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Media/ASX and NZX Release

27 November 2017

MARKET UPDATE

Downer EDI Limited (Downer) announced today it had completed its review of the Spotless Group Holdings Limited (Spotless) business planning, budgeting and target setting process.

Trading and integration update

The Chief Executive Officer of Downer, Grant Fenn, said the outcome of the review was largely positive.

“Spotless’ underlying earnings for the first four months of the 2018 financial year have been consistent and predictable and are broadly in line with our business case,” Mr Fenn said.

“Cost synergies are now expected to exceed our original estimates, with around $25 million identified in annualised procurement savings alone, while revenue opportunities are also significant and continue to increase the closer we look.”

Mr Fenn said he was very pleased with the integration of Spotless as the sixth division of the Downer Group.

“It is clear to me that Downer’s management processes, systems and capability will be of significant value to Spotless in the future. Spotless has implemented our major bid approval processes and we have made a number of enhancements to Spotless’ risk management capability.”

Mr Fenn said joint teams were working closely together across a range of important areas including Zero Harm, Customers and Markets, Bid Management, Major Contract Reviews, Procurement, IT and Finance.

“The Joint Bidding Group is performing very well and we have been shortlisted for several projects,” he said.

One long term contract, for facility management services at the new Royal Adelaide Hospital, has been identified as an underperforming contract since commencing operations in September this year. The contract is in the first year of a 30 year term. Spotless has resourced the project with a team of senior commercial and operational management to address the issues that have affected the commencement of operations, progress contractual claims and to complete a forecasting exercise. This work is expected to take several months. All associated work in progress has been written off and is incorporated in the balance sheet adjustments referred to below. It is expected that there will be no earnings from this project recognised in the 2018 financial year.

Guidance for the 2018 financial year

Following the review, the Downer Group is targeting consolidated underlying net profit after tax and before amortisation of acquired intangible assets (NPATA) of $295 million before minority interests. This includes NPATA of $202 million for Downer and $93 million for Spotless.

“We have taken the opportunity to upgrade Downer’s stand-alone guidance for 2018 by $5 million to NPATA of $202 million, or net profit after tax of $195 million,” Mr Fenn said. “This reflects strong trading to date across all divisions other than Mining, and will be achieved despite no contribution from the freight rail business in the second half of the year following the sale of that business to Progress Rail.”

The underlying Spotless NPATA of $93 million, or NPAT of $85 million, is at the bottom end of the range provided by the Spotless Board in its Target’s Statement dated 27 April 2017. This includes downward adjustments of around $10 million to reflect Downer’s accounting policies, particularly in relation to non-cash based earnings.

Balance sheet review

As part of the review, Downer analysed Spotless’ balance sheet for the purpose of purchase price accounting. Downer’s approach involved an assessment of balance sheet items for fair value and to ensure consistency with Downer’s accounting policies.

Spotless has also identified individually significant items totalling $79.7 million, including:

- management redundancies, transaction costs, and residual Strategy Reset costs of $10.1 million;
- work in progress, mobilisation costs and other balance sheet adjustments of $29.6 million; and
- impairment of the goodwill allocated to Spotless’ Laundries business of $40 million.

Capital management

Downer’s balance sheet remains strong with high levels of liquidity, a well-diversified debt portfolio and average debt duration of 3.3 years. A refinance of Spotless’ debt and performance bonding facilities is being planned for calendar 2018.

Downer is targeting a dividend payout ratio of around 50% to 60% of consolidated underlying NPATA, adjusted for ROADS dividends paid.

About Downer

Downer EDI Limited (Downer) is listed on the Australian Securities Exchange and the New Zealand Stock Exchange. Downer also owns 88% of Spotless Group Holdings Limited. Downer employs over 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. We build strong relationships of trust with our customers, truly understanding and predicting their needs and bringing them world leading insights and solutions. For more on Downer, visit: www.downergroup.com.

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OVERVIEW

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- Underlying Spotless earnings for the first four months of FY18 have been consistent, predictable and broadly in line with Downer's business case.
- Cost synergies are expected to exceed original estimates.
- Revenue opportunities continue to increase.
- Substantial value for Spotless in adopting key Downer management processes, systems and capability.
- One long term contract is underperforming.

GUIDANCE FOR 2018 FINANCIAL YEAR

- Downer is targeting consolidated underlying net profit after tax and before amortisation of acquired intangible assets (NPATA) of $295 million before minority interests.
- This includes:
  - NPATA of $202 million for Downer; and
  - NPATA of $93 million for Spotless.
- Upgrade of Downer’s stand-alone guidance by $5 million to NPATA of $202 million or net profit after tax (NPAT) of $195 million.
- Spotless’ underlying NPATA guidance of $93 million ($85 million NPAT) is at the bottom end of the range provided by the Spotless Board in its Target’s Statement dated 27 April 2017.

REVIEW OF SPOTLESS' BALANCE SHEET

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- $79.7 million of individually significant items net of tax, including:
  - $10.1 million of management redundancies, transaction costs, and residual Strategy Reset costs;
  - $29.6 million of work in progress, mobilisation costs and other balance sheet adjustments; and
  - $40 million impairment of goodwill allocated to Spotless' Laundries business.
- One long term contract, relating to facility management services at the new Royal Adelaide Hospital, has been identified as underperforming:
  - contract is in the first year of a 30 year term;
  - all associated work in progress has been written off; and
  - no earnings expected to be recognised in FY18.

