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FY22 Full Year Results, Investor Webcast transcript

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Operator: Thank you for standing by, and welcome to the Downer Full 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'll need to press the star key, followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr Grant Fenn, CEO. Please go ahead.

Mr Fenn: Good morning, everyone. My name's Grant Fenn and I'm the Chief Executive Officer of Downer. And here with me today is Michael Ferguson, our Chief Financial Officer. I'll begin with the highlights of the past 12 months. Michael will then go through the financials, and I'll then come back and discuss the outlook, and then we'll open up the call for questions.

Let's move to Slide Two, summary of FY22 financial results, showing the financial performance of the 12 months to 30 June 2022. The year's been challenging for most businesses, including Downer. That said, the results announced today in the circumstances are good. Early in FY22 we were confronted with the Delta and Omicron versions of COVID-19 leading to lockdowns across Australia and New Zealand, disrupting workflows and supply chains, and resulting in employees and subcontractors being absent for extended periods. And we were impacted by severe weather, particularly over the last eight months of the year. I would like to take this opportunity to acknowledge and thank our people for continuing to deliver for our customers in those challenging times.

Revenue for our Urban Services business was up 10.8% to $11.5 billion. Most of the increase was in construction related activities in building and projects. Underlying NPATA was $225.3 million, and our Urban Services EBITA was $508.1 million, down 3% with the productivity and cost impact of COVID-19 and weather. You'll remember that we told you at our Investor Day in April that EBITA was down 4.7% after Q3. We also said we expected to claw some of that back with a strong

Q4, and we did. Our cashflow performance was good, with underlying cash conversion at 88.9%. The group is in a very strong financial position with gearing at just 17.7% and net debt at 1.6x EBITDA. Given the strength of the business, the Board's declared a final dividend of $0.12 per share, taking the full year dividend payout to $0.24.

Now I'll touch on some of the accomplishments of the year. Our sustainability reporting and performance has continued to improve, as have our external ratings. We are a good corporate citizen, and we're getting much better at demonstrating that to investors. Today, we published our 2022 Sustainability Report. It's a comprehensive report, and I encourage you to go to our website and have a read. Importantly, we reduced our Scope 1 and 2 greenhouse gas emissions by 26% and achieved our Sustainability Linked Loan KPI targets, and of course reducing the borrowing costs under that facility as a result. We continue to focus on and invest in our people. We launched our THRIVE program focused on female leadership development. It provides an opportunity for females in our organisation to develop new skills and build a network of colleagues across the Group, and the results have been really encouraging.

During the year we made great progress on Board renewal, with Mark Chellew joining the Board as Chairman, and we've added three new Directors, Mark Binns, Mark Menhinnitt and Adelle Howse. We also finalised the divestment of our last Mining businesses and our Hospitality business. We continue to roll out our quality system, The Downer Standard. Having consistent and effective standards across the delivery aspects of our business is crucial to project performance and higher margins.

We also opened the new Rosehill Sustainable Resource Centre, the most efficient asphalt and recycling facility in the country.

Downer is highly levered to the economy's transition to a net zero economy. We spoke about this at length at our Investor Day in June. It represents a large growth opportunity for the Downer Group. A net zero emissions future will require adjustments to almost all urban infrastructure, but particularly power generation and storage, power transmission and distribution, electric vehicle augmentation, building

energy management, and transportation. The amount of money required to be spent on infrastructure is mindboggling. Downer is right in the middle of this, with capabilities across our portfolio that are in high demand.

One of Downer's major technical capabilities is in power. We're the market leader in design and construction of power transmission and distribution networks, and a market leader in renewable generation and electrical contracting. With our suite of technical skills, we're in a prime position to grow our business in what will be a massive transformation effort. And this is already starting to occur. We're at our customer sites. We know their assets. And, as I'll touch on later, we're already working with many of them to reduce their emissions.

Turning to Slide Five, you see the makeup of Downer's business following the divestment of our non-core businesses. Transport has long been the powerhouse of the Group, contributing over half the Group's revenue. Facilities makes up 35%, and Utilities is currently 15%. I expect Utilities to grow substantially over the coming years as it focuses on the opportunities from the net zero transition.

