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Operator: Thank you for standing by and welcome to the Downer full year results conference call and webcast. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Grant Fenn, Managing Director and CEO.

Mr Fenn: Good morning ladies and gentlemen and thank you for joining the Downer team for the presentation of the Downer EDI Limited results for the 12 months to 30 June 2018. My name's Grant Fenn and I'm the CEO of the Downer Group. This morning I'll take you through an overview of the results and the outlook for 2019 and then Michael Ferguson, our Group CFO, will cover the financial position of the company in more detail and we'll take questions at the end of the presentation.

The 2018 financial year has been transformational for the Downer Group. Our revenues increased by over 60% and our underlying earnings have increased by over 58%. With the acquisition of Spotless, our depth and breadth of service offerings is compelling and unparalleled. Compared to our pro forma comparatives, our revenue and earnings have increased by 16.7% and 6.7% respectively. Undoubtedly the Spotless acquisition was the major contributor to the revenue and earnings growth, but as you would all understand, the existing Downer businesses represent over three-quarters of the revenue base and those businesses continue to outperform. Very pleasingly, our FY19 NPATA guidance is up 13% on full year 2018 to $335 million. This is a significant increase.

Going forward, we see that our markets are strong and we're positioned well. Supporting our guidance and our forward outlook is an increased investment in strategic bids. These bids relate to long-tenure service opportunities. Importantly, off the back of this result and in line with the Group's forward view, our Board has decided to increase the final dividend to $0.14 per share, taking the total divides for the year to $0.27 per share. This is a 12.5% increase on the prior year. The dividend will be franked to 50% and payable on 27 September 2018 to shareholders on the register at 30 August.

In our November 2017 market update, Downer presented its underlying Group NPATA full year guidance for FY18 of $295 million before minority interests. This included $202 million for Downer and $93 million for Spotless. We've announced today Downer Group has again achieved this guidance. This is the seventh consecutive year. FY18 underlying NPATA for the Downer Group was up 6.7% on a pro forma basis to $296.5 million, with Downer contributing $203 million and Spotless around $94 million. The Group revenue of $12.6 billion saw increases in all sectors with transport up 31%, utilities up 18%, rail up 28%, EC&M up 20%, Spotless up 3% and mining 4.5%. EBITA margins improved from the half in transport, rail, mining and Spotless, with EC&M and utilities steady. Return on funds employed, or ROFE in our services business, have increased over the period with transport improving to 24.2%, utilities increasing to 26.1%, EC&M increasing to 27% and Spotless to 14.1% and we will continue to drive improved returns on capital.

Group operating cash flow was $709.5 million, or 90.6% of EBITDA. This is the seventh consecutive year of cash flow conversation above 88%. The strength of this business is clear: despite the negative cash flow impacts of Royal Adelaide Hospital and substantial one-off costs during the year, Downer Group cash performance remains strong, predictable and reliable. Spotless has improved its cash performance markedly over the period with a conversion rate to EBITDA of 92%, excluding the impact of nRAH. Downer's focus, people and systems are having a significant positive impact, driving more timely billings and receipts and a continued significant reduction in year-end creditor management. Accountability for contract cash performance is now at the contract management level. This is a crucial adjustment and a key aspect of Downer's approach. We expect Spotless will continue to improve over time. The strength of the operating cash flow has driven gearing down to 22.7% at the end of June and our undrawn funding capacity and cash is over $1.5 billion.

In May 2018, we completed the refinancing of $1 billion of relatively short-term Spotless funding, significantly improving terms and tenure with average duration moving out to 3.2 years. There was significant support from both domestic and international banks. Downer also refinanced $400 million of syndicated loans and issued an equivalent of $120 million in 15-year Japanese notes. Improving the performance of the Spotless business continues to be a major focus for the Group. As we've previously highlighted, the integration of Spotless into the Downer Group is substantially complete and our teams are working closely together. A number of Downer executives have moved into senior leadership positions and Spotless has also been active in recruiting high-quality management from the broader market.

We've enhanced the Spotless risk management capability by extending the scope of our project management office, internal audit, treasury, legal and commercial teams across the Spotless business. Spotless has also implemented our major bid approval processes, including TCC and TREC. Spotless earnings for the period were as expected; the cash performance was up. As I said, excluding the cash lock up in nRAH, Spotless cash conversion was 92%. A lot of work has gone into improving the cash performance of the business and we're starting to see the results. Accountability at the contract level, as I said before, is key.

During the year, there have been around $1.45 billion in contract renewals and extensions, $500 million in new customer contracts, over $100 million secured from joint bidding and over $150 million secured from Downer-related work. Spotless and Downer continue to focus on the Royal Adelaide Hospital contract. At this time, it remains cash negative. The negotiation process that was commenced in June as part of a formal agreement between the parties is continuing with the South Australian Government and other stakeholders around the contractual reset. The parties are working hard to bring negotiations to a positive conclusion by the end of September in line with the agreement.

I'll now hand over to Michael Ferguson, our Group CFO, to discuss the financials in more detail. Thanks Michael.

