Downer

Relationships creating success

Downer Full Year Results | 29 August 2017

INVESTOR PRESENTATION

INTRODUCTION

Downer's financial results for the 12 months to 30 June 2017 incorporate the financial statements of Spotless Group Holdings Limited (Spotless) as Downer's interest in Spotless exceeded 50% on 27 June 2017. The table below shows where Spotless is either included or excluded from Downer's key metrics.

	Spotless
Profit or loss	Excluded
Operating cash flow	Excluded
Work-in-hand	Excluded
LTIFR/TRIFR	Excluded
Balance sheet	Included
Gearing	Included
ROFE	Included
Investing/financing cash flow	Costs associated with Spotless transaction included

OVERVIEW

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- Total revenue[1] $7,812 million, up 5.7%
- Earnings Before Interest and Tax (EBIT) $277.8 million, up 0.3%
- Net Profit After Tax (NPAT) $181.5 million, up 0.5%
- Work in hand[2] $22.5 billion, up from $21.1 billion at 31 December 2016
- Operating cash flow $441.6 million, EBITDA conversion 103.1%
- Net debt[3] $620.2 million (including $787.5 million from Spotless)
- Liquidity of $2.0 billion
- Gearing[4] (including Spotless) 14.7%, 17.7% including off balance sheet debt
- Final dividend declared: 12.0 cps, 100% franked no Dividend Reinvestment Plan
- LTIFR[5] of 0.55, TRIFR[6] of 3.50

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

2 Work-in-hand numbers are unaudited.

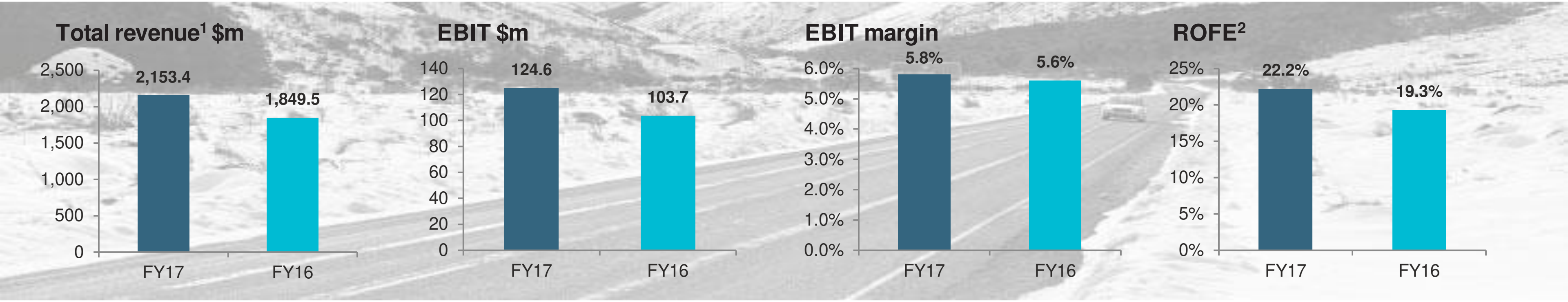
3 Adjusted for the mark-to-market of derivatives and deferred finance charges.

4 Gearing = Net debt / net debt + equity. Gearing including off-balance sheet debt based on present value of plant and equipment operating leases discounted at 10% pa: $151.5m (June 2016: $128.5m).

5 Lost Time Injury Frequency Rate - the number of lost time injuries (LTIs) per million hours worked.

6 Total Recordable Injury Frequency Rate – the number of LTIs and medically treated injuries per million hours worked.

TRANSPORT

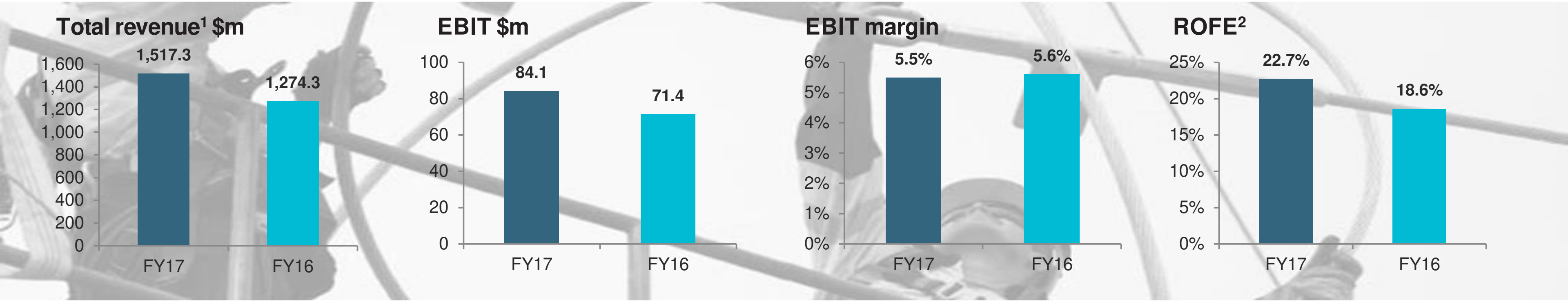


- New projects include Newcastle Light Rail, NSW Transport Access Program and HCMT depot (Victoria)
- Good performance from New Zealand, including Kaikoura earthquake recovery works
- Strong contribution from bituminous products
- Bolt on acquisitions, e.g. RPQ, have broadened geographical presence and capability mix

