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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 one on your telephone key pad.

I would now like to hand the conference over to Mr Grant Fenn, CEO. Please go ahead.

Grant Fenn: Good morning ladies and gentlemen, thank you for joining us for the presentation of the Downer EDI Limited results, for the six months to 31 December, 2017. My name is Grant Fenn and I am the CEO of Downer Group.

This morning I'll take you through an overview of the results, and then Michael Ferguson, our CFO, will cover the financial position of the Company in more detail. We'll take questions at the end of the presentation.

With the acquisition of the Spotless Group at the end of 2017 financial year, our prior year comparisons for the reporting period are based on proforma accounts that include Spotless as if they were 100% owned for the period 1 July 2016 to 31 December 2016. If you have any queries in relation to these proforma comparisons, please call Michael Sharp following the presentation.

Let's begin with these results.

I'm very pleased with the results that we've announced this morning for the first half. Revenue's up 69% and up 21% on a proforma basis. Underlying earnings, that's NPATA, is up 64% and up 12.7% to proforma.

In our November 2017 market update, Downer presented its underlying Group NPATA full year guidance of $295 million before minority interests. This included $202 million for Downer and $93 million for Spotless. Trading to date in the current year indicates the Company will deliver its full year guidance for shareholders.

Our work in hand is at record levels of $39.2 billion, made up of $21.7 billion for Downer and $17.5 billion for Spotless. Our weighted pipeline is significant and growing across virtually all parts of our operations over a three-year outlook. We're spending a lot of time and effort driving our sales revenue into the future.

Group operating cashflow was $307 million, or 88% of EBITDA, with Downer achieving a conversion rate of 106%. Spotless cash management has improved markedly over the half, and if we add back the reversal of prior period creditor holds, transaction costs and the impact of Royal Adelaide Hospital, they would be at a conversion rate of around 95% of underlying EBITDA. Michael Ferguson will talk more about this later.

The strength of the operating cashflow has driven gearing to 24.6% at the end of December. If we include cash from the sale of our freight rail business on 2 January 2018, gearing reduces to 22.6%. The Company has substantial capacity and liquidity.

The Board has declared a 50% franked interim dividend of $0.13 per share, that will be payable on April 4, 2018, to shareholders on the register at March 7. We are very pleased to increase our interim dividend by $0.01 as we look to reward our shareholders for their support. Michael will have more to say on dividends and franking levels later on.

On the Zero Harm front, we continue to improve performances across our business, including the new addition of Hawkins and Spotless. Our approach is now firmly centred on critical risk controls. Our lost time injury frequency rate is currently at 0.69 incidents per million man hours, and our total recordable injury frequency rate is at 3.38 incidents per million man hours.

Now let's look at the performance of each of our six service lines. We'll start with Transport. This includes the Group's road, rail, infrastructure, bridge, airport and marine port businesses. Another strong performance from Transport with EBITA up 34% off an 36% increase in revenue.

The revenue on earnings results represent strong performances across projects, bitumen, maintenance and servicing. We have an unmatched capability and opportunity in the transport sector across Australia and New Zealand, and we continue to invest in our facilities, products, services and people. This sector will remain strong for some years to come as governments look to address urban transport infrastructure deficits and population growth in major cities.

Utilities comprises the Group's power, gas, water, renewables, technology and communications businesses. Utilities' EBITA increased to $45.8 million, or up 7.8% off a 24% revenue increase. A strong performance on the NBN contracts in Australia was the prime driver of EBITA growth, along with our power, gas and water businesses across both Australia and New Zealand.

EBITA margin decreased from 6.2% to 5.4% due to growth in lower margin renewables projects. We expect this decline is temporary, and margins will revert as project execution improves.

Privatisation contestability and business improvement will be a constant theme across all distribution networks in all Australian states, as well as in New Zealand, and we have an unmatched position.

Our Rail division provides lifecycle rail asset solutions for passenger rolling stock, light rail and bus operations and maintenance. Over the past four years the Rail business has been very tough, particularly in the freight or locomotive space. During the period, we sold our freight rail business to our long-term partner Progress Rail. Downer will now concentrate on the passenger market, with state governments across the country investing in new tracks, signal infrastructure and rolling stock for their networks. We've been very successful in converting a number of opportunities over the past two years, and we are clearly the market leader in this space.

We're now a significant way through the Sydney Growth Train project, the 24 and up to 69 suburban trains for the Sydney network. The first complete train has been loaded onto the transport ship [Unclear] in China, for its voyage to Australia, where it will undergo testing and commissioning prior to entering service in June 2018.

Similarly, the High Capacity Metro Train project for the Victorian government, 65 metro-style trains with options up to 100, is progressing well. The first car body has been built and is in testing. The train mock-up sitting in Federation Square has received very positive reviews from both the customer and the public. Both these contracts are now well progressed and will provide long-term earnings to Downer.