Mr Ferguson: Thanks Grant and good morning everyone. I'll pick up from slide 7 showing the reconciliation of the underlying to the statutory profit. Consistent with our interim results release and our market announcements throughout the year, the Group's FY18 statutory result includes the impact of a number of individually significant non-recurring items. These items total $178.6 million post tax, increasing from $126.3 million recognised in the first half. I will now run through the detail of each significant item.

The first item relates to the loss on divestment of Downer's freight rail business announced on 21 November last year. As a result of the sale, Downer has recognised a non-cash write down of $40.6 million relating to freight rail goodwill and legacy assets. The second item relates to the impairment of mining goodwill for an amount of $76.4 million. This was announced on 5 February and was also reflected in our statutory result for the half year. The third item, as announced to the market on 20 March this year and arises from Downer's unsuccessful claim in relation to ground subsidence at its train maintenance centre located at Auburn. This claim dates back to the construction of the facility and had previously been disclosed as a contingent liability. The total after-tax impact of $17.5 million relates to rectification work and the costs of the unsuccessful claim.

The fourth item represents costs incurred as a result of the acquisition and integration of Spotless. In our market update on 27 November 2017, following our initial review of the Spotless business, we identified $15.1 million of costs relating to senior management redundancies, integration costs and costs relating to contract rationalisation and exit that had been identified prior to Downer's acquisition. $9.9 million of these costs have been incurred in the first half result, with the remainder incurred in the second half. In addition to these amounts, Downer has incurred a further $9 million of integration costs in the second half, the largest of these being the non-cash write-off of deferred finances costs of $4 million following the successful refinance of the majority of the Spotless debt facilities, with other costs including the surplus lease costs arising from the co-location of Spotless's New Zealand head office with Downer's and costs incurred in head office and IP support management. This all equates to total Spotless integration and contract rationalisation costs of $24.1 million for the year.

The final item relates to divisional merger costs incurred following the announcement of the creation of Downer's MEI and TI divisions. These costs relate to significant senior and middle management redundancies, particularly across the mining business, costs incurred in rationalising the property footprint and systems rationalisation. The restructure of the mining business particularly has resulted in a amore competitive cost base which is showing early signs of success with a number of recent contract wins announced. The divisional merger will also see the co-location of three key Downer office sites in Brisbane to a consolidated location in Coronation Drive. Whilst this has resulted in a number of surplus lease provisions being recognised, it will result in total reduced rent costs going forward. Equally important is the benefit that this co-location will play in the collaboration between the newly created business units as they become more aligned in developing and executing a more integrated service offering.

As the slide articulates, there is a diverse nature and quantum of individually significant items impacting the Group's results this year when compared to prior periods. This, in most part, is consistent with the significant changes made to the Downer portfolio from the integration of Spotless and the resetting of its operating divisions. It is very pleasing that the Group has been able to deliver continued strong underlying performance and cash flow throughout this period of significant transition. Grant has highlighted FY19 NPATA guidance increasing 13% to $335 million. It is important to note that in preparing the business plan to support this guidance, there are no expected reconciling items between underlying and statutory profits for FY19.

Moving on to cash flow on slide 8, Grant has already spoken to the strength of the operating cash flow performance of both Downer and Spotless during the year. In terms of overall cash flow, net capital expenditure was $360.7 million, an increase of $99.7 million from the pro forma prior period. This increase includes significant new mining equipment, including a new excavator and truck fleet that has already been put to work at Goonyella and new equipment required as preparation commences to mobilise recent wins at Gruyere and Carrapateena. In addition to mining, Downer continues to invest in growth capital to respond to increasing customer demand in many of its divisions. The growth in the transport business has seen capital deployed to road surfacing and asphalt plant upgrades, including the detritus recycling plant at the Rosehill facility. The rail division has also upgraded its fleet management system for both the Waratah TLS contract and in preparation for the commencement of the HCMT at Sydney Growth Trains contracts, as well as investing in an upgrade of the Cardiff facility to create a market-leading bogey overhaul and change out facility. Spotless capital includes new laundry rental stock of $33 million and other contract-related capital of $47 million.

During the first half, the Group paid the remaining $392 million of the purchase price of Spotless, representing the incremental ownership position from 30 June 2017 until the close of the offer. Other acquisitions include the purchase of UrbanGrid, a small WA-based gas, water and energy service business to complement our utilities offering, the continuation of Downer's investment in its defence consulting business, through the acquisition of Envista and the settlement of the Cabrini laundry acquisition on 1 July 2017. Proceeds from the sale of business includes the consideration received in early January for the sale of Downer's freight rail business. IT transformation and other includes a further $14.1 million to complete the business transformation project commenced by Downer in 2015. This project has seen the Downer business migrate from a number of ERPs to JD Edwards, as well as harmonising the payroll platforms across the Group. The total cost of this project was just over $19 million and pleasingly has been completed on time and within budget.

Finance and cash outflows for the period was a net $87.7 million, with net proceeds from borrowings of $69 million and the combined ordinary and ROADS dividends of $157 million. As Grant mentioned, the Downer Board resolved to pay a final dividend of $0.14 with 50% franking. This has increased from $0.12 per share in the prior corresponding period and $0.13 per share for the interim dividend. Franking has remained at 50% due to the availability of franking credits. This has arisen due to the portion of the Group's earnings derived from New Zealand, as well as research and development incentives and losses arising from divestments, reducing the amount of Australian tax paid in recent years. Franking is expected to remain at 50% in the medium term. Cash held at 30 June, aided by the strong operating cash performance, was $606 million, which when combined with undrawn facilities of $925 million, provides us with significant liquidity of over $1.5 billion and well positioned for future growth.

