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Operator: Thank you for standing by, and welcome to the Downer Half Year Results conference call. 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 1 on your telephone keypad. I would now like to hand the conference over to Mr Grant Fenn, CEO. Please go ahead.

Grant Fenn: Good morning, everyone. My name is Grant Fenn, Chief Executive Officer of Downer. With me is Michael Ferguson, the Chief Financial Officer, and our incoming CEO, Peter Tompkins, who will take over as CEO following this call.

We have a lot to discuss this morning. I'll begin with an update on the Utilities contract issue, then a summary of the past six months, including a look at some of the challenges in our operating environment. Michael will then go through the financials in more detail, I'll cover the outlook and we will finish with Peter talking through Downer's strategies to realise value for shareholders, which we first raised at our AGM last November. We will then open up for questions.

I will start with an update on the Utilities contract issue. On 8 December 2022, Downer reported that we had identified historical misreporting of revenue and work in progress in one of our maintenance contracts.

This morning we have issued an update to the ASX that I would encourage you to read, if you haven't already. The root cause and contributing factors have been established. We have reviewed our broader work-book across the Group, and I can confirm that we believe the issue to be isolated to the one contract. I can also confirm that post tax earnings were overstated by approximately $1.7m in FY20, $8.8m in FY21 and $11.7m in FY22. Comparative financial information has been restated to incorporate the correction in underlying results. There are contributing factors which contextualise, but don't excuse, what happened here, and we have moved quickly to ensure that it won't be repeated. We are heavily focused on the remediation of the contract. A detailed recovery plan is being actioned. The new contract management team, along with external business improvement specialists, are working closely with our operations teams and our customer to address contract performance. We have agreed and documented a commercial reset of the contract with the customer and this, coupled with planned operational improvements, indicates that the contract is not onerous.

We will now move to Slide Five – a summary of HY23 financial results. As we have discussed a few times over the course of the last six months, the first half of FY2023 has been a very challenging, with significant parts of our business impacted by rain, storms and flooding and the labour productivity hangover from COVID-19. Our cash conversion at 8.5% is way off our normal half-end position, but very clearly due to some meaty subcontractor payments on completion of our Sydney Growth Train Project and a couple of large customer receipts expected in late first-half being received in January. Michael will provide more detail on both Business Unit financials and Group operating cash flow later in the presentation. And that brings us to the next slide which takes you through, in some detail, what the business has been dealing with. Wet weather resulted in a 40% increase in lost shifts, as well as reduced product volumes in our Road Services business, and I will talk to you more about this on the next slide.

In Utilities, extensive flooding and rainfall has caused site closures and project delays in the Water business, while the wet conditions have also led to lower worker utilisation across our outdoor activities, such as meter reading services. Of course, we try to mitigate these impacts by utilising annual leave and scheduling training during periods of forecast rain, however this does not reduce the material impact on the business.

The labour market remains challenging – and this is not just an issue impacting Downer. We are still seeing higher than normal job vacancies, particularly in casual roles and in certain geographies. We have had to rely on increased use of outsourced labour, as well as increased overtime during the half. On the positive: Our Enterprise Bargaining Agreements renewals have all settled within our expected range, and well within our CPI price escalators. We are ranked among the top 10 employers by Randstad's Employer Brand Research, and we were also recognised as an Employer of Choice at the Australian Business Awards.

If I move onto the next slide, these two graphs show the increase in lost shifts and the increase in outsourced labour over prior periods. There is a clear focus across the business to address this.

Now, onto Transport. This Business Unit continues to be the powerhouse of the Group, contributing 44% of revenue. And it has a very strong outlook. As we've already reflected on, continued severe wet weather materially impacted the performance of the Roads business in the half. However, as the wet weather eases, extensive road rehabilitation opportunities are starting to present in Australia, and there will be a significant effort required in New Zealand to recover from recent floods and storms. On 6 February, the Rail & Transit Systems business was named preferred applicant for the multi-billion dollar Queensland Train Manufacturing Program. Now, this is a significant win, which will cement our position as the largest passenger rollingstock maintainer in Australia and New Zealand for the next 30 years. Peter will cover that in more detail later. On 23 February, we announced we have entered into an agreement to sell the Australian Transport Projects business to a wholly owned Australian subsidiary of Gamuda. The sale price represents an enterprise value of $212 million to Downer.

