
Michael: Good morning, everybody and welcome to the 2018 Downer Investor Day. We'd like to begin by acknowledging the Gadigal people of our nation who are the traditional owners of the land on which we meet today and pay our respects to their elders past and present. I'd also like to just give you an emergency evacuation briefing for the Shangri-La Hotel. There's a two-stage warning system. The first one is an alert tone which goes beep, beep and there'll be a voice announcement. If you hear beep, beep this means that the system's been activated and there is no need to be alarmed or to do anything whilst security investigates the alarm and you should just stay where you are and listen for instructions. The next tone is the evacuation tone, which is a whoop, whoop tone with a voice announcement and this means that we do need to evacuate. You should line up outside the exit doors and then hotel staff will escort you to the fire stairs, which you would have seen out the front there, and a Fire Warden will check the area to ensure the entire floor has been evacuated. The Assembly Area is the pedestrian zone on Cumberland Street, which is just out the back of the hotel.

Thank you very much again for being here. The schedule for this morning is that we will begin with this presentation from Grant Fenn. That will go for about 45 minutes. Then you've all been divided into groups of approximately 20. On your lanyard it will tell you what group you are in and it will also tell you the order of the meetings you will have after this opening presentation. After this opening presentation we will all go up to Level 3. On Level 3 there are four rooms. In each of those rooms there will be a presentation by the four divisions and your lanyard will tell you the order in which you rotate through those four rooms. Hopefully the complicated algorithm we use means that there won't be two groups in one room and none in another but we'll see what happens.

There will be a morning tea break and at the end of the last breakout room Q&A there will be a lunch, so you will be able to talk to the Downer executives during both the morning tea break and the lunch at the end, as well as during the Q&A sessions. I'd now like to hand over to Grant Fenn to give the only presentation and I'll be talking to you through the rest of the day. Thanks.

Mr Fenn: Thank you very much, Michael, and welcome everybody to the Downer Investor Day for 2018. I was sitting last night at home and just thinking about a few things that I needed to get across today and I was just wondering how many of these have I actually done now and this is number nine. Many more to come though, right, so it's not going to stop as of this one, and they've all been a little bit different. It's a bit of a retro round, right, so any of you that follow the rugby league, we're going back to the format that we had a number of years ago where you get to not only quiz me but you very much get to quiz the senior leaders in our organisation and that's been quite a hit over the years.

Last year we just changed it slightly but we're going back to the format where you will float around – well, not float but you will move around to each of the CEOs that run our business and you can ask them anything, right, so we don't script it. Hopefully your questions will be around the strategy but I guess you may have others. Historically that's been a very, very good format and the investors have got quite a lot out of being able to get to the coal face around what's really happening on the ground in Downer. So today that's going to be the approach

that we take and I'd be interested when we're finished all of this, when we're having lunch, to let me know whether you've got a lot out of it or whether you'd like to go back to the other but I think you'll enjoy it.

I'll just introduce some of our Downer executives and perhaps as I call your name out you might want to stand up and just let people know who you are. Some of these you will know very well but others you may not. So Michael Ferguson, our group's CFO. Where are you, Michael? There we are. Dana Nelson, Spotless COO, Sergio Cinerari, who is our infrastructure services CEO. Michael Miller, who is in our rail business and I'm going to talk more about that in a minute. Steve Killeen, our CEO of New Zealand. Janie Elrick, who is the CFO in our New Zealand business. Brendan Petersen, CEO of Mining, Energy and Industrial. I'm going to talk a bit more about that later. We've also got Warwick McEvoy, who is the CFO of that area, and also Pat Burke, who's the head of the O&M for Brendan.

Steve Schofield, where are you Steve? Head of HR for the group. Tony Cohen, our Treasurer. A number of you would know Tony obviously doing the finance. Paul Macfarlane. You know Michael Sharp. Vivian Tam. Viv, are you here? There we are. Vivian's our Deputy CFO and a very important part of the cogs within the management side of our business and does a fabulous job. Karen Winsbury, in Corporate Affairs and Investor Relations. Kylie Casey, Jessica Puz. Where's Leanne Giunta? Leanne is Michael Ferguson and my fabulous assistant. All of those people are available for you to talk to. Are we having a morning tea or anything, Michael, or are we just making everyone work slavishly through till lunch? Righto. During morning tea you can speak to any of those people and I would encourage you to do so.

