

# Transfield Services

## Citi Australian Investment Conference

15 October 2014



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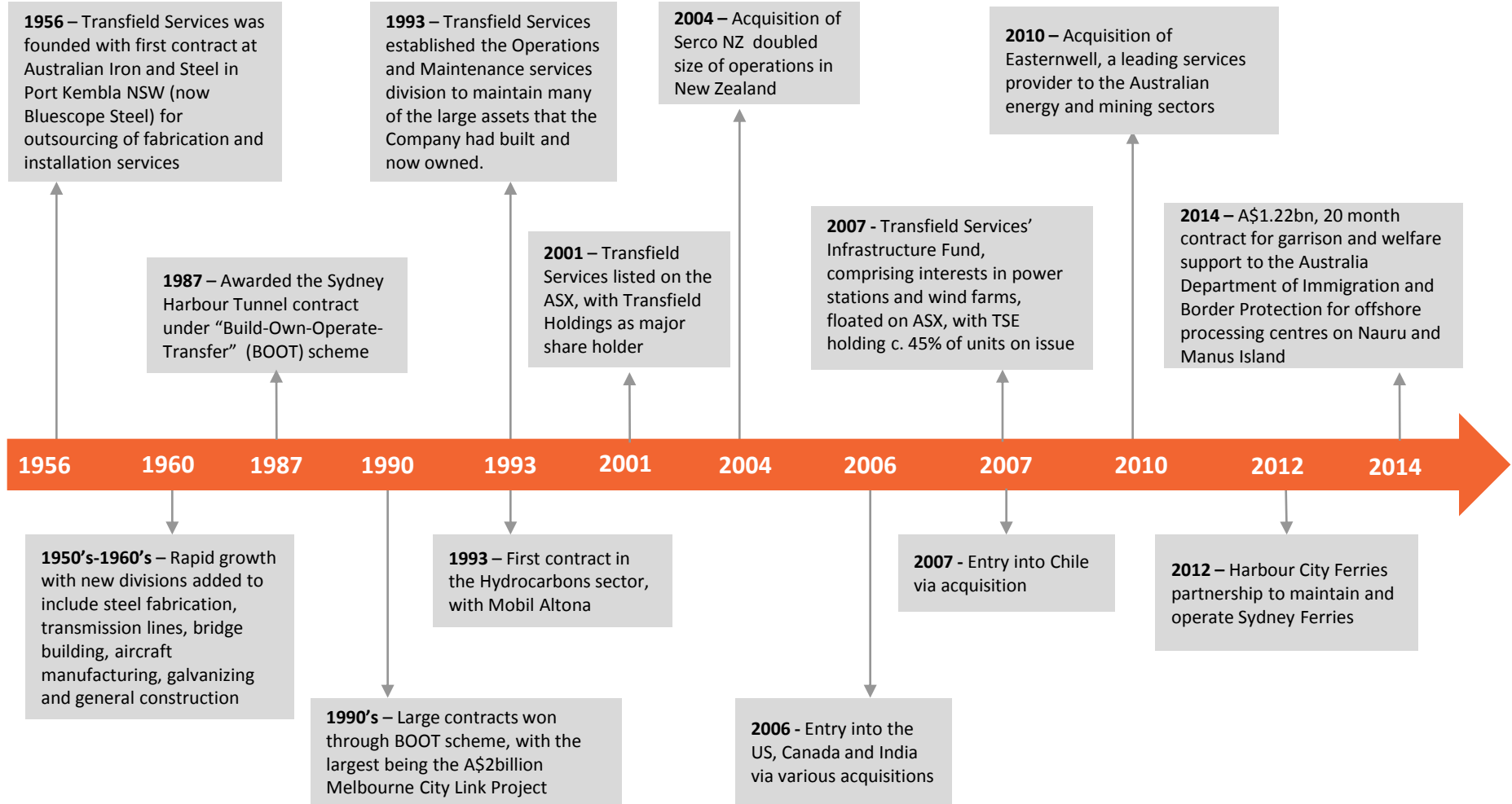
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*Throughout this document non-IFRS financial indicators are included to assist with understanding Transfield Services' performance. The primary non-IFRS information is proportionately consolidated financial information, underlying EBITDA, underlying EBIT, underlying NPAT and statutory net profit after tax, pre-amortisation and pre-impairment. Management believes proportionately consolidated information is a more accurate reflection of operational results due to the materiality of joint venture arrangements in place. Proportionately consolidated results include Transfield Services' share of joint venture revenues and earnings. Management believes underlying EBITDA, underlying EBIT and underlying NPAT are more appropriate indications of the on-going operational earnings of the business and its segments because these measures do not include one-off significant items (both positive and negative) that relate to disposed or discontinued operations or costs incurred to restructure the business in the current period. Management believes underlying NPAT pre-amortisation and pre-impairment to be an appropriate measure of cash NPAT after adjusting for amortisation of acquired intangibles and non-cash impairment of assets. A reconciliation of non-IFRS to IFRS information is included where these metrics are used. This document has not been subject to review or audit by Transfield Services' external auditors. All comparisons are to the previous corresponding period of FY2013 – the 12 months ended 30 June 2013, unless otherwise indicated. Certain figures provided in this document have been rounded. In some cases, totals and percentages have been calculated from information that has not been rounded, hence some columns in tables may not add exactly.*

