

Media/ASX and NZX Release

CREATING A STRONGER DOWNER AND EQUITY RAISING

21 July 2020

- **Downer expects to report Underlying EBITA² of \$410 – \$420 million and Underlying NPATA of \$210 – \$220 million for the financial year ended 30 June 2020**
- **Despite the impacts of COVID-19, cash performance improved materially in the second half of the financial year, with operating cash conversion at ~74% of Underlying EBITDA, taking the full year operating cash conversion to ~40%**
- **Downer expects to recognise \$386 million of charges outside its underlying result in relation to goodwill impairment, restructuring and portfolio review costs, payroll remediation, legal settlements and historical contract claims adjustments**
- **Statutory FY20¹ NPAT loss is expected to be in the range of \$150 – \$160 million**
- **Initiatives to reshape Downer as a focused Urban Services business with a stronger platform for long term, sustainable growth:**
 - **Achieving 100% ownership of Spotless**
 - **Exiting non-core businesses**
 - **Right-sizing cost base**
- **A\$400 million equity raising to strengthen balance sheet, fund acquisition of the remaining shares in Spotless and provide flexibility for continued investment in Downer's core business**
- **Downer will have significant balance sheet flexibility following the Entitlement Offer and Spotless Offer with pro forma liquidity of ~\$2.1 billion and pro forma gearing ratio³ of 29.3% (within Downer's long term target of 25% – 30%) as at 30 June 2020**

¹ All references to "FY20" in this announcement refer to the financial year ended 30 June 2020. References to "FY19" in this announcement refer to the financial year ended 30 June 2019. A number of figures, amounts, percentage, estimates, calculations of value and fractions in this Announcement are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Announcement.

² Underlying profit and pro forma measures are non-IFRS financial information. These measures are reported as they provide useful information to users in measuring the financial performance of Downer. Underlying EBITA is reconciled to statutory NPAT in the FY20 Financial Performance section. Underlying profit and pro forma measures have not been subject to audit or review.

³ Gearing ratio calculated as net debt / (net debt + shareholders' equity). For the purposes of the gearing ratio calculations, shareholders' equity has been adjusted to exclude the impact upon adoption of AASB16 of \$66.0 million, consistent with Downer's debt covenant reporting requirements. The pro forma gearing ratio includes adjustments for the impacts of the Entitlement Offer and Spotless Offer.

INITIATIVES TO RESHAPE DOWNER

Downer EDI Limited (“**Downer**”) is implementing a package of initiatives to reshape the business and create a stronger platform for long term, sustainable growth.

Achieving 100% ownership of Spotless

Achieving full ownership of Spotless Group Holdings Limited (“**Spotless**”), one of Australia’s largest integrated service providers, is a key enabler for the Group’s Urban Services strategy which is aimed at driving consistent earnings and reliable cash flow from servicing long term customers in critical government and industry sectors.

Downer or its wholly-owned subsidiary, Downer EDI Services Pty Ltd (“**Downer Services**”), will make an unconditional offer to acquire all of the issued share capital of Spotless not already owned by Downer (“**Spotless Offer**”) for upfront cash consideration of \$1.00 per Spotless share plus for every 17.92741 Spotless shares accepted into the Spotless Offer, a Downer contingent share option exercisable over 1 Downer share, subject to the future market prices of Downer shares (“**Downer Contingent Share Option**”).⁴ The Downer Contingent Share Option has a zero exercise price.

Downer has entered into a call option deed with Coltrane Master Fund, L.P.,⁵ under which it has a call option over 2.99% of Spotless shares (the “**Call Option**”), which on exercise will increase Downer’s ownership above the 90% threshold required to proceed to compulsory acquisition.

The Spotless Offer, if completed, is expected to enable synergies of \$10 – \$15 million per annum from eliminating redundant corporate management structures, integrating operations and consolidating the Group’s debt platform.

Exiting non-core businesses

Downer is committed to shaping its portfolio in line with its Urban Services strategy. The exit of capital-intensive businesses such as Mining and Laundries remains a key short-term objective.

- Downer is currently exploring the potential sale of the Mining portfolio (in parts or as a whole) in response to recent enquiries from a number of interested parties. At this stage there is no certainty that any transaction will proceed; and
- The Laundries business is performing well with hospital volumes returning strongly. The sale process has been paused and will resume when investment market conditions improve.