I'm going to start with a very important slide. Some of you may have seen this before and heard me talk about it, and I say when I present that this is the most important slide of the day. If you take nothing more away from Investor Day 2018, I want you to take this slide away. This is the slide which helps you understand how we run our business, how we make our decisions, and we begin most of our important interactions with our staff and in many cases our customers with this slide as well. In itself there's nothing outrageous on here but it tells you exactly what the ethos of our business is and how we go about making decisions and thinking about our customers and our employees and how we go about our business. If I start on Our Purpose, it's to create and sustain the modern environment by building trusted relationships with our customers, and the part that I want to point you to here is the "trusted relationships;" that's what we're all about.

If you think about what we do, and I'll talk more about that in a moment, we have to be trusted. We are involved in critical things in the everyday life of people in Australia, across massive parts of the country, across very large parts of the population, so the people who ask us to do work for them have to trust us because what we do is so important in the lives of Australia. Very, very key.

What's Our Promise? Our promise is to work closely with our customers to help them succeed, using world-leading insights and solutions. Now again, there's nothing spectacular about that but I do want to concentrate on one part which is very important and that is what we care about is our customers' success. We take it as a given that if our customers are successful and we've been part of driving that customer success then we will be successful. We don't turn it around the other way. We're not here to take everything off the table. We're not here to

screw our customers just for a short-term gain. What we're here for is the trusted relationship and their success, and our belief in our business is that if we're part of that then we will be successful, our shareholders will be successful, our employees will do well, as will the rest of the stakeholders in our business. So it's very, very important that everyone that works in the Downer organisation, from the Board through to the people doing the work on the ground, understand that that's what we're about and it helps us in how we make our decisions.

Now what supports us in that are our four pillars: Safety – we spend an enormous amount of time, effort, money, it is genuinely a very key part of our culture. We care about this, we care about our people, we care about the people that work for us and we care about our customers' safety as well. Incredibly important. There wouldn't be almost a morning or an afternoon go by without that conversation being had at the very highest levels within our organisation and throughout the different parts of the management streams. We are about this a lot because the things that we do are inherently dangerous and we must make sure that we do them well and safely.

On the Delivery front, again if you're going to be a trusted partner to deliver the services that we are, you've actually got to deliver them and you've got to do it well and that means efficiently, cost effectively and with quality, and we've worked very hard at this. We don't always get it right but I can tell you when we don't get it right we address issues to make sure that we do get it right the next time. If you think about the things that we do, again in that critical infrastructure area, you know, if you came here on the rail this morning you can imagine what goes into making sure that those trains are all working well, and we do that across our business.

On the Relationships side, I've spoken about that. That is the business that we are in. You have to have relationships to be trusted, for people to trust you with the things that they do.

And of course Thought Leadership; you don't last very long in this game unless you can bring the best that there is in the world to the table and that's not necessarily the latest R&D technology. In many cases it's the way that we work, it's the way that we think, it's the way that we manage and it's the way that we join with our partners who might be subcontractors to actually deliver on the ground for our customers. Thought leadership is very key. What our customers don't expect us to be is to be out there in front of the world. In some cases we are but they don't expect us to be. What they expect us to be able to do is to be an expert in our field, to bring the best from around the country, from around the world, to the table to solve their issues and make them successful.

This slide, as I say, is very important and it is the one thing that I do care about in the way that you think about our business. Last year if you came to the 2017 Downer Investor Day we spent a lot of time talking about the trends that are shaping our thinking, in how we're running the company, how we're adjusting the portfolio, thinking about where we're going to expand, where we might contract, et cetera, and we talked about four things. Now nothing's changed here. In fact, of those four elements they've only got stronger, so we very much remain very, very interested in these things.

Increasing urbanisation and what's that driving. Australia is amazingly urbanised; far more than virtually any other country. We'll have 30 million in four cities by 2040. Sixty per cent of New Zealand's growth is in Auckland. Only seven of a hundred people in Victoria and New South Wales are settling outside of Sydney or Melbourne. Now why is that important? Well, coupled with growing population what that means is that we need to be thinking about all of the investment that is going to flow here, and you could see this in the budget on Tuesday evening, we need to be focusing on where we play in that game.

Thankfully we are in very, very large parts of dealing and investment for urbanisation and population growth. If you think about it, transport, health, education, very, very key parameters, utilities. How many schools have to be built for the population growth, which isn't slowing down and it won't? Universities, roads, rail, public transport, private transport, buses, rolling stock, et cetera. These remain very, very key to us and as an investor I think pretty key when you think about Downer, we are in all of the areas that you would say are driving the economy, driving what government is thinking about investing in. You can see that from the budget.

