Downner
Relationships creating success

Downer EDI Limited
ABN 97 003 872 848

Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

1800 DOWNER
www.downergroup.com

Operator: Thank you for standing by and welcome to the Downer Full Year Results. All participants are in listen only mode. There will be a presentation followed by a question-and-answer section. 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 Peter Tompkins, CEO. Please go ahead.

Mr Tompkins: Good morning, everybody, and thank you for joining the call. With me is Malcolm Ashcroft, our Chief Financial Officer. We've got a lot to cover today, so we'll get straight into it.

I want to start by taking a moment to remind you of our new Purpose, which we gave you a preview on at our Investor Day in April. 'Enabling communities to thrive' since then has been formally launched by our leadership team and is becoming a really important part of the more energetic and impactful narrative that we are building. I've said it before, but few companies can directly connect to the work and services that they deliver with a purpose like this. So, for Downer, it is a true reflection of the meaningful and critical role that we can play in energy transition, local industry upskilling and of course essential services.

Last Thursday, we announced that we expected to report underlying NPATA of $174 million, within our guidance range. There have been no changes to the key financials that we discussed last week, including the statutory NPAT loss of $386 million and the individually significant items, which included the goodwill impairments relating to Facilities and Utilities. Delivering on this guidance was an important first step in the right direction on our journey. For the year, revenue was up 5.4% to $12.6 billion and our underlying EBITA was $323.4 million. Pleasingly, we saw that strong improvement in cash conversion in the second half at 110%, taking our full year conversion to around 65%. We've also strengthened the balance sheet by further reducing gearing, with net debt to EBITDA of 2.0x, down from 2.3x at December.

One of the key focus areas of our transformation is to improve margins, with an EBITA margin target of 4.5%. Our margin in the second half was 2.9% compared to 2.2% in the first half; 2.6% overall – a small step in the right direction and we'll talk more about that shortly. Also, the Board has declared a final unfranked dividend of $0.08 per share and, of course, Mal will provide more detail on both Business Unit financials and Group operating cash later on.

Our transformation program is five months' old now. In February, we said there were going to be three focus areas: First, resetting the operating model with the merge of Australia and New Zealand and our sector-led approach to the business; second, to continue our focus on simplification in the portfolio; and thirdly, to bring that unrelenting focus on improving margins and ensuring we have the disciplined approach to risk management and contract execution. Now, I really do think we've made some good headway and in some areas we're ahead of where we said we would be.

On 1 July, we commenced our new trans-Tasman operating model that has streamlined operations and removed duplication. We also announced the 400 FTE role reduction by the end of FY24, which we now expect to achieve ahead of schedule by the end of this calendar year. In relation to the portfolio simplification, Transport Projects divestment has been completed and this morning we announced the sale of our mechanical and commercial contracting business, which importantly sees our full exit from HVAC and electrical commercial contracting in Australia. Other minor non-core businesses with risk/reward profiles that do not meet our requirements will continue to be assessed. Any divestments will be dependent upon market conditions and maximum value.

We've made some important changes to strengthen the Board's oversight of governance, risk management and performance. From 1 July, the Tender Risk Evaluation Committee evolved into the Project Governance Committee which has responsibilities expanded from approving tenders to also cover a broader project governance remit. At the Investor Day, we announced that we're in the market to recruit a Chief Risk Officer and I'm pleased to announce that Ashley Mason has accepted this role and will start with us in September. Ash is a seasoned executive and brings considerable experience to Downer, having held numerous roles at tier one organisations. That team will be responsible for Downer's enterprise risk management framework and associated functions and, critically, will be working very closely with our new CFO, Mal Ashcroft, on our control and portfolio improvement.

Five months is a relatively short period, but as you can see, we are creating the foundations for FY24, which will be an important transition year for Downer as we set ourselves up for 2025 and beyond. We'll talk some more about these focus areas later on.

Looking at our sector in a little bit more detail, starting with Transport on slide 6, which contributed 55% of total revenue. This segment includes our Road Services businesses in Australia and New Zealand, our Rail & Transit Systems, New Zealand Projects and the now divested Australian Transport Projects business. Rail had a really strong year. In June, we achieved contract close on QTMP, which as I said before, reinforces our position as the largest passenger rollingstock maintainer in Australia and New Zealand for the next 30 years.

We also achieved a key milestone on the HMCT contract, with the manufacturing phase nearly completed. We've now delivered 58 out of 70 sets under a highly successful commercial model that also forms the basis of our Queensland model. Importantly for us, the timing of these two projects, with their ramp down and ramp up, enables us to provide continuity of work for our highly experienced project management teams.

In New Zealand, we signed the final agreement for the East Coast Recovery Alliance and that's now forecast to be a three-year delivery program to rebuild

critical infrastructure following Cyclone Gabrielle. Not only does it deliver an extensive pipeline of work, but more importantly, is an example of the critical and essential role we play in reconnecting communities and improving New Zealand's resilience for future extreme weather. Now, on the topic of wet weather, in February we said that the weather conditions materially impacted the performance of Roads in Australia and New Zealand. In the second half, the Roads business in Australia, in particular, performed in line with forecast and delivered some very strong volumes as the weather and operating conditions improved.

On to slide 7, Utilities had a very difficult year and this is the key area of focus for us in FY24 in our turnaround. At the half we outlined several factors that were impacting the business and these factors have continued in to the second half performance. We've spoken about the losses on the power maintenance contract reported on 8 December, as well as water infrastructure projects and a New Zealand wind farm project and these are the key callouts. The New Zealand wind farm project is now substantially complete.

