

Downer Group Investor Presentation



Half Year Results

7 February 2019



Delivering operationally and financially

Our focus areas

Safety

LTIFR of 0.68 and TRIFR of 3.09, improving on HY18

Zero Harm embedded in culture and fundamental to success

Earnings growth

23.8% NPATA¹ growth v HY18³

FY19 guidance increased to \$352 million NPATA¹

Cash conversion

Operating cash flow of \$355.3m, cash conversion of 90.7%

Continue delivering cash backed earnings with +90% cash conversion to adjusted EBITDA

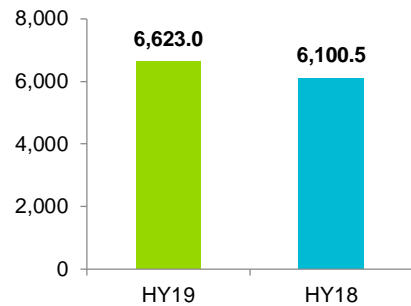
Balance sheet

Gearing of 23.8% v 24.6% in HY18 and \$1.4bn of liquidity

Balance sheet flexibility to support growth strategy

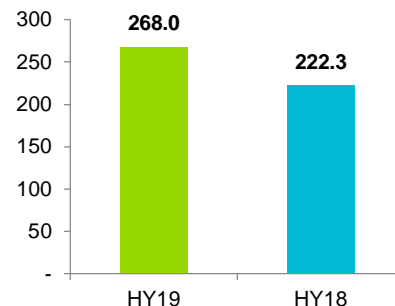
Our financial results

Total revenue² \$m



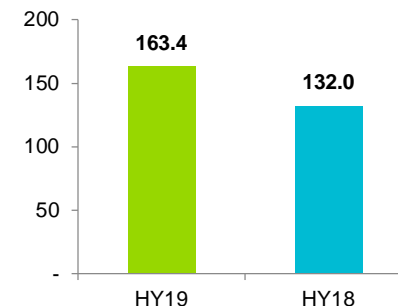
+8.6% v HY18

EBITA¹ \$m



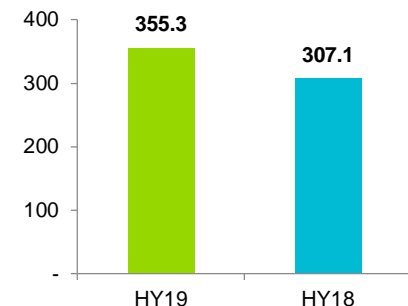
+20.6% v HY18³

NPATA¹ \$m



+23.8% v HY18³

Operating Cash Flow \$m



+15.7% v HY18

All figures above and throughout the presentation include 100% contribution from Spotless, before minority interests, unless stated otherwise.

¹ Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group HY19 \$31.4m, \$22.0m after-tax (HY18: \$30.7m, \$21.6m after-tax). FY19 guidance includes the fair value gain from acquiring the remaining 50% of the Downer Mouchel JV in late 1H19.

² Total revenue above and throughout the presentation is a non-statutory disclosure and includes revenue from joint ventures and other alliances and other income.

³ HY18 figures are underlying.

Downer's earnings are heavily weighted to the growing Urban Services markets

Urban Services

75% Revenue 80% EBITA¹ 4.7% EBITA margin




Transport

- Road services
- Bitumen and logistics
- Transport infrastructure projects
- Heavy rail, light rail, buses



Utilities

- Power and gas
- Water
- Renewables
- Communications

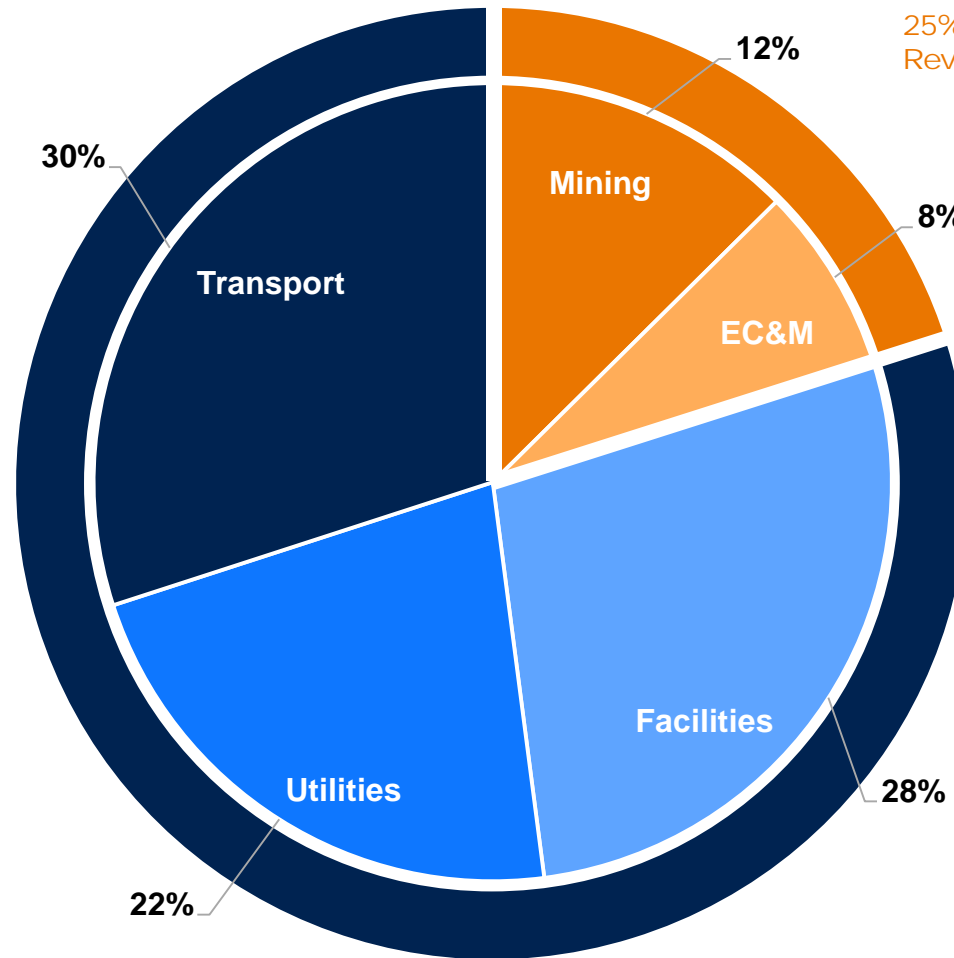



Facilities

- Hospitality and FM
- Health, Education, Defence, Justice, Resources, Infrastructure
- Mechanical & Electrical (M&E) and Heating, Ventilation and Air-conditioning (HVAC)
- Laundries
- Hawkins