There's nothing changed there. If you were here last year you would see that there's an enormous amount going on here. Technology proliferation across all of this. We're spending a lot of time and effort on what we do with the Internet of Things. We are leaders in many of the markets in which we operate. In the rail space we're working very hard on artificial intelligence to be the best in the game. We think because of what's happening with population, urbanisation, et cetera, the government will continue its focus on outsourcing intelligently and, of course, our business is designed around servicing that market. Of course [both] government business for Downer is a massive part of what we do, over 60 per cent. They continue to invest, they have to, the population's growing and they pay the bills, of course. So that is our market.

I'm just going to touch for a minute - and you'll get the gist of where I'm going with this - these trends that are shaping our strategy, you probably don't think a lot about Downer when you wake up in the morning. You would have thought about it today perhaps as you're coming along to the Downer Investor Day. The Downer people that work in the teams across Downer, of course, think about Downer all the time but I'd suggest to you that the ecosystem that Downer has is quite extensive and I'd just encourage you and I'll point out a few things as we go here around how much Downer is involved in the everyday life of Australians.

From the time you wake up in the morning, when you reach over and you hit the snooze button on your iPhone, turn the light on, get up, have a shower, make yourself breakfast, I'm sure you're not thinking about Downer but of course it's not very hard at least to think about all of what goes in to make that happen. So whether it be the thermal coal that we're mining pushing directly into the power stations and the coal-fired power stations, those coal-fired power stations that we're maintaining or whether it be gas coming from the CSG or LNG coming into the system that's cooking your breakfast; whether it's electricity that comes down the distribution networks or the gas that's coming through the distribution networks that Downer is providing the full asset management and maintenance on; whether it's the Tesla power wall that we've installed for you; the generation that comes from the wind that we've erected, the wind turbines; the massive grid-sized solar panels and solar farms that we're creating; the battery storage that we're putting in

at the grid, you probably don't think about that but right across Australia and New Zealand we play an enormous part in just the focus of you getting up of a morning and getting yourself ready for work.

On the water side, when you have a shower, quite possibly the water could be coming from a plant that we've designed and built and we're now operating. When you go to the loo, I'm afraid we're on both ends of that, which is a bit interesting. So we do treatment of water and we also do waste water, and that's going on every day right across Australia. When you're thinking about going to work, how are you going to get there, what are you going to hop on? Are you going to take an on-demand bus for the first mile? That could be Downer. Are you going to take the LRV or the light rail? That certainly could be Downer. We could have built the track, we could be running Yarra trams, Gold Coast light rail, Parramatta light rail in the future and Auckland light rail in the future. That could well be Downer.

Heavy rail with Waratah Millennium, all the trains in Brisbane, all the trains in Perth. You drive on the roads, 55,000 and more [lane] kilometres that we maintain, networks that we manage, traffic lights that you go through. As you're running along the road we've got intelligent systems that are able to indicate to the operators what's on the road, where there's been a crash, and that's Downer. The light poles, intelligent lights, Internet of Things coming out of the lights; that's Downer.

When you connect into the system you've got the NBN, which we're the NBN's major provider of that system; UFB in New Zealand, Vodafone, Sparq and Telstra Wideband if you're connecting between businesses. If you're running through the airports, we may have built the terminal. We probably maintain it. We certainly will have done large parts of the tarmac and the electrical systems. When you're at work you might visit someone in a hospital. In that hospital we may well be running all but clinical services. Certainly the laundry, the FM.

Same with schools, when you drop your kid off to the school we could be doing the open spaces, we could be running the canteens, we could be doing the laundry, running the boarding houses. Certainly for the major buildings in the cities, doing the HVAC or the air conditioning. Universities, Town Halls, government buildings. If you're living in public housing, which I suspect you're not but you may be, we're probably looking after your house. We look after tens of thousands of houses across Australia. If you're going to the AFL or the rugby league or the rugby or soccer match, if you go to the MCG or if you go to Mount Smart Stadium or if you go to Eden Park or the like, you're going to be looked after by Spotless; that's Downer again.

Of course, overarching all of that you've got the Defence Force that keeps you safe and Downer is one of the largest provider of defence services in the country. Not just at the level of base and a State management but also in operational ability to fight wars. So we've got both below and above capability in very significant ways. In terms of those items that I highlight that we're thinking through around urbanisation, population, aging, government services, et cetera, you can see that we have a very large footprint and still a lot to grow into because in many of the things that I highlight here, we are in some areas and not in others. We are thin in many areas and want to get thicker in many of those.

