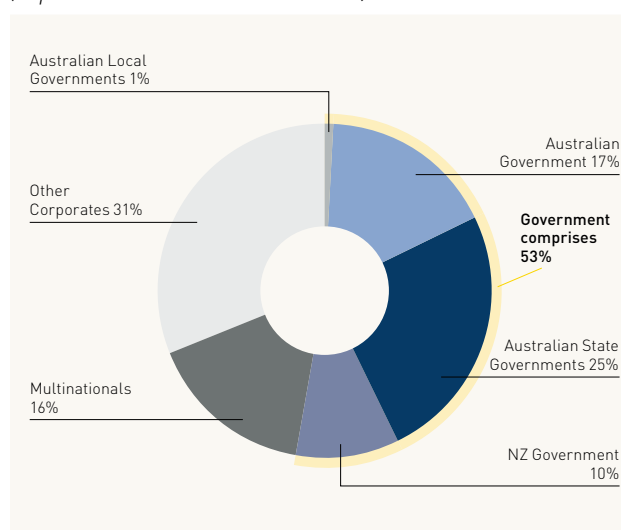
### Spotless' customers and contracts

Spotless is exposed to both growing and defensive end markets and has a high quality and diverse customer base:<sup>35</sup>

- approximately 53% of its revenues are backed by Government clients (Figure 5.5);
- approximately 64% of its revenues from priority end-markets including Health, Defence, Education, Infrastructure, Government and PPPs (Figure 5.7);
- 96% of its revenues are contracted, with 94% having built in price escalation mechanisms;<sup>36</sup>
- Spotless' largest 150 contracts account for approximately 68% of revenue, whilst the largest single contract accounts for approximately 6% of revenue; and
- the weighted average contract tenure is approximately 5.2 years, with 7.4% of revenue due for renewal in FY18.<sup>37</sup>

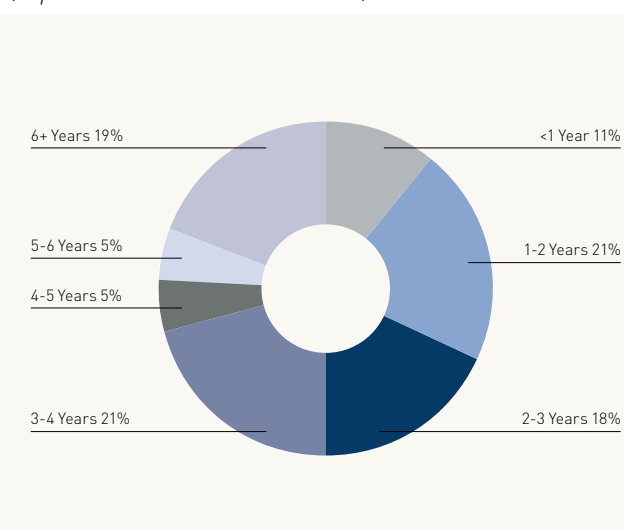
**Figure 5.5: Major customer type**

(Top 150 contracts as % of revenue)<sup>38</sup>



**Figure 5.6: Contract length**

(Top 150 contracts as % of revenue)<sup>39</sup>



Source: Management.

<sup>35</sup> Based on Top 150 identified contracts by FY17 expected revenue. FY17 based on 1H17 actuals and 6 months of estimated revenue.

<sup>36</sup> Revenue that is contracted through FY17 as percentage of FY17 expected revenue.

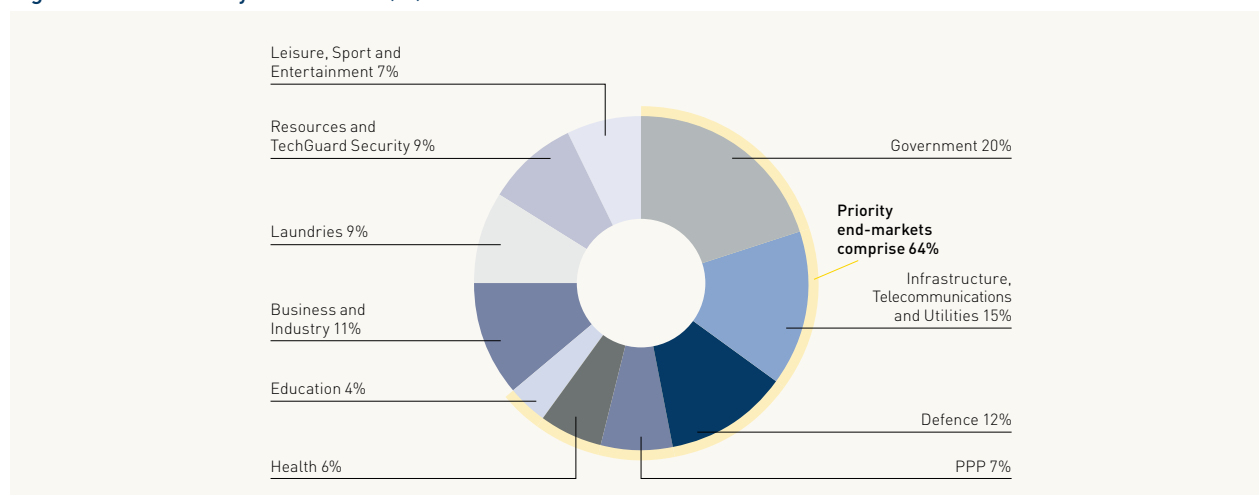
<sup>37</sup> Annualised revenue for contracts due for renewal in FY18 as a percentage of full year FY18 revenue, excludes Alfred Hospital.

<sup>38</sup> Based on Top 150 Contracts as a percentage of FY17 expected revenue.

<sup>39</sup> Revenue that is contracted through FY17 as percentage of FY17 expected revenue as at 31 December 2016.

## 5 INFORMATION RELATING TO SPOTLESS

Figure 5.7: Revenue by end-market (%)<sup>40</sup>



Source: Management.

Spotless has a large portfolio of PPP contracts which are higher margin, longer in tenure and often multi-service, consistent with Spotless' strategy reset. Spotless' 18 PPP contracts have a lifetime revenue of \$10.8 billion.

Spotless management's outlook for the company is for its strategy reset to continue to stimulate growth across its key focus markets. Benefits from investment in business development capability and the contract portfolio restructure are expected to be realised over the medium-term. Refer to section 5.2 for an overview of Spotless' strategy reset and progress to date.

40 Based on FY17 expected revenue. Infrastructure, Telecommunications and Utilities includes AE Smith, UASG and Nuvo.

## 5 INFORMATION RELATING TO SPOTLESS

### 5.2 Operational update

#### (a) Spotless' strategy reset

##### (i) Overview

In August 2016, the newly refreshed management team, led by Martin Sheppard, articulated the results of a strategic review and the commencement of a strategy reset to stimulate organic growth and optimise Spotless' business mix in order to enhance future earnings for Spotless Shareholders. The strategic reset is built on 3 strategic pillars, as seen below:

Figure 5.8: Strategic pillars



Source: Spotless FY16 results presentation, released to the ASX on 24 August 2016.

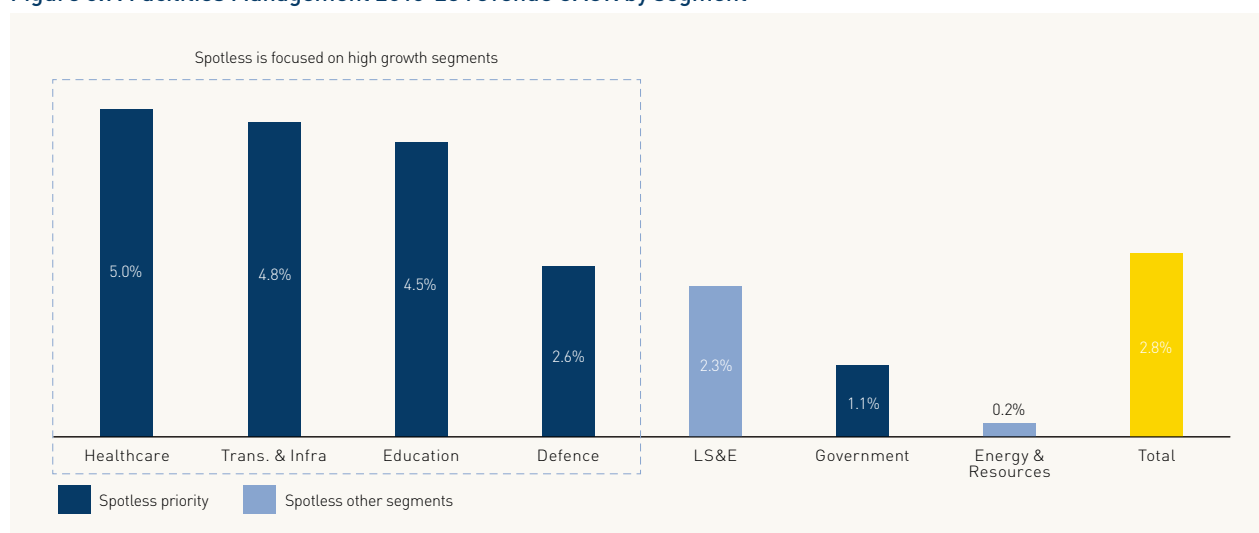


## 5 INFORMATION RELATING TO SPOTLESS

In informing the strategy reset, the new Spotless management team underwent a thorough review of the business and business model in its entirety. Design of the strategy reset and establishment of its foundations is now complete and Spotless' management is focused on executing on its strategy.

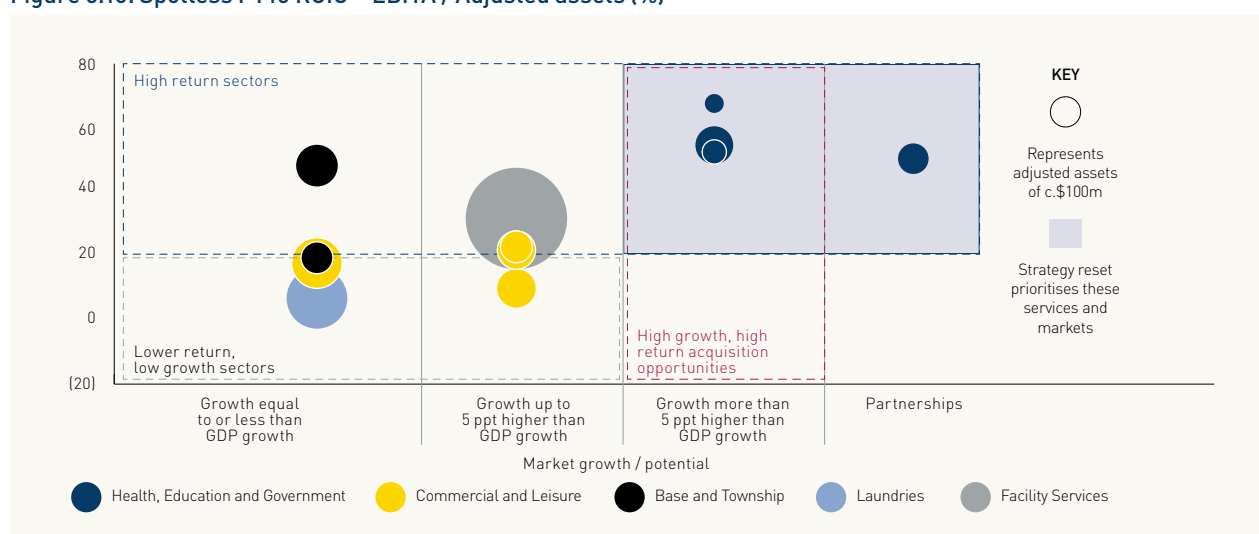
The strategy reset focuses on priority high growth end markets, including Health, Education, Defence, Infrastructure and Government, most of which are expected to experience robust growth (see Figure 5.9), while targeting high return long-dated, expandable multi-service contracts that leverage Spotless' scale, geographical footprint and breadth of capabilities (see Figure 5.10).