1 Total revenue includes joint ventures and other income.

2 ROFE = EBIT divided by average funds employed (AFE). AFE = Average Opening and Closing Net Debt + Equity.

UTILITIES



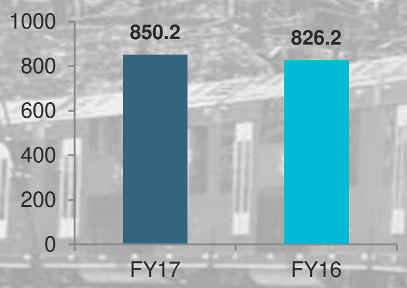
- Strong contribution from nbn™ contracts with increased volumes
- Increased activity in renewable energy – market very competitive
- Good performance from New Zealand
- Acquisition of ITS Pipetech provides entry into growing market for pipeline rehabilitation

1 Total revenue includes joint ventures and other income.

2 ROFE = EBIT divided by average funds employed (AFE). AFE = Average Opening and Closing Net Debt + Equity.

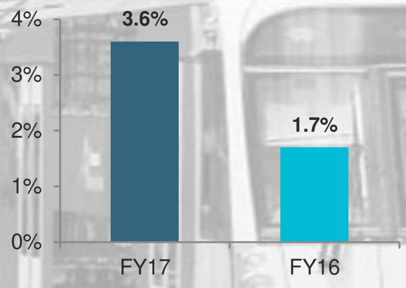
RAIL

Total revenue[1] $m

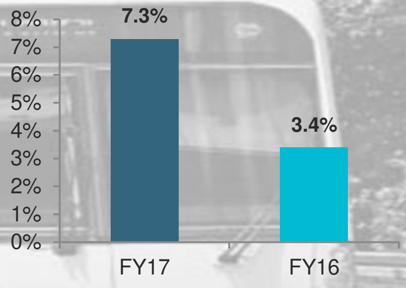


EBIT $m

EBIT margin



ROFE[2]

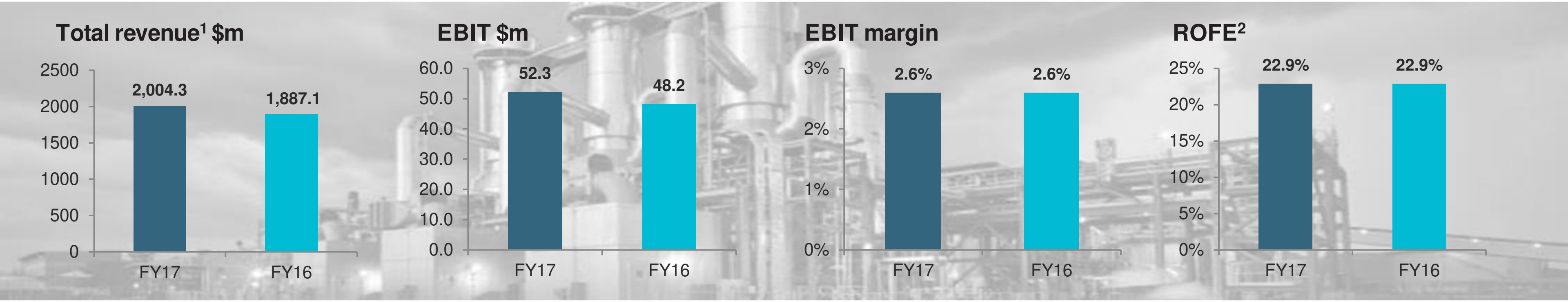


- Continuing strong performance on maintenance contracts (Waratah TLS, Millennium, Pacific National)
- Major projects (SGT, HCMT) progressing well – minimal revenue contribution in FY17
- Improved performance by Keolis Downer which also secured contract to operate integrated public transport system for the city of Newcastle
- All six remaining build-to-stock locomotives sold during the year
- Opportunities include Parramatta Light Rail, replacement of XPT and regional NSW fleet