We remain focused on the remediation of the power maintenance contract and the commercial reset agreed in April with the customer has helped improve operating losses and efficiencies and we are now in a second phase process with that customer to agree further changes to the delivery model. Notwithstanding, we still expect the contract to continue to be loss making in the first half of FY24. So, we are very focused on rebuilding this part of the business and I am actually confident that we will turn it around. The Utilities Leadership Team has been overhauled; key, experienced senior executives joining the business from other tier one organisations in the past three months.

Now when you look at the reasons for the underperformance, it's very important that the new risk appetite parameters are applied consistently. That means we are now being very selective about the projects that we pursue and we're seeing the benefit of this already where we are prioritising bidding for jobs that deliver improved margins with customers who value the technical capability that we bring to the table. So, while overall Utilities is a very disappointing result, I want to emphasise my confidence in this business and its breadth of technical capability, which is highly valuable in the marketplace. Utilities does remain an important part of our portfolio mix.

On to Facilities, which contributed 27% of revenue. Our portfolio of health and education PPPs is performing strongly. The Royal Adelaide Hospital and Bendigo Hospital are performing to expectations, having renegotiated the reviewable services pricing in July 2022. We are now focusing on asset management optimisation across the entire social infrastructure portfolio and expect to see future benefits from this work. As part of the Facilities impairment announced last week, we said that the Defence Strategic Review contained both positives and negatives for Downer. One of the positives, I think, will be the Defence Major

Services Provider contract, which supports the CASG arm of Defence in the master planning and procurement of critical enabling capability of hardware and armament. Downer is only one of three providers in this area and our contract has been recently renewed. We are also monitoring the priority areas of Defence investment and will be looking for opportunities to expand our partnership that dates back more than 80 years. We remain the fourth-largest contractor to the Department of Defence across its categories.

On the sustainment front, this is where we have seen a decline in spending and I touched upon some of these areas last week. We've also commenced the rebidding process for our Defence EMOS estate and garrison project, which is one of our larger contracts. There is also a strong pipeline of work within our Industrial & Energy business, with customers looking for decommissioning and decarbonising technical support for their assets.

On to work in hand on slide 9, our work-in-hand sits at $36.3 billion, which, on a like for-like basis, has grown substantially through the year as a result of the QTMP win. You can see here that our work-in-hand is long dated, diversified by market and service type and remains 90-plus % government or government related.

So, spending a bit of time again on ESG, I wanted to highlight some of our achievements in the year. We remain strongly committed to sustainability performance and governance and I think this is evidenced by our external ratings and certifications, which you can see at the top of the slide. This morning we also published our Sustainability Report, which is available now on our website and provides a comprehensive overview of our commitments and achievements, as well as the initiatives and targets that we have set ourselves. We also released our first Climate Change Report in November 2022, which you can also find on our website.

We're committed to fostering a workplace culture where our people feel respected, safe and supported and in March we launched our Own Respect campaign, which is designed to stamp out discriminatory conduct including sex discrimination, harassment and victimisation. In June we announced that we have established Australia's first standalone Green Syndicated Bank Guarantee Facility to support the delivery of the QTMP project. This new facility complements our Sustainability Linked Loan and reinforces our strong credentials and commitment to providing customers with sustainable products and services supported by green finance.

Now I also wanted to come back to the ICAC inquiry that exposed unacceptable behaviour with former members of staff at Downer. We still await these findings and regardless, we have devoted substantial resources to the examination of our control environment, particularly in regard to subcontractor onboarding and we are implementing a number of improvement areas arising from an independent

report that we have commissioned. In the next 12 months, reinforcing business ethics and performance culture is a key focus for us.

I'll now hand over to Mal.

Mr Ashcroft: Thanks Peter and good morning, everyone. I started with the Group in June through a handover period and commenced formally in my role in July and despite starting with some challenging results, some issues that we're talking through today, I'm genuinely excited and honoured to be at Downer and been given the opportunity to support Peter and the Board. Today I'm going to be discussing a summary of our results. I'll walk through our underlying statutory bridge, we'll walk through the segment performance, cash flow, debt profile and I'll wrap up with some comments on our financial priorities for FY24.

So, starting with our results and Peter ran through these, so I'll step through these quite quickly, we had a statutory net loss after tax of $386 million, which included the individually significant items totalling $551 million before tax that we spoke to last week. That result included $483 million of non-cash goodwill impairment to our Facilities and Utilities Australia CGUs and $67.7 million of other items which I'll cover in some more detail shortly. As Peter mentioned, revenue was up 5.4% and if we exclude the Mining and Hospitality businesses divested in the prior corresponding period, revenue increased 9% on a like-for-like basis. So, when we start to look at our results, it clearly demonstrates the top-line revenue growth and the market opportunity isn't the issue for Downer, but rather our ability to translate through to consistent, high quality, cashback margins which will be our focus going forward.

Our underlying EBITA was $323 million and our underlying NPATA was $174 million, which was down 15% and 18% respectively from prior year. Whilst we met our revised profit guidance range, we acknowledge this performance is well below the potential of the business going forward. The margin was at 2.6%, up from 2.2% in the first half and was negatively impacted by the underperformance in Utilities and an increase in our corporate costs, but offset by some improved performance in the second half in Transport that Peter touched on, and I'll go into that in more detail in a moment. The cash conversion for the full year was at 65% and pleasingly improved in the second half to 110% with considerable focus by the business in this area and we're absolutely clear that cashback profits are important and will be a key priority focus for Downer going forward.

Our balance sheet position has trended positively in the second half with net debt to EBITDA at 2x at the end of the period, which decreased down from 2.3x. Net interest expense at $88 million was up by 3% due both to increases in interest rates and a higher average debt balance through part of the year. The effective tax rate at 25.5% was below the Australian statutory rate of 30% due to non-taxable distributions from joint ventures and the lower rate in New Zealand, and

the Board has declared an unfranked, final dividend of $0.08 per share, taking total dividends for the year to $0.13 per share.

