DECMIL

Infrastructure Renewables Resources

ASX / MEDIA ANNOUNCEMENT
27 March 2020

FY20 INTERIM RESULTS

- **Group revenue of $239 million (-13% PCP)**
- **Loss of $75 million, aggressive provisioning on disputed contracts**
- **$65 million cash position at 31 December 2019**
- **New government contract wins, total order book of ~$490 million to FY22**
- **Update on coronavirus impact**
- **Strategic review of all Decmil operations**

Decmil Group Limited (ASX:DCG) ("**Decmil**" or "**Company**") has today released its financial results for the period ending 31 December 2019. The release of the accounts had been delayed due to Decmil's desire to fully understand the impact of the termination of a contract with the New Zealand Department of Corrections.

With the financial statements now completed, Decmil shares will re-commence trading on the ASX on Monday 30 March.

For the six months to 31 December 2019, the Company reported a bottom-line loss of $75 million which includes a full provisioning for loss for the amounts owed under the NZ contract of $49 million.

Beyond Decmil's disputed contracts, Decmil had a strong first half operationally and secured $207 million in new contracts, primarily from government customers.

As at 31 December 2019, Decmil had ~$490 million of contracted work in hand, with an additional pipeline of some $250 million where the Company is in advanced discussions with the relevant government agencies.

Some 58% of Decmil's work in hand is with state government departments and agencies.

While the order book is strong, there are now inherent uncertainties over the timing of project completion due to the impact of coronavirus, with high potential for further movement restrictions from the Federal Government and the states in which we operate.

Decmil has contracted revenue of ~$500 million for the full 2020 financial year, but coronavirus restrictions have the potential to impact timing.

Decmil sites are all currently operational, with strict hygiene and control measures in place. However, we are realistic this may well change in the days and weeks ahead.

Two contract disputes – with the NZ Department of Corrections and with owners of the Sunraysia Solar Farm – are now moving to arbitration and Decmil is fully confident it will, in time recover the full amounts to which it is entitled.

However, the Board of Directors has adopted a conservative approach and made provision for loss on the contracts. All recoveries from the disputes will be booked as revenue in future reporting periods.

As the Company works through the disputes, all other ongoing Decmil projects continue to operate normally with all suppliers paid under agreed contractual terms. Decmil's debt facilities remain in place and unchanged.

Recognising the impact of these contracts on Decmil's business, Decmil has undergone several key operational and organisational changes to reduce costs and increase efficiencies.

The company has removed its regional reporting layer, streamlining all reporting and accountability with an enhanced focus on project profitability. The streamlining has resulted in a reduction of corporate administration expenses of $6.5m on an annualised basis.

Decmil's Board has also examined the Company's assets and portfolio of contracts and applied a conservative review of carrying values and receivables.

This included seeking an independent valuation of the Company's Homeground Gladstone accommodation village, which was $7.1 million below book value at $85.4 million, resulting in a non-cash, pre-tax impairment charge. The Company has recently initiated a sale process for the asset.

The review of the Company's project portfolio also resulted in the lowering of receivables on a number of contracts, including BHP's Mulla Mulla village. These mostly related to projects at or near completion and subject to standard end-of-contract negotiations.

In all of these circumstances, the Board has decided it is appropriate to conduct a forward-looking Strategic Review in conjunction with the Company's advisers, with a view to enhancing Decmil's financial strength and maximising value for shareholders.

Operations

Decmil's contracts continue to reflect the diversity of the Group, with project activity spanning public sector infrastructure projects in Australia and New Zealand, non-process infrastructure for the WA Iron Ore and LNG sectors, Queensland coal seam gas maintenance and plant works in renewable energy.