Mining, Energy and Industrial Services

25% Revenue 20% EBITA¹ 3.6% EBITA margin

Mining

- Open Cut
- Underground
- Blasting and Tyre Management



EC&M

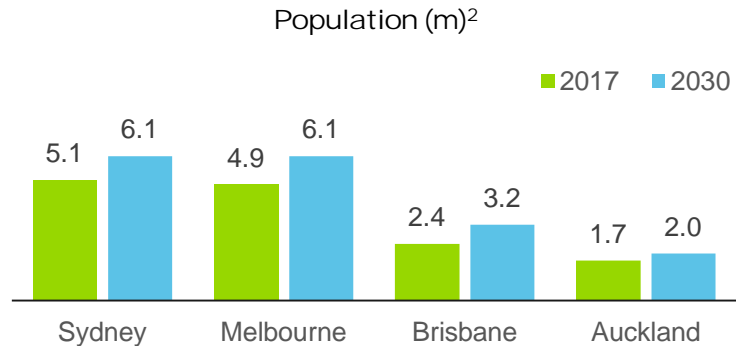
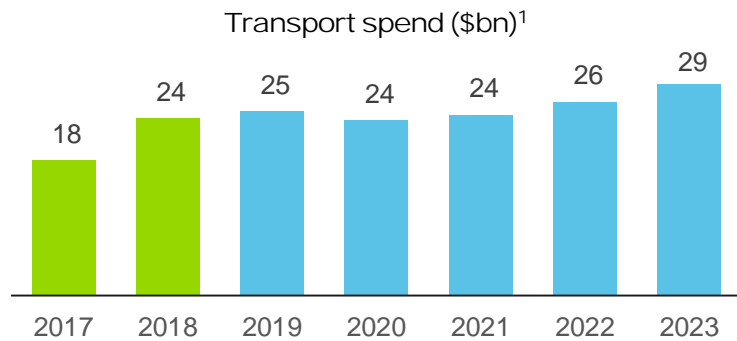
- Energy and Resources
- Engineering
- Construction
- Asset management services

¹ Chart split based on HY19 EBITA (excludes unallocated corporate costs).

Urban Services

Transport, Utilities, Facilities

Leveraged to the long-term trends of increasing urbanisation, growing population, government outsourcing and technology proliferation



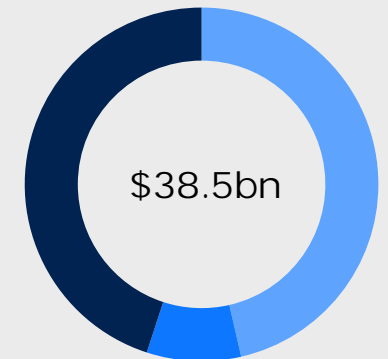
Strategic focus areas

- Leverage leading positions in growing markets
- Strategic investment in existing operations and targeted acquisitions
- Continued innovation

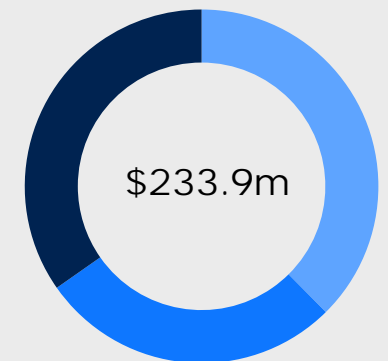
¹ BIS Oxford Economics - Engineering in Australia Study. Public sector road and railways construction spend plus private toll roads.

² Australian Bureau of Statistics - Australian Demographic Projections, Auckland City Council - Auckland 2050 Plan.

Work-in-hand



EBITA by service line

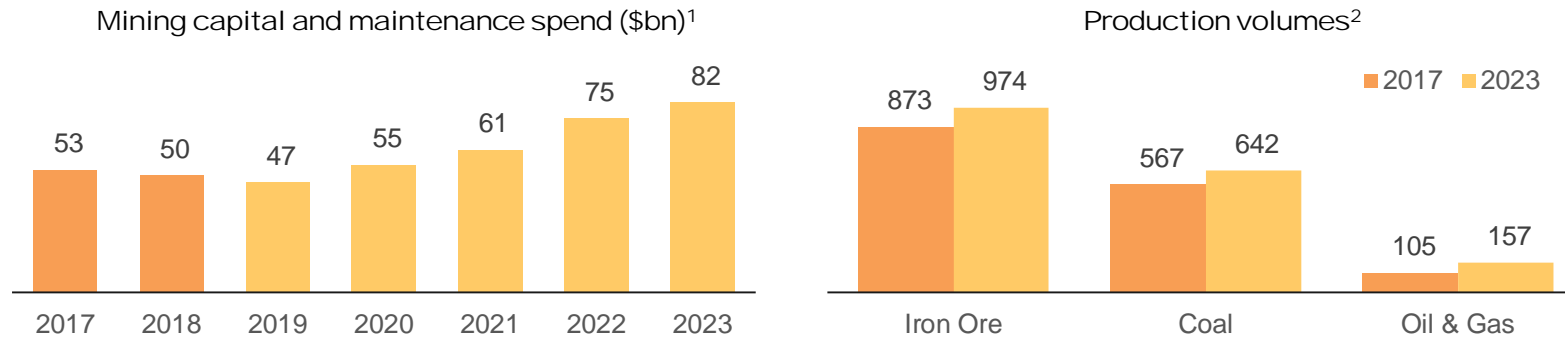


■ Transport
 ■ Utilities
 ■ Facilities

Mining, Energy & Industrial Services

Mining and Engineering, Construction & Maintenance (EC&M)

Leading engineering, construction, operations and contract mining provider experiencing improved conditions due to favourable global resources outlook



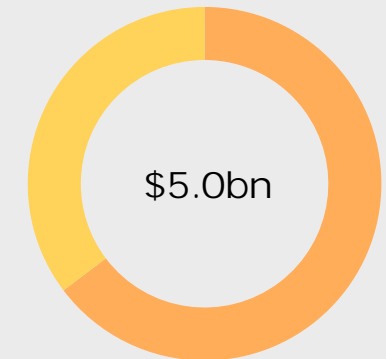
Strategic focus areas

- Continue to grow maintenance and asset services as LNG and CSG markets transition from construction to operations
- Diversification of Mining’s service offerings
- Drive further capital efficiency

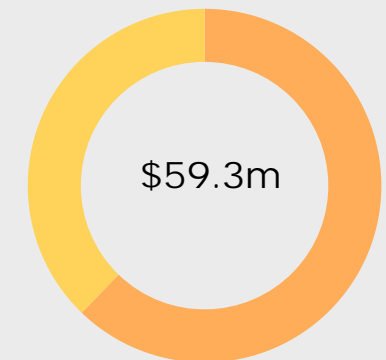
¹ BIS Oxford Economics - Mining in Australia Study.