The exit of higher-risk construction markets in Downer’s Engineering and Construction (E&C) and Spotless’ Infrastructure and Construction (I&C) is underway and will complete as existing projects finish.

Downer is reviewing the prospects of its Hospitality business to determine which parts of the business will continue, be exited or sold as the future market demand becomes clearer.

Right-sizing

Downer is taking decisive action to right-size its cost base and operating model to align with the requirements of its core Urban Services portfolio. Management overheads have been reduced across the business through reduction in management layers, head-count, property footprint, systems and discretionary spend.

In Hospitality all non-critical staff have been stood down or made redundant. Contracts have been temporarily discontinued, exited or converted to cost plus a margin.

⁴ Subject to finalisation of definitive terms and all required ASX approvals.

⁵ Coltrane currently has a relevant interest in approximately 11.8% of the Spotless shares on issue.

The E&C business in Downer has been scaled down significantly to focus only on its competitive strength in high voltage power lines and substation construction. The I&C business in Spotless has been scaled down to focus on longer-term maintenance contracts and associated small scale construction (less than \$5 million).

Downer anticipates annual cost saving benefits of \$15 – \$20 million⁶ commencing from FY21 and has booked FY20 restructuring costs of \$142 million, with further details set out in Appendix A.

EQUITY RAISING

Downer is seeking to raise A\$400 million of equity through a 1 for 5.58 fully underwritten accelerated non-renounceable pro-rata entitlement offer ("**Entitlement Offer**"). The Entitlement Offer will support the acquisition of the remaining shares in Spotless, strengthen the Group's balance sheet, and provide flexibility for continued investment in Downer's core businesses. The offer price of A\$3.75 per share represents a 12.0% discount to Downer's closing price of A\$4.26 on the ASX on Monday, 20 July 2020 and a 10.3% discount to the theoretical ex-rights price ("**TERP**") of A\$4.18.⁷

RESHAPED DOWNER

Through the COVID-19 period, Downer's core Urban Services⁸ businesses have demonstrated their strength and resilience – they represent the future of Downer.

After implementing the portfolio initiatives and the equity raising, Downer will be well placed to deliver growth and an improving return on capital with:

- Core Urban Services businesses having demonstrated their strength and resilience;
- Leading market positions and attractive medium and long-term growth outlook across the range of its end markets;
- High proportion of government and government related contracts;
- A capital light service-based business model (after the exit of Mining and Laundries) generating lower risk, long term more predictable revenues and cash flows;
- Opportunity to leverage Downer's expertise in operations, maintenance, servicing and supply to drive margin expansion over time;
- A right-sized operating model and simplified corporate and capital structure delivering tangible cost efficiencies; and
- A strengthened balance sheet with flexibility to continue investment in Downer's core businesses.

⁶ Annual cost benefits measured at the EBITA level.

⁷ TERP is the theoretical price at which Downer shares trade immediately after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which Downer shares trade on the ASX immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to TERP. TERP is calculated by reference to the closing price of the Downer share price as traded on ASX on Monday, 20 July 2020 being the last trading day prior to the announcement of the Entitlement Offer.

⁸ Core Urban Services include Transport, Utilities, Facilities and Asset Services and exclude E&C, I&C, Mining, Laundries and Hospitality as set out in the table under FY20 Financial Performance.

CEO COMMENTARY

The Chief Executive Officer of Downer, Grant Fenn, said:

During the COVID-19 period we have been focused on the health and safety of our people and customers and providing essential Urban Services to our communities.

We are very happy with the strong performance of Downer's core Urban Services businesses in the current operating environment. We are focused on continuing to grow our services businesses which require relatively low levels of capital and deliver more predictable revenue in the long term.

We have identified areas of our business where restructuring is required and are taking the necessary steps to exit less profitable markets and contracts and to right-size the cost structure of these businesses. We are confident that the actions we are taking will make our business more competitive and allow us to drive improved returns going forward.

Following the significant disruption experienced during the COVID-19 period to date, we are seeing a return to more normalised levels of activity across our businesses, including New Zealand which was materially impacted by the Level 4 restrictions in place during FY20. Transport, Utilities and Facilities (excluding Hospitality) have been very resilient and are expected to continue trading strongly into the 2021 financial year.