**Figure 5.9: Facilities Management 2016-23 revenue CAGR by segment**



Source: Management.

**Figure 5.10: Spotless FY16 ROIC – EBITA / Adjusted assets (%)<sup>41</sup>**



Source: Spotless FY16 results presentation, released to the ASX on 24 August 2016.

<sup>41</sup> Adjusted assets is calculated as total assets less cash, inter-company loans, goodwill, intangibles and deferred tax.

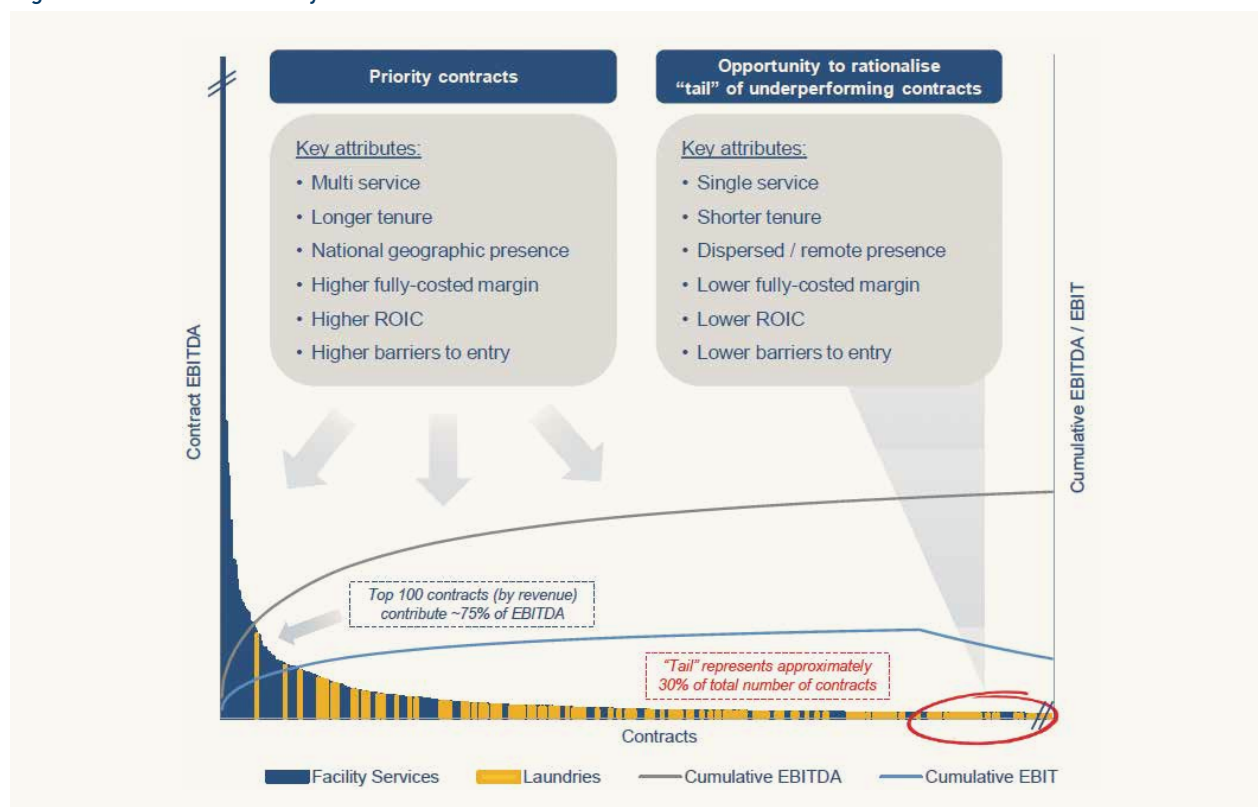
## 5 INFORMATION RELATING TO SPOTLESS

### (ii) Contract tail rationalisation

Spotless is confident that the strategy reset will drive both strong earnings and cash-flow growth over the medium term.

As part of execution of its strategy, Spotless undertook a detailed review of its contract book and identified potential areas to unlock value. A key constraint on achieving Spotless' stated strategy is the long "tail" of smaller, underperforming contracts. Spotless is taking action to rationalise the contract book to improve financial performance and reduce operational complexity.

Figure 5.11: Contract Book by EBITDA<sup>42</sup>



Source: 1H17 results presentation.

The strategic rationale behind restructuring the contract portfolio includes:

- Retained contracts will be larger in scale, more integrated, have longer tenure, higher margins and higher overall Return on Invested Capital
- Increases focus on end markets with higher growth opportunities
- Preserves Spotless' market leadership in terms of scale, capacity and breadth of offering
- Simplifies business model and significantly reduces sector and corporate overhead
- Removal of some shorter tenure contracts results in significant accounting non-cash impairment of goodwill, customer intangibles and other assets
- Create capacity for further opportunities in high growth areas

## 5 INFORMATION RELATING TO SPOTLESS

### (iii) Innovation and technology

Spotless has also identified and is progressing additional upside opportunities around innovative technologies that could potentially increase management forecasts over the medium term. These include:

- **Spotless Advanced Metering:**

A whole-of-life smart metering solution that includes meter supply and finance, installation, maintenance and remote digital services.



- **Building technologies and IoT (internet of things):**

Smart solutions such as remote asset sensor monitoring, digital facilities management workforce optimisation and safety, customised building automation systems and hi-tech electronic security systems.



- **Sustainability solutions:**

Green tech solutions such as solar as a service, LED lighting systems and energy solutions as a service.



### (iv) Laundries

As part of its thorough business review, Spotless has identified its Laundries division as a source of potential value creation. A number of performance improving initiatives have recently been implemented which are driving a stabilisation of the business. These include appointing new leadership, technology renewal in priority (Health) laundry sector; consolidating plants; investing in new equipment to drive productivity; implementing tighter controls over laundry stock; and Victorian capacity expansion to support growth.

### (v) Brand

A need to better educate current and potential customers, investors and other key stakeholders as to the breadth of Spotless' capabilities was identified. Spotless is undertaking a targeted campaign to reposition the brand, enhancing marketing and sales capabilities. This involved developing comprehensive branding and marketing materials over the last 12 months to provide collateral for business development efforts.

### (vi) Balance Sheet initiatives

With its 1H17 results released in February 2017, Spotless announced that it was targeting a reduction of net leverage to circa 2.5x LTM EBITDA by June 2018.

## 5 INFORMATION RELATING TO SPOTLESS

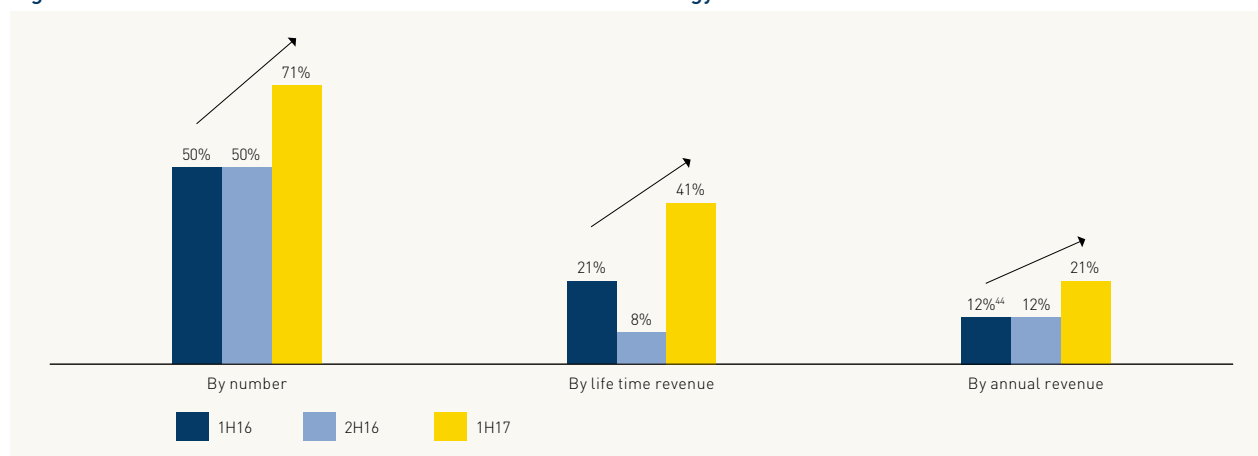
### (b) Progress to date

Spotless' investment in its Business Development team to implement its strategy reset is already delivering results with improved win rates in long-dated, multi-service contracts and the pipeline of quality opportunities has grown from \$1.1 billion at August 2016 to \$1.6 billion at December 2016.<sup>43</sup> Spotless has also implemented a far more rigorous approach to business development, including higher margin hurdles and a focus on multi-service contracts, which has driven the following:

- Size and quality of pipeline significantly increased
- Quality of bids enhanced
- Increased focus on longer-term opportunities with longer sales cycles and transaction periods (e.g. PPPs)
- Top 100 new opportunities comprise approximately 90% of pipeline worth \$1.4 billion in annual revenue, equating to \$7.7 billion of life-time revenue
- An additional \$200 million of new opportunities sit outside the top 100 contracts

Spotless has also improved contract win rates by number, lifetime and annual revenue (see Figure 5.12), reflecting the impact of targeted investment in business development. This is attributed to an enhanced business development framework, expanded capability, improved bid and tender quality and benefits flowing from refreshed branding and marketing collateral.

**Figure 5.12: Evolution of win rates since announcement of strategy reset**



Source: Spotless' 1H17 results presentation.

Spotless also continues to execute its strategy reset by way of acquiring businesses with strong alignment to its strategy. In FY17 this has included the acquisition of Nuvo, providing Spotless with a premium electrical, audio visual, energy and solar capability. Nuvo operates in Spotless' key growth sectors, including Education, Health, Aged Care and Infrastructure.

<sup>43</sup> Reflects the annualised revenue from new business opportunities expected to come to market in the next 24 months.

<sup>44</sup> Low win rate in 1H16 reflects Rio Tinto new business loss. Excluding this, the win rate was 23%.

## 5 INFORMATION RELATING TO SPOTLESS

### (c) Recent contract wins and renewals

On 30 March 2017, Spotless confirmed that it had extended multiple, long-standing contracts to provide integrated services to major facility operators in the Australian health sector, including a five year integrated services contract extension with the Alfred Hospital in Victoria and a four year extension to the national Healthscope partnership. The contracts have combined revenue of approximately \$210 million over five years, taking the total value of key strategic contracts signed during March 2017 to approximately \$330 million.

The contract extensions reflect Spotless' strategic focus on driving value through long term, integrated, multi-service contracts which leverage the business' scale, expertise and geographic footprint.

Spotless continues to progress discussions with a number of other parties as part of its targeted approach to new major contract wins and renewals in the Health, Education, Government and Defence sectors.

Such contracts deliver a number of advantages to Spotless including multiple revenue streams from each contract; relatively light capital support requirements; and long term revenue and earnings certainty.

#### The Alfred Hospital

Spotless has been providing cleaning, food, ancillary, ward support, grounds and gardens maintenance, pest control, hygiene services and security services at the Alfred Hospital for more than 12 years (contract commenced in May 2004).

The 580+ bed hospital houses one of Australia's busiest emergency and trauma centres, Victoria's largest intensive care unit, and the only adult burns centre in Victoria and Tasmania.

#### Healthscope

Renewal and expansion of the national Healthscope contract will see Spotless continue to provide integrated linen rental and laundry services at 31 of Healthscope's existing hospital facilities, plus 10 additional locations around Australia.

### (d) Working capital initiatives

Spotless management is also in the process of implementing a best in practice working capital improvement program that is intended to improve Spotless' working capital position over the medium-term.