² BIS Oxford Economics - Mining in Australia Study. Iron Ore (mt), Coal (mt), Oil & Gas (Gm³)

Work-in-hand



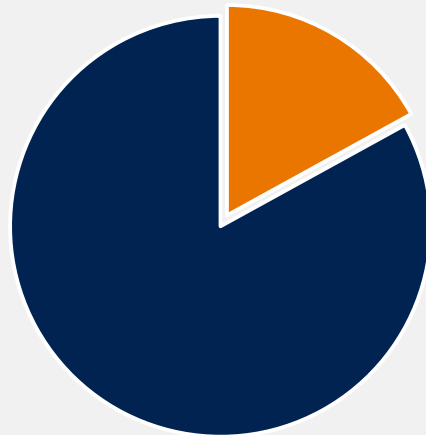
EBITA by Service Line



Mining EC&M

Downer's strategic focus on services has reduced construction to just 17% of EBITA

EBITA composition¹



■ Construction ■ Services

Services:

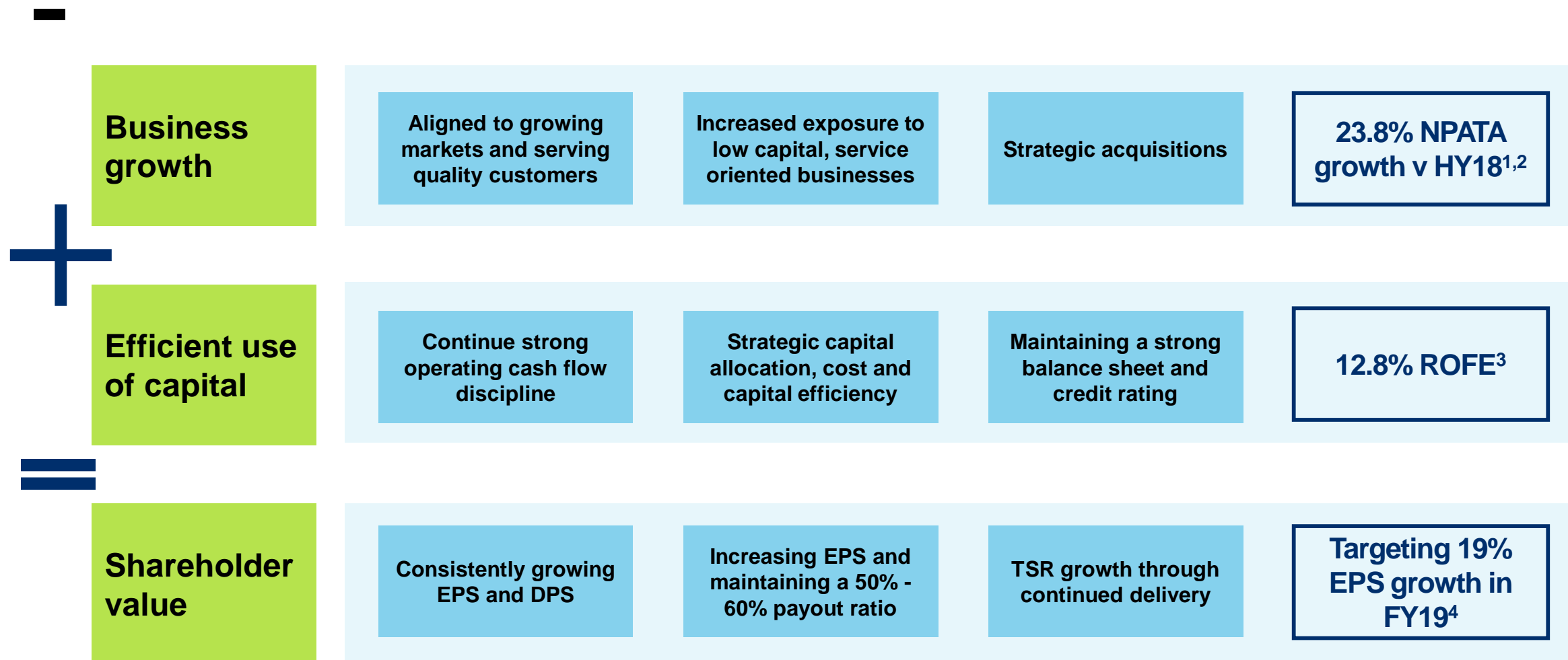
- Continued transformation to integrated services business
- High proportion of long term services based contracts
- Higher margin and more stable and defensive earnings
- Diverse and high quality customer base

Construction:

- Projects that will help drive long term services contracts
- Reduce exposure to high risk markets
- Improve project performance

¹ Chart split based on HY19 EBITA (excludes unallocated corporate costs).

Downer's shareholder value proposition



¹ Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group HY19 \$31.4m, \$22.0m after-tax (HY18: \$30.7m, \$21.6m after-tax).

² HY18 underlying

³ Throughout the presentation, ROFE = 12 month rolling underlying EBITA divided by average funds employed (AFE); AFE = Average Opening and Closing Net Debt + Equity.

⁴ EPS is calculated using FY18 underlying NPATA and FY19 NPATA market guidance after taking into account minority interest and ROADS dividends.

Managing for success

Culture and people

- Focus on employee well-being
- Employer of choice for high quality people
- Scale, innovation and opportunity
- Stability, focus and direction
- Sustainable decision making

1

Accountability framework

- CEOs accountable for business performance
- Systems focused on transparency
- Managers accountable to external and internal stakeholders
- Remuneration structures drive consistent Zero Harm, earnings, cash and people focus

2

Risk management

- Inherent risk aversion
- Robust bid approval process
- Focused Project Management Office and Internal Audit
- Construction risk limited
- Centralised Legal and Compliance

3

Business planning and performance

- Robust planning process for short and long term
- Focus on capital allocation, returns and cash conversion
- Monthly business performance reviews
- Common management systems and processes

4

Group results



Financial performance

- Revenue growth of \$523 million or 8.6%
- EBITA margin improvement from 3.6% to 4.0%
- Dividend up 7.7% to 14 cps

\$m	Group HY19	Group HY18 ¹	Change (%)
Total revenue ²	6,623.0	6,100.5	8.6
EBITDA	413.0	376.8	9.6
EBITA ³	268.0	222.3	20.6
EBIT	236.6	191.6	23.5
Net interest expense	(42.1)	(41.0)	(2.7)
Tax expense	(53.1)	(40.2)	(32.1)
NPAT	141.4	110.4	28.1
NPATA ³	163.4	132.0	23.8
EBITA margin	4.0%	3.6%	0.4
Effective tax rate	27.3%	26.7%	0.6
ROFE ⁴	12.8%	11.3%	1.5
Dividend declared (cps)	14.0	13.0	7.7
Ordinary Dividend payout ratio ⁵	52.3%	60.4%	(8.1)

¹ HY18 figures are underlying.