# Transfield Services – over 50 years of operations



# What we do – select examples

- ▶ We maintain and operate **Sydney Harbour Ferries for the NSW Government** in partnership with Veolia Transdev



- ▶ We provide shutdown maintenance and drilling services to **Santos, Woodside and various mining operators in Western Australia**



- ▶ We maintain coal seam gas wells in Queensland for **QGC's CSG to LNG program** utilising Easternwell's well servicing rigs and camp management services



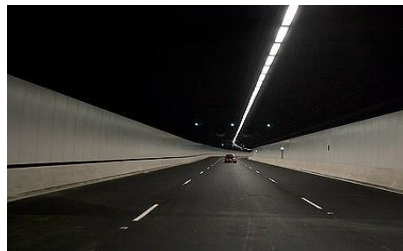
- ▶ We install telecommunications networks for the **National Broadband Network** in Australia and the **Ultrafast Broadband Network** in NZ



- ▶ We provide logistics, facilities management, asset maintenance and welfare services for the **Australian Government on Nauru and Manus Island**



- ▶ We operate and maintain civil, mechanical, electrical and tolling assets for the **Hills M2 Motorway and Lane Cove Tunnel in Sydney**



- ▶ We provide asset and facilities management services to the **Australian Department of Defence** on bases in Victoria, South Australia, Tasmania, Western Australia and the Northern Territory



- ▶ We provide operations and maintenance services to the **Presidio Parkway** project in **San Francisco** for the **Californian Department of Transport**