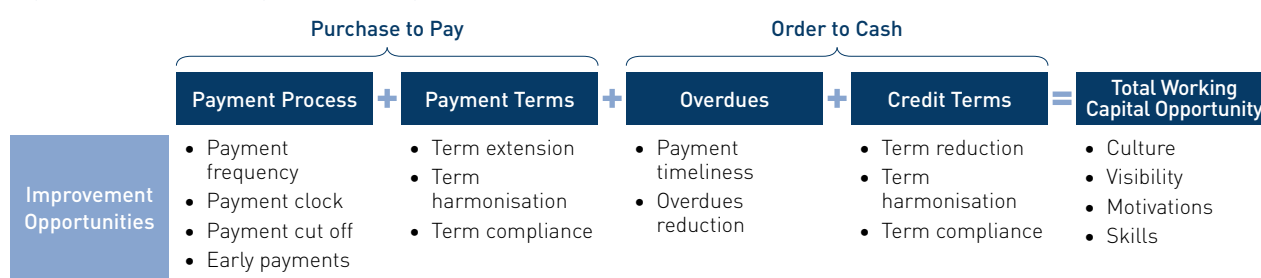
Purchase to Pay and Order to Cash improvement opportunities have been identified, including improving terms, process changes, data inaccuracies and compliance weaknesses. Many improvements can be achieved quickly and others are more complex and will need to be achieved over longer time frames. Other areas identified for potential improvement include: procurement, cash flow forecasting, treasury and financing.

Spotless management is expecting an approximately \$80 million working capital improvement over FY18 and FY19, the combination of which is expected to further support a reduction in net debt and strengthening of the balance sheet in the medium-term.

## 5 INFORMATION RELATING TO SPOTLESS

Opportunities span all areas including Purchase to Pay and Order to Cash (as depicted in Figure 5.13 below) as well as inventory.

**Figure 5.13: Cash management strategies and improvement opportunities**



### (e) Summary of achievements and progress

Since joining as CEO in November 2015, CEO and Managing Director Martin Sheppard has made substantial progress in enhancing business performance through the following key achievements which are expected to drive growth over the medium to long term:

- ✓ Strengthen Spotless' management team
- ✓ Prudent financial management
- ✓ Reset strategy to prioritise high margin, multi-service contracts in high growth sectors
- ✓ Contract portfolio rationalisation announced to 'cut the tail' and re-orient the portfolio in line with strategy
- ✓ Investment in Business Development capability to drive wins in priority sectors
- ✓ Pipeline more than doubled since strategy reset, with substantially increased conversion rates
- ✓ Laundries restructure underway
- ✓ Reorientation towards customer service, innovation and technology

### 5.3 Spotless historical financial information summary

On 28 February 2017, Spotless released its half year results in the Appendix 4D and Interim Financial Report for the half year ended 31 December 2016, disclosing a net profit after tax (pre-exceptional items) of approximately \$33 million. Exceptional items included impairment and restructuring charges of approximately \$391 million post-tax, which primarily related to the contract portfolio restructure (discussed previously).

The half year results reflect a transitional period for Spotless as the company continues to execute the strategy reset announced in 2016. As detailed in section 5.2, the strategy reset is aimed at preserving Spotless' market leadership position and delivering value to Spotless Shareholders.

During the half year ended 31 December 2016, Spotless was awarded a number of new and renewed contracts, valued at more than \$71 million (new business) and \$99 million (renewal business) in annual revenues.

Spotless financial reports, including the half year results release, are available on Spotless' website at [www.spotless.com.au](http://www.spotless.com.au).

## 5 INFORMATION RELATING TO SPOTLESS

### 5.4 Spotless' earnings guidance

This section 5.4 provides Spotless' confirmation of its previously disclosed FY17 NPAT guidance, as well as further NPAT guidance for FY18 (the **NPAT Guidance**).

#### (a) Basis of preparation of the NPAT Guidance

The NPAT Guidance in this section is based on:

- the recognition and measurement principles of Australian Accounting Standards effective for the 2017 financial year;
- Spotless accounting policies, consistent with those applied in the half year ended 31 December 2016 and year ended 30 June 2016;
- the Directors' assessment of the current economic and operating conditions;
- the implementation of management's current strategy reset;
- for FY18, the company has undertaken a full bottom up, contract by contract build, including assessment of revenues and profits from contracted business, expected incremental project work, potential new revenues from specific identified opportunities in the group's pipeline (risk weighted), revenue and earnings impacts from exiting contracts as part of the company's contract rationalisation program and taking into account renewal risk associated with specific contracts due to expire in FY18 and costs and inflationary impacts to deliver the contracts; and
- a number of assumptions set out in section 5.4(c) of this Target's Statement as determined by the Directors which reflect their judgment of the likely future economic and operational considerations for FY17 and FY18.

The NPAT Guidance in this section is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian Accounting Standards and the Corporations Act.

The Directors consider that they have used reasonable care in formulating the NPAT Guidance and consider the assumptions detailed below to be reasonable when taken as a whole.

Spotless Shareholders are cautioned not to place undue reliance on the NPAT Guidance. Prospective financial information by its nature, is subject to uncertainties and unexpected events, many of which are outside the control of Spotless or the Directors. Any variation to the basis upon which guidance has been prepared could be either materially positive or negative to the actual financial performance of the company. The Directors' therefore cannot, and do not, guarantee the achievement of the NPAT Guidance.

The NPAT Guidance should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the best estimate assumptions or that Spotless will achieve, or is likely to achieve, the particular results. Spotless Shareholders should read the NPAT Guidance having regard to the assumptions in section 5.4(c) of this Target's Statement, the sensitivity analysis in section 5.4(d) in conjunction with the key risks set out in section 7.2 of this Target's Statement.

The NPAT Guidance does not take into account any costs or expenses to be incurred by Spotless in responding to the Offer, or alternative transactions considered by the Board on the basis that they are non-recurring and therefore not reflective of the underlying financial performance of Spotless. Spotless currently expects the costs and expenses likely to be incurred in responding to the Downer Offer and other alternatives to be approximately \$5-10 million, assuming the current Downer Offer is unsuccessful and no new or revised offer is made.

## 5 INFORMATION RELATING TO SPOTLESS

### (b) FY17 and FY18 guidance

Spotless re-affirms its FY17 NPAT guidance of \$80 to \$90 million.<sup>45</sup>

Spotless management do not believe that current broker forecasts for FY18 fully reflect the expected performance of the company due to a number of factors, including the following:

- Spotless expects benefits of the contract book rationalisation will remove the 'drag' of uneconomic contracts on earnings and re-orientate the portfolio to higher margin contracts in attractive, high growth end-markets (refer to section 5.2(a)(iii));
- the contract book rationalisation referred to above is expected to deliver a simplified business model and reduced sector and corporate overhead post restructure which is expected to support earnings growth over the period to which the NPAT Guidance relates; and
- an improvement in Spotless' net leverage position and resultant reduction in net interest expense, driven by net debt reduction initiatives including:
  - implementation of a working capital improvement program which is expected to result in approximately \$80m working capital release over FY18 and FY19, (for further detail see section 5.2(d));
  - improved capital expenditure controls; and
  - proceeds from certain potential asset sales.

Within the context of the above expected benefits and subject to the risk factors in section 7.2, the Directors provide the following NPAT Guidance (pre-exceptional items):

\$ MILLION	FY17 (SPOTLESS GUIDANCE)	FY18 (SPOTLESS GUIDANCE)	FY18 (AVERAGE BROKER FORECAST)
NPAT (pre-exceptional items)	\$80-90m	\$85-100m	\$83m <sup>46</sup>

<sup>45</sup> Refer to Spotless' 1H17 results announcement dated 28 February 2017. Your Directors continue to consider that the earnings guidance provided in that announcement is sound and is given on a reasonable basis.

<sup>46</sup> A summary of the selection criteria, number of broker forecasts comprising the average, range and date of the broker forecasts is provided in Attachment C to this Target's Statement. The broker forecasts have been included solely as an indication of market views.



## 5 INFORMATION RELATING TO SPOTLESS

### (c) Management commentary and assumptions underlying the NPAT Guidance

The key specific assumptions underlying the NPAT Guidance are set out below. These assumptions should be considered together with the more general assumptions and sensitivity analysis which follow, and the risk factors in section 7.2:

- the pipeline of new business opportunities continues to be robust and new win rates reflect Spotless' investment in business development, marketing and innovation. In August 2016 Spotless announced a Strategy Reset which, along with other initiatives, included reinvestment in business development resources aimed at restimulating organic business growth and minimising potential loss of business through renewals. Early indications from this revised strategy are positive, and accordingly, revenue from new business wins have been estimated to be between \$185m and \$275m in FY18 representing 17 to 25% of revenue opportunities available for FY18 in the current pipeline. In the half year ended 31 December 2016 the company reported a win rate of 21% by annualised revenue. New opportunities are expected to continue to fill the pipeline and may provide further potential for growth. Renewals have been conservatively estimated to be between 60 and 70%, compared with 72% reported for the half year ended 31 December 2016;
- contract exits as a result of the rationalisation program announced by the company in February 2017, occur in line with the individual contract end dates and the associated overheads can be eliminated over the same time frame. In February 2017 Spotless announced that it would be seeking to exit a number of smaller single service or uneconomic contracts. The majority of these contracts have terms ending in the next 12-24 months. The company has assumed that these contracts will not be renewed when the natural end of term is reached, but there may be opportunity for some contracts to be exited early or even sold, which would accelerate the simplification of the contract portfolio and the associated financial benefits; and
- as described above, the group has embarked on a process to improve its working capital cycles and, as a result, has estimated incremental improvements to its net debt of \$40m in FY18 and a further \$40m in FY19 with a consequential reduction in interest expense.

In addition to the specific assumptions listed above, the NPAT Guidance were based on more general assumptions including (but not limited to):

- Spotless's key end-markets continue to perform as expected;
- no significant changes in prevailing economic conditions in the markets in which Spotless operates;
- no significant changes in the competitive environment;
- no material amendment to, termination or loss of, material agreements relating to the business;
- Spotless' accounting policies will remain consistent with those adopted for the most recent financial year;
- no changes in Australian Accounting Standards or other mandatory professional reporting requirements and the Corporations Act, which may have a material effect on the Spotless' financial performance, financial position or cash flows;
- no change in taxation legislation which would have a material impact on Spotless' financial performance, financial position or cash flows;
- no material acquisitions or divestitures of business, or investments or assets;
- no loss of key personnel.
- no significant changes in statutory, legal, or regulatory requirements that would have a material impact on operations; and
- no material acquisitions or disposals of businesses.

## 5 INFORMATION RELATING TO SPOTLESS

### (d) Sensitivity analysis

The NPAT Guidance is sensitive to changes in key assumptions made in the formulation of that guidance. The table below sets out a summary of the potential impacts from possible changes in key assumptions.

ASSUMPTION	NOTE	VARIANCE	FY18 NPAT IMPACT (\$M) <sup>1</sup>
Sales revenue	2	+ / - 1.0%	+2.7 / -2.7
New business – probability	3	+ / - 5.0%	+3.1 / -3.1
Probability of renewal	4	+ / - 5.0%	+0.6 / -0.6
Change in interest rates	5	+ / - 25bps	-1.4 / +1.4

- 1 Impacts shown relative to FY18 NPAT (pre-exceptional items) of approximately \$95m, which is within the FY18 NPAT Guidance range of \$85-100m.
- 2 Impact of an increase or decrease to sales revenue of 1%. Sensitivity assumes FY18 EBITDA (excluding fixed head office costs) margin remains constant on change.
- 3 Impact of an increase or decrease of 5% in probability weightings for conversion of contracts in the current pipeline in FY18.
- 4 Impact of an increase or decrease of 5% in probability weightings for upcoming renewal of existing contracts expiring in FY18.
- 5 Impact of an increase or decrease of 25bps in interest rates on all existing current and non-current debt liabilities. No change assumed in interest on balance of cash and cash equivalents.

Care should be taken in interpreting the sensitivity analysis. The sensitivity analysis treats each change in the specific assumption in isolation from the others, whereas in many cases changes may be interdependent, with associated changes having cumulative or offsetting impacts. The analysis presented is no indication of the likely level of variation that could occur in relation to each assumption. Proportional variations of the changes may not result in a proportional change to the forecast impact. In practice, management would seek to respond to any adverse changes in one variable by taking appropriate action to minimise its impact. The effect of such mitigation action is not necessarily linear and is excluded from the sensitivity analysis.