Downer welcomes the opportunity to move to 100% ownership of Spotless. While the Hospitality business has been materially impacted by the COVID-19 pandemic, the core facilities management businesses of Health, Education, Government and Defence continue to perform well. Our core facilities management segment (excluding Hospitality and I&C) is expected to deliver FY20 EBITA in line with FY19. Spotless is a key part of our Urban Services strategy and we expect it to continue to benefit from the long-term trends of increasing urbanisation and government outsourcing.

The Entitlement Offer announced today will provide Downer with significant balance sheet flexibility and liquidity to complete an orderly exit of Mining and Laundries and continue to invest in our core businesses.

FY20 FINANCIAL PERFORMANCE

The table below provides a comparison of the preliminary and unaudited underlying earnings for FY20 versus underlying results for FY19 and a reconciliation to statutory NPAT.

Underlying EBITA (A\$m)	Reporting Segment	Actual FY19	Estimated FY20	Variance to FY19 (%)
Transport	Transport	242	236	(2)
Utilities	Utilities	136	115	(15)
Facilities	Facilities	134	134	-
Asset Services	EC&M	13	27	108
Core Urban Services Businesses		525	511	(3)
Infrastructure & Construction (Spotless)	Facilities	(3)	(9)	>(100)
Engineering & Construction (Downer)	EC&M	20	(69)	>(100)
Businesses in wind down		17	(78)	>(100)
Mining	Mining	77	79	3
Laundries	Facilities	17	9	(47)
Hospitality	Facilities	23	(20)	>(100)
Businesses under review or to be sold		117	68	(42)
Corporate	Unallocated	(98)	(87)	11
Underlying EBITA		561	415	(26)
Amortisation of acquired intangibles		(70)	(71)	(1)
Underlying EBIT		490	344	(30)
Net interest expense		(82)	(112)	(37)
Tax expense		(117)	(67)	43
Underlying NPAT		291	165	(43)
Amortisation of acquired intangibles (post tax)		49	50	1
Underlying NPATA		340	215	(37)
Items outside of underlying NPATA (pre tax)		(28)	(386)	>(100)
Tax effect on items outside of underlying NPATA		14	65	>100
Statutory NPATA		326	(106)	>(100)
Amortisation of acquired intangibles (post tax)		(49)	(50)	(1)
Statutory NPAT		276	(156)	>(100)

FY20 financials are estimates only, based on preliminary, unaudited financial results for the year ended 30 June 2020. Figures remain subject to finalisation, audit and Board review and sign-off and may change. FY20 financials represent the mid-point of the estimated \$210 – \$220 million underlying NPATA range. The underlying EBITA is calculated on a consistent basis with EBITA in the segment reporting in Downer's financial statements with the exception that the underlying EBITA excludes \$19 million of historical contract claims adjustments (\$10 million relating to the Facilities segment and \$9 million relating to the EC&M segment) in estimated FY20 (refer Appendix A). FY19 actuals are prior to the adoption of AASB16 Leases.

Mr Fenn said Downer's core Urban Services businesses had performed well with underlying EBITA only slightly down on the prior year.

"Demand for our services particularly from Government and Defence, Road and Rail, Power and Gas, Water, and Health and Education has remained strong throughout the year," he said. "In some areas, demand has increased as governments look to Downer to provide COVID-19 remediation services or stimulate economic activity.

"Downer's New Zealand business was impacted materially due to the unexpected Level 4 lockdown that restricted our operations to around 30% of normal levels for a period of around six weeks. Downer received approximately NZ\$70 million in wage support payments from the New Zealand Government to partially offset wage costs during that period. Levels of activity have now returned to normal and the business is currently performing well.

"The Hospitality business has been the most acutely affected part of the Group with all major event venues and other customer premises either closed or running at a fraction of capacity. The business has been placed into hibernation awaiting demand to recover, with cost plus arrangements in place for those customers requiring service.

"The Laundries business, which is predominantly health based, was impacted by the restrictions on elective surgery in both Australia and New Zealand. With those restrictions now relaxed the business is performing well with volumes returning. We are seeing improved yield as our customers use more Spotless supplied consumables and the benefit from efficiency improvements implemented during the year.

"Mining earnings were above FY19 despite the impact of COVID-19 restrictions on operations, State border closures and operations in South Africa closing due to COVID-19."