We have customers where we can leverage additional services, significant across our networks. In all, I think in the sense of what is driving this economy, what is driving government expenditure and where Downer is placed, we're in a very good spot and our service lines – you know this, I don't need to spend a lot of time on this but our service lines, as you walk through the day in your life as you get up and go to bed, really does cover, as I say, most of the things that you're doing and it's important and you can see at the bottom here the revenue, work in hand and the number of people. We're a business now that has around about 56,000 people. What we think as policy, et cetera, it does matter. Increasingly we're having our say in how those things are managed at the government level.

We've had some recent changes in our organisation structure and importantly they are designed to allow us to better service our customers. One of the key jobs of both the Board and myself is to make sure that the structure of our organisation, the way that we manage, is going to enhance the way that we can actually service our customers and make money from it and so it's never a finished thing. Structures need to change as the times change and we've made some very key changes in the last couple of months, and I'll just touch on a few of those.

If you look at transport, rail and utilities, and if I take you down to the first subline here, what we've done is we've taken our rail business, our rolling stock, the rolling stock side of our rail business, which was sitting on its own organisationally, and you would remember that we have sold the freight side of that business some time ago or in December, we've taken that rail business and we've said, "Look, what we want to do is we want to create a transport centre of excellence within our business," and I'll touch on that in a moment. So what we've done is that rail business now reports through into Infrastructure Services with Sergio Cinerari and that will be something that perhaps you can quiz Serge about, about the opportunities that sit there, and I'll talk a bit more about it in a minute.

We've also taken the opportunity to join together EC&M and Mining. As you can see again on that line from an organisational perspective that is now called Mining, Energy and Industrial. Of course we have Spotless in the middle, which remains there with Dana, and then the next level down we have New Zealand. Remember this is an organisational chart, it is not the way we necessarily report right now. When we report, we report all of the lines. We join them up across Australia and New Zealand and we report across all of those lines at the top. How they're managed internally is reflected in those bottom three lines. Infrastructure Services, Spotless, Mining, Energy and Industrial and New Zealand, and you can see the way that we've reflected there the New Zealand business cuts across Transport, Rail, Utilities, Spotless, EC&M, so it's got quite a footprint across the New Zealand business and we manage that directly through Steve Killeen and the New Zealand management team.

Of course at the bottom here we have governance and oversight which I'll talk more about in a moment. Just on that transport, the creation of this transport centre of excellence, so why have we put rail in with our roads business and our network management business et cetera? You can see on the right-hand side, in transport at the moment we do road maintenance, which includes surfacing, we do a lot of network management, so people or governments give us large parts of their road networks that we look after. We've got bitumen and logistics and infrastructure projects.

Of course on the rail side you've got manufacturing of rolling stock, you've got maintenance and public transport operations and I guess you could say, "Well, gee, perhaps they're different?" but they're not really. This is all about mobility and getting people from one spot to another and the fact is that our customer is exactly the same. On occasions we could be in talking to Transport for New South Wales on roads and rail infrastructure, as that team walks out they could be passed in the corridor by the rail rolling stock guys going in to see exactly the same people.

We've taken the opportunity for that customer alignment to bring it together. We think that will have great advantage and we think it already is because the conversation with our customers across all of the State governments has now expanded greatly and we can have that conversation together and we've closed the loop on it without relying on all of the customer relationship things that we have to sort of drag in to make that work.

There's a bit about scale and efficiency here. There is an efficiency dividend that comes out of that, which I'm sure you can quiz Serge and Michael on as you go round and speak to them. It is multi-modal focus and that is the way that the governments are thinking about life. They're not thinking about roads, they're not thinking about light rail individually, they're not thinking about heavy rail, they're not just thinking about on-demand buses, they're thinking about how all of this works together. So it makes very great sense for us to also think in that way and we need to present multi-modal solutions to them and that's a large part of why we're doing what we're doing. The numbers on the bottom of this slide are transport and rail in Australia, so they won't tie up with the group numbers which also include New Zealand.