### (e) Medium to long term outlook

The Directors are confident that the strength of Spotless' core business and contract portfolio, together with the forecast business trends and performance in FY18 will drive continued growth into FY19 and the longer term. This is expected to be driven by increasing benefits associated with the strategy reset including:

- focus on priority growth sectors and higher margin contracts;
- further implementation of the contract book rationalisation and associated overhead reduction; and
- continued improvement in Spotless' leverage position.

This outlook statement should be considered together with applicable assumptions set out in section 5.4(c) above, together with the risk factors in section 7.2.

## 5 INFORMATION RELATING TO SPOTLESS

### 5.5 Dividend and capital management policies

In February 2017, the Board reset the dividend pay-out ratio to 40% to 60% Adjusted NPAT (previously 65% to 75%). This brings Spotless in line with its domestic and international peers and will allow greater capital management flexibility. This is consistent with Spotless' near term priority of reducing gearing and strengthening its balance sheet.

At the same time, Spotless announced that it was targeting a reduction of net leverage to approximately 2.5x LTM EBITDA by June 2018.

The working capital initiatives described in section 5.2(d) further support this expected reduction.

### 5.6 Director profiles

#### Garry Hounsell

##### Chairman, Independent Non-Executive Director

*BBus (Acc), FCA, FAICD*

Garry Hounsell was appointed as Chairman of Spotless in February 2017. He has served as a Spotless Board member since his appointment as an Independent Non-Executive Director in March 2014. He is Chairman of the Audit, Business Risk and Compliance Committee.

Garry was a former Senior Partner of Ernst & Young, Chief Executive Officer and Country Managing Partner of Arthur Andersen and a board member of law firm Freehills (now Herbert Smith Freehills).

Garry is a Fellow of the Australian Institute of Company Directors and Chartered Accountants Australia and New Zealand.

##### Company, industry and community boards

- Director of Dulux Group Limited
- Director of Treasury Wine Estates Limited
- Chairman of Helloworld Travel Limited
- Former Chairman of PanAust Limited
- Former Director of Qantas Airways Limited
- Former Director of Orica Limited
- Former Director and Deputy Chairman of Mitchell Communication Group Limited
- Former Director of Nufarm Limited
- Former Director of Integral Diagnostics Limited
- Former Chairman of eMitch Limited

## 5 INFORMATION RELATING TO SPOTLESS

### Martin Sheppard

#### Chief Executive Officer and Managing Director

*B.Ec, CA*

Martin Sheppard was appointed to the position of Chief Executive Officer and Managing Director in November 2015.

Martin has strong relationships with Australia's largest and highest profile companies and government bodies. Having advised clients in both the public and private sectors and across industries including transport, logistics, retail, energy and natural resources industries, his knowledge spans a broad range of Spotless' key client sectors.

Martin was a Partner at KPMG from January 2001 and served as a Senior Partner from 2013 to 2015, during which time he was on the firm's executive committee, acted as National Managing Partner – Brand and Innovation and led three ASX 100's client accounts. He has advised on prominent capital market transactions in Australia, USA and the UK and worked across most industry segments. After starting his career working solely with banking and finance clients, Martin has broadened his industry focus to include industrial markets and consumer markets, and in recent years, focused predominantly on the transportation and mining sectors.

Past clients include: BHP Billiton, Qantas, Woolworths, P&O, Jetset Travel and Patrick Ports.

### Diane Grady AM

#### Independent Non-Executive Director

*MBA (Harvard), MA, BA (Hons), FAICD*

Diane Grady AM was appointed to the Board as a Non-Executive Director effective March 2014. Diane is Chairman of the Remuneration and People Committee and has over 20 years' experience on major public company and not-for-profit-boards. She was made a Member of the Order of Australia in 2009 for services to business and the promotion of women leadership and was a recipient of the Australian Centenary Medal in 2001. Before beginning her career as a full-time company director, Diane was a partner of McKinsey & Company where she was a leader of the firm's global Organisation and Change Management group and headed the Consumer Goods, Retailing and Marketing Practice in Australia.

#### Company, industry and community boards

- Director of Macquarie Bank
- Director of Tennis Australia
- Chair of The Hunger Project Australia
- Former Director of Woolworths
- Former Director of Lend Lease
- Former Director of Goodman Group
- Former Director of BlueScope Steel
- Former Chair of Ascham School
- Former Trustee of The Sydney Opera House
- Former President of Chief Executive Women

## 5 INFORMATION RELATING TO SPOTLESS

### The Hon. Nick Sherry

#### Independent Non-Executive Director

*BA (Tas)*

The Hon. Nick Sherry was appointed as a Non-Executive Director effective March 2014. Nick is Chairman of FNZ APAC and also advises in a range of countries on all aspects of the reform of pension systems including working with the OECD and World Economic Forum.

Nick also served as a Senator for Tasmania from 1990 to 2012. He served as Minister for Superannuation and Corporate Law from 2007 to 2009, Assistant Treasurer in 2009 and 2010 and Small Business Minister in 2010 and 2011.

He is a member of the Audit, Business Risk and Compliance Committee and the Remuneration and People Committee.

#### Company, industry and community boards

- Chairman of FNZ APAC
- Chairman of the Board of Governance of Youth, Family and Community Connections
- Member of UNSW Risk – Actuarial Studies Advisory Board
- Member of Business Advisory Panel of Insurance Ireland's Public Policy Council

### Julie Coates

#### Independent Non-Executive Director

*BA DipEd (Melb)*

Julie Coates was appointed as a Non-Executive Director effective 1 January 2016.

Julie is currently the Managing Director of Goodman Fielder Australia and is a Director of the Australian Food and Grocery Council Board.

Over the past 25 years she has led large scale workforces and complex logistics operations across multiple sites.

#### Company, industry and community boards

- Managing Director of Goodman Fielder Australia
- Director of the Australian Food and Grocery Council Board
- Former Managing Director of Big W
- Former Chief Logistics Officer and Human Resources Director of Woolworths
- Former executive at David Jones and Coles Myer

## 5 INFORMATION RELATING TO SPOTLESS

### Simon McKeon AO

#### Independent Non-Executive Director

Simon McKeon AO was appointed as a Non-Executive Director effective December 2016. Simon is currently Chancellor of Monash University and was Australian of the Year in 2011 and was made an Officer of the Order of Australia in 2012 for distinguished service to business, commerce and the community. He has extensive experience in senior leadership and Board roles across a broad range of industries and sectors.

During his over 30 years at Macquarie Group, Simon specialised in corporate mergers and acquisitions, fund raising and strategic advice. He continues to be retained as a consultant by Macquarie Group. Prior to joining Macquarie Group, he practiced as a lawyer with Blake Dawson Waldron in Sydney.

Simon is an active philanthropist and has been a significant contributor over many years to charitable, educational, public health and other community based organisations and causes.

#### Company, industry and community boards

- Chairman of the Group of Eight's Industry and Innovation Board
- Chairman of Summer Housing
- President of the Review Panel of the Banking and Finance Oath
- Member of The Big Issue Advisory Board
- Member of Blackmagic Design Advisory Board
- Australia Day Ambassador for the Victorian Government
- Member of the Victorian Science, Medical Research and Technology Panel
- Former Executive Chairman of Macquarie Group Melbourne
- Former Chairman of AMP
- Former Chairman of CSIRO
- Former Chairman of MYOB
- Founding President of the Australian Takeovers Panel

# **SECTION 6**

 **INFORMATION RELATING  
TO DOWNER SERVICES  
AND DOWNER**

## 6 INFORMATION RELATING TO DOWNER SERVICES AND DOWNER

### 6.1 Disclaimer

The following information about Downer Services and Downer is based on publicly available information, including information in the Bidder's Statement, and has not been independently verified by Spotless. Spotless does not make any representation or warranty, express or implied, as to the accuracy or completeness of this information.

The information on Downer Services and Downer in this Target's Statement should not be considered comprehensive. Further information about Downer Services and Downer is set out in the Bidder's Statement, and may also be obtained from Downer's website at [www.downergroup.com](http://www.downergroup.com).

Information contained in or otherwise accessible from that website does not form part of this Target's Statement. Downer Services and Downer are required to lodge various documents with ASIC.

Section 2 of the Bidder's Statement provides further information relating to Downer Services and Downer.

### 6.2 Overview

The Offer is being made by Downer Services, a wholly owned subsidiary of Downer.

Downer is a public company incorporated in Australia which is listed on the ASX (ASX Code: DOW) with a secondary listing as an overseas listed issuer on NZX.

### 6.3 Downer Services' interest in Spotless

As at the Last Trading Date, Downer and Downer Services had:

- a relevant interest in 164,743,526 Spotless Shares or 15% of Spotless' total issued capital; and
- an economic interest of 4.99% of Spotless Shares pursuant to a total return cash-settled equity swap referenced over 54,804,679 Spotless Shares. As at the date of this Target's Statement, Downer has not disclosed whether it has any intention to convert its economic interest into a physical holding in the relevant reference shares.

See section 6 of the Bidder's Statement for further details.

### 6.4 Downer Services' intentions

Downer Services' intentions in relation to the continuation of or changes to the Spotless businesses, (including any redeployment of the fixed assets of Spotless), changes to the Spotless Board and the future employment of present employees of Spotless are set out in section 2 of the Bidder's Statement.



# **SECTION 7**

## **RISK FACTORS**

## 7 RISK FACTORS

### 7.1 Risks associated with accepting the Offer

(a) Possibility of superior proposal emerging

A third party with a superior proposal may emerge (though the Directors can give no assurances that this will occur).

By accepting the Offer, you will not be able to accept any superior proposal that may be made, unless the Offer is still conditional and you withdraw your acceptance. As such, you may not be able to obtain any potential benefit associated with any such superior proposal. While the Offer remains conditional, you can withdraw your acceptance if you wish to accept a superior proposal. See section 4.7 for details.

(b) Possible appreciation of Spotless Shares in the future

You may be able to sell your Spotless Shares in the future for more valuable consideration than the Offer Price (though the Directors can give no assurances and make no forecast of whether this will occur).

(c) Taxation consequences of accepting the Offer

The taxation consequences of disposing of your Spotless Shares pursuant to the Offer depend on a number of factors and your particular circumstances. A general outline of certain Australian tax considerations of such a disposal is set out in section 8. You should seek your own specific professional tax advice as to the taxation implications applicable to your circumstances.

### 7.2 Risks associated with rejecting the Offer and continuing as a Spotless Shareholder

There are various risks associated with continuing to hold Spotless Shares. Some of these risks are specific to Spotless and its business while others are risks of a more general nature that apply to any investment in a listed company.

The list of risks summarised below is not exhaustive and does not take into account the personal circumstances of Spotless Shareholders. Spotless Shareholders should seek professional advice if they are in any doubt about the risks associated with accepting or rejecting the Offer, having regard to their investment objectives and financial circumstances.

#### Risks specific to an investment in Spotless

(a) Impact of the strategy reset

Spotless announced the results of a strategic review and the commencement of a strategy reset in August 2016. This strategy reset is aimed at preserving Spotless' market leadership position and delivering value to Spotless Shareholders in the medium term. However, there is no guarantee as to the benefits that the strategy reset will realise.

(b) Possibility of future Spotless Share price depreciation

While there are many factors that can influence the market price of Spotless Shares, Spotless Shares may trade at a price below the current market price if the Offer does not proceed and no superior alternative proposal emerges.

(c) Minority ownership consequences

The Offer is presently subject to a 90% minimum acceptance condition, which Downer Services has not as at the date of this Target's Statement indicated it would waive. If Downer Services waives this Defeating Condition (and all other Defeating Conditions are either waived or satisfied), Downer Services may be in position where it holds less than 90% of Spotless Shares.

Downer Services' intentions in relation to Spotless in various scenarios where Downer Services acquires different levels of relevant interests in Spotless are set out in section 2 of the Bidder's Statement.