INTEGRATION

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- Integration of Spotless as a sixth Division of Downer is progressing quickly.
- Teams are working closely together across areas including Zero Harm, Customers and Markets, Bid Management, Major Contracts, Procurement, IT and Finance (Treasury, Tax, Insurance, Accounting).
- Joint Bidding Group performing well, shortlisted for several projects.
- Cost synergies expected to exceed original estimates and revenue opportunities are significant.
- Downer’s management processes, systems and capability will be of significant value to Spotless – e.g. major bid approvals, risk management.

CONTINUING TRANSFORMATION

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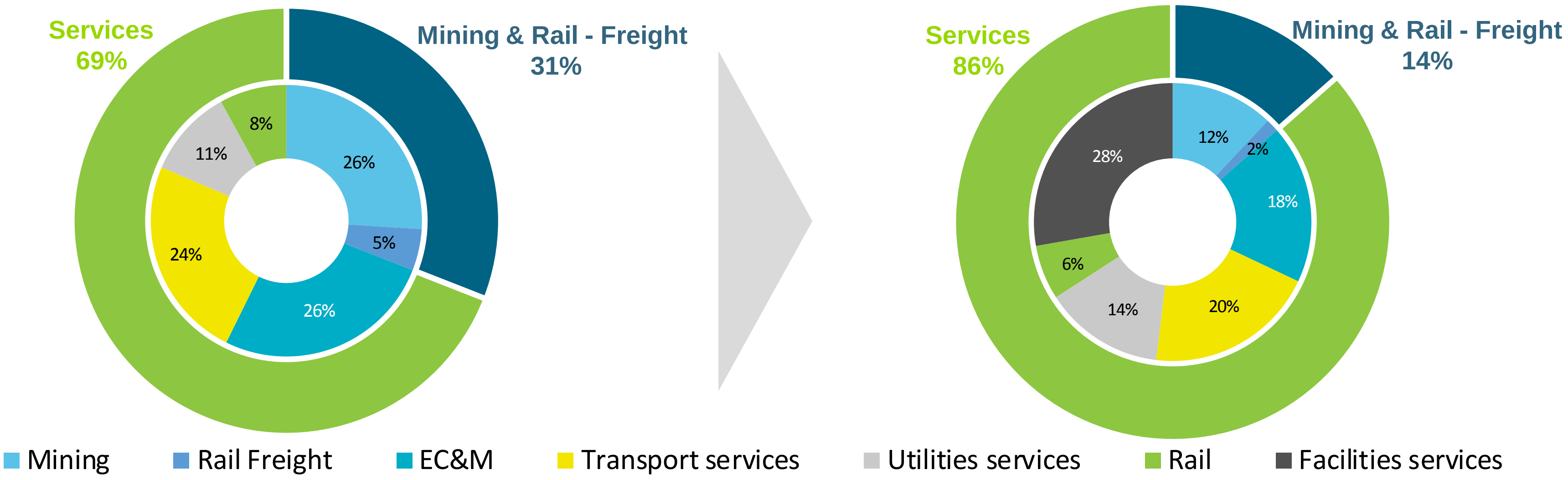
FY14 Total Revenue

Pro-forma FY17 Total Revenue



Source: Downer and Spotless 2017 Annual Report

CONSOLIDATED INCOME STATEMENT

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FY18 (A$'m)	Downer	Spotless[4]	Combined Synergies & Integration costs	Acquisition accounting	Incremental interest[1]	Total Group[4]
Underlying NPATA	202.0	93.0	5.0	-	(5.0)	295.0
Amortisation of acquired intangible assets (A)	(7.0)[2]	(8.0)[2]	-	(29.0)[3]	-	(44.0)
Underlying NPAT	195.0	85.0	5.0	(29.0)	(5.0)	251.0
Integration costs	-	-	(5.0)	-	-	(5.0)
Individually significant items	-	(79.7)	-	69.6	-	(10.1)
Divestment of freight rail	(40.0)	-	-	-	-	(40.0)
Statutory NPAT	155.0	5.3	-	40.6	(5.0)	195.9

1. Additional interest expense incurred as a result of incremental debt as part of the Spotless transaction
2. Represents the non-cash amortisation of acquired intangible assets excluding Downer's acquisition of Spotless
3. Represents the non-cash amortisation of acquired intangible assets arising from Downer's acquisition of Spotless. These assets include customer contracts, relationships and trade name
4. Represents 100% contribution before minority interests.

INDIVIDUALLY SIGNIFICANT ITEMS

FY18 (A$'m)	Gross	Tax benefit	Spotless Post-Tax	Acquisition accounting	Total Group
Management redundancies and transaction costs	(4.0)	1.2	(2.8)	-	(2.8)
Residual Strategy Reset costs[1]	(9.7)	2.4	(7.3)	-	(7.3)
Other balance sheet adjustments[2]	(69.9)	40.3	(29.6)	29.6	-
Laundries impairment	(40.0)	-	(40.0)	40.0	-
Total ISI	**(123.6)**	**43.9**	**(79.7)**	**69.6**	**(10.1)**

1. Relates to costs incurred in exiting contracts as part of Strategy Reset
2. Include write-off of WIP, capitalised bid costs

CAPITAL MANAGEMENT UPDATE

- Downer's balance sheet remains strong with high levels of liquidity, a well diversified debt portfolio and average debt duration of 3.3 years[1].
- Refinance of Spotless' debt and performance bonding facilities planned for calendar 2018.
- Downer is targeting a dividend payout ratio around 50% to 60% of consolidated underlying NPATA, adjusted for ROADS dividends paid.

1. Excluding the $500 million facility for acquisition of shares in Spotless.

QUESTIONS

Q&A

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