Now to Utilities. A number of factors contributed to a disappointing result, including the loss in the power maintenance contract that I discussed at the start of the presentation, as well as provisions taken on weather impacted water infrastructure projects, and projected losses on a NZ wind farm. I expect Utilities to grow substantially over the coming years, with many opportunities from the energy transition. Downer is the market leader in power transmission services in Australia, and we have recently entered the NZ transmission market with a contract to deliver transmission services to Transpower. Our Telco business performed well, with revenue growth led by nbn and Telstra contracts.

Our Facilities business now contributes 37% of revenue and, pleasingly, performed above expectations for the half. In September, we were awarded a seven-and-a-half-year contract to deliver maintenance services to the South Australian Housing Authority, consisting of approximately 27,000 social and public housing dwellings, and valued at approximately $630 million.

We'll now move to work-in-hand on Slide 12. Our work-in-hand is a substantial $39 billion, which also includes our estimate for the recent announcement on the Queensland Train Manufacturing Program. It's long-dated. It's more than 90% government or government-

related. And it's diversified by industry. I will now hand over to Michael, who will cover the Financials, then I will come back for the Outlook.

Michael Ferguson: Thanks, Grant, and good morning everyone.

I will start on Slide 13 with the summary of our Half Year 23 Group underlying performance. As Grant said, this has been a challenging period for Downer.

The Group reported total revenue of $6.1 billion for the six months to 31 December 2022. This was 2.9% higher than the prior corresponding period. Underlying EBITA declined 24.5% to $133.6 million with an EBITA margin of 2.2%. Margin was impacted by several factors across the Group, including labour availability, elevated cost to serve, continued wet weather and project losses in Utilities. I'll go into more detail on some of these on the following slide. Net interest expense of $40.3m is represented by approximately $30 million of bank and DCM net interest and $10m of lease interest. This has reduced by 12% due to an improved average cost of funds.

The effective tax rate of 26.7% remains below the Australian statutory rate of 30% due to non-taxable distributions from joint ventures and a lower corporate tax rate in New Zealand. Downer delivered an underlying NPATA of $68 million, which is 28% lower than the prior corresponding period. The Downer Board has declared an unfranked interim dividend of 5 cents per share, representing a payout ratio of 54%.

Moving now to Slide 14, outlining the performance of our business segments. Downer's Urban Services businesses delivered EBITA of $182.5 million, a decrease of 21.8% on the prior corresponding period. Transport delivered EBITA of $88.7 million, a decrease of 14.5%. wet weather, labour market challenges and increased transport and logistics costs were a key driver behind the margin deterioration. This was particularly evident in our Roads business. Whilst long-term rail maintenance contracts delivered solid revenue and margin performance, this was not enough to offset challenges in other areas of the segment. Utilities delivered an EBITA loss of $5.2m. There are a number of factors behind this disappointing result. Utilities recognised losses on three projects in the half; the power maintenance contract associated with the revenue recognition issue, a Water construction project, and a wind farm project in New Zealand. The quantum of these losses is set out on the slide. Further, there were losses in the Meter Reading business associated with labour availability and productivity. Utilities revenue growth of 12% was driven by nbn and Telstra work within the Utilities' Tech and Comms business, which continues to perform strongly. Facilities performed well during the period. EBITA increased by 11.1% to $99 million through strong performance in the Government and Health & Education businesses. In addition, the Power & Energy business is seeing growth in new contracts following a period of subdued activity. We have provided more information on each of the Divisional performances as part of the appendices to this presentation.

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Slide 15 reconciles Downer's statutory result with the underlying result. The difference between the statutory and underlying result relates to the non-cash fair value movement on the Downer contingent share obligation liability arising from the options issued as part of the Spotless minority acquisition. This is consistent with prior periods and there are no other individually significant items.