# Sector in which we compete

	Infrastructure ANZ	Defence, Social & Property ANZ	Resources & Industrial ANZ	Americas
<b>Key Industries</b>	<ul style="list-style-type: none"> <li>▶ <b>Utilities:</b> Water, Electricity</li> <li>▶ <b>Telecommunications</b></li> <li>▶ <b>Transport:</b> Road, Rail, Public Transport</li> </ul>	<ul style="list-style-type: none"> <li>▶ <b>Defence</b></li> <li>▶ <b>Social Services:</b> Immigration, Education, Health and Housing</li> <li>▶ <b>Property</b></li> </ul>	<ul style="list-style-type: none"> <li>▶ <b>Oil &amp; Gas</b></li> <li>▶ <b>Mining</b></li> <li>▶ <b>Industrial:</b> Processing, Manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>▶ <b>Oil &amp; Gas</b></li> <li>▶ <b>Mining</b></li> <li>▶ <b>Transport:</b> Road &amp; Rail</li> </ul>
<b>Services Provided</b>	<ul style="list-style-type: none"> <li>▶ Operations and Maintenance</li> <li>▶ Construction</li> <li>▶ Logistics and Facilities Management</li> </ul>	<ul style="list-style-type: none"> <li>▶ Operations and Maintenance</li> <li>▶ Logistics and Facilities Management</li> <li>▶ Consulting</li> </ul>	<ul style="list-style-type: none"> <li>▶ Operations and Maintenance</li> <li>▶ Well servicing</li> <li>▶ Consulting</li> </ul>	<ul style="list-style-type: none"> <li>▶ Operations and Maintenance</li> <li>▶ Construction</li> </ul>
<b>Revenue, FY2014</b>	▶ A\$1,188.4m <b>(32%)</b>	▶ A\$1,150.5m <b>(31%)</b>	▶ A\$919.8m <b>(25%)</b>	▶ A\$466.1m <b>(12%)</b>
<b>EBITDA, FY2014</b>	▶ A\$59.9m <b>(25%)</b>	▶ A\$105.5m <b>(43%)</b>	▶ A\$70.6m <b>(29%)</b>	▶ A\$6.0m <b>(3%)</b>
<b>EBITDA Margin, FY2014</b>	▶ 5.0%	▶ 9.2%	▶ 7.7%	▶ 1.3%
<b>Contracted Revenue</b>	▶ A\$2.8bn <b>(27%)</b>	▶ A\$3.5bn <b>(34%)</b>	▶ A\$1.7bn <b>(17%)</b>	▶ A\$2.3bn <b>(22%)</b>
<b>Key Contracts</b>	<ul style="list-style-type: none"> <li>▶ Transpower NZ</li> <li>▶ Gippsland Water</li> <li>▶ NBN* roll-out</li> <li>▶ Ultra Fast Broadband rollout</li> <li>▶ ConnectEast</li> <li>▶ Light City Buses</li> </ul>	<ul style="list-style-type: none"> <li>▶ Defence Garrison Support</li> <li>▶ Nauru and Manus Facilities Management</li> <li>▶ NSW and WA Housing</li> <li>▶ NSW Schools</li> </ul>	<ul style="list-style-type: none"> <li>▶ Santos maintenance</li> <li>▶ Santos drilling</li> <li>▶ QGC CSP*</li> <li>▶ Alcoa</li> <li>▶ Woodside Offshore</li> </ul>	<ul style="list-style-type: none"> <li>▶ Chevron at Carter Creek, Richmond and Salt Lake City</li> <li>▶ West Coast master service agreements</li> <li>▶ Mine maintenance services in Chile</li> <li>▶ Canadian road maintenance</li> </ul>
<b>Selected JV's, Partnerships and Alliances</b>	<ul style="list-style-type: none"> <li>▶ Allwater in Southern Australia</li> <li>▶ Harbour City Ferries</li> <li>▶ Aroona Alliance</li> </ul>		<ul style="list-style-type: none"> <li>▶ Transfield Worley Power Services</li> <li>▶ Santos JV</li> </ul>	<ul style="list-style-type: none"> <li>▶ Flint Transfield Services</li> <li>▶ 34-year Golden Link Concessionaire public-private partnership to provide operations and maintenance services to San Francisco's Presidio Parkway Project</li> </ul>

\*NBN - National Broadband Network; QGC CSP – Queensland Gas Company Consolidated Service Provider

# Sector outlook - Infrastructure ANZ

## Outsourcing Trend

- ▶ In recent years, Australia has experienced significant outsourcing of operations and maintenance services for public infrastructure and utilities assets
- ▶ 1st generation government outsourcing include: Sydney Ferries, NSW Railcorp and Roads
- ▶ Private outsourcing driven by opportunities for cost savings and efficiency

## Energy, Transport & Utilities

- ▶ Strong growth expected in infrastructure investments will provide a healthy pipeline for asset management outsourcing opportunities
- ▶ Robust Asian demand for commodities and energy is expected to further drive investments in infrastructure, which will require maintenance
- ▶ Electricity demand in Australia is expected to rise by c. 50% between 2010 to 2030

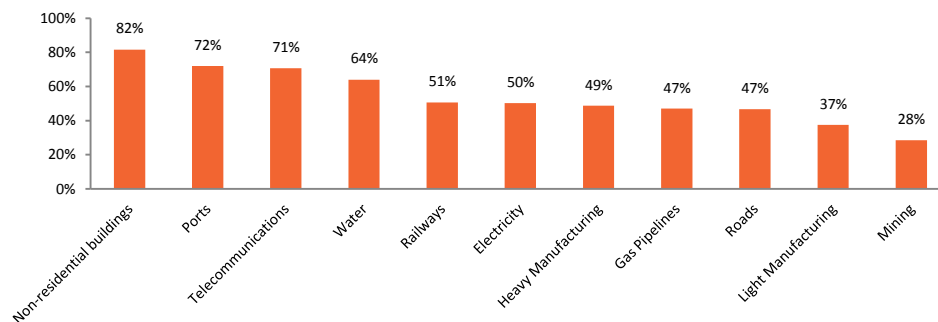
## Engineering & Construction

- ▶ Backlog of required E&C work due to recent project delays and cuts in maintenance capex expected to drive future demand
- ▶ Construction sector on a path to recovery, which is expected to continue through 2014
- ▶ Recovery driven by favorable monetary conditions, sustained recovery in homebuilding and greater construction activity from private and public sectors