² Total revenue is a non-statutory disclosure and includes revenue from joint ventures and other alliances and other income.

³ Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group HY19 \$31.4m, \$22.0m after-tax (HY18: \$30.7m, \$21.6m after-tax).

⁴ ROFE = 12 month rolling underlying EBITA divided by average funds employed (AFE); AFE = Average Opening and Closing Net Debt + Equity

⁵ Ordinary dividend payout ratio = Dividends divided by (NPATA – ROADS dividend).

Summary of earnings HY19

\$m	EBIT	Net interest expense	Tax expense	NPAT	Add back amortisation of acquired intangibles post-tax	NPATA ¹
Statutory result	236.6	(42.1)	(53.1)	141.4	22.0	163.4
Less: Fair value gain on existing Downer Mouchel JV	(17.0)	-	-	(17.0)	-	(17.0)
Adjusted result	219.6	(42.1)	(53.1)	124.4	22.0	146.4

¹ Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group HY19 \$31.4m, \$22.0m after-tax (HY18: \$30.7m, \$21.6m after-tax).

AASB 15 – impact on Downer

- Opening retained earnings impact substantially as reported at 30 June 2018
- Earnings not materially different when comparing new standard to previous reporting requirement for HY19
- Further details disclosed in Note E1. *New accounting standards*

\$m	Disclosure of estimate at 30 Jun 18	Adjustment	As reported 31 Dec 18
Contract modifications (claims and variations)	198.9	5.9	204.8
Contract costs (tender costs)	23.9	-	23.9
Change in performance obligations and measure of progress	29.3	-	29.3
Decrease in opening retained earnings at 1 Jul 18 (after tax)	252.1	5.9	258.0

\$m	Group HY19
NPAT as reported	141.4
Impact of AASB 15 adjustments	2.3
NPAT without adoption of AASB 15	143.7

Operating cash flow

- Cash flow conversion increased from 88% to 91%
- Downer Group cash remains predictable and reliable
- Spotless conversion 76.7% of EBITDA (91.6% excluding nRAH)

\$m	Group HY19	Group HY18	Change (%)
EBIT	236.6	191.6 ¹	23.5
Add: depreciation and amortisation	176.4	185.2	(4.8)
Less: Non-cash fair value gain on existing Downer Mouchel JV	(17.0)	-	100
Adjusted EBITDA	396.0	376.8¹	5.1
Operating cash flow	355.3	307.1	15.7
Add: Net interest paid ²	35.3	34.3	2.9
Less: Tax received	(31.5)	(9.3)	>(100)
Adjusted operating cash flow	359.1	332.1	8.1
EBITDA conversion	90.7%	88.1%	2.6

¹ Underlying

² Interest and other costs of finance paid minus interest received.

Cash flow

- Continued investment in growth and strategic bolt-on acquisitions
- Continued strong liquidity to fund future growth
- Growth capital in Mining as new projects mobilise
- Capital management through debt repayment and increased returns to shareholders

\$m	Group HY19	Group HY18	Change (%)
Total operating	355.3	307.1	15.7
Net capital expenditure	(191.7)	(188.4)	(1.8)
Spotless acquisition ¹	-	(391.8)	100
Other acquisitions	(46.0)	(37.6)	(22.3)
IT Transformation and Other	(14.5)	(29.2)	50.3
Loans to JVs and other	(13.5)	(0.4)	>(100)
Total investing	(265.7)	(647.4)	59.0
Issue of shares (net of costs)	-	(0.2)	100
Net (repayments) / proceeds of borrowings	(106.3)	63.7	>(100)
Dividends paid	(87.4)	(75.3)	(16.1)
Total financing	(193.7)	(11.8)	>(100)
Net decrease in cash	(104.1)	(352.1)	70.4
Cash at 31 December	505.3	490.4	3.0
Total liquidity	1,360.3	1,375.4	(1.1)

¹ Gross consideration paid to achieve 87.8% interest in Spotless.

Balance sheet and capital management

- Balance sheet well positioned for growth
- Gearing remains in target range
- Increase in net PPE primarily in Transport and Mining on secured new contracts
- No movement in net debt
- Reduction in net assets and increase in gearing primarily a result of adoption of AASB15
- Credit metrics have improved and remain well within thresholds

\$m	Dec-18	Jun-18
Current assets	2,886.9	3,133.6
Non-current assets	4,775.2	4,654.6
- Goodwill	2,422.3	2,351.5
- Acquired intangible assets	457.2	458.0
- PP&E, Software and other	1,895.7	1,845.1
Total liabilities	(4,646.8)	(4,583.1)
Net Assets	3,015.3	3,205.1
Net Debt¹	(940.0)	(940.0)
Gearing: net debt / net debt plus equity	23.8%	22.7%
Interest cover	6.8x	6.3x
Net debt / EBITDA	1.1	1.2
Adjusted Net Debt / Adjusted EBITDAR ²	2.17x	2.23x