In the next part of the presentation, I'm going to take a little bit of time to go through each business and some of the important things happening in each. We'll start with Road Services, which contributed almost half of the total transport revenue. Roads was impacted by severe weather throughout FY22, but on the positive side, we're now seeing strong demand for recovery work. We opened the new Sustainable Resource Recovery Centre at Rosehill, Sydney – a fantastic facility that'll lead the market with capacity to produce 550,000 tonnes of high recycle content asphalt each year.

We were awarded Transurban CityLink and West Gate Tunnel Road Network Management contracts in Melbourne. We secured the $800 million road maintenance contract in Auckland. And we acquired Fowlers Asphalting in Victoria. We lead the industry in the use of recycled materials and we're increasing our investment in R&D to produce lower emissions products and low energy manufacturing processes. The products we're creating and the way we will produce them will ultimately have a big impact on State and Local Government emissions.

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In Rail and Transit Systems we submitted our bid for the next generation of Queensland trains. If successful, this will materially increase our rail EBIT contribution through to 2031 and cement our position as the largest passenger rollingstock maintainer in Australia and New Zealand for the next 30 years. That project award is expected in December.

We've completed the first phase of the Women on Track program in our Packenham Depot. This is a great initiative to get more females into the rail industry, jointly sponsored with the Victorian Government. And we've now delivered over half the High Capacity Metro Trains fleet in Melbourne with 35 sets delivered. We successfully completed the eight-year component change out of the Waratah fleet and have developed the technical case to increase the time between bogie overhauls, potentially eliminating one entire bogie overhaul and $80 million in costs. We've also developed a raft of upgrades and innovation initiatives for the Waratah and SGT fleets, including initiatives that will reduce energy consumption by around 15%.

The Projects business had a good year with a strong pipeline of work ahead. We won the Waurn Ponds Rail Alliance contract in Victoria, secured the Western Port Highway Upgrade also in Victoria. We achieved the highest pre-qualification status from all State road authorities. We won the Warringah Freeway Upgrade project, and that's a key enabler to connect the new Western Harbour Tunnel to the Northern Beaches Link. And we were awarded an alliance contract with Waka Kotahi NZ Transport Agency for the delivery of two harbourside shared paths on the edges of Wellington Harbour.

Moving to Utilities and the Power business within that. In May, we entered the New Zealand transmission market for the first time with a five-year service contract with Transpower. This will be the foundation contract for expansion of our broader power capabilities in New Zealand. We successfully completed the design and installation of 46 megawatts of solar generation across 550 Queensland schools, contributing to $26 million in annual power savings. We've been appointed to the Ausgrid Overhead Services Panel for the first time – this is big news in New South Wales – and we'll now establish an electrical distribution and maintenance business here.

The AusNet gas network, which we operate and manage, and have done since 2009, has been ranked by the Australian Energy Regulator as the number one gas distribution network in Australia. We were appointed one of four panellists to the Major Road Projects Victoria Utilities Panel, and we were awarded two out of three of the first projects released. We've been the only service provider appointed by APA to Strategic Relationship Status, working with them on future opportunities. And the Turitea North renewables project is now online, contributing 2% renewable energy to the national grid in New Zealand.

Our Water Services business has grown substantially over the past two years and we're driving better outcomes and innovation. We're in the middle of constructing green and brownfield water treatment plants in New South Wales, and we're on all the major water authority panels for maintenance and project work. The Loganholme Biosolids Gasification Project won the Queensland Engineers Australia Excellence Award in August, and is a finalist in an International Water Association Award in September. Very recently, we've secured the South East Water civil maintenance contract with a tenure of 10 years, worth around $200 million.

Our Communications business had a strong year. In Wireless we added NBN to existing customers Telstra and Optus to be the industry leader in network deployment nationally, including rural and remote locations. We secured the major three-year Field Service Agreement with Chorus in New Zealand. We became the largest supplier to NBN for on-demand business grade and residential services in all mainland States of Australia. We've maintained our leadership role on NBN's network maintenance programs across WA, South Australia and Northern Territory, and we're delivering electrical charging infrastructure across multiple bus depots in New South Wales and Queensland.

