

Media/ASX and NZX Release

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TRADING UPDATE WITH REVISED GUIDANCE FOR FY20

Downer EDI Limited (Downer) announced today that its NPATA guidance for the 2020 financial year had been revised down to \$300 million to reflect the following:

Project underperformance in Engineering, Construction and Maintenance (EC&M) (\$43m pre-tax)

As work progressed to achieve practical completion on a small number of loss-making construction contracts in the EC&M division, it has now become clear that the costs incurred during December and January materially exceeded the company's estimates and, in addition, a detailed review of customer claims and variations has reduced revenue recognised to date.

"As a result, we have increased the forecast net costs to complete these projects by \$43 million and these costs will be reflected in Downer's results for the first half of the 2020 financial year," said the Chief Executive Officer of Downer, Grant Fenn. "We are particularly disappointed with the deterioration of these projects at such a late stage of their delivery. We do not expect any further increase in costs above our revised estimate."

Lower revenue in EC&M construction for the remainder of the financial year (\$20m pre-tax)

Given current win rates and expected delays in project awards in the resources-based construction market, and the significant grid and connection issues now confronting the Renewables sector, Downer has reviewed the expected pipeline of construction work for the remainder of the financial year. As a result, forecast construction revenue has reduced by approximately \$300 million and forecast earnings by approximately \$20 million.

Unbudgeted restructure costs in EC&M (\$10m pre-tax)

Downer will look to reposition its EC&M construction effort to markets and projects where it has competitive strength and the opportunity to drive related long-term service-based contracts.

To effect the above change, Downer has provided \$10 million for "one off" restructuring costs to reflect the net impact of staff redundancies. It is anticipated that this change in EC&M's construction focus will result in significantly improved earnings through better project performance, substantial cost reductions and less volatility.

Delayed project commencement in Mining (\$12m pre-tax)

Following recent customer advice, Downer has adjusted its forecast start dates for two Mining projects where it is the preferred services provider. This has had an impact on forecast earnings for the second half of \$12 million pre-tax.

The Mining division has continued to perform strongly and following this adjustment is expected to achieve EBITA of between \$90 million and \$100 million for the 2020 financial year.

Downer's ongoing focus on Services

Mr Fenn said Downer's services businesses – Transport, Utilities, Facilities, Mining and the Asset Services business within EC&M – all performed well in the first half of the 2020 financial year.

Downer's work-in-hand has grown to around \$46 billion up from \$44.3 billion at 30 June 2019.

"Downer will continue to grow its service-oriented businesses which require relatively low levels of capital, deliver predictable revenue in the long term and are able to improve margins over time," Mr Fenn said.

Cashflow

At Downer's Annual General Meeting on 7 November 2019, the company stated that its cash performance for the 2020 financial year was not expected to be as strong as it has been in recent years.

Including the updated guidance, Downer expects to report cash conversion of approximately 40-50% of EBITDA for the 2020 financial year.

Liquidity

Downer has significant available liquidity of \$1.65 billion made up of cash of \$515 million and committed undrawn facilities of \$1.14 billion as at 31 December 2019.

Authorised for release by Downer's Chief Executive Officer, Grant Fenn.

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 more than 53,000 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.

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