ITEMS OUTSIDE OF UNDERLYING FY20 RESULT

The table below reflects Downer's current expectations of items it plans to recognise that are not included in its Underlying FY20 result.

A\$m	Previously reported		Estimated (subject to review and audit procedures)	
	1H20 Impact	2H20 Impact	FY20 Impact	
Items outside of Underlying FY20 earnings (Pre Tax basis)				
Non-cash impairment to Spotless goodwill	Nil	165	165	
Historical contract claims adjustments	(15)	34	19	
Portfolio Restructure and Exit Costs	9	133	142	
Payroll Remediation Costs	4	12	16	
Legal settlements	Nil	44	44	
Total	(2)	388	386	

The \$386m of items outside of the underlying FY20 result presented in the above table include significant non-cash write-offs as follows: Spotless Goodwill impairment (\$165m), information systems (\$26m), historical contract claims (\$19m), stock (\$10m) and receivables (\$8m).

Additional information on each of the above items outside of underlying FY20 result is contained in Appendix A.

SPOTLESS OFFER

Downer today announced steps to move to 100% ownership of Spotless.⁹ The terms of the Spotless Offer are summarised in Appendix C.

Downer has entered into a call option deed with Coltrane Master Fund, L.P. under which it has a call option over 2.99% of Spotless shares, which on exercise will increase Downer's ownership above the 90% threshold required to proceed to compulsory acquisition.

Consideration

The upfront cash cost to Downer under the Spotless Offer will be approximately \$134.5 million.

A maximum of 7.5 million Downer shares (representing less than 1.1% of Downer's issued capital pro forma for the Entitlement Offer) will be issued on exercise of the Downer Contingent Share Options.¹⁰

Synergies

Downer expects to realise \$10 – \$15 million in pre-tax cost synergies per annum by moving to 100% ownership of Spotless, through further rationalisation of corporate costs and moving to a more efficient debt structure.

Further details on the Spotless Offer, including reasons Spotless shareholders should accept the Spotless Offer, will be set out in the Bidder's Statement to be lodged with the ASX on or about 12 August 2020.

UBS AG, Australia Branch is acting as financial adviser to Downer on the Spotless Offer.

DOWNER EQUITY RAISING

Downer today announced the launch of an equity raising to strengthen the Group's balance sheet, support the acquisition of the remaining shares in Spotless and provide flexibility for continued investment in Downer's core business.

Downer is undertaking a fully underwritten 1 for 5.58 accelerated pro-rata non-renounceable entitlement offer to raise approximately \$400 million at a fixed price of A\$3.75 per share.¹¹

The offer price of A\$3.75 represents a:

- 10.3% discount to the theoretical ex-rights price ("TERP¹²") of A\$4.18; and
- 12.0% discount to Downer's closing price of A\$4.26 on the ASX on Monday, 20 July 2020.

The Entitlement Offer will result in approximately 107 million new shares being issued, representing approximately 17.9% of Downer's existing shares on issue.

New shares issued under the Entitlement Offer will rank equally with existing shares and will not be eligible for the 2020 interim dividend of 14 cents per share to be paid on 25 September 2020 as this dividend had an ex-dividend date of 25 February 2020 and a record date of 26 February 2020.

⁹ Downer currently has a relevant interest in 87.80% of the Spotless shares on issue.

¹⁰ Number of shares issued on exercise of the Downer Contingent Share Options is subject to agreed adjustments for certain capital events, including bonus share issues and capital reorganisations.

¹¹ Eligible shareholders may also apply in NZD. The NZD equivalent of the AUD offer price will be determined following completion of the Institutional Entitlement Offer and communicated to investors who may wish to subscribe in NZD.

¹² TERP is the theoretical price at which Downer shares trade immediately after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which Downer shares trade on the ASX immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to TERP. TERP is calculated by reference to the closing price of the Downer share price as traded on ASX on Monday, 20 July 2020 being the last trading day prior to the announcement of the Entitlement Offer.

The Entitlement Offer is fully underwritten by UBS AG, Australia Branch and Macquarie Capital (Australia) Limited.

Refer to Appendix D for further information.

FINANCIAL POSITION

Following the Entitlement Offer, Downer will be well capitalised to meet expected future funding needs and well positioned to continue investment in its core business units.