1 Total revenue includes joint ventures and other income.

2 ROFE = EBIT divided by average funds employed (AFE). AFE = Average Opening and Closing Net Debt + Equity.

ENGINEERING, CONSTRUCTION & MAINTENANCE

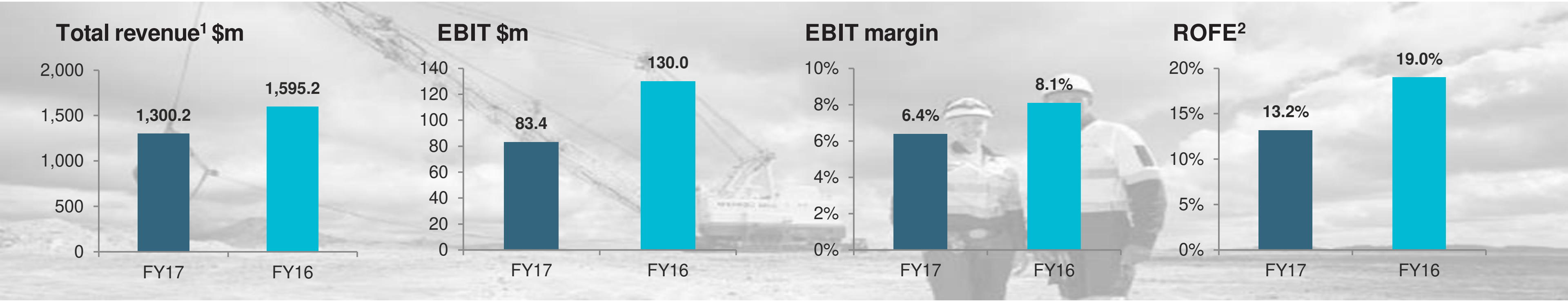


- Strong performance at Gorgon and Wheatstone – new contracts secured at Ichthys and Prelude
- Long term maintenance contracts with Chevron, ConocoPhillips, Santos and Origin
- Process engineering led EPC projects
- Acquisition of Hawkins provides entry into growing New Zealand non-residential building market

1 Total revenue includes joint ventures and other income.

2 ROFE = EBIT divided by average funds employed (AFE). AFE = Average Opening and Closing Net Debt + Equity.

MINING

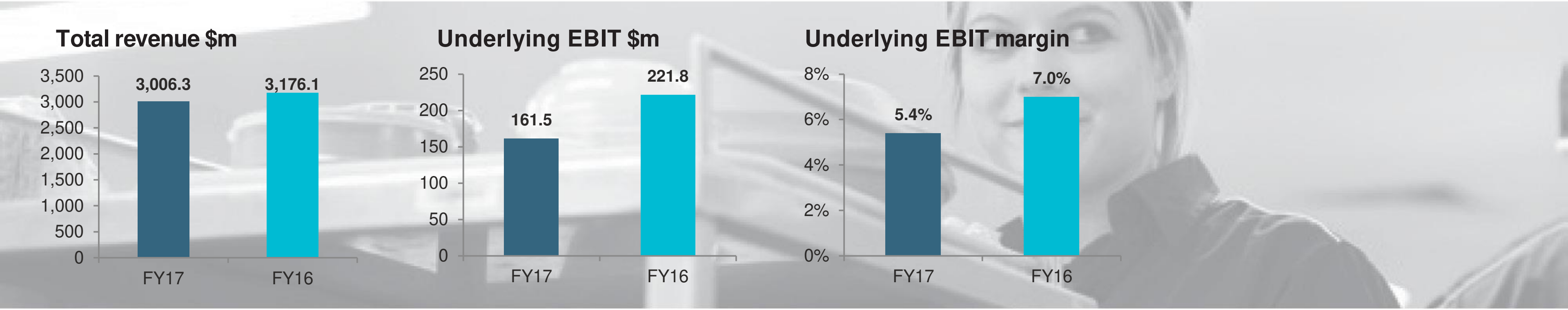


- Conclusion of Christmas Creek contract
- Two year extension to Meandu Mine contract (to June 2020)
- Four year extension to Karara Mining contract (to March 2022)
- Boggabri contract to conclude at end of November 2017

1 Total revenue includes joint ventures and other income.

2 ROFE = EBIT divided by average funds employed (AFE). AFE = Average Opening and Closing Net Debt + Equity.

SPOTLESS



- Underlying NPAT of $84.1 million, within guidance range of $80 million to $90 million
- Contract renewal rates continued to improve, to 93% by number and 76% by value
- Improved operating cash flow driven by better working capital management and cash collections