On the numbers side, total revenue has increased by $144 million to $544 million. EBITA increased by $4 million to $18 million. We expect minimal impact on the Rail division's full year earnings, despite the sale of the freight rail business, as we restructure and reduce costs.

The 30-year Waratah through-life support contract continues to perform very well, reflecting the excellent performance of the Waratah train. Downers trains, both Waratah and the Millennium, lead the pack in Sydney by a long way. The Waratah, Millennium and SGT trains will all be maintained out of our current Waratah depot in Auburn, providing synergies and improved service performance into the future.

Through our Keolis Downer joint venture, we continue to focus on growing our market share in private sector operations of light rail, heavy rail and buses. It's a key growth market for the Group. During the period our Yarra Trains franchise was extended for a further seven years, and the second stage of the Gold Coast has come online.

Our light rail operations in Melbourne and the Gold Coast, and our KD buses, continue to perform well.

Engineering, Construction and Maintenance comprises the Group's industrial construction and maintenance services, the New Zealand projects business as well as the Group's Defence and resource-based consultancies. Revenue increased by $266 million to $1.24 billion, and EBITA improved $9.6 million to $36.7 million, largely due to oil and gas construction on Ichthys, Gorgon and Wheatstone, and a full six-month impact of the Hawkins acquisition.

We've been very successful in converting our capability from mining to gas, and we're working hard to create sustainable service positions with our customers over the long term. We've had a strong growth in our Maintenance business, with a diverse portfolio of long-term service contacts in oil and gas, resources and power generation. New construction wins for BHP Iron Ore and Oz Minerals Carrapateena have been pleasing in the half, and we've seen strong growth in our Defence consultancies and Mineral Technologies.

The Mining division provides mine consulting, open cut and underground mining, blasting services, plant maintenance, time management and mine rehabilitation. During the period we impaired the value of goodwill in the Mining business with a non-cash free-tax charge of $77 million. Mining's historic high levels of returns have reduced due to non-renewables to material contracts and delays in securing alternative contracts. I remain positive about Mining's prospects with a series of material opportunities for which we are well placed.

We have seen increased in volume at Roy Hill and Goonyella, and the new Gruyere Gold project commences shortly.

Our business must continually adapt to the challenges and opportunities in front of us. Yesterday I announced to our employees the merger of our Mining division with our Engineering, Construction and Maintenance division, to create a new operating division, Mining, Energy and Industrial Services.

Mining, Energy and Industrial Services will provide our current suite of contract mining services and engineering, construction and maintenance services, to our industrial energy and resource-based customers. This combination of skills and capabilities across many common customers will allow us to meet our customers' needs in the most efficient and comprehensive way. Brendan Peterson, currently chief executive officer of EC&M, has been appointed to the new role of Chief Executive Officer, Mining, Energy and Industrial services. David Overall, who has very successfully served as Mining's chief executive officer since 2009, has decided to retire in September 2018. David will work with me over the next six months to ensure a smooth transition for Brendan, and the new Mining, Energy and Industrial services division.

We've in a large part been very pleased with what we've found in Spotless. The earnings for Spotless in the six-month period are in line with Downer's business case. Cost synergies are expected to exceed our original estimates of $20 million to $40 million. Revenue opportunities are significant and continue to increase, and we're seeing the potential value of Spotless in adopting key Downer management processes, systems and capability.

The integration of Spotless is substantially complete. Our teams are working closely together across a range of important areas. The joint bidding group, which was formed immediately after the offer closed, is performing very well. We've made a number of enhancements to the Spotless risk management capability by extending the scope of our project management office, internal audit and legal and commercial teams across the Spotless business. Spotless has also implemented our major bid approval processes including TCC and [Trek].

A number of Downer executives have moved into senior leadership positions in the Spotless organisation.

Spotless and Downer continue to focus on the Royal Adelaide Hospital contract, which as reported in November is an underperforming contract that's in its first year of a 30-year term, and is currently cash-negative. Spotless and Downer are working hard to address the various issues and turn the contract performance around, and commercial discussions are continuing with the customer. I'll now hand over to Michael Ferguson, our Group CFO, to discuss the financials in more detail. Mike?

Michael Ferguson: Thanks, Grant, and good morning, ladies and gentlemen. I'll begin with an overview of Downer's underlying financial performance, followed by an outline of the individually significant items recognised during the period, reconciling the underlying performance to the group's statutory result. Slide 12 sets out the key financial metrics of the group and compares our underlying result for the period to a like-for-like pro forma result for first half of 2017.

This pro forma is the combination of Downer and Spotless's interim results for the period to 31 December 2016, as set out in their respective investor presentations. Consistent with the market update on 27 November, we are reporting two additional key financial metrics, being EBITA and NPATA. The inclusion of these metrics allows us to separate the impact on the Group's results of the non-cash amortisation charge arising from the identifiable intangible assets recognised as part of the fair value or purchase price accounting exercise undertaken following the acquisition of Spotless.