On the Facilities side, in Government and Health and Education, we successfully renegotiated our reviewable services for the Royal Adelaide Hospital and Bendigo Hospital PPPs, both for an additional five-year term with better rates and terms and conditions. We were successful in four key contract extensions for Vic Schools, WA Housing, Land and Housing and Whole of Government in New South Wales. We've secured new Facilities Management contracts in New Zealand. We won the Metro

Trains Melbourne and the Yarra Trams cleaning contracts, cementing our position as the leading provider of cleaning services to the heavy and light rail industries. And pleasingly, we've supported the Lismore and Casino communities in a lot of flood remediation work.

Our Defence business goes from strength to strength. We've secured and delivered a program of over 300 individual upgrade and refurbishment projects across the Defence estate. We've been awarded a major program of works for Defence's Capability and Sustainment Group, CASG. We've received an extension of our work with the Defence Chief Information Officer through Downer Professional Services. We've been awarded the Major Airfield Upgrade Project at RAAF Williamtown. It's now mobilised with works well under way. And we've secured the managing contractor role on the Riverina Development Program, a seven-year program developing options for five major base redevelopments.

And finally, turning to Power and Energy, and Industrial Marine on Slide 14. As industry leaders in power generation, we have established the Downer Future Energy Team, focusing on new technologies and alternate fuels, providing thought leadership with our customers in the energy transition. We've been successful in the delivery of a large suite of decarbonisation projects for Santos. We've signed a multi-year agreement with AGL for power station shutdowns, maintenance and projects.

We've been awarded contract extensions with Santos, Origin's Eraring Power Station, Origin Energy Integrated Gas, Delta Vales Point Power Station and Gladstone Power Station. We've modernised our Kalgoorlie workshop to increase capacity and capability to meet the future demands of nickel, lithium and base metal customers in WA. And we successfully completed the BHP Olympic Dam hot metal shutdown – more than 500,000 man hours, 500-plus personnel on-site, executing both mechanical and electrical scopes. And we've hit a major Santos Coal Seam Gas skid manufacture milestone of over 1,000 motor control centres manufactured in Newcastle and Brisbane, pleasingly. As you can see, we've been busy.

We'll now move to work-in-hand on Slide 15. The points I'd like to make on this are these. Our work-in-hand is a substantial $36.1 billion. It's up from the half. It is

long-dated. It's diversified by market and service type. It's 90% government or government related. And the non-government customers are generally blue chip. And we are seeing an increase in more collaborative risk sharing contract models such as alliances and early contractor involvement processes, increasing Downer's addressable market.

Across Downer most service contracts include mechanisms to mitigate cost escalation. 91% of our work-in-hand relates to services contracts, predominantly long-term, 96% of those contracts have some form of automatic embedded price escalation mechanism related to movements in cost, so as costs increase, our revenue increases. If we take the Royal Adelaide Hospital as an example, the contract revenue was adjusted quarterly based on CPI movements. Other mechanisms include labour indices such as average weekly earnings or movements in material pricing such as bitumen.

Around 9% of our work-in-hand is construction. Of this, the majority of contract structures are alliance or early contractor involvement, which reduces risk substantially. Only 1% of our $36 billion of work-in-hand relates to fixed price lump sum, and we manage the risk profile on these contracts very closely. For an escalation risk perspective, our construction contracts are also relatively short-term and are in areas aligned to Downer's risk appetite.

Labour availability is certainly challenging for the whole economy, and it's no different for Downer. Job vacancies are up, particularly in our Facilities business. The highest demand for workers is in New South Wales, WA and Victoria. Jobs with the highest demand are electrical, cleaners and engineers.

Talent attraction and retention is one of our highest priorities. We're actively engaged in international recruitment. We have a series of programs to enhance our success rate, including internal referral programs, volume-based recruitment events and training and upskilling our existing people. And we focus on programs and initiatives that foster a positive work culture, enhancing our employee experience and reinforcing Downer's reputation as an employer of choice. This is a critical element of management in 2023.

I'll now hand over to Michael, who'll present the financial results in some more detail, and I'll come back straight after that to talk about the outlook, so over to you, Mike.

