

Media/ASX and NZX Release

21 February 2018

DOWNER DELIVERS STRONG RESULT MAINTAINS FULL YEAR GUIDANCE

Downer EDI Limited (Downer) today announced its financial results for the six months to 31 December 2017.

- Total revenue of \$6.1 billion, up 69.3% (up 20.6% on a pro forma basis);
- Underlying earnings before interest, tax and amortisation of acquired intangible assets (EBITA) of \$222.3 million, up 79.0% (up 14.5% on a pro forma basis);
- Underlying earnings before interest and tax (EBIT) of \$191.6 million, up 58.6% (up 3.2% on a pro forma basis);
- Underlying net profit after tax and before amortisation of acquired intangible assets (NPATA) of \$132.0 million, up 63.8% (up 12.7% on a pro forma basis);
- Statutory NPATA of \$5.7 million after \$126.3 million of individually significant items;
- Statutory net loss after tax of \$15.9 million after deducting post-tax amortisation of acquired intangible assets of \$21.6 million;
- Operating cash flow of \$307.1 million, representing cash conversion of 88% of earnings before interest, tax, depreciation and amortisation (EBITDA);
- Gearing (including Spotless) of 24.6% (27.0% including off-balance sheet debt);
- Available liquidity of \$1.4 billion;
- Work-in-hand of \$39.2 billion; and
- Lost Time Injury Frequency Rate of 0.69 per million hours worked; Total Recordable Injury Frequency Rate of 3.38 per million hours worked.

The references to “a pro forma basis” above mean that Spotless’ contribution for the period 1 July 2016 to 31 December 2016 has been included to allow comparison of the combined Downer and Spotless results as if the acquisition of Spotless had occurred on 1 July 2016.

All the figures above include 100% contribution from Spotless, before minority interests.

A full reconciliation from the underlying result to the statutory result is provided on slide 13 of the Investor Presentation.

Downer reports its financial results under six service lines and the performance of each service line, compared with the previous corresponding period, is summarised below:

Transport

Total revenue of \$1.2 billion, up 35.9%
EBITA of \$55.6 million, up 34.3%
Work-in-hand of \$5.7 billion

Rail

Total revenue of \$543.9 million, up 36.1%
EBITA of \$18.0 million, up 28.6%
Work-in-hand of \$8.7 billion

Mining

Total revenue of \$689.5 million, up 8.5%
EBITA of \$20.9 million, down 52.9%
Work-in-hand of \$2.0 billion

Utilities

Total revenue of \$851.9 million, up 23.8%
EBITA of \$45.8 million, up 7.8%
Work-in-hand of \$2.8 billion

Engineering, Construction & Maintenance

Total revenue of \$1.2 billion, up 27.3%
EBITA of \$36.7 million, up 35.4%
Work-in-hand of \$2.5 billion

Spotless

Total revenue of \$1.5 billion, up 6.0%
EBITA of \$78.6 million, up 12.4%
Work-in-hand of \$17.5 billion

The Chief Executive Officer of Downer, Grant Fenn, said he was very pleased that Downer had maintained its target of delivering consolidated underlying NPATA of \$295 million before minority interests for the full financial year, despite the sale of the freight rail business and a significantly softer result from the Mining service line.

“Our Transport service line performed strongly once again, growing both revenue and EBIT,” Mr Fenn said. “This growth was driven by the Roads business in both Australia and New Zealand and ongoing government investment in transport infrastructure projects. We expect this investment to continue and the outlook for Transport remains positive.”

Growth in the Utilities service line continues to be driven by increased nbn™ volumes, while the performance of the New Zealand Communications and Water businesses has improved. The environment for Renewables remains competitive and this has impacted margins.

The growth achieved by the Rail service line was driven by two major projects, High Capacity Metro Trains in Victoria and Sydney Growth Trains in New South Wales, while the long term Waratah and Millennium maintenance contracts also continued to perform well.

Downer announced on 21 November 2017 that it had entered into an agreement to sell its freight rail business to Progress Rail, a Caterpillar company and the world’s leading manufacturer of diesel-electric locomotives, for \$109 million. The sale was completed on 2 January 2018.

“It is very pleasing that the loss of earnings from the sale of our freight rail business will be offset in the second half of the year by contributions from the major Rail projects, our passenger rolling stock business and Keolis Downer,” Mr Fenn said.

“Downer is Australia’s leading provider of passenger rolling stock asset management services and we are very well placed to drive reliable and safe services to the fast growing and dynamic public transport sector.”

The Gorgon and Wheatstone gas projects continued to make a strong contribution to the performance of Engineering, Construction & Maintenance (EC&M), while Downer also ramped up its activities at the Ichthys gas project. The Mineral Technologies consultancy, which has been challenged in recent years, delivered a significantly improved performance.

EC&M's result included a full six month contribution from Hawkins, which has been performing well since its acquisition in March 2017. On 11 December 2017, a Downer-Ausenco joint venture was awarded a contract by OZ Minerals Carrapateena Pty Ltd for work at the Carrapateena copper gold mine project in South Australia.

On 5 February 2018, Downer announced a \$77 million impairment of Mining goodwill. This charge is a non-cash item and has been disclosed as an individually significant non-recurring item. It has no impact on cash flow or the company's existing operations.

The significant fall in EBITA for the Mining service line is predominantly due to the conclusion of the Christmas Creek contract in the prior corresponding period. Pleasingly, on 20 December 2017 Downer was awarded a five year contract valued at approximately \$400 million to provide mining services at the Gruyere Gold Project in Western Australia.

"The earnings for Spotless in the six month period are in line with Downer's business case, cost synergies are expected to exceed our original estimates and integration continues to progress very well," Mr Fenn said.

Spotless and Downer continue to focus on the Royal Adelaide Hospital contract which, as reported in November, is an underperforming contract that is currently cash negative. Spotless and Downer are working hard to address the various issues and turn the contract performance around. Commercial discussions are continuing with the customer.

Safety

Downer continues to perform well against key health and safety indicators with a Lost Time Injury Frequency Rate of 0.69 per million hours worked and a Total Recordable Injury Frequency Rate of 3.38 per million hours worked.

Dividend

The Downer Board resolved to pay an interim dividend of 13.0 cents per share, 50% franked, (12.0 cents per share fully franked in the prior corresponding period) payable on 4 April 2018 to shareholders on the register at 7 March 2018. The unfranked portion of the dividend (50%) will be paid out of Conduit Foreign Income. The company's Dividend Reinvestment Plan (DRP) remains suspended and will not operate for this dividend.

Outlook

Downer is targeting consolidated underlying NPATA of \$295 million before minority interests for the 2018 financial year. This includes underlying NPATA of \$202 million for Downer and \$93 million for Spotless.

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About Downer

Downer is the leading provider of integrated services in Australia and New Zealand and customers are at the heart of everything it does. It exists to create and sustain the modern environment and its promise is to work closely with its customers to help them succeed, using world-leading insights and solutions to design, build and sustain assets, infrastructure and facilities. Downer employs approximately 56,000 people across more than 300 sites, primarily in Australia and New Zealand, but also in the Asia-Pacific region, South America and Southern Africa. It also owns 88 per cent of Spotless Group Holdings Limited. For more information visit downergroup.com