¹ Adjusted for the marked-to-market derivatives and deferred finance charges

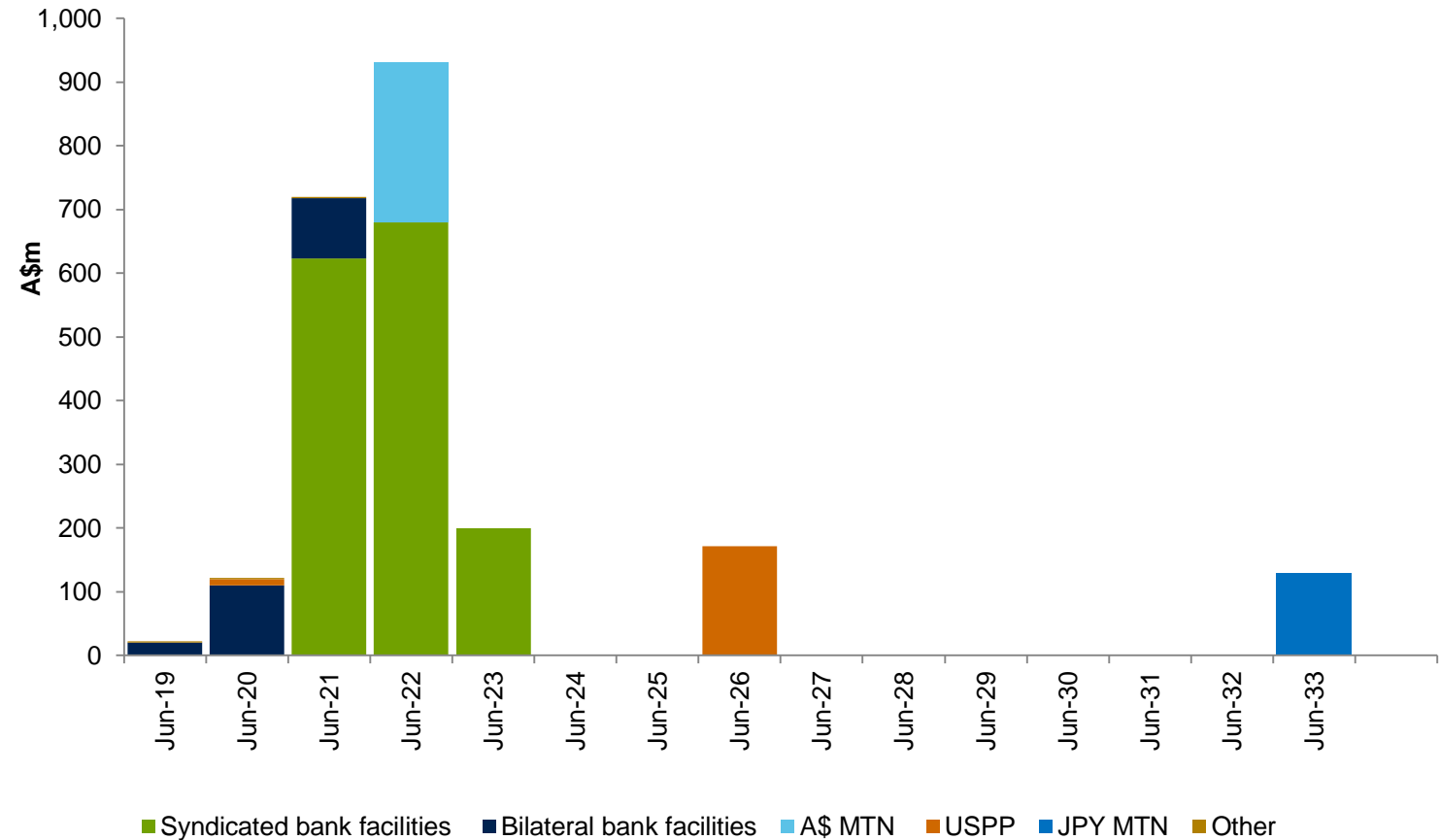
² Adjusted Net Debt includes Net Debt plus 6x operating lease expenses in the year. Adjusted EBITDAR equals underlying earnings before interest, tax, depreciation, amortisation and operating lease expense (on a rolling 12 month basis).

Debt maturity profile (Downer and Spotless)

- Weighted average debt duration of 3.8 years¹ (4.0 years at Jun-18)
- Diversified funding sources
- Improvement in both key credit metrics since Jun-18
- Spotless net debt continues to reduce

Metric	Dec-18	Jun-18
Interest cover	6.8x	6.3x
Adjusted Net Debt / Adjusted EBITDAR ²	2.17x	2.23x

Net debt (\$m)	Dec-18	Jun-18
Downer	237.3	198.7
Spotless	702.7	741.3
Group	940.0	940.0



¹ Based on the weighted average life of debt facilities (by A\$m limit).

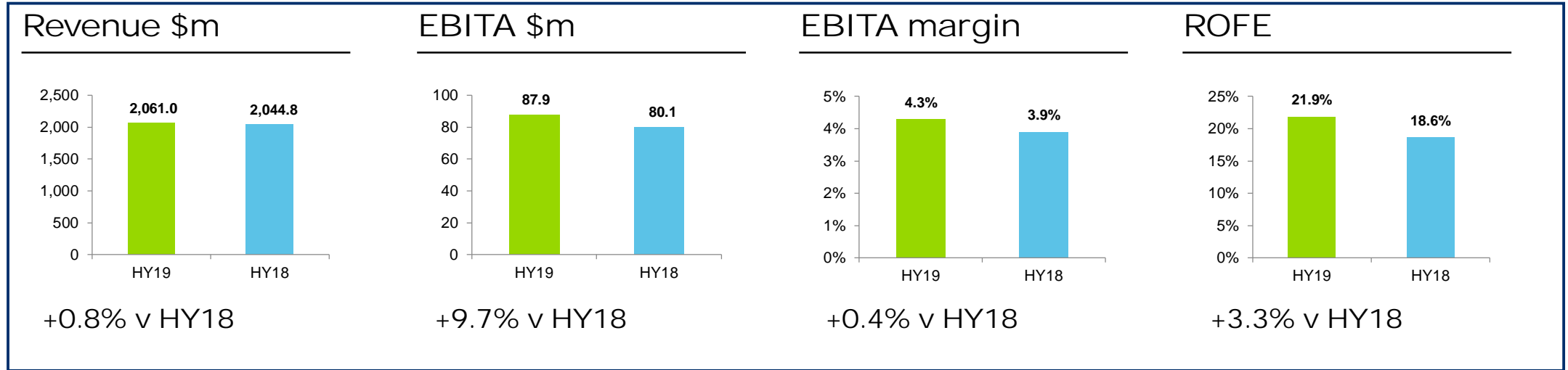
² Adjusted Net Debt includes Net Debt plus 6x operating lease expenses in the year. Adjusted EBITDAR equals underlying earnings before interest, tax, depreciation, amortisation and operating lease expense (on a rolling 12 month basis).