Moving to Slide 16 – operating cash flow. Downer reported operating cash flow conversion of just 8.5% for the half, which was well below our target and historical actual cash conversion levels. As Grant pointed out, there have been a number of significant impacts on the first half operating cash flow. The first item relates to timing of payments to our subcontracting partner on completion of the Sydney Growth Trains project. During the half we made final payments of $78m, with the associated cash inflows having been received over the last three-to-four years. The second item relates to $22m of settlements for two liquidated damages claims provided for in prior periods, relating to renewables projects. The third item relates to a $40 million impact from the change in timing of collection from two key customers where we ordinarily would have received the cash in December. The fourth item we have called out is the slippage of $40 million in claim positions. This slippage relates to two specific contracts, in Transmission and Transport projects, in which the timing of receipt was initially agreed with the customer to fall within the period that have actually been collected early in the second half. Finally, there was also an increase in working capital in the period, particularly in inventory. The breadth of Downer's business generally means the portfolio effect will balance out cash flow timing factors in any given period. However, the culmination of these individually material factors all falling in the same period has led to a disappointing cash performance. Furthermore, off the low earnings base in the half, each of these items have had a material impact on conversion. We will continue with our strong focus on cash collections and conversion in the second half to return it to traditional levels.

Turning to the broader cash flow on Slide 17. Net core capex, lease payments and IT investments of $166.4million is in line with the prior periods. Cash held at the end of the period was $450.4 million, which when combined with undrawn facilities of $1.2 billion, provides downer with significant liquidity of $1.6 billion.

Slide 18 gives an overview of Downer's debt profile. The Group's weighted average debt duration is 3.4 years, with the maturity profile shown in the graph to the right of the slide. Following Downer's refinancing activity in the first half of FY22, we have no maturities due in FY23 and very little in FY24. Net debt to EBIDTA of 2.3x has risen sharply in the half, due to both increased debt and reduced earnings, particularly from the Utilities losses. While it remains within Downer's capital allocation framework target range of 2-2.5x, it is above what we deem the current optimal level. We will continue to focus on improving profit performance and operating cash flow performance in the second half to reduce net debt. Downer remains in compliance with all debt covenants and the expected proceeds from the sale of Australian Transport Projects business will improve key financial metrics.

Thanks very much, and I'll now hand back to Grant

Mr Fenn: Thanks, Michael. Now onto the Outlook. It's very obvious that FY2023 has proven very difficult for us to provide accurate guidance, given weather and changing conditions. In summary: In August 2022 guidance for FY23 was 10-20% underlying NPATA growth subject to a number of things. Then in the AGM, on 8 November, at that point our forecasts from the business and our view continued to support guidance. On 8 December, we announced, as part of the release relating to the Utilities issue, that trading for October and November had indicated that guidance is unlikely to be met and we reset guidance reset to $210m - $230m NPATA, excluding impact of Utilities contract issue. Since 8 December, as part of the half year reporting process, which was finalised over the weekend, Downer has conducted a detailed re-forecast review and considers it appropriate to further adjust the guidance for the following items, a number of which we have already spoken about today.

Losses associated with the Utilities power maintenance contract. Whilst the contract is not considered onerous, further losses have been put into the forecast, and will impact H2 until the contract reset and recovery plan take effect. We believe there is a heightened risk of Water project losses due to prolongation costs which we may not be recoverable. A slowdown in Government minor capital works based on recent customer feedback. And the impact of recent floods and storms in New Zealand, which we think ultimately will be very positive for the business in terms of re-work, but not the case for the remaining six months in FY23.

Downer now expects underlying FY23 NPATA to be between $170 million – $190 million assuming no further material COVID-19, weather, labour shortages or other disruptions, and excluding restructuring costs, which might come about from what Peter is going to talk to you about now. I will hand over to Peter to take us through the forward view of Downer.

Peter Tompkins: Thank you, Grant, and good morning.

I want to say first up that I have enormous conviction in Downer and its people. This is a truly great company with tremendous capability and opportunities. But we can't shy away from the fact that this a disappointing set of results today. Last week I announced a major restructure of the business to our staff, which I will cover in more detail shortly. The changes are significant, and I am confident that we have the plan to make our business more efficient and profitable. I assure you that we are responding to the current challenges with energy and an intense focus. I am absolutely committed to taking decisive action to make our business more resilient to the factors that are impacting Downer.

I have been with Downer for 14 years and have held risk management, commercial and senior operational roles. I feel confident and clear in my thinking on the drivers of performance that we need to concentrate on. I will now give you an update on where I am at with my plan to improve business performance and value for shareholders.