Mr Ferguson: Thanks Grant. Good morning, everyone. I'll start on Slide 19 with a summary of our FY22 Group underlying performance. The Group reported a total revenue of $12 billion for the 12 months to 30 June 2022. This was 2% lower than the prior corresponding period, predominantly due to the impact of non-core business divestments. Excluding non-core businesses, core Urban Services revenue increased 10.8%. Underlying EBITA declined 14.6% to $399.2 million with an EBITA margin of 3.3%. Non-core business divestments, COVID-19 and weather were the key drivers of the EBITA decline. EBITA margin was predominantly impacted by COVID-19, particularly hospitality losses, and again the weather disruptions to operations.

The second half underlying EBITA margin of 3.6% increased from 3% for the first half. Corporate costs decreased 2.6% to $100.5 million. Net interest expense of $85 million is represented by approximately $65 million of bank and DCM interest, and $20 million of lease interest. This is reduced by 15.1% due to our lower debt levels and improved average cost of funds. The effective tax rate of 28% remains slightly below the Australian statutory rate of 30% due to non-taxable distributions from joint ventures and a lower corporate tax rate in New Zealand. Downer delivered an underlying NPATA of $225 million, which is 13% lower than the prior corresponding period. As Grant said, the Board has declared an unfranked final dividend of $0.12 per share, a 14.3% increase in total dividends declared compared to FY21. Downer expects to return to franked dividends either for the final FY23 or interim FY24 dividends.

Moving now to Slide 20, outlining the performance of our business segments. Downer's core Urban Service business delivered EBITA of $508.1 million, a decrease of 3% on the prior corresponding period. Considering the challenges experienced during the year, this is a pleasing result. Transport delivered EBITA of $254.6 million, an increase of 1.8%, with consistent performance in the Rail and Transit Systems business and improved performances in the Transport Projects

business, offsetting the severe wet weather impacting roads. The decline in EBITA margin is predominantly a result of the weather impacted business mix.

Utilities delivered EBITA of $73.7 million, down 22.3%. This business saw significant COVID-19 lockdown disruptions in Australia and New Zealand, particularly in Water Services, with reduced capital works programs and meter reading. This also impacted the Utilities EBITA margin, reducing to 4.2%. Pleasingly, however, margin improved in the second half to 4.4%. Core Facilities EBITA increased by 0.7% to $179.8 million through increased activity in Health and New Zealand Buildings. This was offset by further deferrals of plant shutdown and maintenance in Power and Energy, increase cost to serve and losses from the commercial FM business driven by lower demand. This also saw margin decline by 1.5%. We have provided more information on the Divisional performance as part of the appendices to these presentations.

Slide 21 lists the six items that reconcile Downer's statutory result with the underlying result. The first item relates to the non-cash fair value movement on the Downer contingent share obligation liability arising from the options issues as part of the Spotless minority acquisition. We have recognised a non-cash benefit of $3.7 million for the year, consistent with the treatment of prior periods.

The second item relates to costs to net asset write downs on divestments of $75.8 million relating to Mining and Hospitality. This has increased $10.4 million in the second half following the sale of residual Hospitality contracts during the period. The third item relates to restructuring costs arising from the divestment program of $7.6 million during the period. The fourth item relates to bid costs for Downer's bid for the Queensland Train Manufacturing Program of $12.7 million, again highlighted at the half. Grant's highlighted the scale of the program, and we've included the bid costs as significant, relative to Downer's normal bidding activity.

The fifth item relates to Downer's credit loss due to the administration of Probuild, where we had an outstanding claim totalling $34.6 million. This is as we announced on February 24 this year. The final item relates to the compulsory acquisition of land by Sydney Metro at Downer's Rosehill asphalt and recycling facility. The transaction has resulted in Sydney Metro reimbursing Downer on a like for like basis

for the actual costs incurred on the construction and commissioning of a replacement facility. The compulsory acquisition and reinstatement of operations at the new site is cash neutral in net terms. $60.1 million after tax gain during the period is reflective of the difference between the historical written down book value of the existing facility, the reimbursement of costs for the replacement facility and relocation costs.