Urban Services



Transport

Financial results

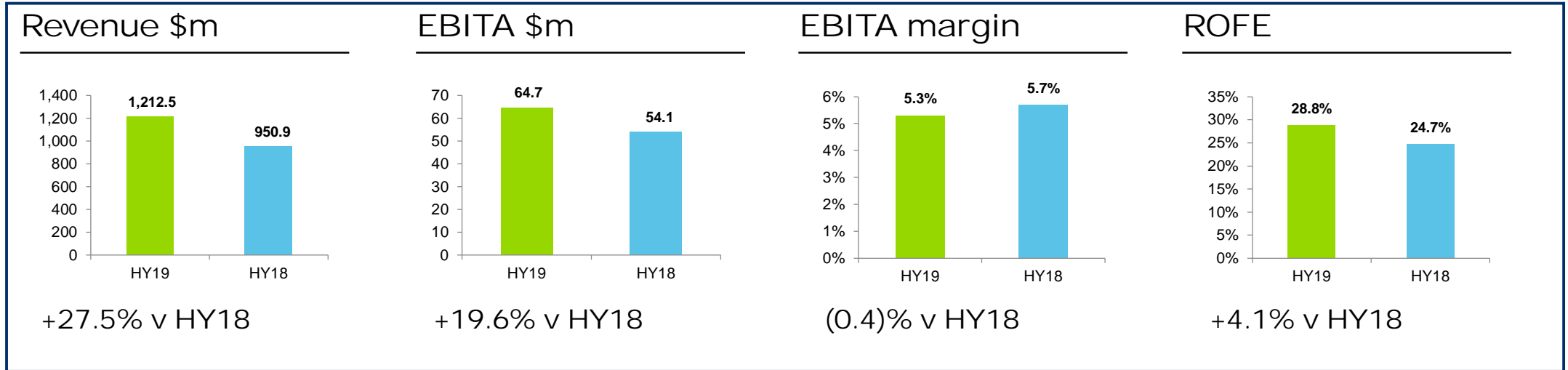


Operational factors

- Revenue growth in 1H19 despite reduction of \$83m from Freight Rail divestment in 1H18
- Continued strong performance across road services, bituminous products, rail and light rail
- Major rolling stock projects (HCMT and SGT) are performing well
- A further 17 SGT trains announced by NSW Government on 6 February (\$900 million)
- Downer JV awarded contract to build Stage 1 of the Parramatta Light Rail project
- Acquisition of remaining 50% of Downer Mouchel enhances network management capability

Utilities

Financial results

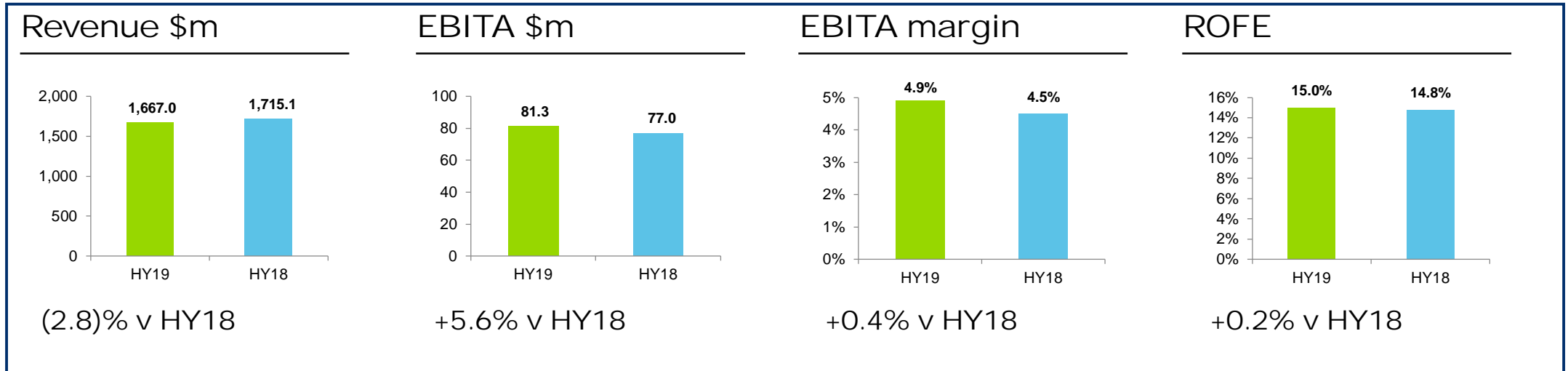


Operational factors

- Continued strong performance from Communications
- Growth through improvement in Water
- Expansion of Power and Gas distribution businesses
- Margin negatively impacted by performance in Renewables
- Remaining solar projects performing to budget
- Significant opportunities from transmission line investment

Facilities¹

Financial results



Operational factors

- Improved EBITA and EBITA margin led by Hospitality & FM, Defence, Laundries
- Significant investment in business development, operational excellence, bid/delivery governance
- Integration of Mechanical & Electrical and Heating, Ventilation and Air-conditioning businesses creating new opportunities
- Outsourcing opportunities emerging across Government and Hospitality
- Strong pipeline in growth markets - Justice, Critical Infrastructure, Defence
- nRAH negotiations continuing; improved monthly financial position in line with reduced headcount
- Facilities includes Spotless and Hawkins

¹ Refer slide 29 for reconciliation from Facilities segment to Spotless statutory results