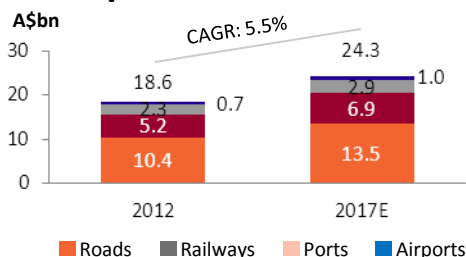
Source: BIS Shrapnel, Ferguson

(1) Backlog represents the amount of E&C work that is expected to be performed in the industry for the represented period. The volume reported as backlog is subject to change and there can be no assurance that such volumes will be realised

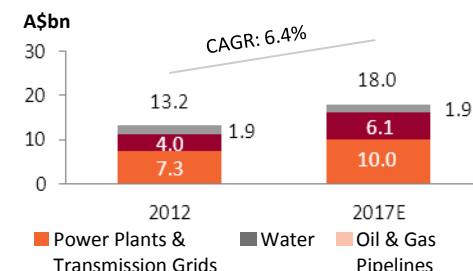
## Outsourced Maintenance by Sector (% outsourced)



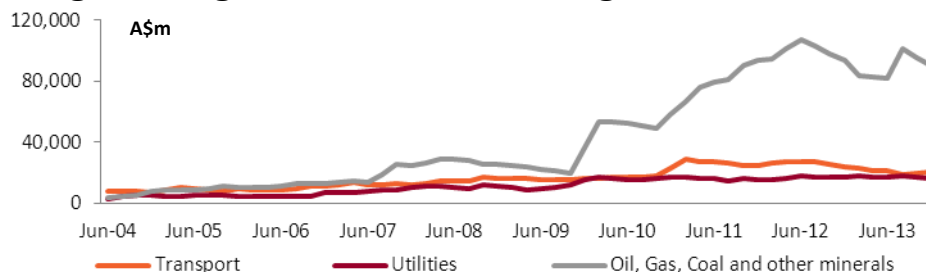
## Transport Infrastructure



## Energy & Utilities



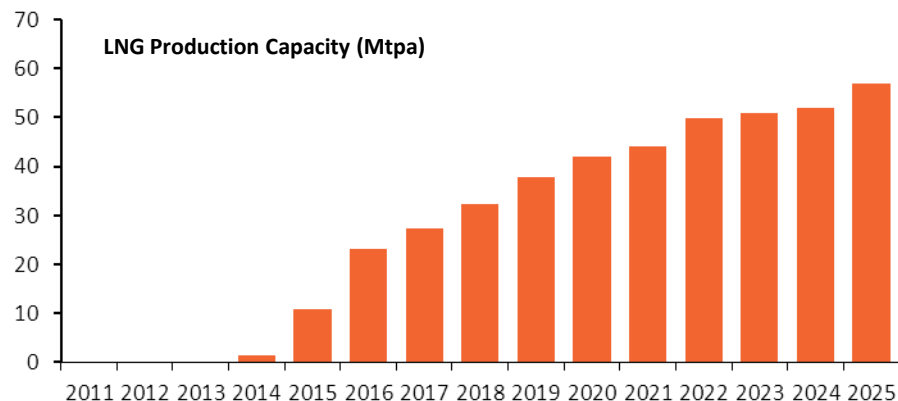
## Engineering Construction Backlog<sup>(1)</sup>



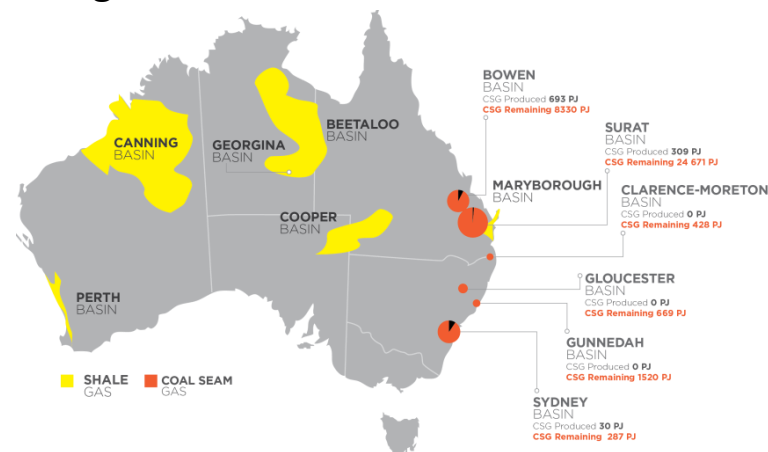
# Sector Outlook – LNG and unconventional gas

