

ASX RELEASE

18 July 2017

Spotless Directors reluctantly recommend shareholders **ACCEPT** Downer's Offer

Spotless Group Holdings Limited (Spotless) (ASX: SPO) notes its separate announcement today regarding the change in Board composition and Downer EDI Limited's (Downer) (ASX: DOW) announcement yesterday indicating it now holds a relevant interest in 67.279% of the issued capital of Spotless.

The Spotless Directors had previously recommended that shareholders reject the Downer Offer for the reasons outlined in Spotless' Target's Statement dated 27 April 2017 (as supplemented by the Supplementary Target's Statement dated 23 May 2017) which reflected their strong belief that as an independent listed company, Spotless could deliver greater value over the medium term as management continued to execute its strategy reset.

The Spotless Directors have carefully considered its previous recommendation to shareholders in the context of the changed circumstances facing Spotless, particularly the change in Board composition and the current shareholding that Downer holds in Spotless.

Given this change in circumstances, the Spotless Directors believe it is now more difficult to form a view that Spotless will deliver greater value to shareholders over the medium term and, on balance, unanimously recommend that shareholders **ACCEPT** the Downer Offer.

The Spotless Directors make this recommendation reluctantly, noting the positive momentum that Spotless has continued to demonstrate since announcing its strategy reset and including the reasons outlined below. In doing so, the Directors also acknowledge that some shareholders with a greater appetite for risk, longer investment horizon or more aggressive investment strategies, may wish to continue to hold their Spotless shares.

Spotless Chairman, Garry Hounsell, said: *"We continue to believe in the strong underlying fundamentals of the Spotless business, however now that Downer owns 67.279% of Spotless and will control a majority of the Board from Wednesday, on balance, we reluctantly recommend that shareholders accept the Downer Offer"*.

Key reasons why the Directors' recommend accepting the Offer

1. Downer now controls the Spotless Board and strategy

Downer is now in a position to cast the majority of votes at a Spotless general meeting, allowing it to control the composition of the Spotless Board and the strategic direction of the Company. From Wednesday, 19 July 2017, Directors nominated by Downer will constitute a majority of the Spotless Board. This reconstituted Board may not undertake the strategy reset in the manner which the current Board was confident would drive both strong earnings and cash-flow growth over the medium term.

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Further, the continued uncertainty over Downer's future intentions while it does not own 100% of the Company may be disruptive to the business (including to customers, employees and suppliers).

2. **Liquidity of Spotless shares is likely to be substantially reduced**

Now that Downer has obtained effective control of Spotless, the liquidity of Spotless shares is likely to be substantially reduced. As a result, the number of Spotless shares traded on the ASX in the future could decline significantly, thereby potentially lessening the value of the shares held by Spotless shareholders who do not accept the Offer.

Spotless could also be removed from a number of key indices. In particular, Spotless could be removed from the S&P/ASX 200 index if Downer achieves a relevant interest in 70% of the issued capital of Spotless. This is likely to further reduce liquidity and may drive selling pressure as index funds reduce their positions.

In addition, many research analysts are likely to cease coverage of the Company, reducing the information available to shareholders.

3. **Downer intends to seek to have Spotless removed from the official list of the ASX**

Downer has stated that it intends to seek to have Spotless removed from the official list of the ASX.

ASX is likely to approve an application for Spotless to be removed from the official list of the ASX 12 months after the close of the Offer, in accordance with ASX guidance. It is also possible that de-listing could occur earlier.

Accordingly, Spotless shareholders should note the likelihood that Spotless shares will not be able to be traded on the ASX after 12 months from the close of the Offer.

If Spotless is de-listed, Spotless shareholders who do not accept the Offer will hold shares in an unlisted company for which there may be no liquid market, unless either Downer or Spotless provides an alternative mechanism for shareholders to sell their shares, before or after any de-listing (eg a new takeover offer, a share buy-back or the introduction of an over-the-counter trading facility).

4. **Downer may cease or reduce dividends, or undertake an equity raising requiring further investment or dilution of shareholders**

Downer has indicated that if it gains more than 50% but less than 90% of the shares in Spotless, it will review Spotless' dividend and capital management policies. In its Bidder's Statement, Downer stated that this review may lead to:

- a reduction in dividend payments to Spotless shareholders. Downer's control of Spotless could adversely impact shareholders who rely on consistent dividends as a source of capital or income; and

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- the need for Spotless to raise additional equity. An equity raising may require shareholders to contribute additional funding or have their investment in Spotless diluted.

Directors of Spotless (including those appointed by Downer) will need to comply with their legal duties to act in the best interests of Spotless shareholders, but shareholders should be aware of the risk of such courses of action.

5. **Cash offer provides certainty following the change of control**

The opportunity for Spotless shareholders to receive the certainty of \$1.15 per share in cash may be attractive in the face of the uncertainties associated with Downer's control of Spotless.

Downer has stated that it will send payment of the consideration due under the contracts formed on acceptance of the Offer within 7 business days of Downer receiving an acceptance from the shareholder in accordance with the terms of the Offer.

6. **Offer is now unconditional**

One of the key reasons for the Board's previous rejection of Downer's Offer was that the bid was highly conditional and uncertain. On 19 June 2017, Downer declared its Offer unconditional.

Key reasons why some shareholders may wish to continue to reject the Offer

The Spotless Directors acknowledge that some shareholders with greater risk appetite, a longer investment horizon or more aggressive investment strategies, may wish to continue to hold their Spotless shares, for a number of reasons including:

- Downer has not achieved its stated objective of acquiring 100% of Spotless, which limits its ability to realise the full benefits from the acquisition, including attaining synergies and fully controlling the cash flows and earnings of Spotless;
- Indeed, there is the potential for Spotless shareholders to share in the benefit of such synergies, to the extent they are realised;
- A number of institutional investors, including Coltrane Asset Management (Coltrane), have so far not accepted the Downer Offer. Coltrane has accumulated relevant interests in up to 10.64% of Spotless shares on issue (via cash settled equity swaps);
- If Coltrane does not accept Downer's Offer for its full 10.64% interest¹, Downer will be unable to compulsorily acquire all of the shares in Spotless; and

¹ If Coltrane requests, and is delivered, Spotless shares representing its 10.64% under the cash settled equity swaps (for further details see the Supplementary Target's Statement dated 23 May 2017).

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- Downer may need to negotiate with Coltrane and other large institutional shareholders and may need to make a new offer to all shareholders at an improved price, although there can be no certainty as to this occurring or the timing of any such offer.

Each Spotless Director will determine whether to accept the Downer Offer in respect of their own shareholding in due course.

Spotless shareholders should have regard to their own personal circumstances when deciding whether or not to accept the Downer Offer and should seek their own professional advice.

Downer's Offer is currently scheduled to close at 7.00pm on 21 July 2017 (unless extended further). Spotless has requested that Downer extends its Offer to allow shareholders appropriate time to consider the Directors' change in recommendation.

A Supplementary Target's Statement will be issued by Spotless in respect of these matters.

The Spotless Shareholder Information line is available to answer any questions 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).

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