19 February, 2009

Company Announcements Office
Australian Securities Exchange Limited
4th Floor
20 Bridge Street
SYDNEY NSW 2000

MANAGING DIRECTOR AND CFO PRESENTATION COMMENTARY 2009 INTERIM RESULTS

Any enquiries should be directed to Mr. Rowan Wilkie on +61 3 9269 7303 or +61 418 577 956 or Kerrina Watson on +61 3 9269 7272 or +61 419 327 719

19 February 2009 **ASX RELEASE**

MANAGING DIRECTOR AND CFO PRESENTATION COMMENTARY
2009 INTERIM RESULTS

Jo Farnik
Managing Director and CEO

Introduction & Overview
I am pleased to be reporting a solid first half performance reflecting continued momentum in the ongoing transformation of Spotless. Of note is the strong Facility Services performance with underlying EBIT growth of 23.7%. Group EBIT, pre-NRIs, is up 3.8% to $46.1m.

Braiform, the Retailer Services division that provides retail garment hanger solutions internationally, produced EBIT of $0.9 million – reflecting the extremely difficult global retail conditions.

We highlight today the acquisition of Riley Shelley, a privately owned painting and property services company which complements our suite of services.

With our restructured and refinanced syndicated debt facility, the Company's debt maturity profile has now been significantly extended. Our combined debt facilities, including our US Private Placement notes, now have a maturity profile of between three and six years. This provides Spotless with a strong balance sheet.

The Board of Spotless has declared an interim dividend of 5.0 cents per share franked to 100% compared to 10.5 cents per share franked to 40% in the prior corresponding period. This reflects a payout ratio of 50% on EPS pre-NRIs, in line with our newly revised dividend policy.

Performance Highlights
Net profit after tax (NPAT) of $17.4 million is an increase of 33.8% on the prior corresponding period. Reported earnings per share rose 33.3% to 8.0 cents. EPS, pre-NRIs, declined 9.9% to 10 cents per share. This reflects higher interest expense and a higher tax rate due to the Braiform country profit mix.

We are pleased with our first half performance, particularly in light of domestic and international economic conditions. During the half we continued to deliver cost reductions – building on the significant reductions generated last year – in advance of the economic downturn.

EBIT prior to non-recurring items
Group EBIT prior to NRIs rose 3.8% compared to the prior corresponding period. Facility Services revenue (excluding pass through revenue) was 2.9% higher than the prior corresponding period at $928.1million. Spotless does not earn margin on pass through revenue. Pass through this half was lower than the prior corresponding period due to lower spending by Defence on building works.

Facility Services EBIT rose 23.7% with all divisions generating positive earnings growth. For those of you interested in using New Zealand as a yard stick – I am pleased to note that our businesses in New Zealand stabilised during the half due to an improved focus on both customers and profitability. Braiform revenue and EBIT fell significantly due to very poor international retail conditions.

Managed Services
Within Managed Services, underlying sales (excluding pass through revenue) rose 2%. EBIT rose 26.3% to $14.9m. Of note were new contract wins coupled with contract expansion in NSW Department of Housing, University of Tasmania, Sydney Water, Orange Hospital PPP and Pilbara Iron. As at 31 December, Managed Services had a forward order book of $7.1 billion, with more than 95% of contracted revenue in the areas of healthcare, government, industry, defence and PPPs. EBIT improved as a result of overhead efficiencies delivered in 2008 coupled with operational improvements.

Food Services
Food Services sales increased 5.8% to $282.7m. Drivers of the sales performance include:

- The full contribution of Alliance Catering Services acquired in the pcp, including improved contract performance and business rejuvenation of the "BEA" segment under the Alliance brand;
- Hospitality growth due to additional sporting fixtures and higher attendances at major events; and
- Airports growth – the impact of new terminals, partially offset by terminal redevelopment programs and declining international passenger numbers.

Food Services EBIT rose 24% to $15.0 million. Over and above sales growth, EBIT rose due to strong cost control and the inclusion, in the Food segment result, of the profit on sale of a contract.

Laundry Services
Laundry Services sales increased by 1.1% to 113.4m, reflecting significant growth in linen, partially offset by a decline in garments. EBIT rose 4.6% to $13.7m. Taylor's, our New Zealand laundry business, had a pleasing turnaround during the period. We are also seeing the cost benefits of our investments in water and energy efficient equipment.