Turning to cash flow on Slide 22. Operating cash flow was $495.4 million, which again is down following the divestments and the impact of COVID-19 and weather. Statutory cash flow conversion was 84%. Cash flow across the business was strong, but the Roads business, which is usually one of our most consistent in terms of cash flow conversion, converted at 65% due to the working capital build-up following the weather disruptions. The result also included the unwind of approximately $30 million in receivables factoring as a result of the Mining divestment.

Our statutory conversion increases to 89% when adjusted for the final payments made for items provided for and funded through the July 2020 capital raising and the Queensland Rail project bid costs. Core capex and lease costs of $317.8 million decreased by $13.3 million compared to prior periods. Proceeds from divestments of $245.4 million related to the final proceeds received from the Mining divestments while acquisitions relate to the Fowlers business in Roads.

Repayment of borrowings includes the repayment of $250 million of medium-term notes during the year and the total spent on the share buyback, totalling $142.6 million. Cash held at the end of the period was $738.5 million which, when combined with undrawn facilities of $1.2 billion, provides Downer with significant liquidity at just under $2 billion.

Slide 23 gives an overview of Downer's debt profile. The Group's weighted average debt duration is 3.9 years with the maturity profile shown in the graph to the right of the slide. Following Downer's refinancing activity in the first part of 2022, we have no maturities due in FY23 and very little in 2024. In addition, over 80% of our interest costs for FY23 is fixed through either fixed rate swaps reflecting rates prior to the current round of rate rises, or through fixed rate debt instruments.

	Accordingly, we are well-protected from the current rising interest rates and expect our net interest costs to be $85-90 million for FY23. Thanks very much. And I'll now hand back to Grant.
Mr Fenn:	Thanks, Mike. Just onto the outlook now. The Downer business has again proved its resilience with solid earnings, strong cash conversion, and high levels of work-in-hand. Our end markets are essential services and our position in those markets gives us strength and reliability. Demand remains robust with a strong pipeline of opportunities. Our cost to serve is still elevated and will persist during 2023. It is trending in the right direction. Our balance sheet is strong with net debt to EBITDA of 1.6x providing flexibility, supporting the dividend, and enabling investment in accretive opportunities. For FY23 we expect 10-20% underlying NPATA growth. Of course that's subject to COVID-19, weather, labour, and other disruptions that might occur. Thank you. That's the end of the formal presentation. And I'll now hand back to the operator for questions. Thanks.
Operator:	Thank you. If you wish to ask a question, please press star 1 on your telephone, and wait for your name to be announced. If you wish to cancel your request, please press star 2. If you're using a speakerphone, please pick up the handset to ask your question. The first question comes from Rohan Sundram from MST Financial. Please go ahead.
Mr Sundram:	Hi Grant and team. Thanks for that. Just a couple from me. Firstly, on the guidance, should we expect there to be, or do you expect there to be a margin improvement aspect to it, or are you mainly expecting a revenue recovery in 2023?
Mr Fenn:	No, there'll be a margin aspect to that.
Mr Sundram:	Okay, sure. And the guidance that you've given, it just feels a slight departure from the indications of a strong rebound in earnings at the time of the Investor Day in late April. Maybe if you can just talk through, has anything changed on how you see the outlook and what is driving that range from 10-20%.
Mr Fenn:	I don't think there's any real change there. We look at a whole host of things as we look into the future here. We've obviously done our budgeting exercises, we're looking at all of what presents ahead of us, including a very robust opportunity

pipeline. But there's a lot of uncertainty out there, and we think 10-20% is a fair position on the combination of things that are ahead of us for 2023.

Mr Sundram: Thanks Grant.

Operator: Thank you. Your next question comes from Andrew Hodge from Credit Suisse. Please go ahead.

Mr Hodge: Morning gents. Just a couple of questions from me if I could. Just the change in the work-in-hand from $35 billion previously to $36.1 billion now, I take onboard that there is quite a bit of work in front of you, but the slower, if you like, growth in that work-in-hand number relative to the opportunity set, is it just the timing issue, or is there anything more to read into that?

Mr Fenn: No, I don't think there's anything extra in there, Andrew. We're pretty happy that it's continued to improve. And you're right, our view is that with all of what's ahead of the company in the transition, we'd like to see that increase further.