At our Annual General Meeting last November, Downer committed to exploring strategies to realise better value for shareholders that properly reflects the exceptional businesses and capability at Downer. As the new CEO, I am also committed to this course of action and these are the three areas of focus coming out of my review of the business that I believe are critical to the future success of the business. The first is to reset our operating model by merging our Australian and New Zealand operations to be sector-led, to enable better customer solutions, resetting our cost base and creating 'One Downer'. The second element is to continue our focus on simplifying our portfolio. We have already made very good headway on this, which I will cover shortly. The third, and probably most critical, will be an

unrelenting focus on improving margins and ensuring we have a disciplined approach to risk management. Now, to be clear, we have a very good risk management framework. But I believe that the way in which we manage risk and create higher levels of accountability for operational excellence can be improved.

Now to the Transformation Program that I announced last week. We have committed to a program of work that is targeting to deliver benefits of at least $100 million of benefits in FY25. These benefits are set around several initiatives, one being the merger of our Australian and New Zealand operations that is now underway. Currently we have two Transport businesses, two Utilities businesses, two Facilities businesses, and two Corporate Head Offices. And all of these with their own leadership teams. The new trans-Tasman sector-led Business Units will create stand-alone Transport, Facilities and Utilities businesses of significant scale, to accelerate efficiencies and consolidate our technical and management capability into their specialist areas. This will simplify our operations, support sector led growth, and enable a standardised approach to how we manage our portfolio. Combining our Corporate Functions in both regions will also eliminate a significant amount of duplicated work and, again, simplify how we support our operational teams. The other key areas covered as part of this target are fleet, property footprint and procurement. A project team has been established to support the business with this transformation program and we have engaged external support to help us accelerate the achievement of the benefits and provide the framework and measurement of progress.

Now to portfolio simplification. As mentioned, we are making good progress in this area, and this aligns with my view of how best to create a business with a narrower focus on core markets. As Grant discussed, last week we announced the sale of our Australian Transport Projects business to the Australian subsidiary of constructor, Gamuda. Not only does this demonstrate the inherent value in Downer's portfolio, it is an enabler for further structural simplification and cost out. The potential sale of Repurpose It, of which Downer owns 45 per cent, is also underway – this is a leading waste-to-resource business and it has already received a lot of interest in the market.

Now onto operational excellence and risk management. Downer has exceptional businesses with market leading positions. Whilst we are well-positioned strategically, with our exposure to energy transition, Defence spending and government outsourcing that each offer high growth potential, our performance has not been up to scratch and we must find ways to be more profitable. This is regardless of the significant pressures being experienced as a result of weather, labour shortages and supply chain issues. We have set a target to improve our average EBITA margin to be at least 4.5% across the business in FY25, to tie back to our planning, budgeting and accountability frameworks. Several initiatives are key to this. The $100 million benefit delivered by operating efficiencies and synergies is one. The continued simplification of our portfolio, with a focus on exiting lower-margin operations, is another. Importantly, compliance with our Integrated Management System, The Downer Standard, will also ensure consistency in processes around our project execution, risk management and system efficiency. Part of what we are doing with the transformation program is to make sure that our teams go back to basics and focus on the activities that deliver higher performance and ensure the new management team is accountable for this. In the current climate, we have been lowering our risk appetite and increasing pricing to reflect uncertainty. While there are significant opportunities in areas such as energy transition, we are not rushing into them – for example, the construction of high voltage transmission lines to the Renewable Energy Zones – an area where we have significant expertise but at the moment, the risk allocation in these very large contracts does not fit our risk appetite – and we are

waiting for this to improve. As I said earlier, risk management is one of my key priorities. Our new sector-led Business Units will have the scale, specialisation and accountability for performance, operational assurance and frontline risk management to support this. There will be a higher level of accountability on senior management, especially around job selection and delivering tendered margins.

Now, I have put up here a timeline, which summarises what I have just outlined, particularly in relation to our transformation target and the improvement in margins that we have applied to an FY23, FY24 and FY25 timeline. We will use this timeline to keep shareholders updated on our progress, with our Investor Day in April being the next key forum.

