
Second Supplementary Target's Statement by Spotless Group Holdings Limited (ACN 154 229 562)

In response to the offer by Downer EDI Services Pty Ltd (ACN 137 732 042) (**Downer Services**), a wholly owned subsidiary of Downer EDI Limited (ACN 003 872 848), to acquire all of the ordinary shares in Spotless Group Holdings Limited (the **Offer**)

Your Directors reluctantly recommend that you ACCEPT the Offer.

1 Introduction

This document is the second Supplementary Target's Statement issued by Spotless Group Holdings Limited (ACN 154 229 562) (**Spotless**) under section 644 of the *Corporations Act 2001* (Cth). It is the second Supplementary Target's Statement (**Second Supplementary Target's Statement**) to the Target's Statement of Spotless dated 27 April 2017 (**Original Target's Statement**) in relation to the off-market takeover bid made by Downer Services for all of the ordinary shares in Spotless, made pursuant to the Bidder's Statement dated 21 March 2017 (as replaced by the Replacement Bidder's Statement dated 10 April 2017, and as supplemented by the First Supplementary Bidder's Statement dated 10 April 2017, the Second Supplementary Bidder's Statement dated 3 May 2017, the Third Supplementary Bidder's Statement dated 19 June 2017, the Fourth Supplementary Bidder's Statement dated 11 July 2017 and the Fifth Supplementary Bidder's Statement dated 18 July 2017) (together the **Bidder's Statement**).

This Second Supplementary Target's Statement supplements, and should be read together with, the Original Target Statement and the first Supplementary Target's Statement dated 23 May 2017 (**First Supplementary Target's Statement**). This Second Supplementary Target's Statement will prevail to the extent of any inconsistency with the Original Target's Statement or the First Supplementary Target's Statement. Unless the context requires otherwise, terms defined in section 11 of the Original Target's Statement have the same meaning where used in this Second Supplementary Target's Statement.

This Second Supplementary Target's Statement is dated, and was lodged with ASIC and ASX on, 19 July 2017. Neither ASIC or ASX, nor any of their respective officers, takes any responsibility for the contents of this Second Supplementary Target's Statement.

This Second Supplementary Target's Statement is an important document and requires your immediate attention. This Second Supplementary Target's Statement does not take into account the individual investment objectives, financial or particular needs of any person. It does not contain personal financial advice. You should seek independent legal, financial and taxation advice before making a decision as to whether or not to accept the Offer.

If you have recently sold all of your Spotless Shares, please disregard this document.

2 Downer Services' interests in Spotless

According to its most recent substantial holder notice dated 17 July 2017, Downer Services has a relevant interest in 67.279% of the Spotless Shares on issue.

Effective from 19 July 2017, the Spotless Board will be reconstituted with:

- Garry Hounsell continuing as Spotless Chairman;
- Simon McKeon and Spotless Chief Executive Officer and Managing Director Martin Sheppard remaining in their roles as Directors; and

- four new Directors nominated by Downer Services, being two non-executive directors of Downer EDI Limited, Phillip Garling and Grant Thorne, the Chief Financial Officer of Downer EDI Limited, Michael Ferguson and a former Downer EDI Limited non-executive director, John Humphrey.

The Directors nominated by Downer Services will constitute a majority of the Spotless Board.

This means that, as of the date of this Second Supplementary Target's Statement, Downer Services has effective control of Spotless and, from 19 July 2017, Downer will also have control of the Spotless Board.

3 Change to your Directors' Recommendation

The Spotless Directors had previously recommended that Spotless shareholders reject the Offer for the reasons outlined in the Original Target's Statement (as supplemented by the First Supplementary Target's Statement) 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.

Your Directors have carefully considered the 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 Services 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 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 set out in section 4 of this Second Supplementary Target Statement. 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.

4 Key reasons why the Directors recommend accepting the Offer

In making this recommendation, your Directors had regard to circumstances faced by minority holders now that Downer Services has acquired effective control of greater than 50% of the shares in Spotless but less than 90%.

These circumstances include:

4.1 Downer Services now controls the Spotless Board and strategy

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

4.2 Liquidity of Spotless Shares is likely to be substantially reduced

- Now that Downer Services 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 Services 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 Spotless, reducing the information available to shareholders.

4.3 Downer intends to seek to have Spotless removed from the official list of the ASX

- Downer Services has stated that it intends to seek to have Spotless removed from the official list of ASX.
- ASX guidance indicates that ASX would likely approve an application for Spotless to be removed from the official list of ASX without the need for shareholder approval if an application is made within a month of the end of the Offer Period and if:
 - (a) at the end of the Offer, the Downer Group owns or controls at least 75% of the Spotless Shares and the Offer remained open for at least two weeks after the Downer Group attained ownership or control of at least 75% of the Spotless Shares; and
 - (b) the number of Spotless shareholders (other than the Downer Group) having holdings with a value of at least \$500 is fewer than 150.
- In addition, ASX guidance indicates that ASX would likely approve an application for Spotless to be removed from the official list of ASX with shareholder approval and, where such removal is sought later than 12 months after the close of the Offer, Downer Services would be entitled to vote on the resolution approving the removal.
- Accordingly, Spotless shareholders should note the likelihood that Spotless Shares will not be able to be traded on 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 (e.g. a new takeover offer, a share buy-back or the introduction of an over-the-counter trading facility).

4.4 Downer Services may cease or reduce dividends, or undertake an equity raising requiring further investment or dilution of shareholders

- Downer Services 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 Services stated that this review may lead to:
 - a reduction in dividend payments to Spotless shareholders. Downer Services' control of Spotless could adversely impact shareholders who rely on consistent dividends as a source of capital or income; and
 - the need for Spotless to raise additional equity. An equity raising may require Spotless shareholders to contribute additional funding or have their investment in Spotless diluted.

Directors of Spotless (including those appointed by Downer Services) 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.

4.5 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 control of Spotless by Downer Services.
- As the Offer has become unconditional, Downer Services 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 Services receiving an acceptance from the shareholder in accordance with the terms of the Offer.

4.6 The Offer is now unconditional

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

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

The Spotless Directors acknowledge that some Spotless 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 Services 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 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 the Offer for its full 10.64% interest,¹ Downer Services will be unable to compulsorily acquire all of the shares in Spotless; and
- Downer Services may need to negotiate with Coltrane and other large institutional shareholders and may need to make a new offer to all Spotless 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 Offer in respect of their own shareholding in due course.

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

6 Offer period

The Offer is currently scheduled to close at 7.00pm (Sydney time) on 31 July 2017 (unless extended further).

7 Consents

Coltrane has given, and has not withdrawn before the date of this Second Supplementary Target's Statement, their consent to being named in this Second Supplementary Target's Statement in the context in which they appear. Coltrane:

- (a) has not authorised or caused the issue of this Second Supplementary Target's Statement;
- (b) does not make, or purport to make, any statement in this Second Supplementary Target's Statement or any statement on which a statement in this Second Supplementary Target's Statement is based, other than a statement included in this Second Supplementary Target's Statement with their consent; and
- (c) 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 Second Supplementary Target's Statement, other than a reference to its name and the statements (if any) included in this Second Supplementary Target's Statement with the consent of that party.

As permitted by ASIC Class Order 13/521, this Second Supplementary 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 Second Supplementary 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 Second Supplementary 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 within 2 business days, 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).

8 Shareholder Information Line

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.

9 Authorisation

This Second Supplementary Target's Statement has been approved by a resolution passed by the directors of Spotless.

Dated 19 July 2017.

Signed for and on behalf of Spotless Group Holdings Limited by:



Garry Hounsell
Chairman