So, if we move on to the bridge from statutory to underlying, I'll just walk through these bridge items quickly. The first item there is a fair-value movement on the Downer contingent share options liability, which arises from the Spotless minority acquisition. That's a non-cash benefit of $10 million that we've adjusted out. We announced the sale of the Australian Transport Projects business in June, with a pre-tax gain on sale of $21 million after adjusting for exit and other costs. Importantly, the transaction structure has two limbs, the first limb being completed in June with net cash received of $161 million. The second limb of the sale, which includes a number of customer consents which remain outstanding, but which we expect to complete by the end of calendar year 2023, have $20 million of deferred consideration outstanding and there are further profits on sale that will be recognised in the first half of 2024 once those are completed.

The portfolio and restructure costs at $25 million relate to the Group's transformation program, of which $9.7 million related to redundancy and severance costs up to 30 June and other third-party costs related to setting up the transformation program. We had regulatory review and shareholder class action costs of $6.5 million through the period and, as outlined, we had the non-cash goodwill impairment charges totalling $483 million.

Moving to the other asset impairment and write downs and charges of $67.7 million, just running through each of those, we had some write downs related to some fixed assets and inventory in the Rail business; that was $20 million. We had shutdown, relocation and consolidation of some asphalt plants in Australia that sum up to $10 million. We had IT and other assets in terms of write downs there of $28 million that will no longer be utilised or provide future economic benefit. Then we had rationalisation of office space associated with the changes of $8 million which are now surplus to our requirements. So that's the bridge.

Moving on to segment performance results and starting with Transport, after a soft first half, as Peter mentioned, with some weather issues, we delivered a pleasing result in the second half, with a total revenue of $6.9 billion and an EBITA of $288.9 million, an increase of 10.3% and 7.2% respectively. The Roads business delivered an uplift in performance in line with our expectations for the second half as operating conditions relating to weather improved with some really strong production volumes running into year end. The Rail & Transit Systems result was solid, attributable to the performance on long-term rail contracts and the final delivery phase of HCMT and the now divested Australian Transport Projects business also supported the increase in earnings with above-average margins during the second half of 2023.

The Utilities business underperformance continued in the second half, which led to a full-year margin loss in the segment of $10.3 million. Revenue was $2.3

billion, up 11.2%. The underperformance was driven by the power maintenance contract issue previously reported, water construction projects in Australia and a wind farm contract in New Zealand and underperformance in our meter reading business. The drivers of our underperformance relate to a combination of workforce challenges, costs associated with delays and some of the underlying commercial terms that Peter referenced in his discussion. Whilst we have taken positions on each of these underperforming contracts to reflect our current view, ongoing performance risk exists and we're focused on driving recovery plans to stabilise and improve our financial position and the outcomes delivered for our clients. To end on a positive, the bright spot in the Utilities portfolio was the Telco business, which is performing strongly both in Australia and New Zealand.

If I move on to Facilities, revenue was $3.4 billion, up 4.9% and EBITA was $162 million, which was flat year on year. As Peter mentioned, Government and Health and Education portfolios are performing strongly. This was offset by a slowdown in minor capital works spending in the Defence business and a contract loss in the Industrial & Energy business due to a subcontractor default. We also took some provisions against a Mineral Technologies claim position in the second half that remains unresolved that we're working through at the moment.

Moving on to corporate costs during the year, corporate costs increased by $17 million or 16.7% to $117 million. This cost uplift included a legal claim settlement of $10.5 million, with the balance of the increase attributable to additional investment in IT projects at $5.6 million and general inflationary impacts. The benefit of the cost out program is expected to start in FY24 with our staff reduction programs implemented in June.

If I move on to the cash flow performance and I've just outlined a bridge between opening and closing cash. As discussed, we've indicated our cash conversion was 65% for the year and 110% for the second half. Just speaking to the second half and referencing back to some of our discussions at the first half, this did in part reflect an unwind of working capital adjustment discussed at our first half results, which had a positive impact of approximately 10% on that second half conversion rate. So, if we adjusted for that unwind that we'd previously flagged, the 110% on an adjusted basis would be at 100%.

Net CapEx for the period was $205 million, which compares to $144 million in the prior period. The growth CapEx year on year is broadly in line, with the delta really relating to differences in proceeds from sales in each period. Maintenance CapEx continues to be broadly consistent with D&A and growth CapEx during the year primarily related to asphalt plant replacement in Australia and investment in specialised plant in New Zealand. We had the divestment proceeds on the first stage of the Australian Transport Projects divestment of $161 million and we expect to receive additional proceeds of $20 million relating to contracts once those outstanding consents are received.

Closing cash of $889 million and drawn debt of $1.59 billion meant that the net debt, excluding lease liabilities at the end of the period, was $704 million, which compares to $620 million in the prior corresponding period, however, it is important to highlight that the net debt was $937 million at the end of the first half and this reduced by $233 million in the second half. So, the trend there during the year is positive.

I'll move on to our Group debt profile. Downer is prioritising the maintenance of our investment grade credit rating with Fitch and so balance sheet strength and prudence around our gearing levels will remain important whilst we undertake the turnaround and until we get some further progress on our performance through the year. We are compliant with all of our covenants and have headroom against key measures. Turning to our debt profile, the Group's weighted average debt duration is three years, with a maturity profile shown on the graph and we're targeting to refinance some of our debt facilities during FY24 to further optimise our debt maturity profile and manage and appropriately spread our refinancing activities. The Group has total liquidity of $1.9 billion through undrawn debt facilities and available cash.