COMBINED GROUP

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Transport

- Surfacing
- Network Management
- Bitumen & Logistics
- Infrastructure Projects

Utilities

- Power
- Gas
- Water
- Renewable Energy
- Communications

Rail

- Manufacturing
- Maintenance
- Public Transport Operations

Engineering, Construction & Maintenance

- Engineering
- Construction
- Operations & Maintenance

Mining

- Open Cut
- Underground
- Blasting
- Asset & Tyre Management

Spotless

- Health, Education & Government
- Commercial & Leisure
- Base & Township
- Laundries & Linen

GROUP FINANCIALS

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FINANCIAL PERFORMANCE

$m	FY17	FY16	Change (%)
Total revenue[1]	7,812.3	7,393.9	5.7
EBITDA	498.0	535.6	(7.0)
EBITA[2]	285.2	283.3	0.7
EBIT	277.8	276.9	0.3
Net interest expense	(26.8)	(33.0)	18.8
Tax expense	(69.5)	(63.3)	(9.8)
Net profit after tax	**181.5**	**180.6**	**0.5**
NPATA[2]	186.6	185.1	0.8
EBIT margin	3.6%	3.7%	(0.1)
Effective tax rate	27.7%	26.0%	1.7
ROFE[3]	10.2%	12.6%	(2.4)
Dividend declared (cents per share)	24.0	24.0	-
Ordinary Dividend payout ratio	70.8%[4]	59.9%	10.9

1. Total revenue includes joint ventures and other income.
2. Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangibles amortisation expenses. FY17: $7.4m, $5.1m after-tax (FY16: $6.4m, $4.5m after-tax).
3. ROFE = EBIT divided by average funds employed (AFE); AFE = Average Opening and Closing Net Debt + Equity. FY17 ROFE based on pro-forma EBIT of Combined Group of $439.3m (Downer $277.8m plus Spotless underlying EBIT of $161.5m) divided by the closing funds employed as at 30 June 2017 (adjusted by $110.8m amount owing in relation to Spotless shares acceptance).
4. Dividend payout ratio impacted by equity raising with no corresponding earnings from Spotless.

SUMMARY OF EARNINGS

$m	Total	Transport	Utilities	Rail	EC&M	Mining	Corp
Statutory EBIT	**277.8**	**124.6**	**84.1**	**30.3**	**52.3**	**83.4**	**(96.9)**
Benefit of Spotless[1]	(4.6)						(4.6)
New Intercity Fleet bid costs	10.0						10.0
NZ Schools PPP bid costs	3.0						3.0
Settlement of contractual claims	5.0						5.0
Contract closure	(6.5)					(6.5)	
Adjusted EBIT (approx.)	**284.7**	**124.6**	**84.1**	**30.3**	**52.3**	**76.9**	**(83.5)**

1 Refer to breakdown on slide 26

OPERATING CASH FLOW

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$m	FY17	FY16
EBIT	277.8	276.9
Add: depreciation & amortisation	220.2	258.7
EBITDA	**498.0**	**535.6**
Operating cash flow	**441.6**	**447.8**
Add: Net interest paid[1]	23.0	26.5
Tax paid	49.0	35.9
Waratah Train Project net cash (inflow) [2]	-	(13.4)
Adjusted operating cash flow	**513.6**	496.8
EBITDA conversion	**103.1%**	**92.8%**

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

2 Unaudited.

CASH FLOW

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$m	FY17	FY16
Total operating	**441.6**	**447.8**
Net capital expenditure	(180.4)	(165.3)
Spotless acquisition [1]	(636.1)	-
Other acquisitions	(143.2)	-
IT Transformation and Other	(36.1)	(40.2)
Total investing	**(995.8)**	**(205.5)**
Issue of shares (net of costs) [2]	989.9	-
Net (repayment) / proceeds of borrowings	(48.8)	93.8
Dividends paid	(110.6)	(113.1)
On-market share buy-back[3]	-	(26.5)
Total financing	**830.5**	**(45.8)**
Net increase in cash held	276.3	196.5
Cash at 30 June	**844.6**	**569.4**
Total liquidity[4]	**2,034.6**	**1,094.4**