Moving on to slide 19, the second half of 2018 saw significant refinancing of both the Downer and Spotless debt platforms. In May, Downer and Spotless completed a combined $1.3 billion refinance of its syndicated debt facilities, being $900 million for Spotless and $400 million for Downer. At the same time, Spotless also renegotiated its bilateral loan facilities, taking the total Spotless refinancing to $1.05 billion. The refinance was well supported by Downer's long-term relationship banks and achieved its key objectives of extending the maturity profile of the Group's borrowings, particularly Spotless, adding to the diversity of the Group's lenders and providing an overall reduction in borrowing costs. With Spotless refinancing also saw the replacement of its existing disparate lending agreements with a new common terms deed poll, similar to Downer's, which will result in a more efficient and consistent lending and compliance platform.

Also in May, Downer announced it had completed the JY$10 billion medium term note issue. This translates to approximately AU$120 million, borrowed on a fully hedged and fixed interest rate basis, with a 15-year term maturing in 2033. The long-term nature of this debt is particularly pleasing and appropriate for Downer as it increases the number of long-term contracts it delivers across the Group. This all results in an increase in the combined Group's average debt maturity from 2.3 years at 31 December 2017 to four years at 30 June 2018. Importantly, the Spotless average debt maturity has increased from 1.7 years to 3.2 years and whilst Spotless's net debt at 30 June 2018 remains high at $741 million, the refinance will provide a stable platform, allowing that business to focus on debt reduction in the medium term. We continue to sit comfortably within our credit rating and debt covenant metrics. Our credit rating with Fitch remains at BBB with a stable outlook. Further details on debt and bonding, including covenant calculations, can be found in the supplementary information of this pack on slides 24 to 26.

Slide 10 sets out the key impacts of the new accounting standard AASB 15 with revenue from contracts with customers, which Downer will adopt in FY19. The new standard will impact Downer's revenue recognition policy and its adoption will require the cumulative impact of the new standard to be reflected in opening retained earnings on 1 July 2018. Accordingly, Downer's reporting for the year ended 30 June 2018 includes the expected impact of the adoption of the new standard and this is set out in detail in that G1 of the financial report.

Three key areas of the standard will have an impact on Downer's revenue recognition. The first is in relation to contract modifications or claims and variations. The new standard imposes a higher hurdle on the recognition of revenue arising from claims and variations, in effect replacing the probable threshold prescribed in the current standard and applied by Downer with a highly probable threshold. Whilst this is not expected to result in any change to the lifetime profitability of Downer's many contracts and or their cash flow, it will, in some cases, defer the reporting period in which the revenue would have otherwise been recognised, until such time that the highly probable threshold is met. In many cases, this will be when the claim has been formally accepted by the customer.

The second area will be the treatment of contract fulfilment costs or tender costs. The new standard permits deferral of only those costs incremental to obtaining a contract and that would not have been incurred had the contract not been won. Downer has previously capitalised bid costs from the time it was probable that it would be awarded and deferred these costs over the life of the contract. The new standard will not alter the total bid costs incurred, but will see more of these expense initially and less deferred over the life of the contract. The final area is in relation to the determination of performance obligations and measure of progress within long-term contracts. The new standard requires determination as to whether a contract includes a single performance obligation or a series of performance obligations. Revenue is then recognised for each performance obligation over time.

Slide 11 sets out Downer's current estimate of the 1 July 2018 retained earnings adjustment of each of the three categories I've just outlined. The adjustment in relation to contract modifications or claims and variations is expected to be $198.9 million. This includes two large claims, the first being the claim in relation to the claim that was announced to the market in 2016 that remains in arbitration in relation to the Tan Burrup project. The second being the present value of the impact of the impact of the additional claims being sought in relation to the revised scope of the new Royal Adelaide Hospital contract. Whilst Downer remains confident it will sell both of these claims, they do not meet the highly probable criteria set out in the new standard. In aggregate, these claims make up $144 million or 72% of the total contact modification adjustment. In addition to these two large claims, there are a number of smaller claims across the broader Downer portfolio.

Capitalised bid costs of $23.9 million will also be included in the opening retained earnings adjustment. This predominantly relates to bid costs incurred for Downer's two major rail projects, HCMT and SGT. These costs are currently being deferred and amortised over the long tail of the through life support phase of these contracts, meaning that the immediate write-off of bid costs will have minimal impact on future annual earnings. The impact of change in performance obligations and measures of progress is expected to be $29.3 million. This again reflects a change in the timing of long-term contract revenue recognition for some of Downer's multi-service contracts across a number of service lines. Where contracts previously measured and recognised as a bundle of services have distinct and measurable performance obligations, these will now be measured separately and alternatively, where integrated contracts may have previously been recognised separately, these will be bundled together and recognised as one performance obligation. The quantum of this adjustment in the context of the large number of long-term, multi-service contracts across the Group and the period over which the revenue is recognised, is not expected to have a significant annual impact on future earnings.