Downer's cash and undrawn facilities as at 30 June 2020, adjusted for the Entitlement Offer, and for the Spotless Offer, total \$2.1 billion.

Net debt, adjusted for the Entitlement Offer and for the Spotless Offer, is expected to be \$1.2 billion with gearing of 29.3% (within Downer's long term target of 25% – 30%) as at 30 June 2020.

Downer is rated BBB (stable) by Fitch Ratings.

TRADING UPDATE AND OUTLOOK

Due to the current economic environment Downer cannot provide earnings guidance for FY21 at this time.

While the Downer business continues to be impacted by COVID-19, particularly in Hospitality, its diversification across critical services such as road and rail maintenance, public transport, power and gas, water, health and education, defence and government housing and facilities has delivered considerable resilience in earnings and cash flows.

Across all of Downer's businesses, apart from Hospitality, there is strong demand for its services, significant work-in-hand and a strong pipeline of opportunities with the potential to benefit further from government stimulus during the COVID-19 recovery period.

As committed, Downer's deferred unfranked interim dividend of 14 cents per share which was declared on 12 February 2020 will be paid on 25 September 2020 to shareholders on the register at 26 February 2020.

Given the current circumstances and equity raising the Downer Board does not intend to pay a final dividend for the year ended 30 June 2020. Dividends are expected to resume in financial year 2021 depending on business performance.

APPENDIX A – Items outside of underlying FY20 result

Non-cash impairment of Spotless goodwill

The carrying value of goodwill relating to the Spotless acquisition has been reduced by \$165 million (non-cash) due to:

- An increase in discount rate from 8.1% to 8.3% applied to forecast cash flows;
- A reduction in the terminal growth rate from 2.5% to 2.25% due to the macro-economic environment;
- The impact of COVID-19 on future earnings from Hospitality; and
- A reduction in earnings from the I&C division (Nuvo and AE Smith) as that business exits major construction exposure.

The upfront cash consideration under the Spotless Offer is materially in line with the revised carrying value of Spotless following this impairment.

Historical contract claims adjustments

The carrying value of claims relating to historical Spotless contracts on foot at the time of the Downer acquisition has been reduced by \$19 million to reflect the difficulty and cost in settling construction variations and disputed claims. Downer will continue to pursue these claims as appropriate.

Portfolio restructure and exit costs

Hospitality

The Hospitality business has been the most acutely affected part of the Group through COVID-19 with all major event venues and other customer premises either closed or running at a fraction of capacity. The business has effectively been placed into hibernation, awaiting demand to recover, with cost plus arrangements in place for those customers requiring service. Downer is not eligible for the Federal Government's JobKeeper subsidy.

Restructure costs of \$46 million have been expensed to cover redundancies, asset impairments, stock write-offs, onerous contracts and other exit costs.

Construction

Downer has exited the resource based electrical and mechanical major construction market within the Engineering and Construction (E&C) business unit. Restructure costs of \$15 million have been expensed to cover redundancies and other exit costs.

Spotless has exited the facilities based electrical and mechanical major construction market within the Infrastructure and Construction (I&C) business unit. Restructure costs of \$9 million have been expensed to cover redundancies and other exit costs.

Corporate

Downer has reduced management overhead across the Group through reduction in management layers, head-count, property footprint, systems and discretionary spend to better reflect the new operating model. Restructure costs of \$36 million have been expensed.

Transaction costs

Transaction costs of \$10 million relating to the portfolio review of Mining and Laundries have been expensed in FY20.

Non-cash impairment of capitalised Information Systems

The carrying value of information systems has been impaired by \$26 million. The impairment relates to applications and infrastructure in businesses that are being wound down.

Payroll Remediation

During the year, Spotless commenced a review of the applicable Enterprise Agreements and Modern Awards, together with the assumptions regarding their interpretation and application in its payroll systems in order to validate the correct application of pay rates to employees as well as identify historical underpayments and overpayments. The process is ongoing.

On 1 July 2020, Spotless lost a Federal Court case with respect to Ordinary and Customary Turnover of Labour rate (OCTL) redundancy payments for employees made redundant on cessation of specific contracts.

Spotless has recognised an expected liability of \$41 million in relation to these matters, including interest and other remediation costs. Of this amount, \$25 million will be recognised as a prior period error in opening retained earnings, with \$16 million being recognised as an expense in the period.