Cleaning Services
Cleaning Services sales rose 0.7% to $124.4m. A number of national contracts were signed during the period, with this impact partially offset by contract losses. EBIT rose 72.7% to $7.6 million. Key points to note include:

- There has been a strong focus on improving contract performance;
- Previously identified mobilisation issues have been resolved and those contracts are now making a strong contribution; and
- Earnings were significantly stronger over the previous corresponding period due to improved operational performance, a focus on labour and cost containment and the Efficiency Improvement Program.

Facility Services – Organic & Acquisitive Growth Opportunities
For Facility Services as a whole, our focus continues to be on retaining, growing, cross-selling within the business and exploring new business opportunities. The business is on track to drive a better sales performance in FY10 and beyond.

There are a number of growth opportunities for us in Facility Services. We continue to identify organic and acquisitive opportunities. We will pursue these where they have a strong strategic fit and meet our stringent financial filters.

The Australian and New Zealand Government stimulus packages present participation opportunities for Spotless. Some of the funding is being directed to areas in which Spotless already operates such as schools and housing in some states. Spotless own employees and its strong base of accredited SME sub-contractors can be quickly mobilised to meet the tight timelines. We continue to pursue this opportunity.

In respect of our Abu Dhabi Joint Venture, we have now finalised the JV arrangements with Emirates Link Group to provide facilities management and related property services. We have already submitted our first proposal to the government. No initial capital contribution is required from Spotless. Under the JV arrangement, Spotless is entitled to a 2% royalty plus reimbursements of bid costs, before profit sharing with our local partner.

Acquisition of Riley Shelley

We are pleased to announce the acquisition of Riley Shelley - a leading Australian painting services and minor works business with national coverage. Riley Shelley is an exciting bolt-on acquisition for Spotless. I note that the acquisition remains subject to conditions precedent. Riley Shelley supports our outsourced services strategy:

- It adds to our suite of services – facilities management, food, cleaning and laundry - that customers can select either individually or bundled,
- It provides a complementary service line with scope for insourcing and cross selling – in line with our strategy; and
- We will now be able to directly perform more services for our customers within existing and new contracts

The acquisition of Riley Shelley is expected to comprise a total upfront consideration of approximately $20 million, with the bulk of the purchase consideration relating to receivables and other assets. Riley Shelley has national coverage across painting, essential services, refurbishment / refit and corporate imaging, with annual revenues of over $40 million per annum.

Braiform

Braiform has required significant management attention – refining the business model, reorganising and reducing cost. Significant progress was made ahead of the economic down turn, and is continuing. However, Braiform has been adversely affected by the worsening consumer demand in Europe and North America over the period.

The business continues to reduce headcount and streamline operations. During the half the Braiform workforce declined by a further 76 employees. Approximately $1.7 million of restructuring costs were incurred during the half, and we will continue to drive efficiencies.

Braiform is now well positioned relative to its competitors due to:

- Its agile sub-contracted manufacturing model, which can be quickly scaled and easily re-located, providing production and cost flexibility, and
- The bulk of the restructuring of the business occurred prior to the economic downturn ensuring Braiform is a more efficient and competitive business.

Cashflow from Braiform continues to be positive, reflecting the resilience of the business in the currently challenging retail environment.

Operationally, we can report additional closed loop re-use contracts equivalent to 120 million hangers per annum over five years, whilst our contract with Target US has been extended by two years. We are in advanced negotiations with several UK and US retailers regarding the re-use program.

The new Braiform IT platform (eBiz) is reducing duplication and removing inefficiencies. This platform integrates with customer systems allowing better tracking of orders, and provides better analysis and timely insights, which makes for more informed decision making.

And finally, we will continue to drive warehousing, production and administrative efficiencies.

Andre Carstens
Chief Financial Officer

I am pleased to present to you today a solid set of financial accounts, including the details of our successful debt restructure and refinancing.

<u>Profit and Loss Statement</u>
Starting with the Profit and Loss, group sales performance reflects lower Braiform sales and pass-through revenues in Managed Services. Excluding these impacts, sales rose 3% on pcp.
I note that the Group EBITDA result prior to non-recurring items was positive excluding Braiform.

Lower depreciation and amortisation levels reflect lower capex trends in recent periods, as well as the impact of the 2008 Efficiency Improvement Program. Depreciation & amortisation expense in the half was consistent with the second half of 2008.

Looking at EBIT, the Group result prior to non-recurring items rose 4 % on pcp, with Facility Services up almost 24%. This result includes some non-operating items, which I will detail later.

Net interest expense rose on pcp, with $1.7 million of the rise due to lower non-cash interest revenue, an impact of the now discontinued share plan loans. Higher average debt levels over the period also contributed to the rise in net interest expense.

The effective tax rate of 32.6% was moderately higher than the pcp due to the mix of Braiform profits by country.