I'll move on to Mining, Energy and Industrials. In the EC&M side we've got engineering, we've got construction, we've got operations and maintenance increasingly. On the mining side, open cut mining, underground, blasting, asset and tyre management, but again, certainly on the mining side, and of course EC&M has a lot of gas customers and also industrial customers but historically this business has been very leveraged into the mining sector and what we're finding increasingly is that we have not only the same customers in terms of companies but increasingly we're getting the same customers in terms of the people that we are dealing with in both the construction O&M and also the mining site on the mining clients. Very much like the transport position, there is a great deal of customer alignment in our strategic thinking around bringing these two businesses together.

It's very clear to us and we're working on a number of things at the moment around a combination of services into mining corporations, and the conversation is enhanced by having these two businesses together, I can assure you. You might say, "Well, perhaps you could have done this anyway by people talking to each other," and of course you can. There's no doubt about that. This makes it much quicker, much faster and much less prone to actually not getting that done and so I'm expecting very big things out of the combination of these two businesses together. Similarly to what we're talking about in transport. Very, very excited about this and similarly on the numbers on the bottom, this is Australia, it doesn't include New Zealand.

Customer alignment, scale and efficiency, we want to extend the service offerings. We think there's a lot of crossover here and the best of both businesses can be

brought to bear for our customers, where before it was difficult to get that done. We can't step away from the fact that also accelerated change program, and by that I mean there's efficiency that comes from bringing these two businesses together and we can accelerate the change within those businesses and that's what's happening right now. Again, I'd encourage you to talk to Brendan about that when you come along to the Mining, Energy and Industrial's part of your roundabout.

The next thing that I want to talk about, I get asked a lot of questions in virtually every presentation that I give to investors and banks and others, and I guess it's very understandable, and that is, "Okay, this is a big beast, you do a lot of things, you're in everything," and we're talking about the ecosystem so we can't deny that, that's exactly what we do, we do a lot of stuff. "You have a number of divisions and you have 56,000 people now in your operation, so how the hell do you manage that? Why shouldn't we be concerned about the fact that you're not going to apply the attention to the business?" And so I thought for this session let's talk about that upfront. I think it's very worthy of a discussion, particularly in light of the last month or so where there's been a lot of discussion around Boards and management and that's likely to continue for a bit.

Some of that is dealt with by the first slide that I showed you around purpose and promise and pillars but the other side of this is, is how do you actually manage this business for success? So I thought I would give you an insight into how we think about this because it is important and if I'm sitting in your shoes and you're thinking about, "Well, what do I do with the investments?" this is probably the most important thing, other than the types of markets we're in and the opportunities, but this is an extremely important aspect of what I would be thinking about if I was sitting in your shoes.

I'll try and run through this and again, when you roll through if there's anything in here that you'd like to expand on, please ask because I think this is well worth the time and effort to speak on this. There's four real things that we care about in management of this business and the first is business planning and governance, and I'll come back and talk in more detail about that. Very importantly the accountability framework, so who's accountable in our organisation. How do we manage risk? And then talent and capability. Those four things really drive what the Board and I care about and the executive management care about. Of course, yes, there's the technical aspects of doing the work and the safety and the delivery and the thought leadership and relationships, et cetera, but this is how we run what you could consider to be quite a complex business, and this isn't rocket science, this is business 101 but it is very important because it drives the culture through the organisation and it's important for you to understand.

We talk about business planning and governance, it starts with the annual three year plan. This isn't unusual. Most companies do this. We, I think, do a very, very good job in looking at each of our businesses; we do a bottom-up approach and also a top down.

(36:00) [Video/Audio froze]

(36:17) So revenue earnings, costs, capex, return on investment, that's all occurring at the base level within the business and the CEOs that are here have been right at the coal face in building those up right now. We then, of course, at

the corporate level put a lot of challenge to that. We have a lot of discussions about the strategy and what we think about that. We challenge and somewhere in the middle of all of that we come up with a view on what that business should produce over those three years and that's not just earnings, it's cash, it's return on investment, it's how much capex you're going to spend, where are you going to focus the business on, what are you going to do with your employees' safety, et cetera. So we set that target and as you know we're one of the only businesses in our sector that put guidance out, right, and the planning that we go into allows us to be able to do that.

Now that guidance, you may say, "You're crazy putting it out," or, "Why do you do it?" or whatever. For us it's a great thing for us to do because it keeps the business very well correlated to the investment market. We put it out there. When we put it out there, we meet it. If you think about Downer over the last nine years, we've not had a miss. It's very important, I would say, and it's been a key part of our success, if we don't put guidance out there I think it's much harder to make our businesses work for that. Once it's out there, we've got to produce and we're all in it together and that's the way that works on guidance.