The expected liability is management's best estimate of the Group's shortfall at this time, and has required assumptions regarding complex variables including the assessment of large volumes of payroll data and the interpretation of a number of applicable Enterprise Agreements and Modern Awards.

Changes to any of these variables has the potential to result in further adjustments to the calculation of the shortfall, which could result in a further liability being required in subsequent reporting periods.

Downer is committed to ensuring its people are paid in accordance with their employment agreements and the law and has a dedicated team investigating Spotless and Downer practices, systems and processes.

Legal Settlements

In May 2020, Spotless accepted an offer to settle a class action commenced in the Federal Court of Australia in May 2017. The settlement was without admission of liability and is subject to Federal Court approval. As a result of the settlement, Downer's results for FY20 have been impacted by \$34 million (pre-tax).

Downer has agreed to settle a long running dispute and remediate water ingress issues in building works engineered by a Downer subsidiary in New Zealand over 15 years ago. The remediation works are expected to cost \$10 million.

APPENDIX B – Reconciliation of expected Statutory Result for FY20 to expected Underlying Result

A\$m	FY19 Reported	Estimated FY20
Underlying NPATA	340.1	210 – 220
Amortisation of acquired intangibles (post tax)	(49.3)	(50)
Underlying NPAT	290.8	160 – 170
Items outside of underlying NPAT (pre tax)	(28.0)	(386)
Tax effect on items outside of underlying NPAT	13.5	65
Statutory NPAT	276.3	(150) – (160)

FY20 financials are estimates only, based on preliminary, unaudited financial results for the year ended 30 June 2020. Figures remain subject to finalisation, audit and Board review and sign-off and may change.

APPENDIX C – Further Details of the Spotless Offer

Spotless Offer													
Takeover Bid	Downer or Downer Services will make an unconditional offer to acquire all of the issued share capital of Spotless that it does not already own.												
Conditionality	Unconditional.												
Consideration	The consideration under the Spotless Offer will be: <ul style="list-style-type: none"> upfront cash consideration of \$1.00 per Spotless share (Cash Consideration); plus for every 17.92741 Spotless shares accepted into the Spotless Offer, a contingent share option exercisable over 1 Downer share, subject to the future market prices of Downer shares (Downer Contingent Share Option or DCSO) as set out below. 												
Payment Terms	The Cash Consideration will be paid by Downer within seven days of Downer's receipt of the Spotless shareholder's acceptance into the Spotless Offer.												
Acceptance	Acceptance of the Spotless Offer can be for some or all Spotless shares held.												
DCSO Terms ¹³													
Exercise Price	Nil.												
Option Term	If the Target Price Condition is not satisfied within 4 years from the date the offer period commences, the DCSOs will lapse.												
Entitlement upon Exercise	One ordinary share in Downer.												
Exercise Conditions	<p>DCSOs are exercisable in three series (each a Series).</p> <p>The exercise of DCSOs in a Series is subject to satisfaction of the Target Price Condition (as defined below) for that Series. The last day for exercise of the DCSOs in a Series is 20 business days after the Target Price Condition for the Series has been satisfied.</p> <p>The Target Price Condition is satisfied when, in respect of a Series, Downer's 5-day VWAP* is <i>equal to or exceeds</i> the relevant Target Price (as stipulated in the table below) for that Series.</p> <table border="1" data-bbox="443 1176 1197 1377"> <thead> <tr> <th>Series</th> <th>Target Price</th> <th>Target Price post adjustment for Entitlement Offer¹⁴</th> </tr> </thead> <tbody> <tr> <td>Tranche 1</td> <td>\$6.50</td> <td>\$6.382</td> </tr> <tr> <td>Tranche 2</td> <td>\$7.00</td> <td>\$6.873</td> </tr> <tr> <td>Tranche 3</td> <td>\$7.50</td> <td>\$7.364</td> </tr> </tbody> </table> <p>*the average volume weighted average sale price of a Downer share calculated over the prior five consecutive trading days of Downer shares on ASX, excluding certain crossing transactions.</p> <p>The Target Price will be varied in the event of certain share issues, special dividends and certain other adjustment events. The adjustment for the Entitlement Offer is set out in the table above.</p>	Series	Target Price	Target Price post adjustment for Entitlement Offer ¹⁴	Tranche 1	\$6.50	\$6.382	Tranche 2	\$7.00	\$6.873	Tranche 3	\$7.50	\$7.364
Series	Target Price	Target Price post adjustment for Entitlement Offer ¹⁴											
Tranche 1	\$6.50	\$6.382											
Tranche 2	\$7.00	\$6.873											
Tranche 3	\$7.50	\$7.364											
Quotation and Transferability	<p>The DCSOs will not be quoted on ASX.</p> <p>The DCSOs are transferable with Downer's consent (which is not to be unreasonably withheld or delayed).</p>												
Adjustments	<p>The DCSOs are subject to customary adjustment provisions in the event of a bonus issue or reorganisations of capital.</p> <p>Depending on the type of corporate action that triggers an adjustment, the Target Price or the number of Downer shares which may be issued under a DCSO may be varied accordingly.</p>												
Participation Rights	<p>The DCSOs do not confer on the holder:</p> <ul style="list-style-type: none"> any voting rights at a Downer general meeting; any rights to participate in new issues of capital by Downer; nor any right to a dividend or any entitlement to Downer assets on a winding up. 												