I will outline the amounts recognised and their impact on the results as I move through the presentation. Group revenue including Downer's share from joint ventures increased by 20.6% to $6.1 billion. Pleasingly, all divisions showed increases in revenue from the prior corresponding period, with the most significant proportionate increases arising in the transport, EC&M and rail divisions.

Underlying EBITA of $222 million represents an increase of 14.5%. This again is a result of increased earnings in each division, with the exception of mining, whose prior period result included significant contributions from the completion of the Christmas Creek contract. The impact of the non-cash amortisation is then demonstrated by the fact that the growth in revenue and EBITA does not translate to a commensurate increase in EBIT, with consolidated underlying EBIT of $192 million only increasing by 3.2%.

As shown in the adjustments line, this has been impacted by a non-cash identifiable intangible amortisation expense arising from the Spotless acquisition of $20.7 million. The identifiable intangibles recognised a total $423 million and represent the value ascribed to customer contracts and relationships and the Spotless brand. The first-half amortisation charge is consistent with the estimate provided as part of our market update on 27 November.

Net interest expense has increased, predominantly due to the funding costs of the debt used to fund the Spotless acquisition and lower than average cash balances held throughout the period. Our tax expense of $40.2 million reflects an effective tax rate of 27%, which is consistent with prior periods. This is below the Australian statutory rate of 30% due to non-assessable research and development incentives, non-taxable distributions from joint ventures and a lower corporate tax rate in New Zealand.

Given both businesses operate predominantly in Australia and New Zealand, the tax profiles of Downer and Spotless are very similar. This all equates to an underlying net profit after tax and before amortisation, or NPATA, of $132 million, which is up 12.7% on the prior year and represents 45% of our full-year NPATA guidance of $295 million. This is a pleasing result given the cyclical nature of some of the divisions within the Downer Group.

Downer's return on funds employed has decreased from - it decreased to 11.3% from 13% in the prior corresponding period. This is due to reduced ROPI from the mining business as a result of the decline in earnings, offset by increases across the other divisions. The Directors have declared an interim of $0.13 per share, franked at 50%. This equates to a payout ratio of 60% of first-half NPATA.

Whilst this is at the top end of the target range outlined in our November market update, assuming the Group achieves the targeted full-year NPATA of $295 million and retains the final dividend at $0.13 per share, the full-year payout ratio will reduce to 54%. We have previously flagged the Group's limited access to franking credits. This is as a result of the timing of tax payments relative to the increased quantum of dividend as a result of the equity raising in March 2017, as well as the significant earnings contribution from New Zealand. In addition, the Group may soon be able to access significant revenue losses following the disposal of its equity interest as part of the recent recapitalisation of Reliance Rail.

We therefore consider it appropriate to reduce the level of franking attached to the increased dividend. Moving on to slide 13, showing the reconciliation of the underlying to the statutory result. The Group's first-half statutory result includes the impact of a number of significant non-recurring items totalling $126.3 million post-tax. These items are set out in the table. The first item relates to the loss on divestment of Downer's freight rail business announced on 21 November last June. As a result of the sale, Downer has recognised a non-cash write-down of $40 million relating to the freight rail goodwill and legacy assets. As Grant mentioned earlier, the sale completed with proceeds received on 2 January 2018.

The second item relates to the impairment of mining goodwill for an amount of $77 million. This was announced on 5 February and is reflected in our statutory result for the period. The remaining three items represent costs incurred by Spotless as a result of the acquisition and integration. These items were identified as part of the Spotless review and purchase price accounting exercise and total $9.9 million. In addition to these items, the Spotless review and purchase price accounting exercise also identified items that had been adjusted against the opening acquisition balance sheet and not reflected in Downer's statutory earnings, being goodwill impairment of $40 million for the Spotless laundry business and other balance sheet adjustments, including the write-down of mobilisation, bid costs and other balance sheet items, netting to $29.4 million.

Again, these items were highlighted in our 27 November market update. These have been recognised as part of the fair value accounting exercise, which requires Downer to recognise assets and liabilities at their fair value at the acquisition date, with the adjusting entry recognised as goodwill. They have also been recognised as individually significant items in the standalone Spotless income statement, also released today.

Moving on to operating cash flow, as Grant highlighted at the opening, the combined Group achieved an operating cash flow to EBITDA conversion of 88% for the half year, with Group operating cash flow after adjusting for net interest and tax paid totalling $332 million. With regards to the standalone performance of the businesses, Downer's operating cash performance continues to be strong across all divisions, resulting in normalised EBITDA conversion of 110%, whilst the Spotless performance normalised EBITDA conversion of 61% is a credible result, considering the impact of prior period transaction costs and working capital management, which has been in part offset by the initial benefits of the harmonisation with Downer's operating cash flow and reporting systems.

In terms of overall cash flow, net capital expenditure was $188.4 million, an increase of $93 million from the prior period. The increase includes $52 million of new mining equipment, including a new excavator that has been recently put to work at Goonyella and a new fleet of trucks to respond to increasing volumes at Roy Hill. In addition, the business continues to invest in growth CapEx to respond to increasing customer demands - increasing customer demand in many of its divisions. Spotless capital includes new laundry rental stock of $17 million and other contract-related CapEx of $22 million.