We have common management systems and processes, so we think about the way we go about business, we think about how we need cash returns, et cetera, in a similar way across all our businesses. That doesn't mean necessarily that they've all got the same IT system, although increasingly that's improving, but the management system that we put over the top is generally the same and in the key elements it is exactly the same.

We have a focus on capital allocation returns and cash conversion. There are a few things that we care about and those are it, and we concentrate those very much in that business planning and governance cycle. So if you're a senior executive, or an executive, or a project manager in our place, you know what these things mean and you care about them. We have monthly business performance reviews and importantly we're able from the centre, once we have this locked down, we almost manage by exception. So our businesses are able to manage within the boundaries of what that business plan is and then we manage by exception to forecast. Again, this might be business 101 for you but it's important because this is exactly how we make this thing work.

I'll just talk now about the accountability framework which is so important to us and I get the questions like, "How could you possibly be on top of this all?" and the fact is that from an accountability point of view yes, it does all come to me but we have very senior CEOs who run each part of our business and they are very accountable for the operation in a full way. We make sure that we don't get into positions where, for the most part, or for any part really, where you're going to have this going on at the executive level. We try and keep it very, very accountable and we make sure that we don't cross the boundaries here.

If the corporate office or myself dives in, it's on very limited occasions. It's up to the accountable executive team to actually get most things right. We can't run this place as a blamange. You have to have accountable areas, so accountable divisions, accountable CEOs, and within those divisions accountable areas. It might sound small but it's important.

The remuneration structure drives very consistent safety earnings, cash and people focus. So in the way that we want to manage, we create our incentives through our rem structure. Yes, we care about earnings, we care about returns, which is all built in through the plan, we care about cash, we care about safety and that's what we remunerate on. What we have avoided – you may not avoid it in your business but what we avoid here is a long list of individual KPIs around the individual parts of a particular division's achievement at micro levels. We don't run the business like that. We have our very high level KPIs and that's what we stick to and that'll be earnings, cash and with that you get returns, safety and people measures and they're at a high level.

So what we allow our executive teams to do is to manage their bundle within that, make those trade-offs. We don't try and make the trade-offs for them because what we see – and we see it in a lot of customers of ours – we see perversion, really crazy outcomes coming about because the management teams are focused in on particular areas that - on higher setting is important but at the end of the day creates crazy outcomes. So we don't do that. We focus in right at the high level.

Our CEOs have a high level of decision rights. These guys are very important. They absolutely run their areas. Transparency is highly valued. You can't be in this business if you think you're simply going to run your own show and not tell anybody either the good or the bad. So what comes with the level of trust that we give our organisation and our senior leaders, the obligation is that this is a very transparent and open business. Of course in a business this size it's not always perfect but that is how we think about our business. You've got to be transparent and I think we are.

Our accountability framework is very, very key. When people say, "Well, how can you manage that?" you know, it's not me necessarily managing all these parts. I care about a number of very key things in the portfolio and the capital allocation but there are very senior, well-paid people that are running very significant parts of our business and that's why our business is scalable.

On the risk management side, that is something that I care about very significantly, as does the Board. Safety – I must say our business is risk averse. We could grow significantly more if we had a different risk aversion. I'm not sure that that growth would end up in profitability. I think we would be far more volatile. We certainly wouldn't be able to meet the last nine years' earnings guidance. We could be out there jumping into every major road job, every major rail job, like some of our peers or some of the people that I guess you might be comparing us to; we don't do that. We have a high risk aversion to pieces of business that we think are difficult to manage and that you can't make money on or are very highly competitive where the Ts and Cs are not in your favour et cetera. We stay away from them. The overarching position with our risk management is that is the position that we take.

We have a terrific legal team that is in the middle of everything that goes on within our business. Every tender that we put out or look to bid for, we have a very significant legal team that sits across that, from the contract terms to the cash flow, et cetera, and we try at a very early stage to make sure that the terms of a particular contract can be met, we've got return requirements et cetera, and the legal team works for corporate and I'd say is one of the major reasons for our

success over the last number of years. That's very different to most of the legal teams in companies similar to us.

We've got, I think, a good bid approval process. We also have a project management office that sits corporately and internal audit. Most companies have those. I've got to say that I do think that our PMO and our internal audit, it's as much about pull, right, so many parts of our business want these guys in there. We could triple the size of our PMO and our internal audit and they'd still have lots of work to do because parts of our business are actually asking them to come in and, "Can you please do a review and let's have a look at that?" On the risk management front (1) we're risk averse and (2) I think we are looking at the right things. We don't always get it right but in a large part it has been part of the success of our organisation.