¹³ The following description of terms is subject to finalisation of definitive terms and all required ASX approvals. To the extent a term of the DCSOs is inconsistent with the ASX Listing Rules (and no confirmations or waivers have been provided by ASX in respect of that rule), the term will be amended or read down to the extent of the inconsistency.

¹⁴ Target Price assuming the successful completion of both the Institutional and Retail component of the Entitlement Offer.

APPENDIX D – Further Details for the Entitlement Offer

The Entitlement Offer consists of an accelerated institutional entitlement offer (“**Institutional Entitlement Offer**”) and a retail entitlement offer (“**Retail Entitlement Offer**”).

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place on Tuesday, 21 July 2020.

The Institutional Entitlement Offer will be conducted by way of a bookbuild process on Tuesday, 21 July 2020. Entitlements under the Institutional Entitlement Offer that are not taken up and entitlements of ineligible institutional shareholders will be offered for sale in the bookbuild.

Downer shares have been placed in trading halt while the Institutional Entitlement Offer is undertaken and the results of the bookbuild will be announced on Wednesday, 22 July 2020.

Retail Entitlement Offer

Eligible retail shareholders in Australia and New Zealand will be invited to participate in the Retail Entitlement Offer at the same AUD offer price¹⁵ and offer ratio as the Institutional Entitlement Offer. The Retail Entitlement Offer will open at 9:00am (Sydney time) on Tuesday, 28 July 2020 and close at 5:00pm (Sydney time) on Friday, 14 August 2020.

Eligible retail shareholders should carefully read the retail information booklet and accompanying personalised entitlement and acceptance form which are expected to be despatched on or around Tuesday, 28 July 2020 and which will be made available on the ASX website on that date.

Offer Timetable

A timetable of key dates in relation to the Entitlement Offer is set out below. The timetable is indicative only and dates and times are subject to change without notice. All dates refer to 2020 and times are Sydney time.

Event	Date
Announcement of Entitlement Offer, Institutional Entitlement Offer opens	Tuesday, 21 July
Announcement of results of Institutional Entitlement Offer Trading Halt lifted Trading in ordinary shares resumes on an ex-entitlement basis	Wednesday, 22 July
Record Date for Entitlement Offer (7.00pm Sydney time)	Thursday, 23 July
Retail Entitlement Offer opens and Retail Entitlement Offer Booklet despatched	Tuesday, 28 July
Settlement of Institutional Entitlement Offer	Thursday, 30 July
Issue and trading of new shares under the Institutional Entitlement Offer	Friday, 31 July
Announcement of Downer FY20 results Expected lodgement of Bidder’s Statement for the Spotless Offer	Wednesday, 12 August
Retail Entitlement Offer closes (5.00pm Sydney time)	Friday, 14 August

¹⁵ Eligible retail shareholders may also apply in NZD. The NZD equivalent of the AUD offer price will be specified in the retail information booklet.