During the period, the Group paid the remaining $391 million for the purchase price for Spotless representing the incremental ownership from 30 June 2017 until the close of the offer on 28 August. Other acquisitions represent the settlement for the purchase of UrbanGrid, a small WA-based gas, water and energy services business to complement our utilities offering and the settlement of the Cabrini Laundry acquisition on 1 July 2017. IT transformation and other includes a further $8.1 million to upgrade and standardise our IT infrastructure and applications environments.

This spend continues to reduce period on period and is expected to complete during 2018. The rail division has also upgraded its fleet management system for both the Waratah TLS contract and in preparation for the commencement of HCMT and SGT operations. Financing cash outflow for the period was a net $11.8 million with net proceeds from borrowings of $64 million and combined ordinary and [rates] dividends paid at $75 million. Cash held at 31 December, aided by the strong operating cash performance, was $490 million, which when combined with undrawn facilities of $885 million provides us with significant liquidity of just under $1.4 billion.

Consistent with the strong operating performance, the Downer balance sheet remains strong, with a diversified debt portfolio and average debt duration of 3.2 years. The Spotless weighted average debt duration is 1.67 years, compared to 1.85 years at 30 June 2017. Spotless also remains comfortably within its debt covenants at 31% for 2017. During the period, Spotless lenders agreed to extend the maturity date to around $600 million of debt facilities and $180 million of performance bonding facilities following the change of control to Downer.

There is a high degree of correlation between the Spotless and Downer banking groups, and a detailed review and refinance of the Spotless debt and bonding facilities is planned to commence in the first half of calendar 2018. Finally, turning to the balance sheet. Shareholders' equity following the completion of the Spotless acquisition is $3.2 billion. Net debt of the combined Group is $1.047 billion, which translates to gearing of 24.6%, reducing to 22.6% following the receipt of proceeds from the sale of the freight rail business on 2 January. Including the present value of operating lease commitments on plant and commitment, gearing at 31 December increases to 27%.

We continue to sit comfortably within our credit rating and debt covenant metrics. Our credit rating with Fitch remains at BBB, with a stable outlook. Thank you, and I'll now hand back to Grant.

Grant Fenn: Thanks, Michael. Now if we move on to work in hand. Our total Group work in hand increased to $39.2 billion, driven by a $17.5 billion contribution from Spotless. Excluding the impact of Spotless and the freight rail contracts, Group work in hand was up around 1.4% since June 2017 to $21.74 billion. New contract wins of $4.7 billion were recorded during the period, whilst the freight rail sale reduced work in hand by around $930 million. Recurring revenue contributes about $5.5 billion total work in hand.

Then moving to the outlook, Downer confirms that it's targeting consolidated underlying NPATA of $295 million before minority increases for the 2018 financial year, and that includes underlying NPATA of $202 million for Downer and $93 million for Spotless. Look, that concludes the formal presentation, and I'll now hand back to the facilitator for questions. Thank you.

Operator: If you wish to ask a question, please press star-one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star-two. If you are on a speakerphone, please pick up the handset to ask your question. The first question comes from Craig Wong-Pan from Deutsche Bank. Please go ahead.

Craig Wong-Pan: (Deutsche Bank, Analyst) Morning. I've just got a couple of divisional margin questions. Firstly, on the mining division, I noticed there was quite lower margins there than what you reported previously. Were there any kind of one-off costs that were impacting that business or do you expect margins around that level to continue going forward?

Grant Fenn: No. I'd hope margins would improve from where they are, mate. In the comparable period, I think the numbers are probably a bit better than what we would normally expect, but we've got a job to do on - with the current revenue base on costs, to be frank.

Craig Wong-Pan: (Deutsche Bank, Analyst) So was the weak margin more about, I guess, those contracts winding down and you still had the labour, which meant that the margin was lower for the period?

Grant Fenn: Yes.

Craig Wong-Pan: (Deutsche Bank, Analyst) Okay. Then similarly just on the renewables space, could you just touch a bit on the point you made about the renewables margins impacting the Utilities division? You expected those to be temporary. Could you just talk through a bit about if that's any specific contracts or if those are renewable projects in general or if it's isolated?

Grant Fenn: Yes. So the point that we're making there is that we've been very successful in winning renewable projects. They are typically bid pretty tightly, but that's okay. That's the business. We've had a couple that we haven't done as well on. These projects are very, very large and I think we're all coming to grips on how you make money on these. But we suspect into the future, they'll be fine. We've learnt a lot on the first couple. So it's more about that than anything else.

Craig Wong-Pan: (Deutsche Bank, Analyst) Okay. Then if I touch on Spotless, just want to understand within those numbers, could you talk to how - if there's any safety benefits or cost benefits that's coming through in those numbers or is that still to come through in future periods?