Now, in some very good news, one of the very significant recent announcements is Downer being named preferred applicant for the Queensland Train Manufacturing Program. With the award of the Queensland Project, Downer will manage the largest fleets of passenger trains across Australia's Eastern seaboard, having now delivered a total of 119 Waratah trains in New South Wales and now more than halfway through completion of 70 new High-Capacity Metro Trains in Melbourne. Under the Queensland contract, Downer will design, manufacture and commission 65 passenger trains and simulators with our key subcontractor, Hyundai Rotem. We will design, construct and commission a train manufacturing facility on the Fraser Coast and a maintenance facility on the Gold Coast. We will Deliver through-life-support and maintenance of the new fleet for an initial term of 15 years up to a potential term of 35 years. Our proven experience in working with international rollingstock suppliers and our industry leading engineering and maintenance practices will be applied to delivering this new contract and, importantly, supporting local manufacturing capability in Queensland. At the bottom of this slide we have included a graph showing the indicative revenue and delivery profiles for the project scopes. As you can see, over the next few years we will be mobilising the delivery of the manufacturing and maintenance facilities which will be completing at the same time as we ramp up to full production of the fleet. Manufacturing of the new fleet will be completed ahead of the 2032 Olympic and Paralympic games.

With my new leadership team, we are clear on our immediate priorities and demonstrating progress against the key focus areas just outlined. The next 12 months for Downer will be defining and I am confident that it will be a period of positive of change. As mentioned in the Outlook statement, we expect to incur a material level of restructuring costs in the second half, which we will update the market on at Investor Day. The three points I want to leave you with today are: The Board and Management team are aligned on the need for change – and I have a strong mandate for change; The restructure announced last week is a critical part of how we will simplify our Business; and finally we are responding to the current challenges outlined today with energy and an intense focus.

Now, finally, as today is Grant's last day I would like to thank him for his 12 years leading Downer. You have steered the business through some challenging periods and you have been instrumental in building the enviable portfolio of businesses that we have today. Grant, we are all grateful for your steady leadership and vision you have provided for Downer. I now open the call up to questions that you have for either Grant, Michael or myself.

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're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Andrew Hodge from Credit Suisse. Please go ahead.

Mr Hodge: Morning gents, thanks for taking my questions. First question just relates to the resolution around the accounting irregularities. I just want to understand a little better, when it was described to us on 8 December, effectively it was described as revenue recognition ahead of completion of the work and not matching the costs. That made sense but it doesn't make sense to me if that contract is relatively steady state, that there's so much of the profit overstated in latter years. So can you just help me understand how exactly the mismatch has happened and has continued to grow in the latter years if the contract is a steady state contract.

Mr Fenn: Yes, thanks Andrew. I should just say that there's limited amounts of detail that we can provide here, but on the point that you raise, I think the premise that the contract has been steady state, I don't think that in fact is the case and volumes across different aspects and mix has been quite volatile and in particular in relation to the amount of storm work, et cetera, that we've been undertaking. So, the contract really hasn't been in steady state.

Mr Hodge: Thank you. So just to follow up on that, the reference to the contract management team having been replaced, I assume that means they've also left the business and am I assuming correctly that you just said you can't discuss certain things about this suggest that there's further action to be taken?

Mr Fenn: No. So, yes, the management team are no longer with us and there's a new management team in place. As we've said in the release, there's an action plan that is well progressed now. We've recut the contract with our customer and we're right in the middle now of improving the Downer side of that productivity. So that's all on board at the moment, all happening at the moment, Andrew.

Mr Hodge: Thank you and then just one more question if I could around the reference to the sustaining or the minor capital works for government customers, is it one particular region? I guess one of the things about the business that you talk about is this government dependability for revenue, so the fact that there's some slowdown with regard to some of that capital works is a little concerning. Is it one particular geography, one particularly government, or is it spread broadly across the business?

Mr Fenn: No, it's in one and it's in relation to budget spend.

Mr Hodge: Okay, thank you.

Operator: Thank you. The next question comes from Scott Ryall from Rimor Equity Research. Please go ahead.

Mr Ryall: Hi, thanks very much. I guess my first question is to Michael. I'm wondering if you could just talk us through – and I've asked this question previously, but the changes in guidance since 8 December just make me think that – and the contractual issues that we've had in the first half make me think that, or just make me question how often and what the quality of financial data that you're getting from the individual Business Unit is please? I guess a question for yourself and Peter, is there any spending required to improve the quality of financial data that you get on a monthly basis please?