- ▶ Australia is expected to become the largest LNG exporter by 2022 due to its large, untapped reserves of unconventional gas
- ▶ Management believes this will drive significant spending increases in key target markets<sup>(1)</sup> and provide recurring opex demand

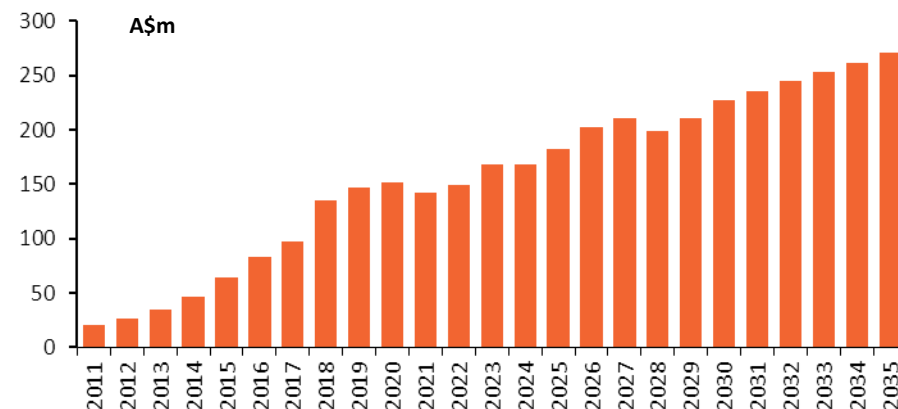
## Queensland CSG LNG Capacity Expansion



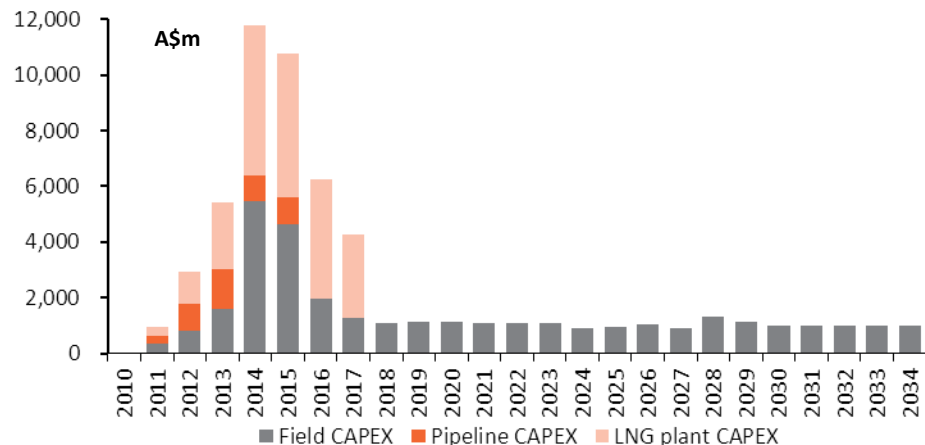
## Strong Potential from Unconventional Gas



## CSG Ongoing Operating Expenditure



## Projected Investment related to QLD CSG Production



Source: ACIL Tasman 2012, Geoscience Australia 2012

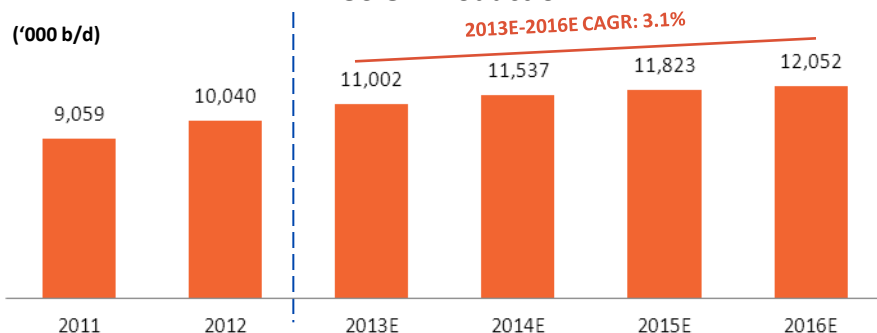
(1) Western Australia with respect to LNG and Queensland with respect to CSG and LNG