<u>Items Impacting EBIT and NPAT</u>
EBIT and NPAT rose 46% and 34% respectively on a reported basis. The only non-recurring item during the half was a $4.4 million impairment charge relating to the Company's strategic investment in Programmed Maintenance Services. Non-recurring items in the pcp relate to our Efficiency Improvement Program. Over and above non-recurring items, the results were impacted by a number of non-operating items. Of note:

- Non-cash interest revenue relates to loans under a discontinued share plan;
- The increased long service leave provision is non-cash and reflects significantly lower global interest rates impacting the present value of leave provisions;
- Transformation expenses reflect expenses incurred during the half, including the Shared Services rollout, redundancies, warehouse & production rationalisation and advisory costs. Similar costs were treated as non-recurring items in the pcp; and
- The first half results include the profit on sale of a Food contract.

Excluding these items, Group EBIT and NPAT rose 11% and 4% respectively.

<u>Balance Sheet</u>
I would like to make some comments on our balance sheet. Firstly, our balance sheet continues to be robust. Gearing levels remain within our previously advised target range of 30% to 50%. Net debt rose during the period, impacted by FX translation, payment of FY08 NRIs and a seasonal investment in working capital.

With the successful debt refinancing completed subsequent to 31 December, $107 million of our short term borrowings would be reclassified as non-current borrowings.

Successfully Restructured Bilateral Debt Facilities
The Company has entered into a syndicated debt facility to restructure its three existing bilateral debt facilities, totalling A$240 million. The new syndicated facility expires in February 2012. Spotless remains comfortably within its debt covenants, and the new facility contains minimal changes to covenants. Pricing has increased, reflecting prevailing credit market conditions.

Debt Profile
Including the Company's US Private Placement notes totalling US$130 million, Spotless' debt maturity profile has been significantly extended to between three and six years.

As at 31 December, Spotless had drawn down on 75% of committed facilities. Approximately 55% of our debt is at fixed rates until maturity – reflecting our US Private Placement notes. Whilst the bulk of debt is in Australian dollars, we have a balance of debt across currencies, appropriately reflecting the spread of our operations. Further, our offshore earnings comfortably service our foreign currency interest payments.

Cash Flow
Our cash conversion ratios continue to be strong, albeit seasonally weaker in the first half than in the second half. After adjusting for working capital movements and FY08 NRIs, our gross operating cash flow to EBITDA ratio rose from 76% in the pcp to 81%.

During the half, capital expenditure fell almost 10% on pcp. This level of capital expenditure is in line with second half of 2008.

Spotless continues to generate strong underlying cashflows, has strong interest cover and credit metrics.

Jo Farnik
Managing Director and CEO

Dividends
As previously stated, the Directors have completed their review of the Dividend Policy. The Directors considered:

- the challenging economic climate;
- the capital requirements of the business in the context of a stated growth strategy; and
- the desire to maximise the tax effectiveness of distributions; and
- For these reasons, it is the intention of Directors to have reference to a target payout ratio of between 50% and 60% of EPS.

Outlook
The Directors do not intend to provide specific earnings guidance at this time due to the increasingly challenging general economic and financial market environment.

However, at this stage, Spotless expects the second half EBIT result for Facility Services to exceed the first half. In respect of Braiform, Spotless does not expect a material improvement in global retail market conditions in the second half.

That said, the Facility Service businesses in particular are competitively positioned amid uncertain economic times. We provide a range of essential outsourced service solutions to a broad mix of customers in both government and industry, across thousands of contracts.

The cost reductions achieved over the past 18 months, ahead of the economic downturn, position Spotless well for this period.

Across all four business lines in Facility Services there are solid revenue trends, in both Australia and New Zealand, notwithstanding some patchy areas of demand – for example in food retail and hospitality, including corporate entertainment.

In respect of Braiform, current demand in the global retail market is such that we do not expect a material improvement in trading conditions during the second half. Management continues to focus on improving the supply chain operation and cost effectiveness of support functions.

Summary

In summary, our performance over the half has been solid. It reflects the combined efforts of our 30,000 employees globally.

The business:

- Has contained costs across the Group;
- Has a strong focus on customer solutions across our broad and deep range of services;
- Can take advantage of lower priced strategic bolt-on acquisitions in Facility Services;
- Is well placed to participate in the Australian and New Zealand Government stimulus packages; and
- Now has an even stronger balance sheet position following the successful restructure and refinancing of our $240 million syndicated debt facility.

All of which provide a strong business foundation for our ongoing transformation journey and to realise the full value of Spotless.