Mr Hodge: Thank you. And then I just want to touch briefly on the adjustments back to underlying earnings. I understand we've had the conversations previously around the Queensland Rail bid. I just wanted to reference – to understand what your typical total bid cost would be in a year to understand this in the context of something that's abnormally large.

Mr Fenn: Bid costs are typically embedded within our operational results, and we've only called this one out because it is very significant in terms of the normal course of things. We spent a lot of money on bids, but they're all relatively small in the individual cases, Andrew, so this is one that's particular, and, because of the size of it, we think we should call it out. Otherwise you don't get a real understanding of the results of that business.

Mr Hodge: And then just in the same slide, just the portfolio restructure costs, Michael, did I hear correctly that those portfolio restructure costs relate to the divestment and exit costs, so they're not included in that line, but they relate to that process, or are they separate…

Mr Ferguson: They relate to the process, Andrew, so they're predominantly people changes as a result of the divestment program. It's the same as we reported at the half.

Mr Hodge: Yep, okay. Thank you.

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

Mr Purtell: Good morning Grant and Michael. How are you?

Mr Fenn: Yeah, good, John. How are you?

Mr Purtell: Not too bad thanks. Just had a few questions if I can. Just going back to April, you called out
$50-60 million of EBITA impacts from COVID-19 and weather. Just trying to get a sense of where that finished for the year and how much of that you're able to claw back in that fourth quarter.

Mr Fenn: We had a good fourth quarter as I've talked about, and we've pulled some of that back. But it's increased off that number. We're not going to disclose exactly what that is, John, for very good reasons, but it was increased from that amount, but it wasn't at the same rate as it had in the previous period, in the previous three quarters.

Mr Purtell: Okay, thank you. And in terms of the comment there around margins and expecting margins to improve, just in terms of what you see as the main driver of that margin improvement, Grant, I mean obviously there's some useful colour there in the presentation, re your cost recovery mechanisms, but in terms of what's really driving that margin improvement in a higher cost environment.

Mr Fenn: There's a couple of things – we've had a revenue increase. Mainly that is in projects and building areas, right, so there's a change in mix in that increase. That's been the majority of the revenue. On the cost side, we've seen cost to serve increase, that's for sure. And we think that's where the margin will come, as we turn that around.

Mr Purtell: Thank you. And just in terms of thinking about the capital allocation, you've still got the buyback on foot, is their intention to restart that, or is there more of a preference for growth?

Mr Fenn: We don't think it's a bad time just to hold on for a bit here and just look what's out there. We've certainly got our eyes open for growth and accretive acquisitions, more in the bolt-on levels. But we're going to address that as we roll into the next

number of months, John, but we've got no change from where we are currently at the moment.

Mr Purtell: Okay, thank you. I've probably hit my quota here, but just wanted to ask one last one if I could. Obviously we've talked to those COVID-19 impacts which were quite substantial, so in terms of that 10-20% growth guidance, and it's obviously good that you've returned to giving a form of quantitative guidance after a couple of years' hiatus with COVID-19, etcetera, but is it fair to say that there is a degree of conservatism, re the guidance, particularly at the bottom end?

Mr Fenn: Well there's a couple of things to that, mate. We've, historically when we've given guidance, given very specific positions, so just the fact that we're giving a range would tell you that the times are a bit different. And of course, we want to make sure that we want to do our best to give the right guidance, so I think in the scheme of the current environment, I think it's a pretty good outcome, frankly.

Mr Purtell: Okay, thank you.

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

Mr Reilly: Good morning gents. Just a follow up question on that, I guess the net negative impact of
COVID-19 and weather that you called out previously, that number of $50-60 million that you had in your previous trading update, did you just say, Grant, that the full year impact was greater than that $50-60 million on a net negative basis?

Mr Fenn: Yeah, for sure, definitely.

Mr Reilly: Can you say by how much?

Mr Fenn: No. I'm not going into how much exactly for good reason. ASIC doesn't want us to. We don't want to. But it's a significant draw. Our fourth quarter was a better result than what the previous three had been in our expectations, but we were still impacted obviously. There was still COVID-19 impact and there was still weather issues.