## 7 RISK FACTORS

Depending on the number of Spotless Shareholders which accept the Offer, this may have a number of implications on the remaining Spotless Shareholders who do not accept the Offer, including:

- depending on the size of Downer Services' interest in Spotless, it may be less likely that another party will seek to acquire all of the Spotless Shares in the future;
- as described in section 9.10 of this Target's Statement, if Downer Services acquires control of Spotless, there may be consequences in respect of certain of Spotless' material contracts and financing arrangements;
- Downer Services may be in a position, either alone or together with other Spotless Shareholders, to materially influence the appointment of the directors and senior management of Spotless. This, in turn, will enable Downer Services (either alone or together with other Spotless Shareholders) to determine Spotless's dividend policy and capital structure and to control the strategic direction of the Spotless Group;
- the liquidity in Spotless Shares may be lower than at present;
- if the number of Spotless Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, Downer Services has stated in section 2.3 of the Bidder's Statement that it will seek to have Spotless removed from the Official List of the ASX. If this occurs, Spotless Shareholders will not be able to sell their Spotless Shares on the ASX; and
- if Downer Services acquires 75% or more of Spotless Shares, it will be able to pass a special resolution of Spotless. This will enable Downer Services to, among other things, change the Spotless constitution.

### (d) Shareholder class action

On 24 February 2017, Spotless was served with a class action alleging that Spotless had breached its continuous disclosure obligations and engaged in misleading or deceptive conduct in relation to Spotless' financial results for the financial year ended 30 June 2015. This action has been brought on behalf of an open class of persons who acquired shares in Spotless between 25 August 2015 and 2 December 2015.

In addition to this proceeding, Slater and Gordon and ACA Lawyers have both issued media releases indicating that they are investigating shareholder class actions against Spotless for alleged breaches of its continuous disclosure obligations and misleading or deceptive conduct in 2015. These potential class actions may address similar issues of fact and law and there may be overlap across the class of shareholders. No formal proceedings have yet been commenced in respect of these potential class actions, although there is an expectation that they may be commenced in the short-term.

Spotless considers that it has at all times been in compliance with its continuous disclosure obligations and has not engaged in misleading or deceptive conduct and strongly denies these allegations, and will vigorously defend the proceeding. However, there is no guarantee that Spotless will succeed, and as such Spotless may be potentially liable for significant monetary compensation should the Court find against Spotless, and its reputation and financial performance may suffer.

### (e) Spotless may fail to renew existing contracts or win new contracts

Spotless' ability to renew contracts with existing customers and win new contracts with existing and new customers is fundamental to its business, growth and profitability. These contracts are usually subject to a competitive process, and there is a risk that Spotless may not win these contracts, which could negatively impact Spotless' financial performance.

### (f) Commencement of new contracts

Commencement of Spotless' customer contracts can be delayed for various reasons. Such delays may result in a delay in Spotless receiving revenue or may cause Spotless to incur additional costs, which could have an adverse impact on Spotless' financial performance.

## 7 RISK FACTORS

### (g) Ability to understand customer requirements or cost inputs

For a variety of reasons, Spotless may from time to time enter into contracts where agreed revenue is insufficient to cover Spotless' costs of delivering the services or to provide adequate profit margins. If Spotless enters into low margin contracts, its financial performance could be adversely impacted.

### (h) Contract termination or renegotiation

Early termination of Spotless' services will reduce Spotless' future revenue and may leave Spotless with excess capacity or redundancy costs (for which Spotless may not receive adequate (or any) compensation).

Customers may also seek to renegotiate existing contracts for various reasons during the contract term. Spotless' financial performance could be adversely impacted if renegotiations of contracts are on terms less favourable to Spotless or if the parties fail to reach agreement.

### (i) Possibility of customers changing to in-sourcing of services

Spotless' financial performance and growth depends on continued demand for its services. A decline in outsourcing or an increase in customers taking services back in-house may adversely affect Spotless' financial performance or growth prospects.

### (j) Ability to attract and retain key personnel

Spotless' performance is dependent on the ability of its senior executives and other key personnel to manage and grow its business and respond to customers' needs. The loss of such personnel, or an inability to attract replacement or additional key personnel, could have a material adverse effect on Spotless' operating and financial performance.

### (k) Ability to manage large workforce

Spotless manages a large and diverse workforce to deliver outsourced services to its customers. Spotless' service quality is largely dependent on Spotless' ability to attract, develop, manage, motivate and retain its workforce. A high level of staff turnover reduces operational efficiency, impairs knowledge management and leads to excessive recruitment costs.

Many of Spotless' employees are represented by a union or are otherwise employed under awards or union-negotiated Enterprise Agreements. The negotiation of new Enterprise Agreements or changes to awards from time to time may increase the overall costs of running Spotless' business and such increased costs may not be able to be passed through to customers in full.

If employees take industrial action, Spotless could be exposed to loss to the extent the industrial action impairs Spotless' ability to provide services or causes disruption to Spotless' customers and Spotless is not adequately protected under the relevant contract.

### (l) Disruption to Spotless' external suppliers

Spotless has various supply relationships necessary for the operation of its business. Any disruption to the supply chain could adversely impact Spotless' financial condition and results.

Inadequate or inefficient management of subcontractors could also result in damage to Spotless' reputation, or cause Spotless to be in breach of its customer contracts, which could adversely impact Spotless' operating and financial performance.

### (m) Rising input costs may lead to lower profitability

The profitability of Spotless' contracts depends on its management of costs. A significant or sustained increase in input costs to which Spotless is unable to respond adequately, or at all, either through cost reduction measures or contract price increases, could have an adverse effect on the financial performance of the business and the ability of the business.

## 7 RISK FACTORS

### (n) Regulatory non-compliance

Spotless is subject to a number of laws and regulations, including those relating to workplace health and safety, as well as the handling, preparation and serving of food, the cleanliness of food production facilities and the responsible service of alcohol. Additional or amended laws and regulations may increase the cost of compliance, adversely impact Spotless' ability to comply, or expose Spotless to greater potential liabilities.

A failure by Spotless to comply with applicable laws and regulations may adversely impact on Spotless' business and financial performance.

### (o) Environmental regulation non-compliance

Spotless is required to run its operations in compliance with legislation concerning the protection of the environment. In particular, certain chemicals have contaminated soil and groundwater at some of Spotless' laundry sites due to historical use of those sites. Spotless is presently assessing, managing and remediating the contamination caused by such events and may in the future be required to undertake additional environmental management and remediation activities.

Costs may be incurred in connection with actual or alleged violations arising under any environmental laws, including fines, damages and criminal or civil sanctions, or interruptions to operations.

### (p) Failure of key IT systems

Spotless relies on a variety of IT systems in the operation of its business. If these systems fail, or if those employees with the skills to operate those systems leave, it may be difficult to hire suitably qualified personnel and the business may suffer as a result.

### (q) Failure to manage working capital may negatively impact Spotless' business

At any point in time, Spotless holds a significant level of trade receivables, and is therefore exposed to credit risk. While this risk is limited as a result of the diversity of its customer base, an economic downturn could affect the solvency of customers, which in turn could adversely affect Spotless' financial performance.

Similarly, Spotless must ensure that it manages its trade payables appropriately. Any misalignment between the movement in receivables and payables could significantly impact Spotless' cash position.

As discussed earlier, Spotless has embarked on a working capital initiative which is expected to deliver an approximately \$80 million working capital improvement over FY18 and FY19. However, there is no guarantee as to the quantum of benefits that this initiative will realise.

### (r) Foreign exchange rate risk

In FY2016, 12% of Spotless' sales revenue was earned in New Zealand dollars. Changes in the Australian and New Zealand dollar exchange rate may adversely impact on Spotless' revenue and balance sheet valuations.

While Spotless may implement currency hedging policies, the Australian dollar value of both its net debt and operating profits may fluctuate as exchange rates vary and, in any case, such hedging may not be effective.

### (s) Permits, licences, accreditations and certifications

Spotless is required to hold certain operating permits, licences, accreditations and certifications. Loss of, failure to comply with or failure to hold such required permits, licences, accreditations and certifications may directly impact Spotless' ability to fulfil its contractual obligations and adversely affect profitability.

## 7 RISK FACTORS

### General risks

As with any listed entity on the ASX, the future prospects and performance of Spotless and the value of Spotless Shares are affected by a wide variety of factors, including:

- (a) general economic conditions (in particular in Australia where Spotless' business is predominantly based, and New Zealand where the balance of Spotless' business is based, but also globally) including interest and inflation rates, exchange rates and commodity prices;
- (b) fluctuations in the local and global market for listed stocks;
- (c) changes to government policy, legislation or regulation;
- (d) inclusion in or removal from market indices (including S&P / ASX indices);
- (e) the nature of markets in which Spotless operates;
- (f) general and operational business risks; and
- (g) natural disasters, global hostilities, tensions and acts of terrorism.

These factors may result in fluctuations to the market price of Spotless Shares that are not explained by the fundamental operations and activities of Spotless.

# **SECTION 8**

## **TAXATION CONSIDERATIONS**

## 8 TAXATION CONSIDERATIONS

### 8.1 Introduction

This section is a brief guide on only certain Australian tax considerations of transferring Spotless Shares to Downer Services under the Offer based on the law and the administrative practices of Australian revenue authorities at 24 April 2017. It is not advice to any particular Spotless Shareholder and does not set out all tax considerations that may be applicable. Spotless Shareholders should seek their own tax advice that takes into account their personal circumstances.

This guide only sets out possible Australian tax considerations for Spotless Shareholders who hold their shares on capital account for Australian income tax purposes.

It does not consider the consequences for shareholders who: are in the business of trading or dealing in securities or otherwise hold their Spotless Shares on revenue account; acquired their Spotless Shares in return for services or as the result of an employee share plan or employee share option plan; acquired (or are taken to have acquired for Australian income tax purposes) their Spotless Shares prior to 20 September 1985; are subject to the taxation of financial arrangements rules contained in Division 230 of the *Income Tax Assessment Act 1997* (Cth); are a bank, insurance company, tax exempt organisation or superannuation fund; are non-residents who currently hold, or have held, Spotless Shares at any time through a permanent establishment in Australia; or temporary residents.

### 8.2 Taxation on the disposal of Spotless Shares

A Spotless Shareholder who transfers their Spotless Shares to Downer Services under the Offer will dispose of those Spotless Shares for Australian capital gains tax (CGT) purposes. The Australian tax consequences will differ depending on the residence of the Spotless Shareholder.

### 8.3 Australian resident Spotless Shareholders

A Spotless Shareholder should realise a capital gain equal to the amount by which the Offer consideration exceeds the cost base of that Spotless Share. A Spotless Shareholder will alternatively realise a capital loss equal to the amount by which the reduced cost base of the Spotless Share exceeds the Offer consideration.

The cost base and reduced cost base of a Spotless Share should generally include the amount paid (or deemed to be paid) to acquire the Spotless Share, which includes certain incidental costs (such as brokerage fees) of the acquisition.

A capital loss may be used to offset a capital gain made in the same income year or be carried forward to offset a capital gain made in a future income year, subject to the satisfaction of certain loss recoupment tests. Capital losses cannot reduce or offset other income or gains.

An Australian resident Spotless Shareholder who is an individual, a trust or a complying superannuation fund may be entitled to reduce their capital gain (after first reducing the capital gain by any available capital losses) by the CGT discount provided that the Spotless Shares were acquired (for CGT purposes) at least 12 months before their disposal to Downer Services (excluding the date of acquisition and the date of disposal) and the Spotless Shareholder did not choose to index the cost base of their Spotless Shares (where applicable).

The applicable CGT discount is generally as follows:

- (a) 50% for individuals and trustees (except a trust that is a complying superannuation entity); and
- (b) 33⅓% for a complying superannuation entity.

The CGT discount is not available to any Spotless Shareholder that is a company.