Operational highlights for the six months ended 31 December 2019 include:

- Strong safety performance with no lost time injuries for the period and a total recordable injury frequency rate of 5.3;
- The award of a $417 million main works package for the Mordialloc Freeway project by Major Road Projects Victoria as a 40% joint venture partner with McConnell Dowell;
- The award of a rail accommodation construction contract valued at $40 million for Carmichael Rail Network;
- Continuation of the relationship with the Shell-operated QGC venture on the three-year framework agreement for operational works across the Surat Basin;
- Successful completion of the Princes Highway duplication project at Warncoort valued at $60 million, and substantial progress on other major infrastructure projects such as the Plenty Road Upgrade and the Drysdale Bypass in Victoria;
- Work continuing on two new transport infrastructure projects in Western Australia (Reid Highway) and Queensland (Warrego Highway) valued at $63 million; and
- Significant progress made on two balance of plant projects worth $151 million at the Warradarge and Yandin wind farms in WA with leading Danish wind company Vestas.

Financial Performance & Position

Revenue of $239.3 million for the six months ended 31 December 2019 was 13% below the previous corresponding period.

Administration expenses for the six months ended 31 December 2019 amounted to $20.8 million, which was an increase on the prior period ($16.1 million). In January 2020, the Company undertook a restructure which removed ~$6.5m of overhead on an annualised basis. The costs associated with this restructure amounted to $850k.

The loss before interest, tax, depreciation and impairment was $63.4 million, predominantly due to the termination of the project with the NZ Department of Corrections.

The Group reported an operating cash outflow of $36.3 million for the six months period due to the unwinding of significant advance payments from prior periods on the balance of plant wind farm projects, the delay in achieving substantial completion on the Sunraysia project and delays in receiving time and cost entitlements on the NZ Department of Corrections and Mulla Mulla projects.

Decmil expects an increase in negative operating cashflow in the second half of FY20 but is forecasting for a return to positive operating cashflow early in FY21.

The Company intends to fund the H2FY20 cash requirement from existing facilities and cash balances with new capital initiatives currently being investigated in conjunction with adviser Moelis Australia.

Strategy and Outlook

The business continues to focus on the Infrastructure, Resources and Renewable Energy sectors which continue to have a strong pipeline of upcoming work.

Positive market conditions exist across several key sectors including:

- **Infrastructure:** Significant opportunity across Australia in the transport infrastructure sector where the Group is actively pursuing new road and bridge construction projects as both head contractor and in joint ventures. Similarly, the Company can also see opportunity for various forms of social infrastructure in the Defence, Education, Corrections and Health sectors;
- **Natural Resources:** Continuing sustaining capital works and replacement volume projects in the WA Iron Ore sector and renewed activity in both the onshore LNG and CSG markets; and
- **Renewable Energy:** Actively bidding select solar PV and wind projects as a balance of plant contractor.

Coronavirus impact

Like all construction engineering contractors, Decmil expects the coronavirus will impact on its operations in the current half and potentially extending into H1FY22.

As a consequence, Decmil is strictly following government-imposed restrictions. At this stage, all project sites in Australia are continuing work.

In doing so, we are focused on the long-term best interests of our investors, suppliers and the 2,000 plus people who rely on Decmil for their employment, directly and indirectly through our supportive and loyal subcontractors.

The Company’s core operations are robust, and the order book is strong, so there is much at stake.

This will need to be a collaborative effort that will include the involvement of our bankers, the Federal Government through its stimulus and relief programs, and the state governments in whose jurisdictions we operate.

Decmil is in the process of seeking cooperation and support from all of these stakeholders.

The Company much appreciates the many positive initiatives announced by governments and banks in relation to supporting businesses like Decmil through this period.

In coming days and weeks, Decmil will work closely with all of these groups to ensure we successfully manage these fluid, fast-evolving market conditions.

About Decmil

Decmil Group Limited (DGL) offers a diversified range of services to the Australian resources and infrastructure industries. Companies within the group specialise in engineering and construction; accommodation services; and maintenance. Listed on the Australian Securities Exchange (ASX Code: DCG), Decmil's goal is to maximise returns from our operations to deliver value to our shareholders, clients and other stakeholders.

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