So finally, I just wanted to wrap up with some comments around our financial priorities in the year ahead. Our first priority is to continue to strengthen the balance sheet and maintain a conservative approach with an appropriate level of gearing and flexibility until we have further progress in our turnaround. As I mentioned, the maintenance of our investment grade credit rating, which is currently on negative watch with Fitch, remains a key priority.

The next priority is improving the consistency and quality of our earnings. Downer needs to get back to delivering consistent strong cashback earnings. In considering the nature of some of the issues experienced and the variability of our performance over time, it's clear our focus areas need to continue to be to build a stronger performance culture across the Group and embed more robust and transparent performance management frameworks to drive timely identification of risks and opportunities and ultimately accountability for performance. That will be a key focus area.

In relation to our $100 million cost out target, as Peter said, we've made good progress on the cost out target and we're prioritising the delivery of the $100 million per annum benefit by 2025. Whilst further opportunities will exist, our priority focus will be on executing and delivering the $100 million and delivering on this commitment in the first instance. These benefits will need to be balanced against other underlying costs and performance pressures that exist in 2024. Finally, the third focus area is to elevate our capital return focus and disciplines. We've commenced the full potential strategic planning process for each Business Unit under the Group's new operating model, which will outline the opportunities that inform our capital allocation priorities, our portfolio management parameters and our operating businesses will have a clearer focus on the costs of capital

employed and returns expected. We will have more to say in relation to that capital management framework during the year.

With that, I'll hand back to Peter.

Mr Tompkins: Thanks Mal and I'll now turn to the outlook and some of our priorities for the next 12 months. So, you've seen that we've done a lot and kicked off a lot of programs of improvement in the second half of 2023, and 2024 is another really big year for us. It's a very important one in our transition, to set the foundations for long term, profitable growth. We've spoken about some of the cost out initiatives, but I wanted to come back to some of the strategy and planning that we're doing to unlock our full potential because, whilst we're doing the necessary work around cost base and risk management, we have to do the work around our full potential and this is underway. This work will drive our portfolio and investment decision making parameters moving forward. On the portfolio front, we will continue to assess this portfolio to ensure we have exposure to the right sectors, customers, and commercial characteristics. There may be more minor divestments of non-core businesses that do not match this profile.

We have an outstanding portfolio of businesses with market-leading positions and exposure to sector tailwinds. Our focus is now to optimise the performance of these businesses to ensure we convert our pipeline of opportunities and become an organisation that's more resilient to the external factors, with more discipline in our delivery and ultimately the profitability that we're setting targets on. Operational excellence and risk management will continue to be our focus area and making enhancements to our Group performance monitoring framework, which our new Chief Risk Officer will oversee. It's very much a back-to-basics approach and I think it's working so far.

So, in relation to our path to 4.5% EBITA, that is the right target for the Group and having this visible target is changing the way our business leaders are assessing bid margins, project performance and overheads, which are the key drivers to this target and we're already seeing this performance shift in our business through having this very visible, clear target for our leadership groups. So, you can see on this graph here there are several factors that are key. We've spoken about the cost out elements and also the runoff of the low margin and loss-making projects. We are improving the bidding margins, so securing these opportunities and then driving the enhanced margins through the delivery of projects is the other important element. We are carefully selecting bidding and work targets and exiting smaller businesses that do not meet our strategic risk management and margin contribution requirements. The revenue potential is not questioned, however in the short term, our revised approach will impact some revenue sources to set us up with the right operating discipline for sustainable growth.

Slide 21 outlines the progress we've made on our cost out since we first announced the program in February. A large portion of this will come from the

optimisation of our operating model and automation and we've already spoken about our progress against a 400 FTE headcount reduction. As you can see, we are ahead of schedule on this element. Business cases for automation opportunities across the Group are being developed and this will be the next area of focus. The third area of focus is around the consolidation of property and fleet overheads and we've started to rationalise our property lease footprint and also across our fleet plant, equipment and light vehicles. There is opportunity here and we have set targets across the business to be more efficient in this area. These areas will be a significant part of our focus in 2024 and our level of confidence to achieve our target around the cost out program in 2025.

If we look at what's ahead of us, we will reinforce our new business conduct and performance culture. The issues that impacted us over the last 12 months did highlight the need for the cultural reset and we are implementing the key changes that will lead to better performance, improved margins and consistency. We will improve the performance of our Utilities business. This won't be straightforward, but I am confident that we have the right people in place and the strategies to achieve it. We will focus on our $100 million cost out target and as outlined previously, we have a really clear line of sight on these initiatives. We will mobilise QTMP, this is critically important for the Group and this mobilisation is important to ensure that the project is a strong contributor to earnings from FY25 onwards. We will improve capital management discipline, as Mal outlined and further strengthen the balance sheet and we're very committed to this. Finally, we will develop our full potential strategic plan. We have done the necessary foundational work required through the first phase of our transformation program and we have to have our line of sight now on growth orientation. To be in a position to achieve growth, we have to have our strategic planning completed this financial year.

So, lastly onto outlook. 2024 is a really important transition year for us in our turnaround program as we establish the foundations for long term, profitable growth across our business and realise our full potential. The external market conditions that have impacted us over the past 12 to 18 months appear to be stabilising, but they've not subsided and the challenges remain. The first half of 2024 will be affected by the runoff of the low-margin contracts and as we have outlined, the Utilities recovery will be ongoing, but we are targeting higher earnings in the second half. I believe our performance in the second half of FY23 has created the momentum that we need and we will start the year with a high percentage of secure revenue and a high level of confidence that our back-to-basics approach is working.

We will give a further update at the AGM in November and now I open the call up to questions that you may have for either Mal or myself. Thanks very much.