Grant Fenn: Look, there are benefits coming through, but we've only really had this business for a bit over six months in control, so it's very marginal at this point, but it will - it certainly will come through. It's a bit hard with so much stuff moving around. I would think that in the next year we'll see that come through and we'll be able to call it out.

Michael Ferguson: Yes. I mean, Craig, we called out five in our guidance update on 27 November and, yeah, inheriting the 295 and we've probably captured two - I expect, two that are easily identifiable on a pro rata basis, which is, given where we are, is good. They're embedded in both the Downer and Spotless results.

Craig Wong-Pan: (Deutsche Bank, Analyst) Okay. Great. Thanks. That's helpful. That's all my questions.

Operator: Thank you. Your next question comes from James Redfern from Merrill Lynch. Please go ahead.

James Redfern: (Merrill Lynch, Analyst) Yes. Good morning, Grant. I did just want to get a bit more colour on the Royal Adelaide Hospital contract, just to get a feel for how large that contract is within the Facility Services division and then also how we should be thinking about mining EBIT margins, given the decline in the first half. I think it was 3% or 3.5%. Is that a one-off and how we should be thinking about that going forward? Thanks.

Grant Fenn: Yes, so Royal Adelaide, we're in the middle of negotiations and discussions with our customer there, so there's not a lot that I want to give away here around the scope of that. But it's a large contract. We're doing everything other than clinical aspects of that hospital, so it's a material contract. It goes for 30 years. So it's important to us to get that right undoubtedly, so that's why we're calling it out at this point. We're very working very hard at improving it and we are seeing improvements coming through on our operational side, but it's still [capture] negative and we've got a bit of work to do with our customer there to get that right. On the mining side, no, our mining returns should be higher than what they are in this particular period. We've had the situation where we've had a couple of our most profitable contracts that have ended.

We've not been so lucky as to be able to quickly dovetail into new contracts and with that, we've got labour and overhead that sits there as we're bidding, et cetera. Now, we're very hopeful that we'll pick up another couple of contracts in the next period, but we - they haven't yet been announced and we're working very hard on them. But I wouldn't want to see that business at the margin that we're reporting in this half.

James Redfern: (Merrill Lynch, Analyst) Right. Okay. Thanks. So just in terms of outlook for the Mining division, you are fairly upbeat that you're going to start winning more contracts, because some of your competitors have been winning quite a lot of work and they're quite upbeat on the mining sector. So do you share that same view?

Grant Fenn: Look, there's - yes. I'm not sure that they're winning a huge amount and I'm not sure exactly - so it's in Australia. We've had the issue of a number of the ones of the contracts that we've been focused on that have been delayed and pushed out, as well as having the - a couple of very profitable contracts dropping away. So, yes, all I can say is we're hoping for better results into the future.

James Redfern: (Merrill Lynch, Analyst) Okay. Very good. Okay. Great. Thank you.

Grant Fenn: I should say part of what I've announced today to the market, we spoke to our business yesterday about is looking to make sure that we can put that business in the best possible light to win better than its fair share of the contracts that are available.

James Redfern: (Merrill Lynch, Analyst) Yes. All right. Excellent. Okay, Grant. Thank you.

Operator: Thank you. Your next question comes from Rohan Sundram from Citi. Please go ahead.

Rohan Sundram: (Citi, Analyst) Hi, guys. Just a couple of questions. Firstly, can I just ask how much of your guidance do you feel is locked in at this point in time or do you feel that there's still a bit more work to be won?

Grant Fenn: Yes. There's always - no. There's always work to be won and delivered. It's not at - it's probably at higher levels now than what it would be, in many ways, because Spotless has a higher proportion of business that's actually already known and long term, so it's probably a bit higher. But we're always in a position where we still have to win work at this point. We're only towards the end of February.

Rohan Sundram: (Citi, Analyst) Okay. Thanks, mate. Just secondly on the Royal Adelaide Hospital, I appreciate your comments earlier, can I just ask, are you comfortable with - in terms of the way you're accounting for it, is that…

Grant Fenn: Yes.

Rohan Sundram: (Citi, Analyst) …is that a method that can be sustained, so that you are sufficiently ring-fencing it from the underlying earnings and your guidance?

Grant Fenn: Look, I'm not really sure what that means. At the moment, we're accounting for it, we think, very appropriately, but we've got to make sure that this - we turn this around in a cash position, otherwise you've got an onerous contract, right? So our position is that we'll be able to do that. Should we not be able to do it, I guess, you'll be the first to hear it.

Rohan Sundram: (Citi, Analyst) Okay. Thanks, Grant. No worries.

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

Nathan Reilly: (UBS, Analyst) Good morning, gents. Just another question around the cash flow. Just looking at Spotless' underlying or normalised EBITDA conversion, excluding the transaction costs, clearly that 61% figure is impacted to a degree by the Royal Adelaide Hospital. Can you just talk just maybe through what that number might have looked like excluding Royal Adelaide Hospital?