## 8 TAXATION CONSIDERATIONS

### 8.4 Non-resident Spotless Shareholders

Any Spotless Shareholder that is not a resident for Australian income tax purposes should generally not have to pay Australian income tax on any capital gain arising on the disposal of their Spotless Shares, unless both of the following requirements are satisfied:

- (a) The Spotless Shareholder, together with its associates, held a combined interest of at least 10% in Spotless either at the time the Spotless Shares were disposed of (for CGT purposes) or for at least 12 months during the 24 months before the Spotless Shares were disposed of (for CGT purposes); and
- (b) 50% or more of the market value of the assets of Spotless is represented by real property in Australia (Principal Asset Test).

Note that non-resident Spotless Shareholders may be liable to Australian income tax and be required to lodge an Australian income tax return in connection with the disposal of Spotless Shares even if Downer Services does not withhold any tax as described below.

A non-resident Spotless Shareholder who is subject to a capital gain on disposal of their Spotless Shares may be eligible to apply a CGT discount to part of their gain, depending on their circumstances.

#### Non-resident CGT withholding tax

Downer Services may be required to withhold 10% of the amount paid to acquire the Spotless Shares and instead pay that amount to the Australian Taxation Office if at least one of the Spotless Shareholders is a non-resident, and the Principal Asset Test (defined above) is satisfied.

Spotless is of the view that Principal Asset Test will not be satisfied, and therefore, the non-resident CGT withholding tax should not apply.

An assessment will be made at the time of the actual transaction (if it takes place), in which the market value of Spotless' assets may change and the non-resident CGT withholding may apply.

### 8.5 Stamp duty

Spotless Shareholders will not be liable to any stamp duty in respect of their disposal of Spotless Shares.

### 8.6 GST

Spotless Shareholders should not be subject to any GST in respect of their disposal of Spotless Shares.

Spotless Shareholders should seek their own tax advice to determine whether any GST incurred on costs (for example third party advisers' fee) in relation to the disposal of their Spotless Shares is recoverable by way of input tax credits or reduced input tax credits.

# **SECTION 9**

## **ADDITIONAL INFORMATION**

## 9 ADDITIONAL INFORMATION

### 9.1 Capital structure

As at the Last Trading Date, the Spotless Securities on issue are:

CLASS	NUMBER
Spotless Shares	1,098,290,178
LTI Options	10,019,714
LTI Rights	3,503,742

### 9.2 Substantial holders

Based on substantial shareholder notices provided to Spotless as at the Last Trading Date, the substantial shareholders of Spotless are:

NAME OF HOLDER	RELEVANT NUMBER OF SPOTLESS SHARES	VOTING POWER
Downer <sup>47</sup>	164,743,526	15.00
Coltrane Master Fund, L.P.	113,838,996	10.37
JPMorgan Chase & Co	81,999,955	7.47
UBS Group AG (and Related Bodies Corporate)	76,947,654	7.01
Morgan Stanley and Mitsubishi UFJ Financial Group, Inc. <sup>48</sup>	68,091,266	6.20

### 9.3 Status of discussions regarding alternative proposals

Following Downer's announcement on 21 March 2017, Spotless and its advisers engaged with discussions with several parties, including detailed discussions with a global facilities services company. The discussions with that party included exploring a potential merger transaction valuing Spotless at a superior value to the Downer Offer. The potential merger discussions required agreement on a merger ratio reflecting agreed valuations of each party and the extent to which synergies would be shared by both sets of shareholders.

Those discussions ended on 22 April 2017, when the parties could not reach agreement on the terms of a transaction and the shareholders of the other party also advised that they were considering alternate strategic options for their business.

While the Board will continue to explore any interest it receives from third parties, no superior proposal has emerged to date (and there can be no certainty that any alternative proposal will proceed or result in a superior proposal).

<sup>47</sup> Downer has also disclosed that it holds an economic interest of 4.99% of Spotless Shares pursuant to a total return cash-settled equity swap referenced over 54,804,679 Spotless Shares. As at the date of this Target's Statement, Downer has not disclosed whether it has any intention to convert its economic interest into a physical holding in the relevant reference shares.

<sup>48</sup> According to its substantial holder notice dated 30 March 2017, Mitsubishi UFJ Financial Group, Inc. has voting power of over 20% in Morgan Stanley Inc. and therefore has a relevant interest in the shares under section 608(3) of the Corporations Act.

## 9 ADDITIONAL INFORMATION

### 9.4 Directors of Spotless

At the date of this Target Statement, the Directors of Spotless are:

- Garry Hounsell (Chairman, Independent Non-Executive Director);
- Martin Sheppard (Chief Executive Officer and Managing Director);
- Diane Grady AM (Independent Non-Executive Director);
- The Hon. Nick Sherry (Independent Non-Executive Director);
- Julie Coates (Independent Non-Executive Director); and
- Simon McKeon AO (Independent Non-Executive Director).

### 9.5 Interests of Directors in Spotless Securities

As at the Last Trading Date, the number and description of Spotless Securities in which each Director has a relevant interest are set out in the table below:

DIRECTOR	NUMBER OF SPOTLESS SECURITIES
Garry Hounsell	400,000 <sup>49</sup> Spotless Shares
Martin Sheppard	417,939 <sup>50</sup> Spotless Shares 3,288,142 LTI Options 1,258,470 LTI Rights
Diane Grady AM	170,281 Spotless Shares
The Hon. Nick Sherry	124,625 Spotless Shares <sup>51</sup>
Julie Coates	100,000 Spotless Shares <sup>52</sup>
Simon McKeon AO	500,000 Spotless Shares

Each Director intends to **REJECT** the Offer in respect of their Spotless Securities.

### 9.6 Dealings of Directors in Spotless Securities

No Director has acquired or disposed interests in any Spotless Securities in the four months ending on the Last Trading Date, except for the acquisitions set out below:

DIRECTOR	ACQUISITION DATE	NUMBER OF SPOTLESS SECURITIES
Garry Hounsell	2 March 2017	41,250 <sup>53</sup> Spotless Shares
The Hon. Nick Sherry	7 March 2017	37,125 <sup>54</sup> Spotless Shares

<sup>49</sup> Held indirectly through The Hounsell Superannuation Fund.

<sup>50</sup> 127,500 held indirectly through the Spotless Group Holdings Limited Employee Share Plan Trust.

<sup>51</sup> 37,125 held indirectly through Host-Plus Pty Limited as trustee for the Host Plus Superannuation Fund.

<sup>52</sup> Held indirectly through Good Coates Pty Ltd as trustee for the Good Coates Family Trust.

<sup>53</sup> Held indirectly through The Hounsell Superannuation Fund.

<sup>54</sup> Held indirectly through Host-Plus Pty Limited as trustee for the Host Plus Superannuation Fund.

## 9 ADDITIONAL INFORMATION

### 9.7 Directors' interests and dealings in Downer

Neither Spotless nor any of its Director has a relevant interest in the securities of Downer or any Related Body Corporate of Downer.

### 9.8 Impact of the Offer on Spotless' senior employee and director arrangements

None of the contractual arrangements between Spotless and its Directors and key employees will be materially affected by the Offer, if it were to become unconditional, other than those matters described below. Any payments described below are subject to limitations in the Corporations Act.

#### (a) Director arrangements

As a result of the Offer, no benefit (other than a benefit which can be given without member approval under the Corporations Act) has been paid or will be paid to any Director or secretary in connection with the loss of, or their resignation from, their office.

Other than as disclosed in this Target's Statement, no Spotless Director has agreed to receive, or is entitled to receive, any benefit from Downer or Downer Services which is conditional on, or is related to, the Offer, other than in their capacity as a holder of Spotless Shares.

No agreement has been made between any Director and any person in connection with, or conditional upon, the outcome of the Offer, other than in their capacity as a holder of Spotless Shares.

No Director has any interest in any contract entered into by Downer or Downer Services.

#### (b) Executive and employee arrangements

Certain key employees are entitled to a contractual retention bonus payable in July 2017, which is fully payable in the event the relevant employee is made redundant or terminated without cause by Spotless prior to July 2017. Certain executives and employees are also entitled under contract and statute to various amounts of redundancy payments.

In addition to the above matters, the managing director and key employees are entitled to securities under Spotless employee incentive plans. Section 9.9 of this Target's Statement sets out a description of the Board's present intention in relation to the vesting of securities under the Spotless LTI Plan and waiver of conditions to Deferred Shares.

### 9.9 Spotless Executive Incentive Plans

Spotless' executive remuneration framework includes the LTI Plan, pursuant to which the LTI Plan committee may issue Spotless Shares, LTI Options and LTI Rights.

The LTI Plan is governed by the LTI Plan Rules, which provide (in summary) that:

- Spotless Shares issued under the LTI Plan (including Spotless Shares issued on the exercise of LTI Options or LTI Rights) will rank equally in all respects with existing Spotless Shares on issue on and from the date of issue;
- each LTI Option issued under the LTI Plan confers on its holder the entitlement to acquire one Spotless Share (by way of issue or transfer) at the exercise price (if any) upon exercise (once vesting conditions have been satisfied); and
- each LTI Right issued under the LTI Plan confers on its holder the entitlement to receive one Spotless Share (by way of issue or transfer) at the exercise price (if any) upon exercise (once vesting conditions have been satisfied).

LTI Options and LTI Rights do not have voting rights or entitlements to dividends.

The LTI Plan committee has discretion to determine the terms and conditions applicable to an offer under the LTI Plan and to vary or waive some or all of the vesting conditions for LTI Options and LTI Rights, including to permit them to vest into Spotless Shares at any time.

## 9 ADDITIONAL INFORMATION

### (a) Number of unvested Spotless Shares, LTI Options and LTI Rights

As at the Last Trading Date, 4,007,790 LTI Options and 2,643,973 LTI Rights remained unvested under the LTI Plan.

Under the LTI Plan Rules, 6,011,924 LTI Options and 859,769 LTI Rights automatically vested on 12 April 2017 when Downer Services made its Offer to Spotless Shareholders.

### (b) Ability of holders of LTI Options and LTI Rights to participate in the Offer

Downer Services has stated in its Bidder's Statement that it makes the Offer for all Spotless Shares on the terms set out in section 7 of the Bidder's Statement.

This Offer also extends to all of the Spotless Shares in respect of which a person becomes registered or in respect of which the person becomes entitled to be registered as the holder prior to the end of the Offer Period as a result of:

- the vesting of, conversion of, or the exercise of rights attached to any LTI Options that are on issue at the Register Date; and
- the vesting of, conversion of, or exercise of rights attaching to LTI Rights which are on issue as at the Register Date.

Downer Services has advised that no ASIC relief will be required to confirm that its Offer extends to Spotless Shares that are issued during the period from the Register Date to the end of the Offer Period due to the vesting of, conversion of, or exercise of rights attached to, LTI Rights that were on issue as at the Register Date.

Under the LTI Plan Rules, on the occurrence of a "Corporate Control Event" (which, under the LTI Plan Rules, includes an offer being made for Spotless Shares pursuant to a takeover bid under Chapter 6 of the Corporations Act), any unvested LTI awards will vest on a pro rata basis based on the proportion of the vesting period remaining.

Unvested LTI Options and LTI Rights therefore vested, on a pro rata basis, on 12 April 2017, being the date that Downer Services despatched the Bidder's Statement (which contains the Offer) to Spotless Shareholders.

With regard to the balance of unvested LTI Options and LTI Rights that did not automatically vest on a pro rata basis, the LTI Plan committee has a broad discretion as to their treatment under the LTI Plan Rules. The LTI Plan committee has resolved that all such unvested LTI Options and LTI Rights held by current employees will vest at the time the Offer (or any other bid for the Spotless Shares) becomes unconditional.

As such, holders of any LTI Options and/or LTI Rights may participate in the Offer in the same manner as any other Spotless Shareholder to the extent that their LTI Options and LTI Rights vest prior to the close of the Offer Period, to the extent such LTI Options and/or LTI Rights are subject to automatic vesting and are exercised by the holders of such LTI Options and/or LTI Rights prior to the close of the Offer Period.

Downer Services has stated that the Offer does not extend to LTI Options and LTI Rights which are on issue at the Register Date. This means that the Offer does not extend to any LTI Options and LTI Rights that do not vest prior to the end of the Offer Period.