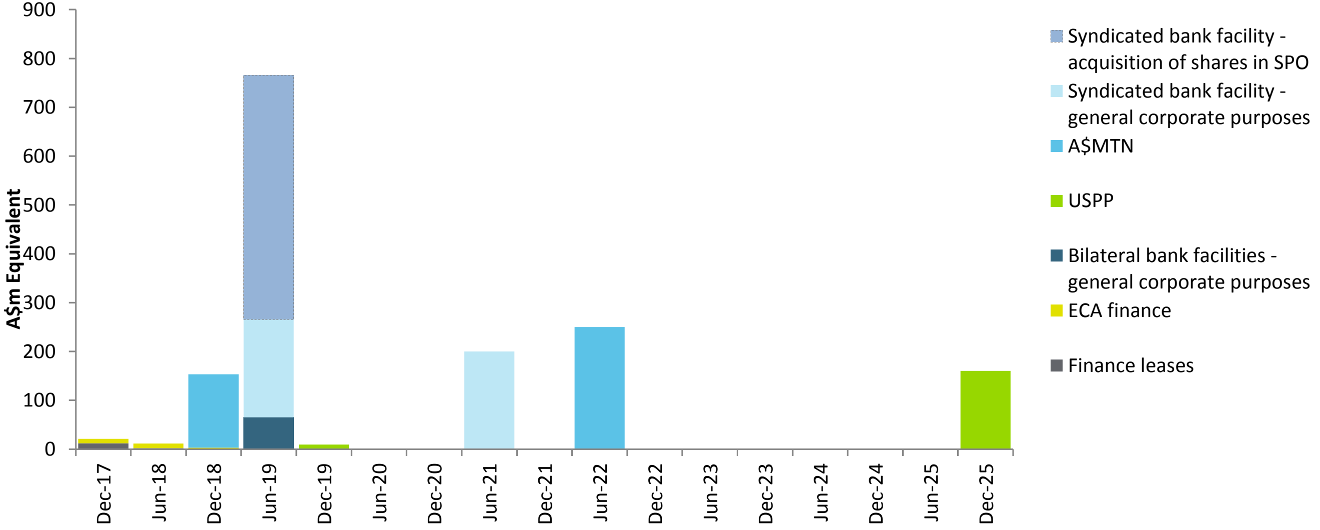
1 The amount represents gross consideration paid up to 30 June 2017 of $702.1m less net cash acquired of $66.0m.

2 Relates to the issue of 169.9 million shares from capital raising in relation to Spotless acquisition.

3 As at 30 June 2016, Downer had bought back 7.9 million shares, reducing the total number of shares outstanding to 424.8 million.

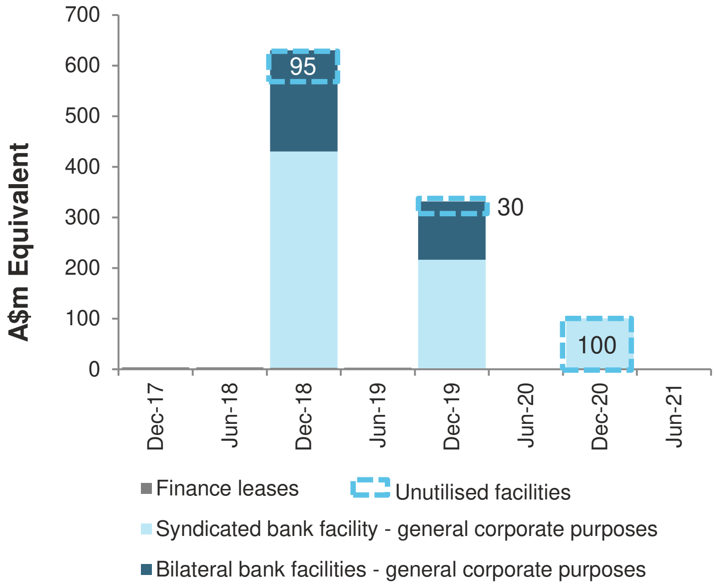
4 Refer to slide 24 for details.

DEBT MATURITY PROFILE – DOWNER ONLY
(by limit as at 30 June 2017)