The new revenue recognition standard has been considered as part of the preparation of the 2019 business plan and guidance. To the extent that the assumptions used vary materially from those used in the business plan, particularly in relation to the relative quantum of variations and claims, we'll update the guidance accordingly.

Thank you and I'll now hand back to Grant.

Mr Fenn: Thanks Michael. Now for some commentary on what we see going forward in our primary markets and if we start with Australia, road construction will continue to grow off a large base. Whilst we're not major civil constructors, our related project work will benefit, as will our substantial road surfacing business and also our bitumen product supply business. Our market leadership in asphalt and emulsion technology and in particular, using recycled inputs, will drive growth in the municipal sector across the country. Downer will continue to benefit from significant state government investment in public transport and in particular, light and heavy rail. We're currently awaiting decisions on Parramatta Light Rail and regional rail rolling stock and expect further developments in other states and in Auckland in New Zealand and we do expect further outsourcing of government bus networks.

We expect the telecom market to stay relatively buoyant into mid-2020, at which time NBN construction will start to decline. We think this will be replaced, in part, by investment in 5G, wireless and other smart city innovations, particularly around transport corridors. Growth in utilities in the short term will be dominated by wind and solar projects; they do dominate the pipeline. The immature solar supply chain presents the biggest challenge. Water, gas and power distribution will continue to grow and we expect major investment in upgrading and extending the nation's transmission grid to cope with the requirements of renewable and energy storage capacity and Downer is the market leader in this field.

Population growth and government outsourcing will drive substantial growth in social infrastructure opportunities across most Australian states in health, education and other government services. The increased investment in transport infrastructure represents a significant opportunity in hard FM. Defence related services will remain strong, with growth in the defensive state and opportunities to extend service scope. Expectation of growth has returned to bulk commodities, base metals and precious metals meaning increased demand for mining capacity and equipment. Our mining business is becoming more efficient and we are looking to improve our asset utilisation to take advantage of the market. We saw strong growth in our minerals processing business in FY18 and this should continue in the current cycle. There's a clear decline in oil and gas construction as the major LNG builds come to an end, but the horizon is not at all gloomy. With 25 process trains soon to be in operation around Australia, the opportunity is significant in period shutdown, turnaround, process and general maintenance. This is our focus and we are having some success. We see increased investment in iron ore greenfield and brownfield expansion and optimisation. The timing has dragged a little but we expect sizeable packages to be over FY19.

If we move to New Zealand, we expect large-scale road construction opportunities to reduce in the short term, with increased investment in rail and light rail associated with the government's public policy issue, from road investments to public transport schemes. This, I think, is a net positive, with opportunities for Downer in light rail, construction and operations. Road network management and related maintenance will continue to remain strong and we expect moderate growth across utilities related to greater levels of contestability and outsourcing. Non-residential commercial building will remain strong in New Zealand, with significant demand for Hawkins's services.

If we now move to work in hand, the total Group work in hand at 30 June increased to $42 billion. Downer's work in hand increased from $21.7 billion at the half to $24 billion and Spotless increased from $17.5 billion at the half, to $18 billion. As we move into FY19, we estimate approximately 75% of the Group revenue is secured. Now to the outlook, Downer Group confirms that it is targeting NPATA of $335 million before minority interests for the 2019 financial year.

Thank you for coming on the call this morning; that concludes that formal presentation and I'll now hand back to the facilitator for questions. Thank you.

Operator: Thank you very much. Ladies and gentlemen, if you wish to ask a question, please press star/one on your telephone keypad and wait for your name to be announced. if you wish to cancel your request, please press star/one again. If you are on a speakerphone, please pick up the handset to ask your question. Thank you. Your first question comes from James Redfern of Merrill Lynch. Thank you James, please go ahead.

Question: *Yeah, hi, good morning gentlemen, a lot to go through in a short amount of time, but maybe just on the Royal Adelaide Hospital contract, you're saying discussions are underway and you're hoping to reach agreement by September, so I mean are you assuming no contribution from the Royal Adelaide Hospital contract in the current half?*

Mr Fenn: In 2019, we've just said that it's zero.

Mr Ferguson: Yeah, break even for 2019.

Mr Fenn: Break even for 2019.

Question: *Sorry, say that again, Grant.*

Mr Fenn: Yes, sorry, so for 2019, FY19, so this is the guidance here, we've assumed that there are no earnings from Royal Adelaide Hospital.

Question: *For the whole year, for all of FY19?*

Mr Fenn: For the whole year. We've done that because we're in the middle of negotiations and we think that's the right thing to do at this point in time. If that changes, I guess we would change our forecast.

Question: *Okay thanks. I think at the start of the call you talked about the 13% growth in NPATA guidance, been driven by strategic bids, can you please elaborate on that please?*

Mr Fenn: Yeah, we've got a number of rail opportunities, a number of long-term PPPs that we're looking at. They cost a lot of money, so we're spending more money in 2019 than we have in 2018.

Mr Ferguson: James, so the 335 includes the cost of those bids, not the revenue from those projects.

Mr Fenn: That's right.

Mr Ferguson: So, that's the point.