Grant Fenn: Yes. It's in the sort of high eighties.

Nathan Reilly: (UBS, Analyst) Okay. So that's - it's still, I guess, below what you'd be targeting from a Downer perspective. Can you talk us through - earlier days obviously in terms of your management of Spotless, but talk us through some of the initiatives you're looking at planning out to try and lift that conversion at Spotless.

Grant Fenn: Yes. I guess we can, but also you've got to remember here that we - we've started also the reversal of what was a pretty heavy creditor hold, so, Michael, you might want to talk about that.

Michael Ferguson: I guess there's a couple of comments on it. We haven't really set what the conversion rate for Spotless through long term will be based off the different profile of those contracts to the Downer contract. So, like, for example, a higher proportion of PPP contracts is going to have a lower initial operating cash conversion and, yes, through the long-term cycle that should reverse, but we're not - we haven't landed exactly what the targets are. In relation to what we've done in the business, we've pretty much harmonised the operating cash flows systems in Downer into Spotless and that starts from incentive base.

So we've pushed cash incentives to levels of the business that match those accountable for the customer relationships and cash collection and then we also started our robust monthly reporting cycle and cash management reporting processes, which are fairly straightforward, but just the cash flow discipline that has been in the Downer business for a number of years is starting to come into Spotless.

Nathan Reilly: (UBS, Analyst) Right. You mentioned there was a creditor catch up there as well. Is that right?

Michael Ferguson: Yes. So, yes, there was a fairly - when - yes, when we picked the position up at 30 June last year, there was a fairly big creditor hold, which we're unwinding, so it will take a few periods to see that translate through the operating cash flow conversion.

Nathan Reilly: (UBS, Analyst) Okay. Thank you. Finally, just on mining, Grant, can you just talk me maybe through the thought process behind merging the contract mining business with the EC&M business? Then just a comment maybe around whether you still think this is a core business for Downer on a medium to longer term view, just given the smaller scale in that business.

Grant Fenn: Yes. Look, the combination of those two businesses together, it doesn't mean that we won't have a mining business, of course we will, but the customer base, particularly on the mining side, yes, of course, we've got gas, et cetera, in EC&M as well. But on the mining side, the customer base is very similar and increasingly we are doing both construction and engineering work, as well as mining work. So it wasn't too hard a position to say, well, okay, we can be more efficient; we can deal with the customer through this new combination. I think it will be very exciting. I think there's a cost story there and there's also a more customer centricity here and our ability to deal with the same customer through one part of Downer as opposed to two.

Nathan Reilly: (UBS, Analyst) Got it. Okay. Thanks for that.

Grant Fenn: Yes. Sorry, mate. The second part of - sorry. What was the second part of the question?

Nathan Reilly: (UBS, Analyst) Just the - your views around whether it's a - like as a core business for Downer on a medium to longer term view.

Grant Fenn: Well, all businesses are core until they're not, right? That's sort of the way it works, particularly in these sorts of things. Look, the mining business has been an exceptionally good business for us over many years and in some ways some of the questions, I guess, we're getting, I guess, would point to the fact that we're seen to be a bit countercyclical right now, because the Mining division's earnings are off a bit, when perhaps others are calling a buoyant market. If we think back to perhaps three or four years ago, it was quite the reverse where our competitors had fallen in a heap considerably and far further than where our mining business currently is, but we were in fact at record levels and record margins. So - and that goes to the type of business that contract mining is.

It's a business with a relatively small number of large contracts and if we can only be so lucky to be able to completely dovetail losses with gains, that'd be great, but we're not always able to do that and that's in this case as well. So as I've said in my address here, I'm still very positive about the mining business. We've got a very good team. They do a great job. Our customers like us a lot. We will win more contracts in - as they come to the market and we hope that we'll build our margin back up and that's what we intend to do.

Nathan Reilly: (UBS, Analyst) Okay. Thanks for that.

Operator: Thank you. Once again, if you wish to ask a question, please press star-1 on your telephone and wait for name to be announced. Your next question comes from John Purtell from Macquarie. Please go ahead.

John Purtell: (Macquarie, Analyst) Good morning guys, just a couple of questions thanks. Just in relation to again, Royal Adelaide. Grant, you said back in end of November that this was a six to nine month fix there, in terms of getting it where you want it to. Is that still the case? How do you see the timeline from here in terms of completion of those commercial discussions and improving your cash position?

Grant Fenn: Yeah, I think that's the timeframe. Right now, of course, there is an election and a caretaker period in South Australia. Whilst we're talking, there won't be any solution to the issues in that timeframe. But I would say six to nine months, as we said.

John Purtell: (Macquarie, Analyst) Thank you and just in relation to some of the joint bidding opportunities that you see out there for Downer and Spotless. Can you give us some examples of contracts that you're currently bidding, to the extent you can, that show the benefits of having the two as one?