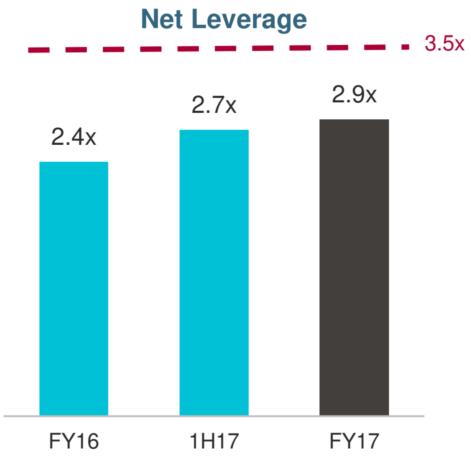


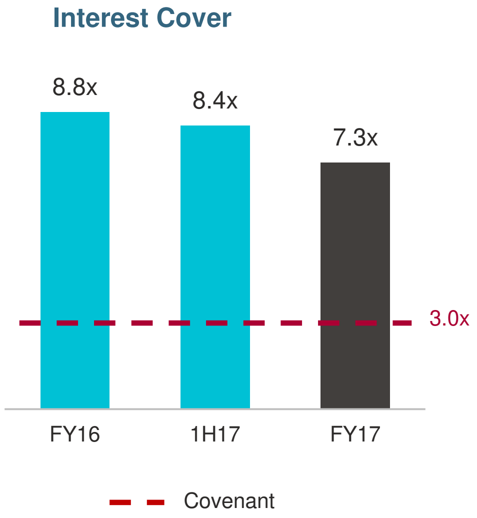
1. The maturity profile is based on contractual facility maturity dates.
2. The maturity profile excludes debt that has been consolidated pursuant to the acquisition of Spotless.
3. Weighted average debt duration = 3.60 years (June 2016 = 4.25 years); including $500.0m facility for acquisition of shares in Spotless = 3.02 years.
4. Undrawn $965m (includes $500.0m facility for acquisition of shares in Spotless).
5. Syndicated bank facility – acquisition of shares in Spotless: maturity date of March 2019 is subject to Downer exercising its two six month extension options at March 2018 and September 2018.

DEBT MATURITY PROFILE – SPOTLESS ONLY
(by limit as at 30 June 2017)



DEBT COVENANTS





1. The maturity profile is based on contractual facility maturity dates.
2. Weighted average debt duration = 1.85 years.
3. Leverage ratio includes allowance adjustments to EBITDA for the purpose of debt covenant metrics.

BALANCE SHEET AND CAPITAL MANAGEMENT

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$m	Downer	Spotless[3]	Adjustments on Spotless transaction / consolidation	Combined Group Jun 17	Jun 16
Total assets	4,487.8	1,912.0	1,055.6	7,455.4	4,200.3
Total shareholders' equity	2,158.3	420.8	1,007.4	3,586.5	2,088.5
Net (debt[1]) / cash	(111.9)	(787.5)	279.2[4]	(620.2)	(87.4)
Gearing: net debt to net debt plus equity	4.9%			14.7%	4.0%
Gearing (including off balance sheet debt)[2]	10.0%			17.7%	9.4%
Debtor days	27.3				23.6
WIP days	36.1				34.1
Creditor days	28.2				37.2
Interest cover	10.0x			10.0x	8.8 x
Net debt / EBITDA	0.2			1.2	0.2
Adjusted Net Debt / adjusted EBITDAR[5]	1.6 x			2.4 x	1.6 x

1 Adjusted for the mark-to-market of derivatives and deferred finance charges.
2 Downer includes the present value of plant and equipment operating leases discounted at 10% pa: $128.3m (2016: $128.5m); Combined Group includes $151.5m.
3 Spotless June 2017 position.
4 The amount primarily represents net capital raising proceeds of $989.9 million less $702.1 million gross purchase consideration and transaction costs incurred on the Spotless takeover.
5 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).

PROGRESS SINCE CONTROL OF SPOTLESS

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In place

- Board transition
- Key FY18 STI metrics aligned including introduction of an earnings gate and cash targets
- Formation of Joint Bidding Group targeting specific integrated service opportunities

Synergies

- Downer will seek to target synergy benefits of $20 million to $40 million over time
- Joint bidding opportunities focused on new opportunities outside existing Downer or Spotless pipelines

OUTLOOK

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WORK-IN-HAND $22.5 BILLION
- NOT INCLUDING $10.8 BILLION SPOTLESS PPPs