Question: *Yeah, okay. Maybe just one last question and you may not be able to answer this, but it seems contentious all over the place for NPAT and NPATA for Downer, just wondering if you're able to tell us what you think NPATA or NPAT consensus is for FY19, in relation to your guidance today.*

Mr Fenn: Yeah, well it's hard because you've got outliers, mate, but it's around about the 330 we think.

Mr Ferguson: Yeah, the average, the mathematical calculation puts it just above 330 I think.

Mr Fenn: Yeah, but there are outliers there, so we're not looking too much at that.

Question: *Okay, no very good. Okay, guys, thank you both.*

Operator: Thank you and a reminder, it's star/one to ask a question. Your next question comes from the line of Nathan Reilly at UBS. Thank you, Nathan, please go ahead.

Question: *Good morning gents, looks like you had some pretty solid progress on the cost out in the contract mining business in the second half. Can you maybe just sort of talk about what you're expecting there in terms of margin outlook for 2019?*

Mr Fenn: Yeah, well we're hoping that it improves. We think that 2018 is, I guess, the base year or the bottom of the cycle for our mining business. We've done some reorganisation within the business to address some of those cost issues and that seems to be getting good traction and we've had some success in winning some contracts over the last period. Our mining business historically has been a terrific business and we look forward to getting back to the business being a larger part of contributing to the earnings, so they're hard at it.

Question: *Just in terms of, I guess, the business's fit within the broader Downer Group these days, they're still a firm commitment, that business as it stands at the moment?*

Mr Fenn: Well we continue to invest in it mate, we continue to buy plant and equipment, always off the back of the right business case, of course, but yes, we're in the mining business and that's where we are, so we are committed to the business.

Question: *Okay, that's great, thanks.*

Operator: Thank you. There are no further questions at this time; one last call for questions, it's star/one. Here we go, we've got a question coming through from Paul Butler at Credit Suisse. Thank you, Paul, please go ahead.

Question: *Hi, can I just ask a question in relation to the AASB 15 adjustment? How would the result have varied if you had used the previous approach?*

Mr Fenn: Well the result itself for 2018 wouldn't have varied. The adjustment that you see is around the opening adjustment in FY19 to retained earnings, so the 2018 numbers wouldn't have changed. So 2018 has been on the basis of what was the existing standard, the existing revenue standard. I know that might sound strange, but that's what the accountants have required us to do.

Question: Okay. So I mean perhaps this is a leading question, but how much of the revenue that now gets taken out of receivables is going to get recognised again in the next, say, half?

Mr Ferguson: Yeah, we don't expect there to be a material amount recognised next year. But the principle of the equity reduction means that it will all recycle over time. But if you exclude the two large claims, the size of the contract and variation adjustment we don't think is that material and whilst that may recycle into 2019, there will be an equivalent amount of claims and variations that we can't recognise at the end of 2019. So the assumptions we've made is the [Parramatta wash] other than the two large ones we've called out and if we settle those, we will come back and advise accordingly. Then the impact of the bid costs and the performance obligations will slowly drip into revenue over a long period of time where they're consistent with the revenue recognition profile of the long-term contact. So for the rail projects, in relation to the bid costs, that's going to come back in over 20 to 30 years through our support of those contracts and then performance obligations unwind in the most part with the PPP contracts, again, over a 10 to 15-year tail, so we don't see material change year on year.

Mr Fenn: Yes, and to the extent that there is change year on year, then we will be transparent about that and we will need to be.

Question: Okay and just another one, obviously in the past year you've made quite a bit of change in the business and there's obviously been some costs associated with that. Are you pretty comfortable with how the structure is now or is there more to go? How do we think about what that significant items number could look like for FY19?

Mr Fenn: Yeah look, in the guidance that we've put in there, there's nothing in there for major re-orgs. So as you would, if you've been following Downer for a long period of time, we've been at pains to avoid the underlying banner. Now we were unable to do that this year because there is so much change, as you say and we've also purchased Spotless and there's a lot of stuff going on there, so we need to do that because there are some very significant one-offs. Into the future, we very much hope that won't be the case and to the extent that we have smaller restructures or things that we do, that they'd be absorbed and we always give you a summary of earnings sheet, so we let you know some of the things that have occurred, but that's not the case for our guidance for next year.

Just on the broader strategic issue of organisation and the like, look it never really sits still. We're always looking to make sure that our business is relevant to our customers and in some cases, that's for sales purposes and others we adjust for cost reasons and we'll continue to do that. At the moment the organisation that we've created over the year is the right one. Into the future, that may change and we need to do other things, that's part of being a business that's agile.

Question: *Very good, thank you very much.*

Mr Fenn: Thanks.

Operator: Thank you. Your next question comes from the line of Siraj Ahmed from Citigroup, Thank you

Question: *Thanks, it's Siraj by the way. Just a couple of questions, the first one on Royal Adelaide, can you just give us what the cash burn is currently on monthly run rate? Because looking at Spotless accounts, it looks like the cash train in FY18 was $57 million, which seems to be in line with what the first half was.*

Mr Fenn: We're not talking about it, you're just pointing out stuff in the calcs to be able to, in the Spotless numbers and you'd be able to work through that, but it's been larger than it is now, so we're under or thereabouts $4 million or something like that, Michael?