Mr Ferguson: I don't think – the issue is not the quality of the financial data, that issue has been a change in circumstances between the dates, which has given rise to the forecast change. So, if you look at the changes from 8 December to now, the impact of the second half on the OMSA

contract, I think we called it out at the point we gave guidance in December, that it wasn't included in that and we needed to work through our planning on that. The issues that we've recognised around the Water projects are issues that have presented very recently, as has the issue with government spend. So, the issue is not with the quality of the data, the issues just with the changing in the environment that we're operating in.

Mr Ryall: Okay. Can you just remind me how long does it take you to get monthly information and what's the nature of the information you get each month please?

Mr Ferguson: Sure. So, we get detailed information across the business. We get flash reporting on working day 4 and then we work through the broader reporting and then we generally have a reforecast about three or four weeks after month end.

Mr Ryall: Right and what's that information that comes up, please?

Mr Ferguson: Just financial forecast information and profit and information on projects and it's very detailed. This issue is not with forecasting accuracy of the business. The issue has been new issues that have arisen with regards to Utilities contract and then issues in the environment that we have identified and quantified.

Mr Ryall: Yes, okay, it's been – no shortage of those, I guess. So, Peter, just one last question top down, the restructure to I guess collapse the Australian and New Zealand structures which you've outlined seems pretty sensible to me. Can you just comment on why that hasn't been done historically, in your view?

Mr Fenn: It's Grant here, I might just cover that, then Pete can finish that off. Look it's always been something that's been sitting in the background as something that has always been there as potential cost reduction position. We have not done it as we've been building our business there and we've not done it because we've historically had some concern as to how we would make sure that the New Zealand-ness of the business is maintained. Now, our New Zealand business has grown and done very, very well over the recent times, to the point where in almost everything that we do there, we are market leaders. We think now is the time that we can make this change without going, or without having the risk that we, or certainly the size of the risk that we previously viewed. So, it's not that we won't be concerned about making sure that the New Zealand-ness, the feeling of the New Zealand-ness of our business by government in New Zealand is not something that we won't be thinking about, we of course will be and we'll be making sure as we make this change that that aspect of our revenue generation is maintained. So we'll be doing a lot of work making sure that those relationships, et cetera and the view of decision making from our New Zealand customers are maintained. Peter, you might want to just follow on from that.

Mr Tompkins: Yes, Scott, I agree with you, it is logical and I agree with Grant's sentiment about making sure that you do this in a way that ensures that we get a single focus to the business, but ensure that we have the scale and representation in all geographies and now is the time where I feel confident that we have the team and the ability to do that.

Mr Ryall: Ok. All right, thank you, that's all I had at the moment.

Operator: Thank you. The next question is from Rohan Sundram from MST Financial. Please go ahead.

Mr Sundram: Thanks, morning team. A couple from me. I might just start with the guidance, so implied NPATA second half, $100 to $120 million, how much of that reflects seasonality versus actual improvement in the outlook and is that in any way representative as a base for growth in your view? Just trying to understand the level of normalisation we could see here.

Mr Fenn: Yes, look you've got aspects of both in there. To be frank, I'm not sure that we can sit down and exactly go through line by line how much there is in each. So these are detailed forecasts that have come up from the Business Units and you'll have both of those aspects in there.

Mr Sundram: Okay and on the asset sales, appreciate the commentary Peter, the decision to divest, Repurpose It, what's the rationale there?

Mr Tompkins: Look it's a very able business where we're one of the shareholders there and I think it's a very good opportunity and time to do it.

Mr Fenn: We're not the only owner there, right, there's some individuals who are in there as well, so we've also got those matters to deal with here. It is a very, very, very good asset that we think will be pretty highly contested in the market.

Mr Sundram: Okay, thanks guys.

Operator: Thank you. The next question is from Anthony Longo from J.P. Morgan. Please go ahead.

Mr Longo: Good morning everyone. Just following on from Scott's question earlier with respect to restructuring and then why it wasn't done earlier. Perhaps I just wanted to understand what's going to make a difference this time? I mean this business seems like it's been in perennial restructuring and I guess, Peter, in the role historically you mentioned you have had an experience in risk management. But what confidence can you give investors that we can actually see some execution this time around?