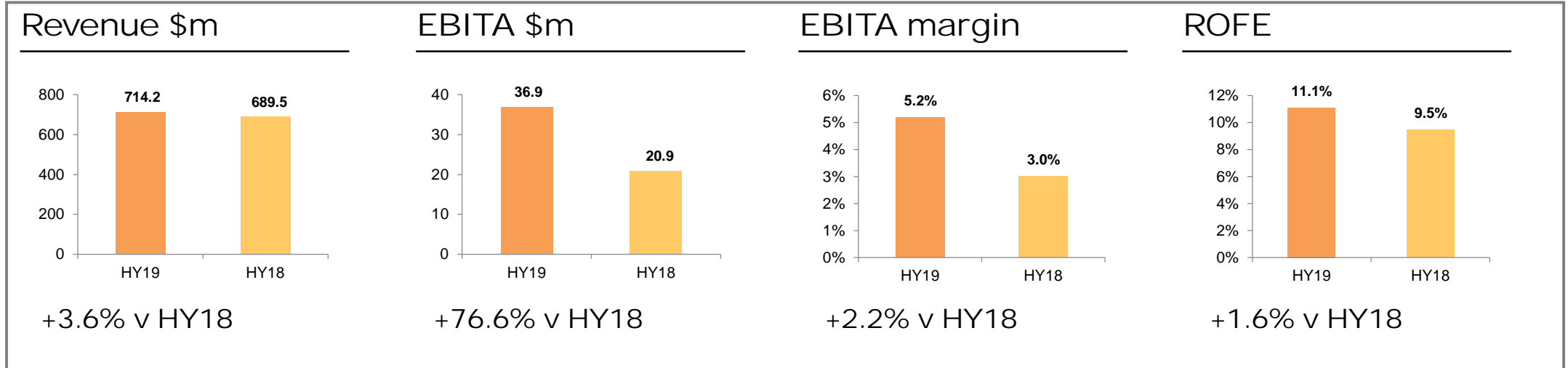
Mining, Energy & Industrial Services

■



Mining

Financial results

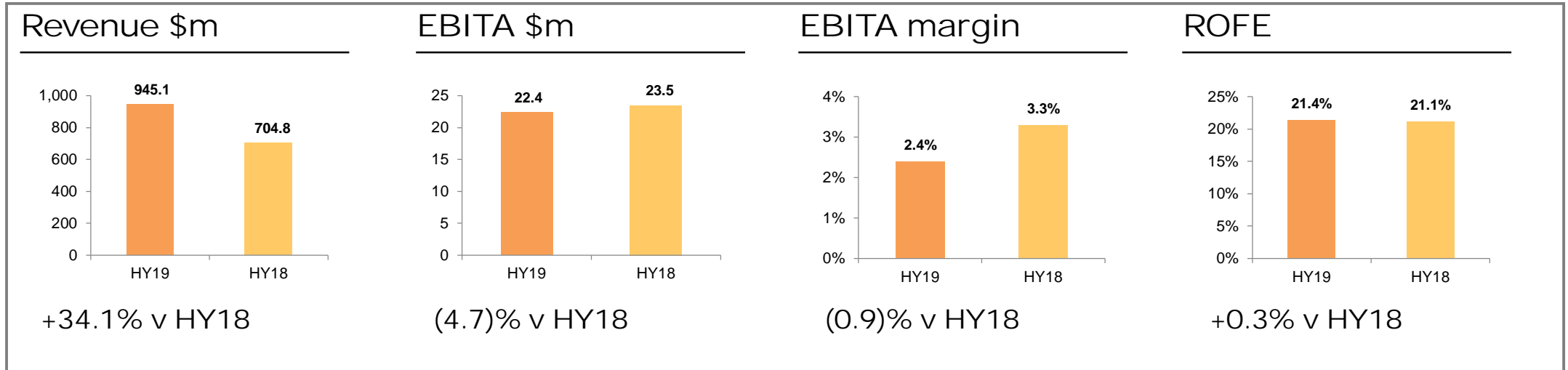


Operational factors

- Underground contract wins in the period include new and renewed contracts at Newcrest and CSA copper mines, and Cosmo gold mine
- Open cut operations secured new wins and contract extensions in Queensland at Commodore and Goonyella; iron ore renewals at Citic Pacific and FMG
- EBITA growth driven by overhead cost reduction, contract wins and improved operational productivity
- Increased diversification through long term copper and gold contracts (Gruyere, Cadia, Carrapateena)

EC&M

Financial results



Operational factors

- Continued strong construction performance at Ichthys; successful conversions in WA iron ore sector with solid pipeline in FY20 and FY21
- Growth in engineering services to the global mineral sands, base metals and industrial mineral processing sectors
- Long term asset services contract wins with Chevron (5 yrs) and BHP Iron Ore (3 yrs)
- Maintenance and asset services is now a larger and more profitable contributor than construction
- EBITA and EBITA margin negatively affected by two loss-making construction projects

Outlook

FY19 outlook and goals

FY19 Outlook

Downer has increased its target guidance for FY19 to \$352 million consolidated net profit after tax and before amortisation of acquired intangible assets (NPATA) before minority interests.

The increase takes into account the fair value gain of \$17 million from acquiring the remaining 50% of the Downer Mouchel JV in late 1H19.

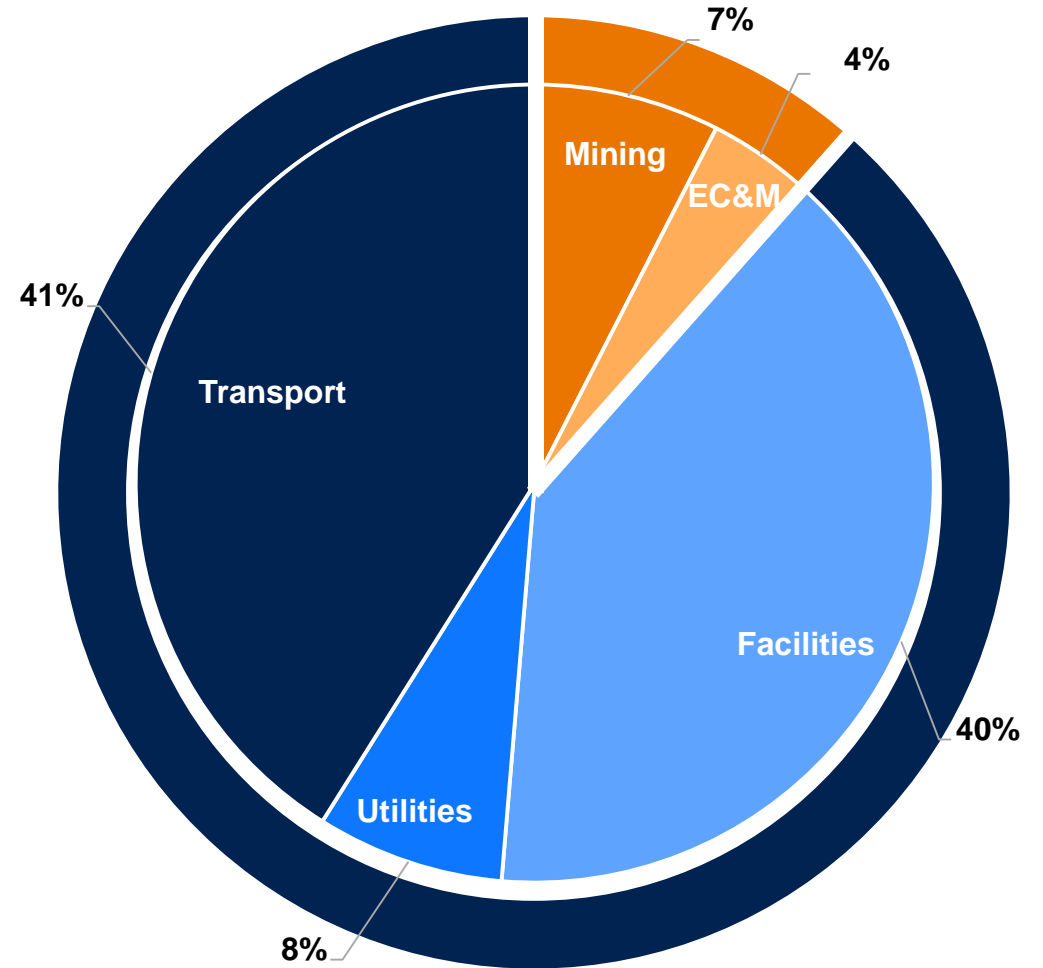
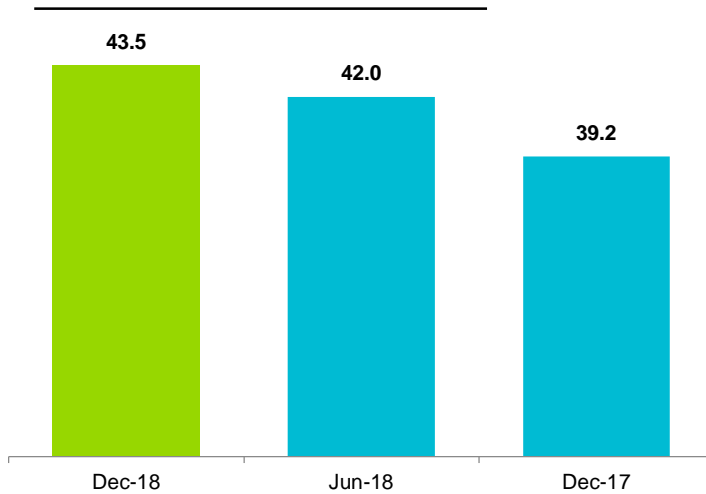
FY19 operational and financial goals