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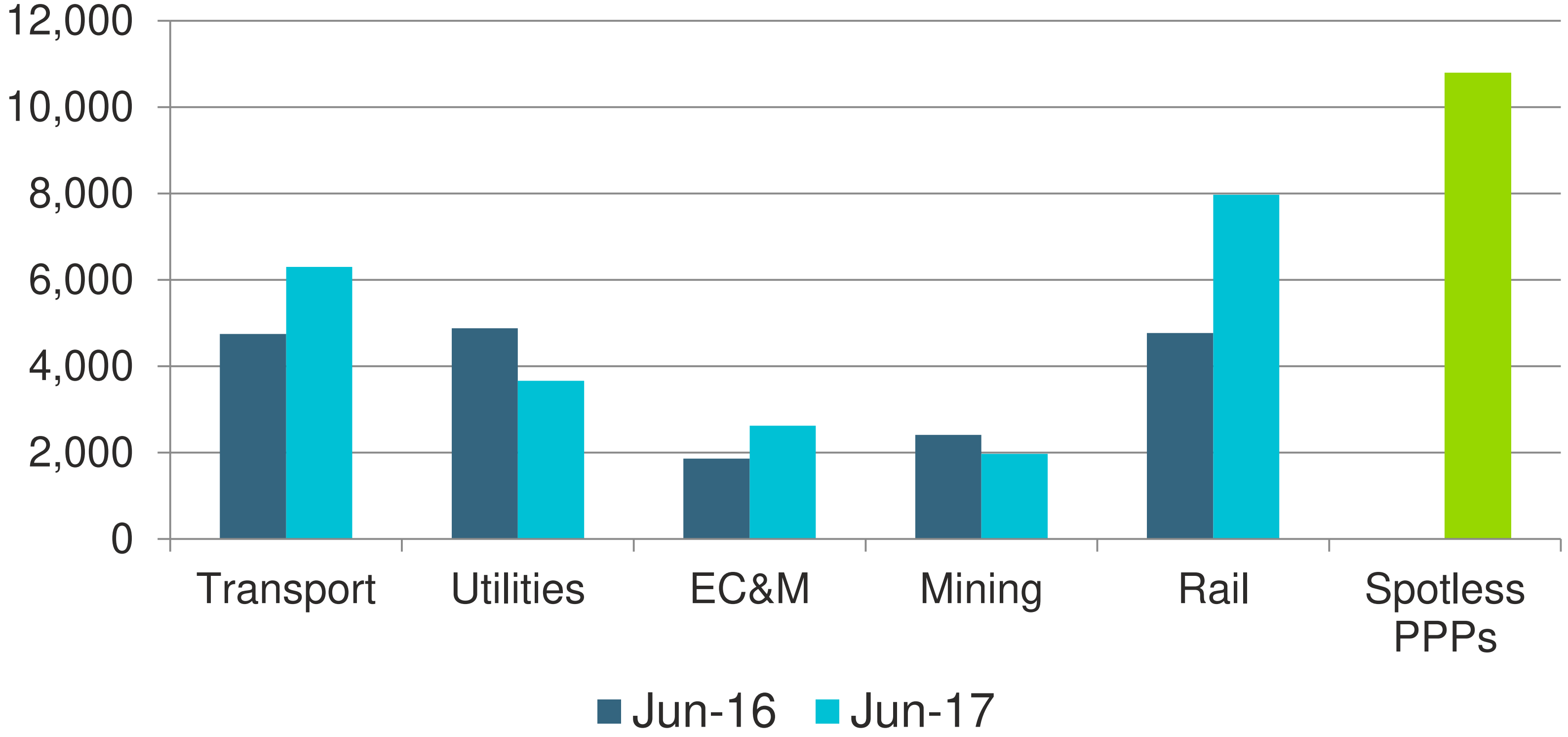

OUTLOOK

With the acquisition of Spotless, the Downer Group is now well positioned for expected growth in the transport infrastructure, health, education, corrections, defence, utilities and other government service markets across Australia and New Zealand.

The Group's strong competitive position in all of its major markets, coupled with market growth, is driving significant opportunities across all businesses.

Excluding Spotless earnings and any costs or synergies related to the acquisition, Downer is targeting NPAT of around $190 million for the 2018 financial year, an increase of 5%.

In its Target's Statement dated 27 April 2017, the Spotless Board provided earnings guidance of between $85 million and $100 million NPAT for the 2018 financial year[1].

Once Downer completes its review of the Spotless business planning, budgeting and target setting process, updated guidance will be provided for the entire Downer Group, including Spotless.

1. For further information regarding the basis of preparation of this guidance, including key assumptions and other discussion, see section 5.4 and section 7 of Spotless' Target's Statement dated 27 April 2017.

SUPPLEMENTARY INFORMATION

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DEBT AND BONDING FACILITIES

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Debt facilities $m	DOW	SPO	Group
Total limit	1,576.3[1]	1,078.5	2,654.8
Drawn	(611.3)	(853.5)	(1,464.8)
Available	**965.0** [1]	**225.0**	**1,190.0**
Cash	778.6 [2]	66.0	844.6
Total liquidity	**1,743.6**	**291.0**	**2,034.6**

Bonding facilities $m	DOW	SPO	Group
Total limit	1,739.8	184.0	1,923.8
Drawn	(1,041.2)	(144.3)	(1,185.5)
Available facilities	**698.6**	**39.7**	**738.3**

Debt facilities by type	%
Syndicated bank facility :	
- general corporate purposes [3]	43
- SPO acquisition	19
A$MTN	15
Bilateral bank facilities [4]	14
USPP	7
Other	2
	100

Debt facilities by geography	%
Australia / NZ	88
North America	7
Asia [5]	4
Europe [5]	1
	100

1 Includes $500.0m syndicated facility for acquisition of shares in Spotless; undrawn as at 30 June 2017.

2 Includes $279.2m - Balance of rights issuance proceeds related to acquisition of shares in Spotless.

3 Includes Downer 15% and Spotless 28%.

4 Includes Downer 2% and Spotless 12%.

5 Includes A$ Medium Term Notes sold to Asian and European domiciled investors measured at financial close of the transaction.