Mr Tompkins: I think you're making the point around the evolution of the way that the business has been organised in the past and that's been a very good reason. But what we're talking about now is a transformation program that's very much focused on creating highly scalable, sector-led businesses that's coupled to a transformation program and I mentioned earlier the target around the 4.5% EBITA margin. So, what you're seeing here is the mobilisation of a very, very clear and well-defined project that the leadership team is backing and that we have kicked off with the support of some external help.

Mr Longo: Great, appreciate that. Secondly, with respect to the sale of the transport business, I mean that was announced I think, what, eight o'clock, after market earlier this week. On the early read it looks like that multiples was pretty light on relative to what we thought could be achievable. Can you perhaps give a bit more context around the proceeds around that and then ultimately what those proceeds are going to be used for?

Mr Ferguson: It's Michael here. I think a couple of comments on the multiple, we were quite pleased with the multiple. That business for Downer does about $1 billion, $1 billion-and-a-bit revenue at 2% to 3% margin, so relative to comps we thought it was in fact a very good price.

Mr Longo: Fair enough. Then finally, I mean in terms of guidance, again similar to Scott's question, what confidence do you now have in giving visibility around guidance range just given you've

issued that from December and appreciate circumstances change, but I mean it's a bit of a worry that a month out you're seeing an 18% downgrade at the midpoint in a month.

Mr Fenn: Well specifics have been highlighted, so that's our view of where this is at. We've given the reconciliation there, so you can understand what's occurred.

Mr Longo: Okay. I guess we'll beg to differ. Thanks very much.

Operator: Thank you. The next question is from John Purtell from Macquarie. Please go ahead.

Mr Purtell: Good morning Grant, Peter and Michael. I just had a few questions please. Michael, maybe to start on the gearing side, obviously it's moved up to 2.3 times, how do you see that profiling through the second half? Obviously, you've got the Transport Projects sale there but you've also got the material restructuring costs and is there more a cash effect from those coming in 2024 or will that be also in 2023?

Mr Ferguson: Yes John, we're still working through the finality of how much the cash impact as a restructuring cost will be in 2023. I don't think it will be material to the gearing. When you look at the spike, there was obviously the increase in the net debt due to cash performance, but there's sort of been an equal contribution almost from the LTM EBITA decline. So, I guess for a return to normal cash conversion and improvement in earnings performance, we expect that to come down and then obviously to the extent we close Transport Projects this side of 30 June, that will have a pretty good impact on it as well.

Mr Purtell: Thank you. The second one, you flagged some further issues in terms of Water project there I think in New South Wales and also New Zealand wind farm, if you can just colour in what the issues are there and appreciate it's probably partly weather related, but the sooner you build, the better contracts to protect yourself for that type of thing going forward?

Mr Fenn: Look I'll just touch on the Water job. That started some time ago and has been consistently impacted by flooding on a number of sites. So right up until very recently, obviously, we've had a view that the revenue there ultimately would cover the costs. The latest forecast cost of completion, including a detailed view of prolongation costs and a view of, we'd say a conservative view, of recoverability from the customer on claims, that's the position that we've taken. I think if we had been looking at a dry period, then we wouldn't be looking at this loss, John, it's as simple as that. It's been absolutely smashed and whilst we thought that we could get our way through it, as we've done this final forecast cost to complete, that's been the answer that's come out. So that's where we are.

Mr Purtell: Okay and the final question I've got, just in terms of obviously the review that's been undertaken both internally and externally, just trying to get a sense of how extensive that's been and you've obviously reviewed revenue recognition around particularly where there's been a material WIP balance there, but has there been a broader review I guess outside of that and in terms of revenue recognition more generally? So that's the final question there and Grant, I'd like to echo all the earlier comments and wish you all the best going forward.

Mr Fenn: Yes, thank you John on that latter point. Just on the earlier, look rest assured – first of all, I'd point you to the ASX release and I really have to speak pretty largely to what's in there and not go too far beyond that, but you could imagine we do talk about some conclusions that we've made in that ASX release, John, which deals specifically to your issues that you raise

and that you could well understand that our view is that those have been adequately dealt with.

Mr Purtell: Thank you.

Operator: Thank you. Your next question comes from Reinhardt Van Der Walt from Bank of America. Please go ahead.