Mr Ferguson: Yeah, about that a month.

Mr Fenn: If you calculate it back, something like that.

Mr Ferguson: Yeah, so the cash burn also includes the mobilisation costs that we incurred when we moved in there in September.

Question: *Okay, so just to confirm I'm correct here, that this is $4 million a month, is that what you said?*

Mr Fenn: Yeah, it's a bit less than that now, I think, but you can calculate that out through the numbers.

Question: *Sure, thanks. My understanding is that there's also a bottom shelf penalty claim and this is also part of the resolution that you're trying to get to with the government on that.*

Mr Fenn: Sure, sure.

Question: *Okay, secondly, just the guidance for next year and thinking through what Spotless synergies have assumed, I mean your target was 25 to 40 over a few years, what's the assumed FY19 number?*

Mr Fenn: Look we've got an amount in there, Michael, what do you think?

Mr Ferguson: Yeah, we're probably about half way, half way through. We're still on track to get to 20 to 40, but we expect it to be well over 10.

Mr Fenn: There's also a fair bit of investment going into that business as well, on the flipside.

Question: *Okay, great thanks. Lastly, just on EC&M, you did mention that oil and gas construction, LNG construction is declining, how much of that business would be oil and gas construction related in the EC&M business.*

Mr Fenn: I couldn't tell you the exact percentage. Michael perhaps can help you with that later, but it's a fair proportion, or it has been; it's much less now, so when we had both Gorgon and Wheatstone in full swing, we had many thousands of people working on that, that's now reduced. We're now working on Ichthys, so that's much less than it's been, taken up by long term maintenance contracts and also we've got in there the Hawkins business, so that's gone in there to take up some of that slack.

Question: *Sure, and maybe I'll ask it in a different way. Just looking at FY19 and the way you've thought about guidance, how should we think of the EC&M business maybe for next year in FY19, I mean would I see a decline?*

Mr Fenn: Positive growth, so it will improve.

Question: *Okay, it will improve, all right. Okay, thanks, that's it for now. Thank you.*

Operator: Thank you. Your next question comes from the line of John Purtell from Macquarie. Thank you, John, please go ahead.

Question: *Good morning guys, how are you?*

Mr Fenn: G'day John.

Mr Ferguson: Hey John.

Question: *Just a couple of questions, just in terms of mining, looked like a pretty solid second half there, I mean, Grant, historically we've seen 6% to 8% margins for this business, obviously dipped down to 3% in the first half, do you see it realistic to get back to possibly the lower end of that historical margin band that we've seen?*

Mr Fenn: Look I'd like to think so, John, but that won't be next year, but we'd like to think so. There's a lot of work going on to try and make that happen.

Question: Thank you and the second question, just from Michael, looked like there was a decent step up in unallocated costs which presumably relates to the corporate costs, just want to explore if there are any unusual items in there and is that therefore, if there's not, is that the run rate for next year?

Mr Ferguson: Yeah, we've been very judicious, John, how we've identified individually significant items, that they're only material things that have impacted our Group results this year. In addition to that, we've beefed up core capability across the Group, to respond to the increase in size, but yeah, that's about where it is.

Question: Okay, thank you.

Operator: Thank you. Your next question comes from the line of Rohan Sundram from MST CDU Sydney. Thank you, Rohan, please go ahead.

Question: Hi Grant, hi Michael, just the one question. Can I just ask about Royal Adelaide Hospital and if that position were to improve or deteriorate versus your current expectations, would that impact the guidance in any way?

Mr Fenn: Well look, if we got to an outcome that said that our issues are sorted and we come to a different commercial arrangement where our position is covered and we're earning a margin, which is where we think we will get to and need to get to, this is a long-term contract, so the state needs a contractor in there servicing its customers in the right vein, so we think we'll get there, then yes. The counter position to that is that if we don't get to a position, then I guess we've got - and we don't think that this will be the case and we don’t want it to be the case and at the moment all indications are it won't be the case, but if it went the other way, of course, then you're in a stoush and a big one.

Question: Okay, understood. Just finally, has there been any dialogue with coal train in the last six months?

Mr Fenn: Not since our - we typically take a call from them, as you do, major investors and that conversation is had at each end of half, end of year. We've not had a conversation since the last, at this point.

Question: Okay, thank you.

Operator: Thank you. Your next question comes from the line of David Rosenbloom from ARCO. Thank you, David, please go ahead.

Question: *Yeah, thanks. Actually, most of my questions have been answered, but I'm just curious on the bid costs and the new accounting standard, would you be able to tell us if that had been in place for the year how much higher your bid costs would have been in 2018?*

Mr Ferguson: No, the majority of them were capitalised before 2018, so really the amount of that adjustment really relates to the two major rail projects.

Mr Fenn: Yeah, we called these out, but I'm not sure how long you've been on this, but a number of years ago when we did this, when we put our guidance out, we actually called these out specifically as being outside of the guidance, so it was done that way.

Mr Ferguson: Yeah, so the majority, those costs were pretty much capitalised in 2015 and 2016 as a result of bidding and winning those jobs and then yeah, it's really only the major bids that we put on the balance sheet in any event, so we don't have significant costs throughout 2018 that we would otherwise have expensed.