Operator: Thank you. If you wish to ask a question, please press star-one on your telephone and wait for your name to be announced. If you wish to cancel your

request, please press star-two. If you are on a speakerphone, please pick up the headset to ask your question. Your first question comes from Nathan Reilly from UBS. Please go ahead.

Mr Reilly: Thanks gents. Just a quick one, just to clarify around the FY25 margin target, over 4.5%, can I just get, just to be very clear on that one, that's your average target for the year or is that an exit run rate that you're anticipating there?

Mr Tompkins: Nathan, as you know, we've had a chat about this one before. It'll be in 2025. We've set out the areas of focus that will help us get there. So in 2025, it may be an exit rate, but it will be in 2025 is our target.

Mr Reilly: Okay, thanks for that. Can I please just get an update in terms of the phasing on the cost out program in terms of the expectation around benefits rolling into 2024 and 2025 and if you've got any update, just an update around the cost to deliver?

Mr Ashcroft: Yes, Nathan, it's Mal here. I'll take that. So, if you look at the update we've given today, certainly we break down the transformation program into an initial restructuring component that has people out and that's probably about two-thirds of the benefit profile. The remaining third really relates to the areas that Peter talked around in terms of the automation process improvement in some of the plant and property related elements.

To give you a sense of that, so we would say that in terms of the execution, we've either executed or in the process of executing as we go into Q1 that first component of the two-thirds. But as you'll see on the slide that Peter put up, the planning that we've got around phase two and three of that $100 million is still very much in an early stage of planning. So, if you think about how that sort of phases through 2024, the first part there that we've either completed or in the process of wrapping up in the first quarter gives us in-year 2024 benefit and that tail is probably getting more towards the back end of the year as we start to execute, which looks to give us that runway benefit into 2025. So that's the way I would think about it.

In terms of the final part of your question, just around cost to implement, certainly the people-related components, a good part of that is in the results for 2023 but we certainly still have more of that to come through 2024.

Mr Reilly: Thank you. Can I just get a little bit more detail just in terms of I guess the performance in the Facilities business? Just looking at the first half/second half split, quite a substantial drop in revenue in the second half versus the first half, can I just get an update in terms of what we're seeing there? I obviously understand you've taken an impairment there just in terms of deteriorating outlook, but just some more granularity around what we've seen in terms of first half versus second half performance please?

Mr Ashcroft: Yes, so if you look at – you touched on revenue, so I'll start there first. You would certainly be pointed to the comments that we made last week and Peter talked to today in some of those Defence areas, that certainly we've seen some softer pieces. The other bit that's reasonably significant though, the sale that we announced today of AD&S has also been in a form of wind down over the last couple of years and we certainly saw revenue in that business, it had a revenue base I think of circa $200 million for 2023, but had certainly come back during 2023. So they would be the two components that I would speak to in relation to revenue.

In terms of how that sort of flows through to margin, the other bit that's relevant is the comments we made on the I&E business where we had the contract loss relating to the subcontractor default and the additional provisions we took there around the Mineral Technologies position, so they're the pieces I'd call out there.

Mr Reilly: Thanks and final question, can you just give me an update in terms of the ATP EBITA contribution in FY23 please?

Mr Ashcroft: Yes, so you'll see we've got a footnote in the materials there. It had revenue of $1.1 billion for the period and I think it was mid to high 30s in terms of margin contribution and the point we made there is that margin contribution was ahead of historical average contributions that we've seen. So you'll see that detail in the pack.

Mr Reilly: Perfect, thank you.

Operator: Your next question comes from Anthony Longo from J.P. Morgan. Please go ahead.

Mr Longo: G'day Peter, g'day Malcolm, just a quick one from me, just additional clarity with respect to guidance that you do have for FY24, just want to get a sense as to how we should be thinking about the relative progression of those periods. So, are you saying you're expecting, notwithstanding some of the challenges you are to face, do you still expect first half 2024 to be up on second half 2023? Then earnings growth on first half, do you also expect that to be sequential growth or how should we be thinking about that?

Mr Tompkins: Yes, Anthony, we won't go into comparisons to the prior period. I think though, the commentary we've provided is very much around the Utilities performance and the work that we need to do around the improvement and wind off of the lower margin and loss-making work. What we do have a high level of confidence in, though, is the target around higher earnings in the second half. So, I hope that directionally gives you a feel for where we're coming from.

Mr Longo: Perfect, appreciate that. In terms of, you have been speaking about portfolio decisions and thinking about simplification of the business, but how do we think about Downer from here in terms of the work that you'll be looking to bid on, what

sort of profitability and I do note your margin targets out there, but in terms of a return on capital perspective, are you able to give additional clarity as to how you're thinking about the type of work that you are doing and what sort of impact does this lower-margin work actually have within your existing revenue base?

Mr Tompkins: Yes, look it's a great question. I think the first point is we're really confident in the Utilities, Facilities and Transport focus that we have and within each of those sectors, we have businesses which, I guess, are comparable to the Australian mechanical electrical business that we spoke about in the divestment slide today. They're what you call the 'no regrets' because fundamentally you've got sector, customer and risk profiles and in the relative scheme of Downer, not material. So they are the no brainers that we will continue to look at.

But in relation to the important point around return on capital, that's actually what we've commenced in our full growth potential planning and the work that the teams are doing right now around fact packs, markets and the work that we've already done on our 4.5% margin and how we think about the portfolio in the medium term. We'll come back to you on that probably next calendar year sometime, but it is underway.

Mr Longo: Yes, perfect. A quick modelling question, with respect to some of the debt refinancing, I mean how should we then be thinking about what you're thinking about maturity going forward and then what impact that may have on your net interest costs heading into next year?