Then I'll get to talent and capability. We are an employer of choice right now and that comes partly with being successful. Nine years ago, 10 year ago we weren't that. We had our own issues and in fact no-one wanted to work here. We're now in a position where we are getting knocked down from very senior people in many of our peers wanting to come and work for Downer because they can see the opportunity. We pay well. We do not skimp on the salaries of our employees, particularly the chief money makers and key people in our business.

We have stability. Our people like working for Downer, they like the culture and whilst we always have turnover of some level, the senior people and most of the money makers have been here for a long time and are stable and we're building a team up behind them as well. The culture is good. We are an innovative business. In our divisions we do a lot of stuff that keeps people interested. The breadth of the business and the opportunity is the other thing. Talent and capability, it doesn't matter what you have on the others, if you don't have the right people in these jobs you're not going to do very well. Thankfully I think we have. We've got a great team and that we continue to work on this.

I would say in answer to the questions that I always get around this - this is a longwinded answer to that but it's very important. "You need to know how we manage the business and of course we've got the Board that sits above this which we're very transparent"

(48:16) [Audio/video freezes]

(48:32) And we've got zero harm committee – not unusual – audit and risk committee; tender risk evaluation committee. When we get a tender which has certain attributes that puts it in the high risk category, either through size or because of what we're doing there, then it goes through to the Board. If we've got particular projects which we think - ongoing, not just at the bid stage - require further oversight by the Board then we'll create particular committees and you can see up here we talk about the Rail Projects Committee, very topical given what happened on Waratah, so we've got those committees that sit across Sydney growth trains and also HCMT, which is the Melbourne trains, and other committees, of course.

Then you come to my role as CEO and the people that sit in, I guess, helping me manage that area. We've got Michael in the Chief Financial Officer, we've got Strategy Growth and Innovation run by David Cattell, which sort of helps challenge the business and makes sure that we continue to challenge the business on a

whole host of fronts. We've got a Project Management Office that works through with SG&I, of course Zero Harm, Legal, Human Resources and Corporate Affairs and Investor Relations. Now, the way that I think about that is that people say to me, "Well, how many direct reports do you have?" and I would say, "Well, I have four operational direct reports because the rest of these people work with me to help manage that operational business," and that is the way it actually works in practice. And of course we have an executive committee which meets every month where all of the people, both at the corporate level and in the operational level, meet to discuss performance and issues and safety and the like.

I'll move now on to the Spotless integration, which I think is run very well. We've restructured the Spotless business model to align much more to the contracts and capability by sector. That's one of the things that we've done and no doubt you can ask further questions of Dana today as you go around on that but I think that puts us in a much better position to be able to [win work].

We're investing in a new leadership team and have invested within our growth market and we've got those in place now. We've aligned our tender management and governance processes, so Spotless now works to the Downer governance model in that respect and I think that's also working well. We've got a joint approach to procurement and that's led to better buying across both businesses and we talked before about what we think we may be able to achieve in synergies in that area, which is significant.

We've merged our IT operations and business models and I'll just speak in a moment around our capital structure that has been strengthened. Over 2 billion has been added to the Spotless order book. We've had wins in core markets. We've had a good outcome on renewals and contract extensions in the very recent period. Again, questions to Dana would be great here. We have a joint approach to markets, so both Downer and Spotless coming together to actually drive the right outcome for each of our customers, and we're also capturing what we'd call revenue leakage. These are areas where Downer has been previously hiring others to do work and there's a lot of money involved here, about \$150 million of revenue. Train cleaning, FM, NBN line work, Downer office and depot cleaning and there's many other things. All of that bodes well for the future.

One of the questions you might want to ask Michael Ferguson is, "Exactly what are we doing on refinancing?" We'll come to that in a moment actually. Just on joint bidding, market and pipeline development. In defence we've got a coordinated approach to markets as one of Australia's largest and most diverse service providers to defence. Spotless was very large in below the line and now Downer is coming in with the above the line and we think that's going to work very well and we're well coordinated here.