Grant Fenn: Yeah, sure. We've spoken about some of these before John. But we're bidding stuff in the mining space. We're also looking at bidding in the gas - oil and gas, where the customers are looking for an extended level of services, so not just soft services and not just harder FM services. The bringing together of those two and I guess we certainly lead the market and in some ways, the market can now respond to having the capability that we provide.

As well as across the Downer suite of infrastructure, Spotless is now servicing over 100 sites in New Zealand for Downer. They're doing a lot of work for Hawkins, as Hawkins wins business. Now servicing Waratah Trains, Millennium Trains, very hopefully at some point in the future we could talk trams, HCMT. Each time an opportunity comes up in FM and all the customer bases that we have, we are actively now working both on tenders and also unsolicited proposals around the opportunity to combine our businesses. I think that's got the potential to be immensely powerful.

John Purtell: (Macquarie, Analyst) Thank you and just one last one just in relation to both the base business and Spotless, just in terms of the win rates and retention rates for Spotless. How those are tracking over the last six months and tendering opportunities more broadly for the base Downer business.

Grant Fenn: All of that looks okay. Spotless has had some extensions on very important contracts over the last couple of months. Downer's win rates continue to be pretty good in some parts. In some parts we're winning all the business. But it's no real difference to where it's been in the past, John.

We've got some buoyant markets that we're dealing with, particularly in transport infrastructure, both in Australia and New Zealand. Hawkins' position is very good, obviously with other issues that are going on out there. From a bidding and winning position, I think our position is pretty good. We are spending time with Spotless on making sure that we can put our best foot forward.

But they're a good bidding organisation in their own right. But we're working very hard with them. I'm not too worried in the short term. I'm very positive about it. I think the two organisations are working very, very well together. But the bidding groups are helping each other. I guess we'll see over the longer term. But I'm happy enough as we are.

John Purtell: (Macquarie, Analyst) Thank you.

Operator: Thank you. Your next question comes from [Joel Young Wellington] from JP Morgan. Please go ahead.

Joel Young Wellington: (JP Morgan, Analyst) Good morning, just a couple of quick questions for me, just firstly on Spotless. You saw a bit of revenue growth in the first half. Can you just touch on - and you mentioned that you'd seen some contract renewals. Can you just touch on where the revenue growth has come from please and also, just on synergies? Can you just say how many - what quantum of synergies was recognised in the first half and whether those numbers were included within the Spotless EBIT please?

Michael Ferguson: Yeah, just on the synergies, it's a combination, so where they fall. If you look at our guidance for $295 million and we call that $5 million in that number spread across the businesses and then we've delivered 44% of that number throughout.

The majority of the synergies at the moment have fallen into Spotless, because they result from the management staged executive costs and also initial procurement gains. So initial procurement gains of matching rate cards and things have given blended benefits to both groups. But the majority of that has been captured in Spotless. That's about $2 million the first half.

Joel Young Wellington: (JP Morgan, Analyst) Okay and just on the revenue growth?

Michael Ferguson: So there is a - the contributions from [Capri]. There is the impact of the Carrapateena acquisition has gone into this half versus last half. That's a reasonably hard revenue, lower margined business. That's the biggest individual contribution.

Grant Fenn: Royal Adelaide also.

Michael Ferguson: Royal Adelaide is also there in the PPP space. They're the two significant ones.

Joel Young Wellington: (JP Morgan, Analyst) Okay and if you skip those two out, what would the organic growth look like for the business please?

Grant Fenn: I don't know mate. You can do the sums. I haven't done them.

Joel Young Wellington: (JP Morgan, Analyst) Fair enough and then just turning to the cash flow, I wanted to just ask about net debt. The number came in a little bit higher than I was expecting. I think there was a payment for some acquisition of shares that went through - is not reflected in the first half net debt number which led to the number being a bit higher for the full year.

Will you be able to give any guidance on where you'd expect net debt to come out for the full year? Or can you say whether you expect net debt to reduce from its current level?

Michael Ferguson: The biggest impact - so there is the funding of the Spotless - the residual Spotless share was - the majority of that was the equity raising proceeds and the timing of that, just from where - the percentage that we closed the offer at around 30 June through to when we - where we were at 22 August.

Then capex is a little bit higher than prior periods, which was driven by the growth capex in mining for the new digger at Goonyella and Roy Hill truck fleet. We've seen a little bit higher growth capex than otherwise. But there is a bunch of things. Dividend is higher as well, so that will impact the full year. But it's [22] post the sale of [Peach]. It will be somewhere we expect between [20 and 22] for the full year. There is a lot of movement.

[Inaudible – multiple speakers]

Michael Ferguson: But it's hard to predict until we know. We've got some growth capex for mining that is predicated on when you work and the timing of that cash flow versus your earnings, as you know, there is a separation or a gap there. The gearing might be - there is an artificial impact of the gearing until you match the spend and the earnings.

Joel Young Wellington: (JP Morgan, Analyst) Yeah and would you expect net debt to reduce from its current level by the year end?