Mr Ashcroft: Yes, so look I think in terms of the debt refinancing work, we'll be looking to lengthen the maturity profile. It's currently at three, you can kind of expect that to push out to sort of mid-threes, is kind of where I'll be targeting. The other piece in the current market you'd expect, as we go through that process, is the costs associated with those debt facilities will increase, so we will have some costs uptick there. I'm not in a position at the moment where I'm going to be giving interest guidance at this point, but directionally there should be an upbeat in terms of the interest costs. In the grand scheme of all the things we're looking at here, it's certainly not a major driver in the end, but it will tick up.

Mr Longo: Yes, no worries, appreciate that. I was just more getting a sense as to whether or not you're replacing cheaper debt with more expensive, but that's all good. The final one from me is just culturally, I mean I do take your point that you're doing a lot of work to reset the culture and I think everything that you're saying sounds like it's – you're saying all the right things, I guess. But acknowledging that cultures are hard to change and longstanding habits are hard to change, what gives you confidence that you can ultimately reset the business and what sort of incentives are there from a workforce perspective, from a contracting perspective, to ensure that it's different this time around such that you can really execute on those targets that you're setting for the business?

Mr Tompkins: Yes, this is a question that we spend a lot of time discussing around our leadership table. I think the fundamental starting point is the people, the extended leadership team that are really getting behind this and how we engage all of the people in a very large organisation around some of the macro themes. That's why I started with that 'Enabling communities to thrive' piece, because you have to give people purpose around why we turn up to work every day. That's a really big part of this for me because in prior roles, when you're responsible for very large members of frontline workforces, you have to have that connection and I think we're onto the right way of engaging with that group.

We very early went off and did a couple of very detailed culture surveys and what that has led to is some more work around actually defining what is a performance orientated culture and the things that matter. The portfolio performance framework that we've spoken about, that puts the hard edge on what people turn up to work to do, particularly those people in the senior and operational management teams. That combines with that very simple message around back to basics. We want to make sure that we're keeping our people safe, we're working ethically and honestly and we're being really transparent around the performance of our projects. Then you overlay that with The Downer Standard and that is really the pathway here for our people and we're very fortunate to have The Downer Standard. We just have to make sure that it is more consistently applied and we have the leadership teams that are true believers. I do feel confident that we're building that cohort of true believers.

Mr Longo: Thanks very much, I'll let someone else have a go. Appreciate your time.

Operator: Your next question comes from Rohan Sundram from MST Financial. Please go ahead.

Mr Sundram: Hi Peter and Mal. I had a question around the Utilities problem projects. In the first half you called out the impacts separately, which totalled about $40 million. I was just hoping to get a bit more colour on how did that progress through to the full year? And with the residual impacts you're talking about or the runoff in the first half, how does that compare with to the full-year position? If we can just get some colour on, that would be great, thank you.

Mr Ashcroft: Yes, so look I think what you'll see when you get time to look at first half versus second half is the segment lost five in the first half and it lost five again in the second half. I think when you look at the projects that were called out in the first half, the evolution of that will be that we're really only talking to the same projects plus the water projects that we spoke to at the Investor Day in April, so nothing new in relation to those. The meter reading business, probably less significant in the overall scheme of things, but still below where we think it should be in terms of its potential. So in trying to contextualise the result first half to second half, there's certainly ongoing underperformance across those projects, but we're not calling out anything significantly new that we haven't previously talked about.

Mr Sundram: Okay. Would the residual impact be a lot less than what you saw in 2023, is that what you're saying?

Mr Tompkins: What I would say in relation to that question, Rohan, is we've got the plan and we've factored that into the way we think about the year ahead and we've said the year ahead will have the impacts of the runoff of these projects and turn around in the first half. We expect to be more clear of those in the second.

Mr Sundram: Okay, understood. Just last one from me, I appreciate the reliance on third-party contractors has been elevated throughout this period, is there any colour you're able to provide just on how you're seeing the labour market and do you expect that reliance to decrease throughout FY24?

Mr Tompkins: Look I don't think it will change dramatically in 2024. I spoke before about some stabilisation, so we're seeing more predictable pricing in our supply chain and some of the issues that we had with subcontract validity periods and not being able to give price certainty to customers, what I'm seeing now is still elevated positions in supply chain and still the same level of reliance perhaps, but we're getting a more coherent response from the subcontractor market, particularly as in some trades they may be also wanting to ensure that they have secure revenue moving into more uncertain economic conditions. So, I think that's the way that I would describe it directionally, Rohan.

Mr Sundram: Okay, thanks guys.

Operator: Your next question comes from John Purtell from Macquarie. Please go ahead.

Mr Purtell: Good morning Peter and Mal, how are you? Just had a couple of questions please. Just in terms of revenue, you mentioned that you're being more selective through the work that you're taking on. I mean does that imply or mean that revenue is likely to shrink or reduce in the near term, or do you think you can still grow the revenue line and I'm talking about excluding asset sale impacts there?

Mr Tompkins: Let me answer that, not just with your eyes on 2024. I think what we believe is that we can and will grow revenue through that medium term because we have a really clear view of what the pipeline is. In the shorter term, though, I did say that in some spaces that will pull back a bit and Utilities is probably the example of that where it just does not make sense for us to go into some of this mega lump sum construction work that perhaps others are testing at the moment. We'll remain really disciplined around that under our new operating model and notwithstanding the opportunities that fit our technical profile, existing customers where we are doing ongoing work and have done ongoing work for many decades with key infrastructure owners in the high voltage and distribution sides of the power business, we see a lot of opportunity. We just have to be really careful about which ones.