Mr Van Der Walt: Yes, good morning folks, thanks for taking my questions. Just wanted to check on the fixed price lump sum exposure across the work in hand at the moment. I notice that we haven't received that disclosure in this presentation. Could you just maybe give us a bit of comment around where the recovery risk is at the moment?

Mr Fenn: Yes, look I'm not sure, it's not really highlighted to me that we'd taken it out. Perhaps we can come back to you. This is not a business that is a hard dollar constructor in the normal course. Even in the Utilities contact that we have talked about here, there is sharing of risk.

Mr Van Der Walt: Okay, thanks. So just on the 4.5% medium term margin target, it looks like the $100 million cost out from forfeit consolidation should get you about 70 to 80 bps of improvement. Of that remaining 50-odd basis points, how much of that improvement is expected to be just weather normalisation and how much was actually genuine performance improvement in the business?

Mr Fenn: Yes, well we have been dealing with a fair bit of stuff here, but I'll leave it over to you, Pete, you've got to deal to it.

Mr Tompkins: Look, I think if you just take where we are the moment, they are historically abnormal EBITA margins. But the point we're making here is based off everything we know. We're creating buffers and resilience in the organisation and that partly comes from the $100 million of benefits, but also through optimisation and just making sure that we're focusing on the things that drive performance and that's a really important factor. I think the other point I'd leave you with is that as conditions improve, we've been very intentional here to say that 4.5% is not the ceiling. That's where we want to be sometime in FY25.

Mr Van Der Walt: Excellent, thanks.

Operator: Thank you. The next question is from Scott Ryall from Rimor Equity Research. Please go ahead.

Mr Ryall: Hi Peter, following up on one of the questions that you answered before where you said you've got some external help on your restructure, I was just wondering, I'm assume that's the management consultant. Could you tell us who it is and what you'll be doing to structure the relationship so that success is not defined as just executing the project and then walking away with their pretty large fee, which is typically the case, and actually it's structured so that you have sustainable benefits for the business going forward in terms of the profitability targets and things like that that you set please?

Mr Tompkins: Yes, Scott, you must have been sitting around our boardroom table, because they're the points that we were discussing amongst ourselves. The first point is yes, we are using one of the very top tier external consultants and the key point I mentioned in my presentation was that we've also mobilised our own project team and I have also appointed a Chief

Transformation Officer that will be responsible for ensuring that whilst our externals are providing us with that sophisticated view of how to set these programs up, it won't be too long before we take the running of that program and we're responsible for the achievement of the targets well into 2024 and 2025.

Mr Ryall: Okay and sorry, who's the transformation head internally?

Mr Tompkins: We're really pleased, I've been able to appoint Chris Pemberton to that role, so he joins my new leadership team and he started a couple of weeks ago.

Mr Ryall: Okay, all right, thank you. That's all I had.

Operator: Thank you. Your next question comes from Nathan Reilly from UBS. Please go ahead.

Mr Reilly: Hey Peter, just a question from me around the Queensland Rail contract, I presume this is a fixed price contract with Downer operating as the head contractor. Can you just give us an update please on how you're approaching the management of risk on the contract, particularly given you're partnering with the new rollingstock manufacturer there? Thanks.

Mr Tompkins: Yes, thanks Nathan. Look it's a good question, so we are the head proponent in that deal and we are applying a very similar commercial model to the one for HCMT and our Sydney project where we subordinate the delivery responsibility to our key delivery partners and yes, that's been a very significant focus in how we do that.

Mr Fenn: That's both on the train manufacturing and also on the facilities.

Mr Reilly: Okay, so all – any risk around delays around like those sets, you're saying, is pushed back to the manufacturer, okay.

Mr Tompkins: Ryan I think the phrase that you'd be looking for here is that back-to-back approach to ensuring we've got the most robust commercial structures in place with our delivery partners downstream.

Mr Fenn: Nathan, this isn't – obviously you and the people on the call here know that this isn't the first one of these. We've done a number of these now since Waratah and we think we sort of understand very closely what needs to be done, particularly with our customer to make sure that this is successful.

Mr Reilly: Okay, thanks for taking my questions.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Peter Tompkins for closing remarks.

Mr Tompkins: Yes, look I'd like to thank everybody for joining the call today and look forward to keeping everybody up to date as we go through the balance of the financial year. Thanks very much everybody.