Announce results of Retail Entitlement Offer	Wednesday, 19 August
Settlement of Retail Entitlement Offer	Thursday, 20 August
Allotment of new shares under the Retail Entitlement Offer	Friday, 21 August
New shares issued under the Retail Entitlement Offer commence trading on a normal settlement basis	Monday, 24 August
Despatch of holding statements for new shares under Retail Entitlement Offer	Tuesday, 25 August

Further Information

Further details of the Entitlement Offer are set out in the Investor Presentation lodged with the ASX today. This includes important information with respect to the Entitlement Offer, including key risks and foreign selling restrictions.

Authorised for release by Downer's Chief Executive Officer.

For further information please contact:

Michael Sharp, Group Head of Corporate Affairs and Investor Relations

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IMPORTANT INFORMATION

Forward looking statements disclaimer

This announcement contains certain forward looking statements and comments about future events, including Downer's expectations about the performance of its business, the effect of the funds raised under the Entitlement Offer on those businesses, the outcome of the Spotless Offer and the future performance (including potential or further expected synergies) of Downer and Spotless post acquisition. Forward looking statements can generally be identified by the use of forward looking words such as, "expect", "anticipate", "likely", "intend", "should", "could", "may", "predict", "plan", "propose", "will", "believe", "forecast", "estimate", "target" and other similar expressions. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements and include statements in this announcement regarding the conduct and outcome of the Entitlement Offer, the use of proceeds, the outcome of the Spotless Offer, the future performance (including potential or further expected synergies) of Downer and Spotless post acquisition and Downer's outstanding debt. You are cautioned not to place undue reliance on any forward looking statement. While due care and attention has been used in the preparation of forward looking statements, forward looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends which are based on interpretations of current market conditions. Forward looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Downer, its directors and management. A number of important factors could cause Downer's actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements. Actual results, performance or achievements may vary materially from any forward looking statements and the assumptions on which statements are based. Downer disclaims any intent or obligation to update publicly any forward looking statements, whether as a result of new information, future events or results or otherwise. Investors are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the COVID-19 pandemic.

Financial information

All dollar values are in Australian dollars (\$) or AUD unless stated otherwise. All references starting with "FY" refer to the financial year for Downer, ending 30 June. For example, "FY20" refers to the financial year ended 30 June 2020.

Investors should be aware that this announcement contains certain financial information and measures that are "non-IFRS financial information" under Regulatory Guide 230: 'Disclosing non-IFRS financial information' published by the Australian Securities and Investments Commission (ASIC) and "non-GAAP financial measures" within the meaning of Regulation G under the U.S. Securities Exchange Act of 1934, as amended, and are not recognised under Australian Accounting Standards (AAS) and International Financial Reporting Standards (IFRS). The non-IFRS financial information includes EBITA, EBITDA, underlying EBITDA, underlying EBITA, underlying NPATA, gearing and NPATA. The non-IFRS financial information and non-GAAP financial measures do not have a standardised meaning prescribed by the applicable AAS or IFRS, and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with the applicable AAS or IFRS. Although Downer believes the non-GAAP and non-IFRS financial information and financial measures provide useful information to users in measuring Downer's financial performance and condition, investors are cautioned not to place undue reliance on any non-GAAP or non-IFRS financial information or financial measures included in this announcement.

The financial information contained in this announcement for the year ended 30 June 2020 is preliminary only. Downer currently expects to release its full FY20 financial statements on 12 August 2020. Accordingly, the FY20 financial information contained in this announcement is unaudited. An audit process is currently underway in respect of the finalisation of the FY20 financial statements, however the audit will not be completed until immediately prior to the release of Downer's full FY20 financial statements on 12 August 2020. Whilst Downer has taken care so as to have a high degree of confidence that this financial information will not



materially differ from the final numbers contained in the FY20 financial statements, there is a risk that those numbers will differ from the final financial information contained in the FY20 financial statements.

Not for distribution or release in the United States

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States or any other jurisdiction in which, or to any person to whom, such an offer would be illegal. Neither the entitlements nor the new shares of Downer issued under the Entitlement Offer have been, nor will be, registered under the U.S. Securities Act of 1933, as amended ("**U.S. Securities Act**") or the securities laws of any state or other jurisdiction of the United States. Accordingly, the Entitlements and such securities may not be taken up by, or offered or sold to, directly or indirectly, any person in the United States, or to any person acting for the account or benefit of any person in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable securities laws of any state or other jurisdiction of the United States.

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. For more information visit downergroup.com.

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