SEGMENT REPORTING

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FY17							
$m	**Transport**	**Utilities**	**Rail**	**EC&M**	**Mining**	**Unallocated**	**Total**
Segment revenue	2,091.1	1,517.3	467.1	1,974.2	1,250.8	(13.1)[1]	7,287.4
Share of sales from JVs and Associates[2]	62.3	-	383.1	30.1	49.4	-	524.9
Total revenue[2]	2,153.4	1,517.3	850.2	2,004.3	1,300.2	(13.1)[1]	7,812.3
EBIT	124.6	84.1	30.3	52.3	83.4	(96.9)	277.8
EBIT margin	5.8%	5.5%	3.6%	2.6%	6.4%	-	3.6%

FY16							
$m	**Transport**	**Utilities**	**Rail**	**EC&M**	**Mining**	**Unallocated**	**Total**
Segment revenue	1,786.7	1,274.3	421.8	1,856.7	1,548.9	(38.4)	6,850.0
Share of sales from JVs and Associates[2]	62.8	-	404.4	30.4	46.3	-	543.9
Total revenue[2]	1,849.5	1,274.3	826.2	1,887.1	1,595.2	(38.4)	7,393.9
EBIT	103.7	71.4	14.4	48.2	130.0	(90.8)	276.9
EBIT margin	5.6%	5.6%	1.7%	2.6%	8.1%	-	3.7%

1. Includes intra eliminations, other income and fair value gain on Spotless investment.
2. This is a non-statutory disclosure as it relates to/includes Downer's share of revenue from equity accounted joint ventures and associates.

RECONCILIATION OF UNDERLYING TO STATUTORY RESULT

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FY17 $m	EBIT	Net interest (expense) / income	Tax expense	NPAT
Underlying result	**273.2**	**(28.5)**	**(63.3)**	**181.4**
Spotless transaction costs[1]	(15.2)	-	-	(15.2)
Gains and other income related to Spotless investment[2]	19.8	1.7	(6.2)	15.3
	4.6	1.7	(6.2)	0.1
Statutory result	**277.8**	**(26.8)**	**(69.5)**	**181.5**

1. Includes advisory fees and transition costs in relation to Spotless acquisition.
2. Relates to other income and revaluation of initial 19.99% investment in Spotless at $1.15 per share and to the net interest income on proceeds from ~$1bn capital raising less cash paid.

WORK-IN-HAND: $22.5 BILLION

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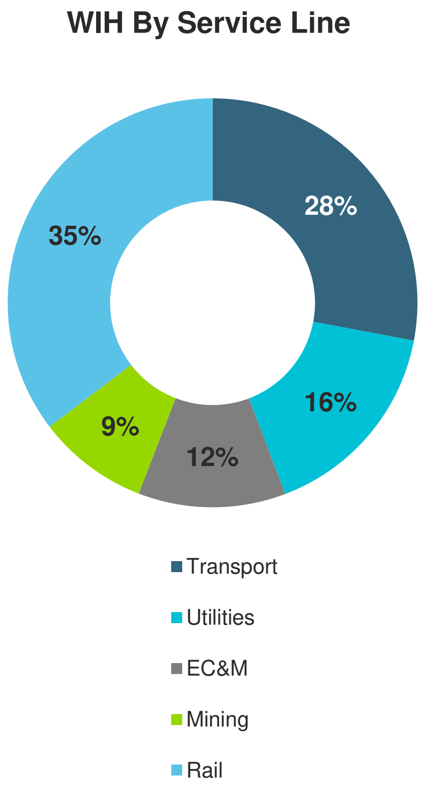

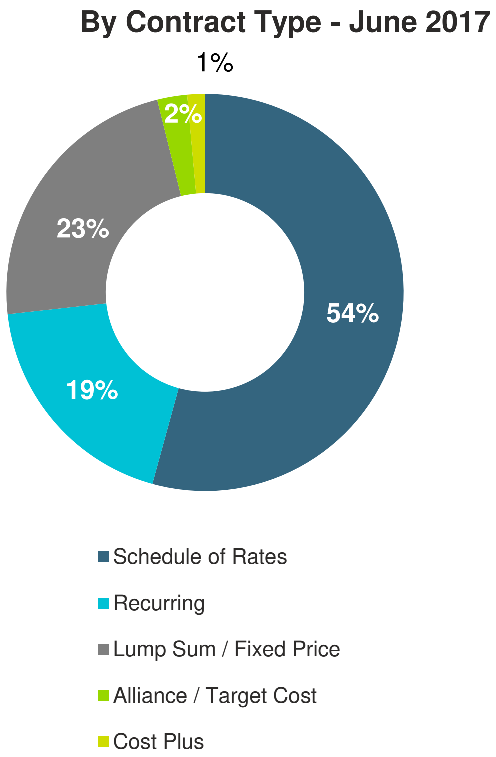

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