Mr Purtell: Thank you. Just in relation to Utilities and appreciate the colour you've given, but just trying to understand the improvement you're expecting that you're expecting there in the second half of 2024, so are you assuming that you're able to improve margins as contracts come up for renewal? You've obviously got some reset there, you talked about, on the power maintenance contract in Victoria there, but is it as contracts come up for renewal, you'll look to improve terms or is it an exit of work as well?

Mr Tompkins: It's a combination of all of those things, John. So, the beauty of having a portfolio of long-dated distribution and network maintenance contracts is that you get the chance to turn up every day and improve performance and work out with the customer what the priority areas are and optimise the operations from within. I think that hasn't been done as well as it should have previously, but a large part of the improvement is around optimising from within existing contracts and relationships. There are projects that, lump sum type projects, which will come to completion in 2024 and we've spoken a little bit about that, particularly in that water portfolio space. Then the other side of that and very importantly is being selective about what we bid and then ensuring that we are bidding into the market with customers that value our expertise. They're the three elements that we're focused on.

Mr Purtell: Thank you. Just the final question, appreciate the comments you've made on Utilities and Defence there, but Peter just in terms of the demand environment for services more generally, how would you characterise that? Obviously, we're seeing some or are seeing some deferrals of infrastructure work at the big-ticket end. Is there any flow through to services of that and indeed from what's slowing economic growth more generally here?

Mr Tompkins: I think this is a really fascinating time. I would expect to see those deferrals that you're talking about in that transport infrastructure space in Australia. I think that would be a logical assumption and we're obviously not as exposed to that any longer. I think interestingly in New Zealand, the election that's upcoming, both sides of the political spectrum there are talking about ongoing spend and catch up of infrastructure deficit. It's just one party is more focused on public transport, the other is focused on more road network infrastructure. So on the New Zealand front, it feels like it will – there probably won't be as much deferral there.

Then I think the reason why simplistically we're seeing that deferral of transport infrastructure is because of Commonwealth money going into other places and State Government agencies realising they've got to spend considerable amounts of money to catch up on the deficit in relation to energy transition. You're seeing that not just in high voltage, but you're seeing it in relation to existing, what you would call conventional generation assets that need to be prolonged because of changes in the transition period, you're seeing it in the high voltage space, you're seeing it in the tie-ins to the renewable energy zones and into the substations.

There's a lot of money going into those spaces and therefore a lot of technical capability and interest from the contractor market as well.

Mr Purtell: Got it, thank you.

Operator: Your next question comes from Scott Ryall from Rimor Equity Research. Please go ahead.

Mr Ryall: Hi there, thank you very much. Firstly, congrats in the circumstances for getting your results out earlier in reporting season rather than later. I suspect you've got teams that have worked their butts off to get that done, so congratulations. My first question, Mal, I was wondering if you could just talk a little bit about your focus on cash conversion. You've obviously done this role in other places and I was wondering if you could talk to your initial observations about what are the levers or disciplines to make sure that you improve cash conversion on a sustainable basis, more regular I guess, as opposed to volatile.

Mr Ashcroft: Yes, happy to talk to that Scott. I think, look, it's an interesting point with businesses like ours, as you'd appreciate, when you look across the portfolio, it can be quite lumpy and choppy, particularly around the awarding of large, long-term contracts where you might get mobilisation upfront payments. So, I think as a principle and having your incentive structures tied into cashback profits is really critical and we do.

The second part then, obviously if you break up your business simplistically between your tendering disciplines on the commercial side and into the delivery side, I think the commercial side is relatively straightforward in terms of making sure that you've got those disciplines upfront to make sure you're in overclaim positions as you go forward and we have those structures through our tendering processes set up. It's probably more coming into the delivery side, I guess in my experience, going back to previous lives, particularly as you're going into new markets where there can be complexity around scope change, around delays, around things that ultimately drive costs and your commercial disciplines around how you manage through those change cycles is really key.

For us, that is going to be all about our disciplines around our management of WIP, our management and understanding of our underclaim positions and our risk and opportunity overlay as we look at those and to make sure contract management and our disciplines from a commercial perspective to timely, both communication and intervention with customers, is managed in a timely manner. So that's probably the sort of headlines that I'd talk to, certainly lessons from past lives and what I can see coming into Downer and I've obviously only joined at the back end, is a really strong focus by the management team running into year end, which is really, I guess, sits behind that stronger second half conversion. But we will be looking to drive those disciplines particularly into WIP management and underclaims into our routines and cycles.

Mr Ryall: Okay, great, thank you. Then I'm just trying to get a sense of timing milestones over the next couple of years, so I was wondering, you talked about sometime next year you'll talk about the capital management framework and some full potential strategic plan. Then Peter, just further to Nathan's question, even though your statement is at 4.5% EBIT target in fiscal 2025 right through the deck, you're talking about an exit rate potentially. Could you just clarify a little bit more around the timing? I don't mind if it's within a six-month period, so first half 2024, second half 2024, first half 2025, whatever you want to use, but just be a little bit more specific with dates on those things please.

Mr Tompkins: I think the way Nathan describes it as an exit rate, I think that's a fair way to look at it. We've got a lot of work to do, we've set our targets, we know the programs that have to be executed. We want to be able to say in 2025 that we've done all of those things. Logic says and the basis upon which we have planned, that in 2025 you should start to see significant improvement in margins. So, you can understand, why you don't want to pin yourself to a point in the year, the way we talk about it internally though is that in FY25 we want to be considerably ahead of where we are now and we think 4.5% is the right target for our business.

Mr Ryall: I'm just trying to figure, is that in the last month? That's an exit rate to me, is the last month, so I'm just trying to get a sense of that could be considerably lower for the rest of the year and then jump up in the last month, which we'll never see numbers.