Mr Fenn: Going forward, the important point is if you think about the guidance that we've put out there, that has an increased bid costing.

Question: *Yeah, I was going to ask about that. You wouldn't care to tell us how much that's increasing in 2019 would you?*

Mr Fenn: Look, it's a bit. What I don't want you to do is to ramp up our guidance, right, but it's around about 10.

Question: *Okay so it's kind of an indication of how the opportunities are presenting themselves at the moment.*

Mr Ferguson: Yeah and just the nature of the business is that you've got to incur significant bid costs well in advance of getting the revenue.

Mr Fenn: Yeah, our business is increasingly involved in sophisticated contracts and particularly in the rail space and these are very good contracts to be winning over the longer term, as we can see with our SGT and now the Waratah and what will be AC&T and the rest. So we are becoming quite a sophisticated bidder and that costs money. We'd like it to be less, we'd like governments to change their procurement strategy and we've heard a bit about that from the New South Wales Government about how they might make it cheaper, that would be wonderful, but it does cost a lot of money.

Question: *All right, thanks very much.*

Operator: Thank you. Your next question comes from the line of Scott Ryall from Rimor Equity Research. Thank you, Scott, please go ahead.

Question: Thank you very much. I wonder if I could just follow on specifically on Parramatta Light Rail, could you just give an update in terms of the timing you see for the two different parts of the contract that you guys are bidding on timing wise?

Mr Fenn: Yes, I should know the answer to this. We think in the-----

Mr Ferguson: Yeah, we think sometime before Christmas.

Question: Okay.

Mr Ferguson: We'll come back to you, that's my latest notice.

Mr Fenn: I should know this, I'm on the bloody steering committee and I listen to this each thing. But it's certainly before the end of the calendar year and in this case, we think that they'll go to preferred. Sometimes when you go to these contracts, they don't go to preferred and they take two bidders all the way through to the end. But we do believe that they'll go to preferred and this will occur before the end of the calendar year.

Question: Okay, so you would expect that prior to the enabling works actually starting, because you've said that's kind of late this year.

Mr Fenn: Yeah, so the contracts are separate there, which you probably know, so one's for the civil infrastructure and the other is for systems and the rolling stock and the operations. One impacts the other, too, so we're just talking about how it all plays out because we're bidding in both.

Question: Okay and just in the context, obviously the one that you're not involved in, in the CBD, has been not the greatest experience for the New South Wales Government, let's put it that way, so I'm sure that's creating some delays. Do you see any risk in the context of what's happening with CBD light rail, that the contract would roll and potentially be put at risk by election timing in New South Wales next year?

Mr Fenn: Look I don’t believe so. Certainly, I've not heard that and that's not been in our thinking. If it happens, I guess it happens, but there's been a lot of money spent by everybody that's been involved in bidding for those. These are very, very expensive tenders to bid, so I expect not.

Question: Yeah, okay, good. Then the last question just relates to mining. You gave the, I guess, more optimistic, macro outlook for iron ore, even though the rest of the resources end markets you suspected were positive as well. The iron ore market, there's been a lot of consolidation in the last couple of years with a lot of the *smaller miners disappearing. In terms of the opportunities for Downer specifically, can you just contextualise that and maybe suggest which resources end markets for that mining business you think are most positive please?*

Mr Fenn: Yes, so when I talk about those end markets and commodity markets, et cetera, there are a few areas in which we touch that. Obviously, we've got a contract mining business and we've got an extensive footprint in iron ore. We also have one of the leading mechanical construction businesses and also electrical construction businesses and they are focused in on oil and gas and also in mining, so there's also that. We also have, not so much in iron ore, but in other parts of the minerals commodity markets, we've got consultancies and manufacturing plants related to mineral sands and other things. So all of that, we think, bodes pretty well.

Exactly how that's going to pan out, we think increased volumes has got to be good for both the contract mining side and there's not been a lot of money spent on growth in those sectors, so mine sites and processing capabilities and even brownfield optimisation, there's not been a lot done. You can see both Rio and BHP are looking at doing more, so whether that morphs into opportunities for us in the contract mining, is a separate point, but certainly on the construction side, we think we'll be in there and in fact are on most of those panels. On the contract mining side, we're out there working on opportunities as we speak, on different opportunities, despite the consolidation that's been happening. The guys in the west which are predominantly iron ore are doing a good job.

Question: *Okay, great. Thank you, that's all I had.*

Operator: Thank you very much. There are a few more questions in the queue, but I do believe we are out of time at the moment. So I will hand back to Mr Fenn for closing remarks.

Mr Fenn: Yes, okay. Look if there are further questions, obviously you'll have opportunities to - we do have time for a few more, okay. I've just got the word, there's no dramas, we're continuing on. So it's back to the facilitator.

Operator: Thanks very much. Your next question comes from the line of Craig Wong-Pan from Deutsche Bank. Thank you, Craig, please go ahead.