However, Downer Services has stated in section 2.2 of its Bidder's Statement that, if it acquires a relevant interest of 90% or more of the Spotless Shares and if it becomes entitled to do so under the Corporations Act, Downer Services intends to:

- give notices to compulsorily acquire any outstanding Spotless Shares (including any Spotless Shares which come into existence within the period of six weeks after Downer Services gives the compulsory acquisition notice due to the conversion or exercise of the LTI Options and LTI Rights on issue at the Register Date); and
- proceed to compulsory acquisition of any outstanding Convertible Securities of Spotless which have not been converted or exercised and that have not lapsed. Downer Services may require ASIC relief in order to compulsorily acquire the LTI Rights.

## 9 ADDITIONAL INFORMATION

### (c) Deferred Shares

250,692 Spotless Shares are held by Pacific Custodians Pty Limited under the Spotless Group Holdings Limited Employee Share Plan Trust Deed on behalf of certain Spotless employees under its short term incentive scheme arrangements. Under those arrangements, the shares are held for those employees on a "deferred" basis for a period of 12 months from the date of allocation (**Deferred Shares**).

The relevant terms of the award of the Deferred Shares to the relevant employees does not prescribe any course of action in the event of a takeover offer being made for all of the issued shares in Spotless. However, there is a broad general power given to the Directors, in their discretion, to reduce or waive the 12 month vesting period.

In relation to the unvested Deferred Shares currently on issue, the Directors have exercised their discretion to waive the 12 month vesting period condition which is attached to such Deferred Shares, with vesting to occur at the time that the Downer Services bid, or any other bid for Spotless shares, becomes unconditional.

### 9.10 Change of control events

#### (a) Financing arrangements

Spotless has in place two syndicated facility agreements for the provision of revolving facilities with syndicate bank groups, as well as six bilateral facilities with major Australian trading banks for the provision of revolving credit, bank guarantee and general transactional facilities (being the **Spotless Debt Facilities**).

Under the Spotless Debt Facilities, it will be a 'Review Event' if there is a 'Change of Control'. A Change of Control will be triggered if Downer Services acquires, directly or indirectly, beneficial ownership of 50% or more of the ordinary voting power of the Spotless Shares, or if Spotless is removed from the official list of ASX or any class of securities in Spotless are suspended from trading on ASX for a continuous period of 10 business days or longer (for reasons other than there being an imminent announcement of a major acquisition or merger transaction).

The occurrence of a Review Event will allow the banks to issue a 'Review Notice' to Spotless under each relevant Spotless Debt Facility, triggering a period of good faith negotiations between Spotless and the relevant bank(s) to attempt to agree appropriate amendments to the Spotless Debt Facilities for the purpose of addressing the Review Event. If Spotless and the relevant lender(s) do not agree such amendments within 30 days (or any mutually agreed longer period) of Spotless' receipt of a Review Notice from the relevant bank(s), then the relevant bank(s) may give written notice to Spotless declaring all amounts owing under the relevant Spotless Debt Facility due and payable on a date that occurs no earlier than 90 days from the date of the Review Notice.

Each Spotless Debt Facility has the same Change of Control and Review Event provisions which may be relevant in the context of the Offer, and each can be triggered independently by the lender or majority lenders, as applicable, under the relevant Spotless Debt Facility.

As at 31 December 2016, the Spotless Debt Facilities provided Spotless with committed debt facilities of approximately \$1,057.4 million, of which \$887.4 million were drawn.

#### (b) Material customer contracts

Spotless derives revenue through a large number of customer contracts. The majority of Spotless's material customer contracts contain change of control provisions which may be triggered should Downer obtain control of Spotless. For instance, all contracts which each contribute more than 5% of Spotless's revenue contain change of control provisions which are likely to be triggered.

These provisions contemplate that the consent of the customer is necessary for the change of control. If consent is not given, the change in control could give rise to an event of default or termination right in the customer's favour. In some cases, consent of the customer may not be unreasonably withheld, or may only be withheld in certain circumstances. If consent to the change of control is withheld by a number of customers to the customer contracts, it could materially adversely affect Spotless.

## 9 ADDITIONAL INFORMATION

### (c) Other material contracts

As far as the Directors are aware, none of Spotless's other agreements, which are material in the context of the Spotless business taken as a whole, contain change of control clauses which may be triggered if Downer Services is successful in acquiring control of Spotless, and which give rise to:

- that agreement being terminated; or
- the business of Spotless otherwise being materially adversely affected.

### 9.11 Material litigation

As at the date of this Target's Statement, the one potentially material proceeding currently on foot of which Spotless is aware is the claim described in section 7.2(d). In addition to this proceeding, other shareholder class actions against Spotless are being investigated on behalf of similar classes of persons. For further details, refer to section 7.2(d).

### 9.12 Continuous disclosure

Spotless is a disclosing entity (as that term is defined in the Corporations Act) and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules.

Copies of documents filed with ASX by Spotless may be obtained from the ASX website at [www.asx.com.au](http://www.asx.com.au) or from the Spotless website at [www.spotless.com.au](http://www.spotless.com.au).

### 9.13 Consents

The following parties have given, and have not withdrawn before the date of this Target's Statement, their consent to be named in this Target's Statement in the form and context in which they are so named:

- (a) each Director, to being named as a director;
  - (b) Gilbert + Tobin, to being named in this Target's Statement as legal adviser to Spotless;
  - (c) Citigroup Global Markets Australia Pty Ltd, to being named in this Target's Statement as financial adviser to Spotless; and
  - (d) Coltrane to being named in this Target's Statement and to the inclusion of statements relating to Coltrane's present intentions with respect to the Offer in the context in which they appear,
- and each of those parties:
- (e) has not authorised or caused the issue of this Target's Statement;
  - (f) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than a statement included in this Target's Statement with the consent of that party; and
  - (g) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any part of this Target's Statement, other than a reference to its name and the statements (if any) included in this Target's Statement with the consent of that party.

As permitted by ASIC Class Order 13/521, this Target's Statement may include or be accompanied by statements which are made in documents lodged with ASIC or ASX. Pursuant to the Class Order, provided this Target's Statement fairly represents such statements, the consent of the parties making those statements is not required for, and those parties have not consented to, the inclusion of such statements in this Target's Statement. Spotless Shareholders may, during the Offer Period, obtain a copy of the documents (free of charge) in which the aforementioned statements appear (or in which statements based on those statements appear, as the case may be), or the relevant part(s) of any of those documents, by contacting the Spotless Shareholder Information Line 1300 963 991 (for calls made from within Australia) or +61 1300 963 991 (for calls made from outside Australia), on Monday to Friday between 8:30AM and 5:30PM (AEST).



## 9 ADDITIONAL INFORMATION

In addition, as permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement may include or be accompanied by statements fairly representing a statement by an official person, or statements from a public official document or a published book, journal or comparable publication.

As permitted by ASIC Corporations (Consents to Statements) Instrument 2016/72, this Target's Statement contains share price data sourced from IRESS without its consent.

### 9.14 No other material information

This Target's Statement is required to include all information that Spotless Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find the information in this Target's Statement; and
- only if the information is known to any of the Spotless Directors.

The Spotless Directors are of the opinion that the information that Spotless Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Offer is the information contained in:

- the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- Spotless's annual reports and releases to ASX before the date of this Target's Statement;
- documents lodged by Spotless with ASIC before the date of this Target's Statement; and
- this Target's Statement.

The Spotless Directors have assumed, for the purposes of preparing this Target's Statement, that the information contained in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Spotless Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Spotless Directors have had regard to:

- the nature of the Spotless Shares (being fully paid ordinary shares);
- the matters which Spotless Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisers of Spotless Shareholders; and
- the time available to Spotless to prepare this Target's Statement.

# **SECTION 10**

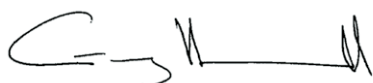
 **APPROVAL OF THIS**

**TARGET'S STATEMENT**

## 10 APPROVAL OF THIS TARGET'S STATEMENT

This Target's Statement has been approved by a resolution passed by the Spotless Directors.

Signed for and on behalf of Spotless Group Holdings Limited:

A handwritten signature in black ink, appearing to read 'G. Hounsell', written over a horizontal line.

Garry Hounsell  
**Chairman**

27 April 2017

# **SECTION 11**

## **GLOSSARY AND INTERPRETATION**

# 11 GLOSSARY AND INTERPRETATION

## Glossary

The following defined terms in this Target's Statement have the meanings set out below.

**1H17 Results Announcement** means Spotless' ASX announcement of the 1H17 Results, as released to ASX on 28 February 2017.

**1H17 Results** means Spotless' Appendix 4D and 1H17 Financial Report disclosing the financial results in respect of 1H17, as released to ASX on 28 February 2017.

**AEST** means Australian Eastern Standard Time.

**Approvals** means a licence, authority, consent, approval, order, exemption, waiver, ruling or decision.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the "Australian Securities Exchange" operated by that entity.

**ASX Settlement** means ASX Settlement Pty Limited (ABN 49 008 504 532).

**ASX Settlement Operating Rules** means the operating rules of ASX Settlement.

**Bidder's Statement** means the bidder's statement of Downer Services in relation to the Offer dated 21 March 2017, as updated by the replacement bidder's statement of Downer Services in relation to the Offer dated 10 April 2017.

**Board** or **Spotless Board** means the Board of Directors of Spotless.

**Coltrane** means Coltrane Master Fund, L.P., of which Coltrane Asset Management L.P. is the investment manager.

**Convertible Security** means a security which will convert, or may be converted, to a Spotless Share, or confers rights to be issued a Spotless Share, and includes an LTI Option or LTI Right which was on issue at the Register Date.

**Corporations Act** means the *Corporations Act 2001* (Cth) and any regulations made under that Act.

**Defeating Conditions** means the conditions of the Offer set out in section 7.11 of the Bidder's Statement and which are set out in Attachment A of this Target's Statement.

**Deferred Shares** has the meaning given in section 9.9(c) of this Target's Statement.

**Directors** or **Spotless Directors** means the directors of Spotless.

**Downer** means Downer EDI Limited (ACN 003 872 848).

**Downer Group** means Downer and its Related Bodies Corporate.

**Downer Services** means Downer EDI Services Pty Ltd (ACN 137 732 042).

**EBIT** means earnings before interest and tax.

**EBITDA** means earnings before interest, tax, depreciation and amortisation.

**General Compulsory Acquisition** has the meaning given in Section 4.8 of this Target's Statement.

**Last Trading Date** means 21 April 2017.

**Listing Rules** means the official listing rules of ASX as amended or varied from time to time.

**LTI Option** means an option to be issued a Spotless Share granted under the LTI Plan.

**LTI Plan** means the Spotless Executive Incentive Plan established by Spotless under which Spotless Shares, LTI Options and LTI Rights are granted for the benefit of certain senior executives of Spotless.

**LTI Plan Rules** means the rules of the LTI Plan.

**LTI Right** means a performance right to acquire a Spotless Share granted under the LTI Plan.

**NPAT** means net profit after tax.

**Offer** means the off-market takeover offer by Downer Services for Spotless Shares under the terms and conditions contained in Section 7 of the Bidder's Statement.

**Offer Period** means the period during which the Offer will remain open for acceptance in accordance with the terms and conditions of the Bidder's Statement.

## 11 GLOSSARY AND INTERPRETATION

**Offer Price** means the price offered for Spotless Shares under the Offer, being \$1.15 cash for each Spotless Share.

**OIO** means the New Zealand Overseas Investment Office.

**Post Bid Compulsory Acquisition** has the meaning given in Section 4.8 of this Target's Statement.

**PPP** means public private partnerships.

**Prescribed Occurrences** has the meaning given to it in section 7.11(g) of the Bidder's Statement and which is set out in Attachment A of this Target's Statement.

**Public Authority** has the same meaning as given to it in the Bidder's Statement.

**Register Date** means 7.00pm (AEST) on 22 March 2017, being the date set by Downer Services under section 633(2) of the Corporations Act.

