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Media/ASX and NZX Release

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FY23 GUIDANCE ACHIEVED, NON-CASH IMPAIRMENT CHARGE

Downer EDI Limited (Downer) today announced that, following the latest review of the carrying value of assets in accordance with the relevant accounting standards, it expects to recognise a non-cash, pre-tax impairment charge of $549.6 million in its financial results for the year ended 30 June 2023.

At its results presentation for the financial year ended 30 June 2023, to be held on Thursday, 10 August 2023, and subject to completion of external audit and final Board review and approval, Downer expects to report:

- Underlying NPATA[1,2] of approximately $174 million, within the previously communicated guidance range;
- Statutory NPAT loss of approximately $386 million, including $483.0 million non-cash goodwill impairment, other asset impairments of $66.6 million and other Individually Significant Items (net, pre-tax) of $1.1 million;
- Strong operating cash conversion in H2 of approximately 110 percent of underlying EBITDA (full year of approximately 65 percent);
- Net Debt to EBITDA[3] of 2.0x, down from 2.3x at 31 December 2022; and
- Good progress towards the $100 million per annum cost reduction benefit target, a key enabler of the Group's 4.5% EBITA margin target.

CEO COMMENTARY

The Chief Executive Officer of Downer, Peter Tompkins, said:

FY23 was a challenging year for Downer. As we announced at the Investor Day in April, Downer is undergoing a period of significant and necessary organisational change. Against this backdrop, we have delivered underlying earnings in line with what was previously communicated and we are building positive momentum in the transformation program.

The new trans-Tasman business structure is now operational, and we achieved an important milestone in the simplification of Downer's portfolio in June by completing the divestment of the Australian Transport Projects business. Pleasingly, we are making strong progress in relation to the cost-out program, with the 400 head FTE reduction target now expected to be completed by the end of this calendar year. We remain on target to achieve the overall transformation cost out benefits of $100 million per annum in FY25.

[1] Downer calculates NPATA by adjusting NPAT to addback acquired intangible assets amortisation expense
[2] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business
[3] Underlying Net debt to EBITDA ratio includes lease liabilities in Net Debt and is on a post-AASB-16 basis

The Board and the Management Team are united on the need for cultural change, simplification of the business and a focus on operational excellence and risk management. We are committed to continuing to be transparent with our investors as we make progress in our transformation journey.

There are several factors that we have considered in assessing the carrying value of assets, including recent business performance, changes in market conditions and changes in key assumptions arising from the business transformation that commenced in February 2023.

COMMENTARY ON THE FY23 FULL YEAR RESULT

Downer's full year 2023 results remain subject to final Board review and approval as well as completion of the external audit ahead of the results presentation on 10 August 2023.

COMMENTARY ON THE NON-CASH, PRE-TAX IMPAIRMENT CHARGE

Following the latest review of the carrying value of assets in accordance with the relevant accounting standards, Downer expects to recognise a non-cash, pre-tax impairment charge of $549.6 million in its financial results for the year ended 30 June 2023.

A total of $483.0 million of the non-cash impairment charges relate to goodwill impairments for Downer's Facilities and Utilities Cash Generating Units (CGU). These impairment charges are non-cash and Downer's liquidity position remains strong with significant headroom remaining under all debt facility covenants with lenders.

<u>Facilities Goodwill Impairment ($350.0 million):</u>

As at 30 June 2023, immediately prior to this impairment, the Facilities CGU had goodwill carrying value of $1,306.4 million primarily related to the acquisition of Spotless, being approximately 58 percent of total goodwill carrying value for the Group.

Changes to Downer's carrying value assessment were affected by:

- An increase in the after-tax discount rate that was substantially affected by changes in the cost of debt and equity; and
- A reassessment of the Defence sector pipeline to reflect tightening in market conditions.

The Group's restructure and resulting reallocation of goodwill also meant that Facilities headroom was reduced for the purpose of the impairment assessment.

Utilities Goodwill Impairment ($133.0 million):

As at 30 June 2023, prior to this impairment, the Utilities Australia CGU had goodwill carrying value of $447.3 million.

Changes to Downer's carrying value assessment were affected by:

- An increase in the after-tax discount rate affected by changes in the cost of debt and equity;
- Recent underperformance of the business; and
- A reassessment of the pipeline in the short to medium term to reflect Downer's risk appetite.

Other individually significant items arising from restructuring, transformation and business reviews completed are outlined in the **Appendix** of this announcement.

CONFERENCE CALL DETAILS

A conference call for investors in relation to today's announcement will be held at 10am on Thursday 3 August.

To register for the conference call, go to:
https://s1.c-conf.com/diamondpass/10032672-4z2ysf.html

Registered participants will receive dial-in details via email upon registration.

Authorised for release by Downer's Chief Executive Officer.

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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APPENDIX – OVERVIEW OF INDIVIDUALLY SIGNIFICANT ITEMS

Downer's full year 2023 results, including individually significant items to be excluded from the underlying FY23 result, remain subject to final Board review and approval as well as completion of the external audit. In addition to the goodwill impairment charges outlined above, other impairment charges totalling $66.6 million are expected relating to the following:

- Carrying value of fixed assets and inventory in the Rail business;
- Shut down, relocation and consolidation of asphalt plants in Australia;
- IT and other assets that will no longer be utilised or provide future economic benefit as a result of business restructuring, divestments and transformation; and
- Office space being surplus to requirements and vacated as a result of business restructuring, divestments and transformation.

During the period Downer incurred restructure costs of $25.4 million following the commencement of Downer's Transformation program to restructure its operating model.

During the year, net divestment outcomes (including transaction costs) totalling a $20.8 million pre-tax profit were recognised in relation to the Australian Transport Projects business.

Regulatory review and shareholder class action related costs of $6.5 million were incurred in relation to:

- Responding to regulatory reviews by certain regulatory authorities;
- The review of the Australian Utilities maintenance contract; and
- Defending the shareholder class actions filed against Downer during the financial year.

Reconciliation from Underlying NPATA to Statutory NPAT (A$m)	ISI Pre-tax	Post-tax
Underlying NPATA		174.0
Amortisation of acquired intangible assets		(18.4)
Underlying NPAT		**155.6**
Individually significant items		
Impairment of Goodwill	(483.0)	
Impairment of Other Assets	(66.6)	
Total Impairment of Assets	**(549.6)**	
Restructuring costs	(25.4)	
Net divestment outcomes (including transaction costs)	20.8	
Regulatory review and shareholder class action related costs	(6.5)	
Fair value increase on Downer Contingent Share Option (DCSO)	10.0	
Total items outside underlying result	**(550.7)**	**(541.6)**
Statutory NPAT		**(386.0)**