Mr Reilly: Got it. Okay. Thank you. And you're forecasting that to persist through FY23?

Mr Fenn: Our guidance is given really on the basis that, we've got some level of labour shortage at the moment, but it's not debilitating. We've still got some wet weather, but we're expecting that to be a bit better, so we're not expecting major disruption, as we say in our outlook statement, we say subject to something major going on with COVID-19, major going on with weather or continued La Nina weather patterns, or something else going on with labour, then we're expecting 10-20%.

Mr Reilly: Okay, got it. Thanks for the additional detail around that. The final question I had was just in relation to the negotiations you've had on some of the more recent EBAs. Can you talk through what level of wage cost inflation you're seeing come through those EBAs and just maybe give us an idea about how that compares to the contracted revenue protection measures that you're seeing in terms of what is passed through to customers? And I'm also just curious whether there's any lag in passing through those costs that you've factored into your guidance for FY23.

Mr Fenn: There's been very few since the elevated inflation spike. But of the ones that have been done, they're up, but they're not to the point of causing us a drama. As we all know, when you've got inflation like this, inflation runs higher than wage increases, and I think that will be the case in our contractual positions for the long-term contracts. They reset relatively regularly. It's different in each of the contracts. But from what we can see at the moment, we're not going to see in those long-term contracts a negative position coming out of the negotiations. But of course, we'll have to assess that as each of them rolls through. But so far it's been okay. On some of the other indices that are in there, bitumen pricing, there is some lag on bitumen, it sort of works as a bit of a lag. But eventually you catch that up.

Mr Reilly: Okay. Thanks for taking my questions.

Operator: Thank you. Your next question comes from Ross Chapman from J.P. Morgan. Please go ahead.

Mr Chapman: Good morning, Grant and Michael. Thanks for your time. The first question relates back to the work-in-hand, in relation predominantly to Utilities, which has fallen from $5.4 billion to $4.8 billion. Can you provide some detail on this fall, whether this is a trend? How do you expect to see this improve in FY23? And I suppose expanding

on that, where do you see the biggest opportunities in regard to the pipeline into FY23? Thanks.

Mr Fenn: Funnily enough, over the next few years I see real opportunity in Utilities, frankly. As we look to the transition, I think that area of the business, hopefully in the relatively short period we'll see improvements in their work-in-hand. Yes, they've come off slightly, but mainly due to projects that are finished, and we'll see as we roll through into 23/24, I'd expect Utilities to be a very significant contributor to an increase.

Mr Chapman: Great. Thanks for that. The second one again harks back to inflationary pressures. I'm keen to hear some more detail on not so much what you're seeing now but where you see the biggest risks regarding cost escalations into FY23, and also just any update you can give on the pricing improvements you spoke to in the first half 2022 result as well, thanks.

Mr Fenn: Our cost base, 70% of our cost base is labour and subcontractors, etcetera, so that's the area of attention from us. We've talked in this presentation around the longer-term contracts and the mechanisms that sit there across a lot of that and including some of the materials-based stuff. To the extent you've got short-term contracts, then you've really got to make sure that your pricing reflects the likelihood of movement in your labour and your materials, and that's all about risk management. We spent a lot of time looking at this, looking at how – even from a time when a project is bid through to the time of award, you can have significant movement here, so you've got to make sure that all of that's covered, which is what we do. We have seen very significant increases in materials across the board, steel and timber in particular, and for the most part we've been able to cover it, but not all. It'd be wrong for me to say, 'Gee, we've got some arbitrage on labour and isn't it great that we've got high inflation?' That's not the case.

Mr Chapman: Great. As you come into FY23, are you starting to see some of that pressure ease on material costs, or stabilise at least?

Mr Fenn: Yes.

Mr Chapman: Great. Thanks for your time.

Mr Fenn: Thanks.

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

Mr Fenn: Thank you very much for taking the time to come onto the call this morning. We'll be completing discussions with bankers, etcetera over the next couple of days, and also others in the investment community, so if you have any questions that you would like answered, that you haven't been able to ask now, please send them through to our Investor Relations team. Again, thank you very much for coming on the call.