**Related Body Corporate** has the same meaning given in section 50 of the Corporations Act.

**Rights** means all accretions and rights attaching to Spotless Shares after 22 March 2017 (including all rights to receive dividends and other distributions declared or paid and to receive or subscribe for shares, notes or options issued by Spotless).

**Spotless** means Spotless Group Holdings Limited (ACN 154 229 562).

**Spotless Debt Facilities** has the meaning given to it in section 9.10(a) of this Target's Statement.

**Spotless Group** means Spotless and its related bodies corporate.

**Spotless Securities** mean Spotless Shares, LTI Options and/or LTI Rights (as applicable) and **Spotless Security** means any of the foregoing (as applicable).

**Spotless Shareholder Information Line** means the information line established by Spotless to answer questions from Spotless Shareholders about the Offer.

**Spotless Shareholders** means the holders of Spotless Shares.

**Spotless Shares** means fully paid ordinary shares in the capital of Spotless.

**Target's Statement** means this document and includes the Attachments to it.

**Underwriter** means UBS AG, Australia branch.

**Underwriting Agreement** means the underwriting agreement between Downer and UBS AG, Australia branch in respect of the accelerated pro rata entitlement offer of shares in Downer with retail rights trading to raise approximately \$1 billion.

**VWAP** means the volume weighted average price of Spotless Shares sold on the ASX over the relevant period.

### Interpretation

- (a) Words and phrases to which a meaning is given by the Corporations Act, the Listing Rules or the ASX Settlement Operating Rules have that meaning in this Target's Statement unless that meaning is inconsistent with the context in which the word or phrase is used.
- (b) Headings are for convenience only and do not affect the interpretation of this Target's Statement.
- (c) The singular includes the plural and vice versa and words importing any gender include the other gender, and references to persons include corporations, other bodies corporate, unincorporated bodies, partnerships, joint ventures or associations.
- (d) References to sections are to sections of this Target's Statement, unless stated otherwise.
- (e) Where a term is defined, its other grammatical forms have a corresponding meaning.
- (f) References to time are references to the time in Sydney, Australia on the relevant date, unless stated otherwise.
- (g) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (h) "\$" or "A\$" or "AUD" is a reference to the lawful currency of Australia.

## ATTACHMENT A – DEFEATING CONDITIONS OF THE OFFER

The Offer and the contract resulting from acceptance of the Offer are subject to the fulfilment of the Defeating Conditions set out below (which are also detailed in Section 7.11 of the Bidder's Statement). Under the terms of the Offer and the Corporations Act, any or some of these conditions may be waived by Downer Services.

If Downer Services decides that it will waive a condition, it will announce that decision to ASX in accordance with section 650F of the Corporations Act.

### (a) Minimum acceptance condition

Before the end of the Offer Period, Downer Services has a relevant interest in 90% or more (by number) of Spotless Shares which are on issue or may be issued as a result of the exercise of any LTI Options or LTI Rights on issue as at the Register Date.

### (b) Public Authorities

(i) **(Approval or consents)** Before the end of the Offer Period:

- (A) Downer Services receives all Approvals which are required by law or by any Public Authority to permit the Offer to be made to and accepted by Spotless Shareholders in all applicable jurisdictions (including the OIO providing all necessary consents required under the *Overseas Investment Act 2005* (New Zealand) and *Overseas Investment Regulations 2005* (New Zealand) for Downer Services to complete the acquisition of Spotless Shares in accordance with the Offer) and any such Approvals being given on terms and conditions which are usual for the granting of such Approvals; and
- (B) Downer Services receives all Approvals which are required by law or by a Public Authority as a result of the Offer or the successful acquisition of the Spotless Shares and which are necessary for the continued operation of the business of Spotless and its subsidiaries or of any member of the Downer Group,

and in each case those Approvals, subject as set out above, are on an unconditional basis and remain in force in all respects and there is no notice, intimation or indication of intention to revoke, suspend, restrict, modify or not renew those Approvals.

(ii) **(Regulatory action)** During the Offer Period:

- (A) there is not in effect any preliminary or final decision, order or decree issued by a Public Authority;
- (B) no action or investigation is instituted, or threatened by any Public Authority with respect to Spotless or any subsidiary of Spotless; or
- (C) no application is made to any Public Authority (other than an application by Downer Services or any company within the Downer Group, an application under section 657G of the Corporations Act or an application commenced by a person specified in section 659B(1) of the Corporations Act in relation to the Offer),

in consequence of, or in conjunction with, the Offer, which restrains, prohibits or impedes, or threatens to restrain, prohibit or impede, or may otherwise materially adversely impact upon, the making of the Offer or the completion of any transaction contemplated by the Bidder's Statement (including implementing the intentions expressed in Section 2 of the Bidder's Statement) or seeks to require the divestiture by Downer Services of any Spotless Shares, or the divestiture of any assets by Spotless or by any subsidiary of Spotless or by any company within the Downer Group.

## ATTACHMENT A – DEFEATING CONDITIONS OF THE OFFER

### (c) No change of control triggers are exercised in respect of Spotless' debt funding arrangements

All persons who are parties to contracts relating to the Spotless Debt Facilities and any document required in connection with or ancillary to Spotless' debt funding arrangements provide all required consents to, and waivers and releases, as applicable, in respect of their rights to:

- (i) terminate, cancel or rescind such arrangements;
- (ii) vary, amend or modify the terms of such arrangements;
- (iii) exercise, enforce or accelerate the terms of payment under such arrangements; or
- (iv) benefit from the operation of a provision which automatically gives effect to any of the above,

which arise as a direct or indirect result of the acquisition by Downer Services of a relevant interest in Spotless Shares, change of control of Spotless or the announcement of the Offer including where any such right or effect is subject to the satisfaction or failure of a contingency or condition, one or more of the conditions to the Offer being waived, or any time period has expired within which any such rights may be exercised.

### (d) Underwriting Agreement termination

The Underwriting Agreement is not terminated by the Underwriter before the end of the Offer Period.

### (e) No Spotless profit downgrade

Spotless does not make an announcement on ASX providing revised earnings guidance which is lower in any respect than the earnings guidance announced to ASX on 28 February 2017 in the 1H17 Results Announcement.

### (f) No material acquisitions, disposals or significant events

Except for any proposed transaction publicly announced by Spotless before the date of the Bidder's Statement, none of the following events occur during the period from that date to the end of the Offer Period:

- (i) Spotless, or any subsidiary of Spotless, acquires, offers to acquire or agrees to acquire one or more companies or assets (or an interest in one or more companies or assets) for an amount in aggregate greater than \$100 million or makes an announcement about such an acquisition;
- (ii) Spotless, or any subsidiary of Spotless, disposes, offers to dispose or agrees to dispose of, or creates, offers to create or agrees to create an equity interest in, one or more companies or assets (or an interest in one or more companies or assets) for an amount in aggregate greater than \$100 million or makes an announcement about such a disposal;
- (iii) Spotless, or any subsidiary of Spotless, enters into, offers to enter into or announces that it proposes to enter into any joint venture or partnership involving a commitment of greater than \$100 million in aggregate, or makes an announcement about such a commitment; or
- (iv) Spotless, or any subsidiary of Spotless, incurs or commits to, or grants to another person a right the exercise of which would involve Spotless or any subsidiary of Spotless incurring or committing to any capital expenditure or liability for one or more related items of greater than \$100 million in aggregate or makes an announcement about such a commitment.

### (g) No Prescribed Occurrences

None of the following events happens during the period beginning on the date the Bidder's Statement is given to Spotless and ending at the end of the Offer Period (each event being a **Prescribed Occurrence**):

- (i) Spotless converts all or any of its shares into a larger or smaller number of shares;
- (ii) Spotless or a subsidiary of Spotless resolves to reduce its share capital in any way;



## ATTACHMENT A – DEFEATING CONDITIONS OF THE OFFER

- (iii) Spotless or a subsidiary of Spotless:
  - (A) enters into a buy-back agreement; or
  - (B) resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;
- (iv) Spotless or a subsidiary of Spotless issues shares, other than Spotless Shares issued as a result of exercise of Convertible Securities which are on issue at the Register Date, or grants an option over its shares, or agrees to make such an issue or grant such an option;
- (v) Spotless or a subsidiary of Spotless issues, or agrees to issue, convertible notes;
- (vi) Spotless or a subsidiary of Spotless disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (vii) Spotless or a subsidiary of Spotless grants, or agrees to grant, a security interest in the whole, or a substantial part, of its business or property;
- (viii) Spotless or a subsidiary of Spotless resolves to be wound up;
- (ix) a liquidator or provisional liquidator of Spotless or of a subsidiary of Spotless is appointed;
- (x) a court makes an order for the winding up of Spotless or of a subsidiary of Spotless;
- (xi) an administrator of Spotless, or of a subsidiary of Spotless, is appointed under section 436A, 436B or 436C of the Corporations Act;
- (xii) Spotless or a subsidiary of Spotless executes a deed of company arrangement; or
- (xiii) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of Spotless or of a subsidiary of Spotless.

## ATTACHMENT B – SPOTLESS ASX ANNOUNCEMENTS BETWEEN 21 MARCH 2017 AND THE LAST TRADING DATE

DATE	TITLE
12/04/2017	Take No Action – Despatch of Downer Bidder's Statement
12/04/2017	Dispatch of Bidder's Statement from DOW
12/04/2017	Ceasing to be a substantial holder from NAB
11/04/2017	Becoming a substantial holder from NAB
10/04/2017	DOW: Replacement Bidder's Statement
10/04/2017	DOW: First Supplementary Bidder's Statement
10/04/2017	TOV: SPO Panel Declines to Conduct Proceedings
05/04/2017	Ceasing to be a substantial holder from NAB
05/04/2017	Change in substantial holding
03/04/2017	Becoming a substantial holder from NAB
03/04/2017	Downer takeover offer – Correspondence to shareholders
03/04/2017	Update on unsolicited takeover offer from Downer
03/04/2017	Ceasing to be a substantial holder
03/04/2017	Change in substantial holding
31/03/2017	TOV: Spotless Group Holdings Panel Receives Application
30/03/2017	SPO – Change in substantial holding
30/03/2017	Becoming a substantial holder
30/03/2017	Becoming a substantial holder from MS
29/03/2017	Change in substantial holding
24/03/2017	Change in substantial holding
24/03/2017	Becoming a substantial holder
23/03/2017	Change in substantial holding
23/03/2017	Becoming a substantial holder
21/03/2017	Notice of initial substantial holder from DOW
21/03/2017	Response to takeover offer
21/03/2017	DOW: Bidder's Statement
21/03/2017	DOW: Downer announces takeover offer for Spotless
21/03/2017	DOW: Presentation – Offer for Spotless & equity raising
21/03/2017	DOW: Downer equity raising to support takeover offer for Spotless

## ATTACHMENT C – AVERAGE BROKER FORECASTS

The selection criteria for the average broker forecast numbers used in this Target's Statement have been based on using those broker forecasts that Spotless had access to, and which released forecasts following Spotless' latest half year results announcement and prior to the announcement of the Offer. The selection criteria for each broker forecast number used is set out in the last column of the table below.

The Directors do not adopt any broker forecast or average calculated from more than one broker forecast. The broker forecasts have been included solely as an indication of market views.

### Spotless average broker forecasts

FORECAST NET PROFIT AFTER TAX (PRE-EXCEPTIONAL ITEMS)	NUMBER OF BROKER FORECASTS	RANGE OF BROKER FORECASTS USED IN AVERAGE	DATE RANGE OF BROKER FORECAST USED IN AVERAGE	SELECTION CRITERIA FOR INCLUSION IN AVERAGE
FY18	7	\$73m to \$91m	28 February 2017 to 21 March 2017	<ul style="list-style-type: none"> <li>Released since Spotless' 1H FY2017 results release date, being 28 February 2017</li> <li>Reported or non-adjusted net profit after tax</li> </ul>





# SPOTLESS

Integrated Facilities Services

[www.spotless.com](http://www.spotless.com)