Mr Tompkins: To call it an exit rate, all I'm saying is that we are targeting 4.5% in 2025 and that's how our business plans have been put for the period.

Mr Ryall: Right, okay, well I'll just say I don't understand that. It's not very clear to me. But anyway, timelines then on capital management and your full strategic plan?

Mr Ashcroft: Scott, if we sort of come back to the 4.5% and at least – and with a target to exceed 4.5% in 2025, I guess what we're really talking to there is that we're expecting the margin trajectory to be progressively increasing between now and the end of 2025. I guess what Peter's really talking to there is that we get to the end of 2025 in a position that we're at least at 4.5% or greater as we head forward from that position. I think given where we're starting from right now and if you think about the roadmap that we've talked through today to 4.5%, we've got the first limb of that margin enhancement, which has pinned off the $100 million of cost out. We've given some updates today about the progress that we've made there.

The other elements though, if you simplify it, really comes back to core operational margin delivery and improvement through that period. As you start to look at that and think about that, one of the things you'll no doubt look at is our work-in-hand slide and the profile of work-in-hand and how it runs off and that will give you a bit of a guide for the opportunity that we see as we pick up on the

Downner
Relationships creating success

points Peter was talking to around our tender disciplines, the opportunities in those addressable markets, but also more broadly, if you think about the constraints in the market that exist now around the skillsets and the technical capabilities that we have, we've got a good confidence level that as we retender and build that work-in-hand profile and not just driven by revenue growth, but driven by quality of what we're actually tendering, that you can see how that operational margin and improvement can come through. But it is certainly weighted into back end of 2024, into 2025, which for us at this point still gives us a level of imprecision around exactly that timing into 2025.

But I think what Peter's really clearly saying is 4.5% at or above is absolutely where we expect to be and that's what we're targeting.

Mr Ryall: Okay, thank you.

Operator: Your next question comes from Reinhardt van der walt from Bank of America. Please go ahead.

Mr van der walt: Good morning Peter and Mal. My first question is just on the FY24 outlook statement. So, you mentioned that labour cost is stabilising, supply chain pricing, you've got better visibility, we've kind of uncovered some of the issues in the Utilities business now, weather's clearing, cost out is progressing. Can I just understand what the factor was that prevented you from giving us a quantitative FY24 guidance number, given that the outlook seems to be becoming clearer?

Mr Tompkins: Look the way I feel about things is that I'm certainly a lot more confident around the outlook on those variables that you've called out and we've called them out as well. But I think in the circumstances, where we've come from, where those external factors currently sit, they are still at elevated levels. So, what we're really clear on here is focusing on the turnaround program, where we see directionally the business improving first half to second half and also being really clear on Utilities recovery and the work that we have to do to put a higher level of consistency and predictability into the business. So there's a lot going on at the moment and I feel where we've landed here and talking about the variables and giving a level of confidence that it's certainly going to be better than 2023, as you've outlined. So, I'm very comfortable in the outlook that we've provided.

Mr van der walt: Right, thank you. When you were putting together your business case for hitting this 4.5% EBITA margin, can you maybe just walk us through just the key risks that you see, specifically in phase two and phase three?

Mr Tompkins: Well, we are in an environment where we are contractors and we're subject to all sorts of externalities, as you would understand. Really having set the targets, it's around pipeline, our ability to achieve our plans in the optimisation of our projects and ensuring that we've got the pipeline of activity to support it. I think they're just

what you would call the customary factors that you would consider as assumptions when setting targets like this for a business.

Mr van der walt: Yes, sure. No, appreciate that impacts the overall 4.5% margin, I meant more in terms of execution on phases two and three, things that are more in your control.

Mr Ashcroft: The beauty is that the cost out program is absolutely in our control and that was a very important first enabling step. To get that discipline into the business was key. Then the rest of that diagram on page 20, they're not sequential. All of these things are happening now and I hope we've given you a good level of colour around the effort and focus that the management team has on each of those areas, so it's, yes, I think that improvement and the discontinuance and the runoff, they're all factors that we're working through at the moment.

Mr van der walt: All right, thank you. Just on cash conversion, the Queensland Trains cash flow profile, specifically around mobilisation, can you maybe just give us an indication around is there any lumpiness we should expect from a networking capital point of view on that contract? Maybe are there any other big networking capital lines that we should be conscious of over the next year or two?

Mr Tompkins: Yes, I think the best way to think about that project is that when we bid them, we bid them to ensure that we don't have the gap risk with our supply partners. So certainly, factoring in good cash flow when we bid it and that is the planning that we've put in place for the delivery of that through to manufacturing phase, so confident that we've got the cash flows and phasings there at a positive level.

Mr van der walt: Got it, thank you. Maybe just one final one, you're obviously going through a little bit of a re-fi phase now, I presume you're already speaking to creditors. Have they changed the way that they're looking at your 2.0x to 2.5x times net debt to EBITDA targets, given that you've had some issues with cash conversion for a couple of years now? Do you think that maybe that target range could get revised down a little bit?

Mr Ashcroft: I'll be frank that whilst I've had some preliminary meetings in my first couple of weeks here, I've probably got more time to spend with the banking groups to give colour to that. Directionally, I would expect that we would be heading to the more conservative end of those ranges and possible a little further south of that. That's where my mindset is, but I'm still personally at an early stage of working through that. But directionally, I think the way you've spoken to it is the right order of magnitude.

Mr van der walt: Yes, perfect, thanks a lot folks.

Operator: There are no further questions at this time. I will now hand back to Mr Tompkins for closing remarks.

Mr Tompkins: Thank you, everybody, for joining the call. We have a lot of work to do, appreciate your support and your time with us this morning and we will be back in touch at our AGM in November. Thank you very much.