Michael Ferguson: Yes.

Joel Young Wellington: (JP Morgan, Analyst) Okay, that's positive and just finally, just on the stake that's left in Spotless, the minority stake. Have you got any plans about trying to acquire that or what are your thoughts about that residual stake that's left on the Spotless ownership?

Grant Fenn: Oh well it just sits there mate. We don't need it. We're doing everything we need with the business. It is what it is. We've not been in any discussions with the other significant shareholder. We continue to run the business as if it's a fully owned business.

Joel Young Wellington: (JP Morgan, Analyst) Okay, that's great. Thanks very much.

Operator: Thank you. Your next question comes from Paul Butler from Credit Suisse. Please go ahead.

Paul Butler: (Credit Suisse, Analyst) Hi. Thank you. I just wanted to ask about the renewables business that you mentioned, where you said you've been quite successful bidding, but margins are tight. What sort of a growth outlook in that business and what can you do to improve the margins there

Grant Fenn: Yeah, growth outlook is strong. Obviously, most of the states have got very high renewable energy targets. They'll be satisfied through solar and wind largely and also battery, as an edge up to that. So that market looks to be pretty buoyant for a long time. But they're large scale and they are very - not particularly difficult in themselves engineering wise.

But you need to - because they're bid at pretty tight margins, you can't have too many the things that upset you. Whether it be ground conditions or weather or whatever. I think all of the contractors are still in a position of making sure that they have very good execution on construction of these projects. We're going okay on them, but we think we can improve and the margins will increase. That's our view.

Paul Butler: (Credit Suisse, Analyst) Are you seeing any changes in the level of competition there?

Grant Fenn: Yeah. Every man and his dog is in there trying to build these things. It was the path that most of the industrial construction providers went to, where - when mining - when the mining boom ended and there wasn't a lot of development in mine sites. Most people turned to these areas. There is a fair bit of competition in there.

We're in a very good spot here though, because we've historically been one of only a few that have been major players in wind. We're also a very large electrical contractor. The coupling of those things has meant that we've had a pretty good start to this. We're in the top few of the contracting in this area. Our push now is to make sure that we can make decent money out of it.

Paul Butler: (Credit Suisse, Analyst) Okay and can I ask - coming back to mining. I mean obviously a lot of others in the market are pretty upbeat about the prospects there. Is this just simply the timing of contracts? Or - you don't seen particularly upbeat on the prospects there.

Grant Fenn: Well, that's probably a reflection of the fact that our profit is going backwards. But no - look, I said. I'm very positive about our mining business and we have in the past, if you like, been counter-cyclical on the upside. We are a bit counter-cyclical on the downside here now and that is in part because of the timing of what's happened to the contracts.

As I said, we - this type of business has a handful of major contracts and sometimes you just can't make sure that it works in - as dovetailed as you'd like, as I said. We've got some work to do. I think we've got to work on our cost base and efficiency in that area and we will. We've made - with the change and the coming together of our ECM business with our mining business I think that will help. But we've got a very good mining business and I've got no doubt that they'll bounce back over the course of the next 12 months of the year.

Paul Butler: (Credit Suisse, Analyst) Yes. Just, lastly, are you seeing any issues with lead times of equipment which impact your ability to bid for the mining business?

Grant Fenn: Yes, the lead times have been reducing, there's no doubt about it. We've been somewhat ahead of the curve there and, given what's happened with a couple of those major contracts, we've been in a position where we have been able to move fleets into new opportunities and increase volumes. So we haven't been affected at this point.

Paul Butler: (Credit Suisse, Analyst) Okay, thank you.

Operator: Thank you. Your next question is a follow-up from Craig Wong-Pan, please go ahead.

Craig Wong-Pan: (Deutsche Bank, Analyst): Hi, I just wanted to ask a question about the comment you made around Spotless's cash conversion being around 80% if you back out your Royal Adelaide Hospital costs. I mean, by my calculations, that's just that the monthly loss that you were running at has deteriorated. Could you just confirm if that's the case? If it is, what has driven that performance to deteriorate versus what you reported late last year?

Grant Fenn: Yes, no, the monthly cash negative is improving.

Craig Wong-Pan: (Deutsche Bank, Analyst): Okay.

Michael Ferguson: There's a lot of initial mobilisation costs, Craig, in the [unclear] impact for cash. So, yes, there was the mobilisation pre-the commencement of the contract, and that's what we flagged as part of our adjustments in our purchase price cutting exercise. So the losses have actually reduced over the last six months, but the total impact on the cash includes the mobilisation costs that we have expensed through our individual [unclear], [that's] [unclear].

Craig Wong-Pan: (Deutsche Bank, Analyst): Okay, great, that's good to note that it is improving, thanks.

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

Grant Fenn: Okay, well, look, thank you very much for listening to us this morning. If you have any questions that - or further questions, please forward those through to Michael Sharp. Thanks for your time.

End of Transcript