- **Zero Harm:** Ensure a safe environment for employees with improving injury rates and well being
- **Growth:** Deliver EPS growth of 19% in FY19
- **Cash flow:** Maintain strong cash flow conversion consistent with recent periods
- **Returns:** Active capital management and maintain dividend payout ratio within 50 – 60% of NPATA
- **Balance sheet:** Maintain conservative gearing position, providing balance sheet flexibility to support growth

Outlook supported by work-in-hand of \$43.5bn

- WIH remains strong
- Contracts secured in the period in excess of revenue

Work-in-hand



Supplementary information

—

Downer
Relationships creating success



Segment reporting

HY19 \$m	Transport	Utilities	Facilities	EC&M	Mining	Unallocated ¹	Total
Revenue and other income	1,792.6	1,212.5	1,663.0	945.1	688.1	23.2	6,324.5
Share of sales from JVs and Associates	268.4	-	4.0	-	26.1	-	298.5
Total revenue	2,061.0	1,212.5	1,667.0	945.1	714.2	23.2	6,623.0
EBITDA	112.3	72.2	120.1	27.2	98.6	(17.4)	413.0
EBITA ²	87.9	64.7	81.3	22.4	36.9	(25.2)	268.0
EBIT	87.5	63.1	75.4	22.4	36.9	(48.7)	236.6
<i>EBITA margin</i>	<i>4.3%</i>	<i>5.3%</i>	<i>4.9%</i>	<i>2.4%</i>	<i>5.2%</i>		<i>4.0%</i>
Net interest expense							(42.1)
Tax expense							(53.1)
Net profit after tax							141.4
NPATA ²							163.4

¹ Unallocated include \$17m fair value gain on existing Downer Mouchel JV

² Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group HY19 \$31.4m, \$22.0m after-tax (HY18: \$30.7m, \$21.6m after-tax).

Reconciliation of Facilities Segment to Spotless result

HY19 \$m	Facilities segment	Less: Hawkins Building	Add: Spotless Utilities	Spotless
Total Revenue ¹	1,667.0	(291.7)	86.0	1,461.3
EBITA ²	81.3	(3.4)	4.3	82.2
EBIT	75.4	(2.9)	4.3	76.8
Net Interest Expense				(20.3)
Tax Expense				(17.5)
NPAT				39.0
NPATA ²				42.9

¹Total revenue is a non-statutory disclosure and includes revenue from joint ventures and other alliances and other income.

²Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Spotless HY19 \$5.4m, \$3.9m after-tax.

HY18 – Reconciliation of underlying to statutory result

\$m	EBIT	Net interest expense	Tax expense	NPAT	Add back amortisation of acquired intangibles post-tax	NPATA
Underlying result	191.6	(41.0)	(40.2)	110.4	21.6	132.0
Loss on divestment of freight rail	(49.3)	-	9.3	(40.0)	-	(40.0)
Mining goodwill impairment	(76.4)	-	-	(76.4)	-	(76.4)
Spotless integration costs	(3.4)	-	0.8	(2.6)	-	(2.6)
Spotless Management redundancies and integration costs	(3.1)	-	0.9	(2.2)	-	(2.2)
Spotless residual Strategy Reset costs	(7.1)	-	2.0	(5.1)	-	(5.1)
Individually Significant Items	(139.3)	-	13.0	(126.3)	-	(126.3)
Statutory result	52.3	(41.0)	(27.2)	(15.9)	21.6	5.7

Note:

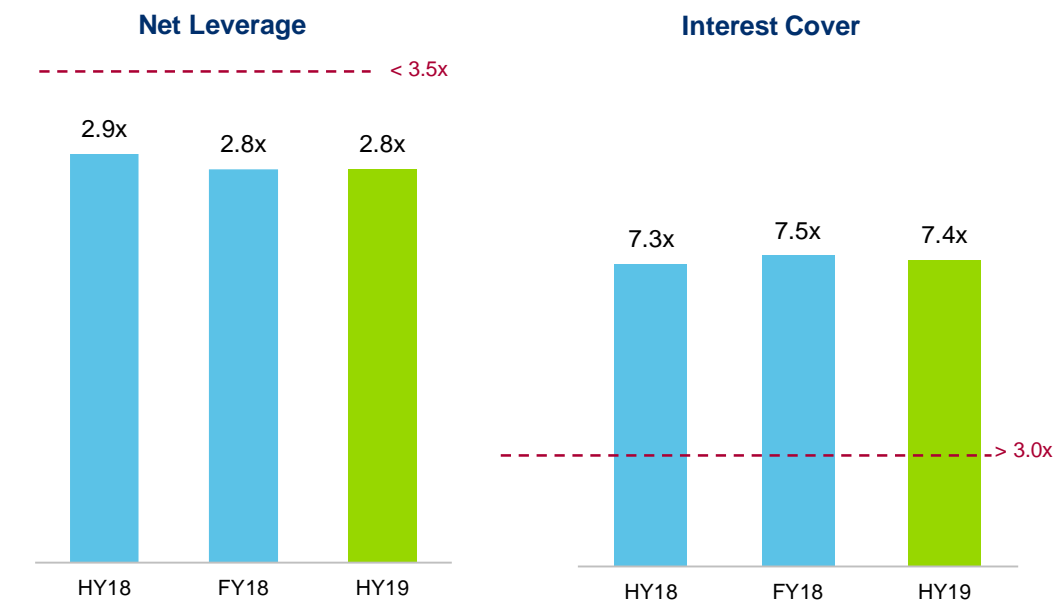
- Results represent 100% contribution before minority interests.
- Downer's statutory results are reported under International Financial Reporting Standards. Earnings before individually significant items (ISI) is a non-IFRS measure reported to provide a greater understanding of the underlying business performance of the Group. ISI are detailed in Note B2(c) of the 2018 Half Year Financial Report and relate to amounts of expense that are associated with business disposal, impairment of goodwill and Spotless related transactions.

Debt and bonding facilities

Debt facilities \$m	DOW	SPO	Group
Total limit	1,233.1	1,067.2	2,300.3
Drawn	(648.1)	(797.2)	(1,445.3)
Available	585.0	270.0	855.0
Cash	410.8	94.5	505.3
Total liquidity	995.8	364.5	1,360.3
Net debt	237.3	702.7	940.0

Bonding facilities \$m	DOW	SPO	Group
Total limit	2,059.7	210.0	2,269.7
Drawn	(1,363.4)	(153.5)	(1,516.9)
Available	696.3	56.5	752.8

SPOTLESS DEBT COVENANTS





Thank you