Commercial and Social M&E Contracting, that's mechanical and electrical, we've got an integrated service capability offering the best of Downer and Spotless businesses, and that's AE Smith and Nuvo and also the Downer business. We've got an aligned model in New Zealand. So the way that Spotless model worked New Zealand was that those lines would come back to Australia and that created great difficulty for their customer base. What we've now done is we've said, "No. In New Zealand, you know, you'll be run out of New Zealand and it'll be a very close association with the Downer New Zealand and you know that that's the way that we run the Downer side of our operation in New Zealand." It's very much run

out – well, it is run out of New Zealand across all of the streams. And that's having a very significant impact on the way that the customers are thinking about us. It's very parochial there and they also want quick decision making. We're very happy about what's going to happen in New Zealand.

In Transport Services with combining capability to self-perform services throughout the supply chain, you know, rail, as we've talked about and infrastructure PPPs. Integrated service offering end to end service offering to mineral and oil and gas resource customers, which we're in discussion with at the moment. Capable of providing services from pit to port. Again, extending our capability.

Joint utility sector approach – we've got a large utilities business in Downer. Spotless, also a utilities business, thankfully focused in on slightly different areas and bringing them together allows us to extend that service capability and that's happening today and that business now is effectively joined together from a management perspective.

I'll just touch on Royal Adelaide Hospital. We commenced facility management subcontract in September 2017. As we've spoken about before, we've had numerous issues relating to the scope of services and a number of commercial issues there. It's currently cash negative because we've got a higher number of full-time employees than originally forecast. Now, we're working on that and we're getting those numbers down and we're also in discussions with government and Celsus et cetera about a new model going forward and if you've been keeping abreast of this in the paper you'll see that there's massive clinical issues which sort of compound into the non-clinical areas that we look after. There's acknowledgement from government that there's a real issue here that needs to be sorted and we expect it will be sorted. We're working on that right now.

Refinancing. I jumped ahead before there. The one thing that I guess sits out there as an area of issue for us has been the fact that the 12 per cent that we don't own in Spotless has meant that the group needs to run two separate debt platforms. Downer, with a very low leverage, if any, and Spotless historically with a very high leverage. Downer with facilities that had lots of tenure and Spotless really running on 13 month extensions pretty much because of the issues and credit quality that was perceived by the market at the time.

We are pleased to say that we coordinated a syndicated loan refinancing that was launched on 19 March. A number of the bankers here would be involved in that. 400 million for Downer and a tenure split between four and five years; 900 million for Spotless, tenure split between three and four years. So the book build was completed on 4 May with both transactions significantly oversubscribed and well supported by both existing and new lenders. The financial close is scheduled for the week commencing 14 May. Downer's credit strength and 88 per cent equity interest was pivotal to the success of the refinancing of Spotless and we're very happy with the outcome here.

Our strategic goals had been achieved. Increased lender diversification, we've brought new lenders into the scheme. For Spotless a more stable, long term funding platform with extended duration. So increasing from 1.7 years at 31 December 2017 to more than three years at 30 June 2018, and that's a very good outcome, and an overall reduction in funding costs. We're very, very happy with that position and for those bankers that are here that participated, thank you

very much in getting to where we are at the moment and hopefully that will settle next week.

On to Guidance. We are targeting consolidated underlying net profit after tax and before amortisation of acquired intangible assets (NPATA) of 295 million before minority interests for the 2018 financial year. We confirm our guidance as we have done this time for the last, sort of, nine years so we're very happy about that and look forward to getting to August and having another discussion with you about what 2019 looks like. We're in the middle of building our forecasts right now and as you would expect, there's a lot of activity going on around where we grow and what we do. From my perspective, all really exciting. This is a business that's going places.

I'm very happy to see you all here. I would encourage you really to ask a lot of questions of the team here. You don't often get an opportunity to sit down with just some of the guys or some of the people, men and women that are running these organisations and really take the opportunity to ask some of the tough questions. Michael Ferguson and I will be in one of those as well, so any corporate stuff you can fire our way as well. Thanks very much. Have a great day. See you at lunch.

Michael:

Thanks. Now what is going to happen is you're all going to go out the back of the room, take the lifts up to level 3. On the back of your lanyard it will tell you the order through which you will rotate the four breakout sessions. The times will be a bit different but in each group there will be a Downer representative helping you make your way. The rooms are right next to each other so it shouldn't be too difficult. I'm going to just ask everyone to, as quickly as you can, move out the back, get in the lifts and go up to level 3 and go to the first room on your lanyard. Your lanyard should say Group 1, Group 2, Group 3 or Group 4. See you upstairs.

END OF RECORDING (61:00)