Question: *Morning, just one question on Spotless or the facilities services division. I noted that revenues were flat from first half to second half. Typically, we've seen for that business you do get an increase in the second half. I'm just wondering if you can make any comments about that sort of flat revenue outcome from half to half.*

Mr Fenn: No, we thought it was as expected from our point of view, Craig. Yes, I know they've sort of made a bit of a think about that in the past, but we weren't expecting an uptick in second half.

Question: Okay, thank you.

Operator: Thank you. Your next question comes from the line of Nathan Reilly from UBS. Thank you, Nathan, please go ahead.

Question: Thanks, just a couple of follow-up questions. Just in relation to the Royal Adelaide Hospital again, just in Spotless, can you maybe just give us a quick update on headcount on that contract at the moment? I know it started high during the mobilisation phase, but can you maybe just talk us through how the profile of that headcount has looked over the last 12 months?

Mr Fenn: Yes, so when it kicked off, very quickly went up to around 1100, at the moment it's tracking at around 800. So they've done a very good job. We've spent a lot of time and effort on looking at process flows, et cetera and working with the hospital to try and improve both flows with the clinical side and within our own side. Hats off to the people that have been working in that environment, it's been very tough, but we've got it down; it's not easy to take 300 people out of an operating hospital. We know think it's working very efficiently in terms of the way that the hospital is set up and we've done a very good job there and I think that's been recognised.

Question: Okay, so is there scope to reduce that going forward?

Mr Fenn: I think there's further improvement that can be done, but it can't be done by Spotless alone, so there's work that ourselves and the state and Celsus are doing right now as part of the negotiations to sort of identify things that together we can do, that we can iron out the systems, because obviously you've got a clinical side and then you've got orderlies and the rest of what makes a hospital work, which is essentially what we do and the interaction of those too and how that works is very crucial in making an efficient hospital. We'd be very hopeful that what should be Australia's best hospital can be, so that's what we're working on and I look forward to a time relatively soon in the future where we can look back on this and say that this has been a very good exercise in what we can do to improve our customer's operations and capability. So that's what we're looking for here and I think that's where we'll get to. There's really, really good work going on there.

Question: You mentioned here that it's still cash negative and we all understand that, just in terms of the initial provision and the adjustments that you've made in relation to this contract but also the consolidation of Spotless, how much capacity is there within that current provision, just given the current cash burn?

Mr Ferguson: Under the existing accounting standards, which is prescribe the treatment after 30 June 2018, we're deferring the losses on the basis that the total contract will ultimately become profitable, which is what we think is probable. Then when we look at that through the lens of the new accounting standard, we take out the additional claims that we have assumed we will receive and we've taken our view of that over the life of the contract and that's what's made up the adjustment that we've made on 1 July 2018. So as far as provisioning now under the new standards where we feel like we're appropriately provided, but it's shifted from the existing standards in the current year and a position of deferring losses on our balance sheet, to a position under the new standards where we've provided for those losses.

Mr Fenn: I think I'll just, it's something put in front of me here, it would be worthwhile after this, should you have any further questions on Royal Adelaide Hospital, I think the South Australian Treasurer has just put out a note in respect to the negotiations that are going on between us and the state and other interested parties and that will, again, give you a view as to how that's all working. I think Michael Sharp will send that around to you as well after this call.

Question: *Cool, okay, thanks for that.*

Operator: Thank you. Your second-last question for today comes from Siraj Ahmed from Citigroup. Thank you Siraj, please go ahead.

Question: *Thank you, just a couple of quick ones. Firstly, on renewables, it looks like the utilities margin stepped down a bit in the first half, what are you seeing there? I mean really had flagged issues in the first half, but has that been resolved now and how should we think of that segment going forward?*

Mr Fenn: Yeah, well they form a large part of utilities pipeline, renewables, so that's both wind and solar, but I've got to say that the greater percentage is solar opportunities obviously. Yeah, it's interesting. What looks like a relatively easy thing to, I guess, construct and certainly it is, technically, but the supply chain is quite immature and that's form a solar panel point of view, to all of the things that make the panels move, to the inverters, et cetera. So it's been a difficult time for people involved in the solar side to make money and we haven't yet on this and we know that one of the others in the market, I suspect, is also having trouble and others. Now we've learnt a lot, I guess, in a couple of projects that we've been on, so much so that I think in the future that will be much better because it is a big market and we need to be there and we need to be able to make money and we think we will be able to into the future. But it's been quite tough, there's no doubt about that.

We have, as a business, limited ourselves with a number of these opportunities until we do get a handle on supply chain and methodology around building these things profitably, so we've taken quite a measured approach on that. Rolling forward, though, you'll see that we've won another couple of solar farms and more wind, so we're very happy to be in there now, but it has taken us a bit, I've got to say.

Question:	*Okay and just in your FY19 capex, how should we think of the capex number, if you could keep it going?*
Mr Fenn:	I think something similar to this year or thereabouts.
Question:	*All right. Thanks, that's it from me.*
Mr Fenn:	Thanks.
Operator:	That is it for questions, thank you very much. I'll hand back to Mr Fenn for closing remarks.
Mr Fenn:	Well thank you very much to all of you for your interest in Downer EDI and no doubt we will see you during roadshows over the course of the next two to three weeks. Thank you very much.
Mr Ferguson:	Thank you.

END OF RECORDING (59:12)