# Sector Outlook – Americas

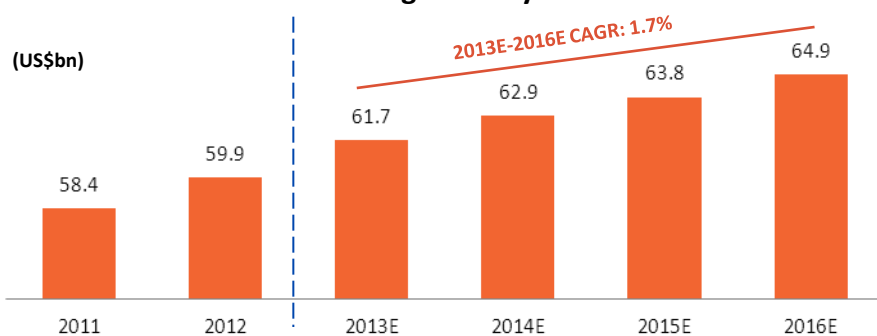
## Resources & Energy

- ▶ The US is expected to remain a major global producer of key resources and energy commodities for the foreseeable future
- ▶ The US is expected to overtake Saudi Arabia as the largest liquids producer globally
- ▶ Latin American miners are best positioned for growth in 2014
- ▶ Major miners are expected to continue to focus on production growth while seeking operations process improvements

### US Oil Production



### US Mining Industry Value

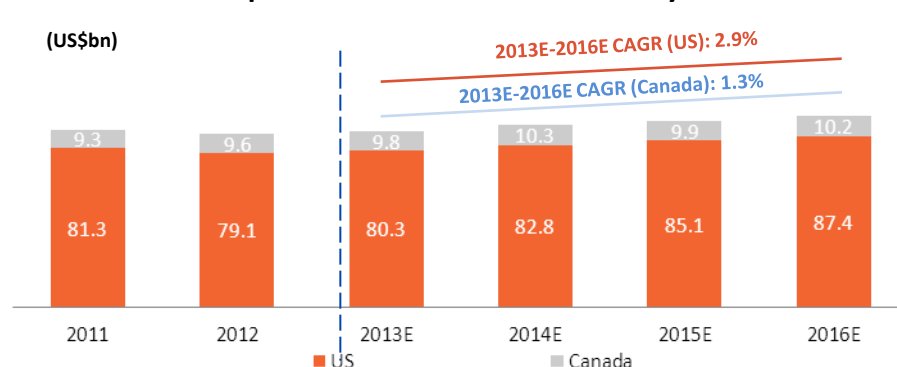


Source: Business Monitor International, The Economist Intelligence Unit

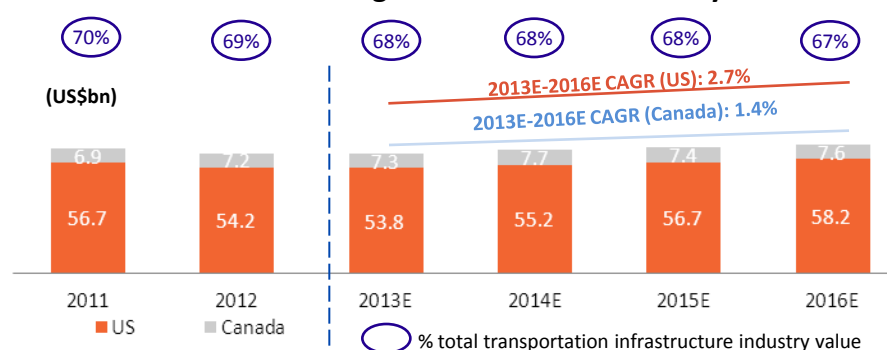
## Transport

- ▶ Increasing growth of Public-Private-Partnerships in the US, to develop roads and bridges
- ▶ Transportation infrastructure spending expected to remain resilient with consistent growth forecast
- ▶ Road and bridges are expected to continue to comprise 68% of total infrastructure industry value

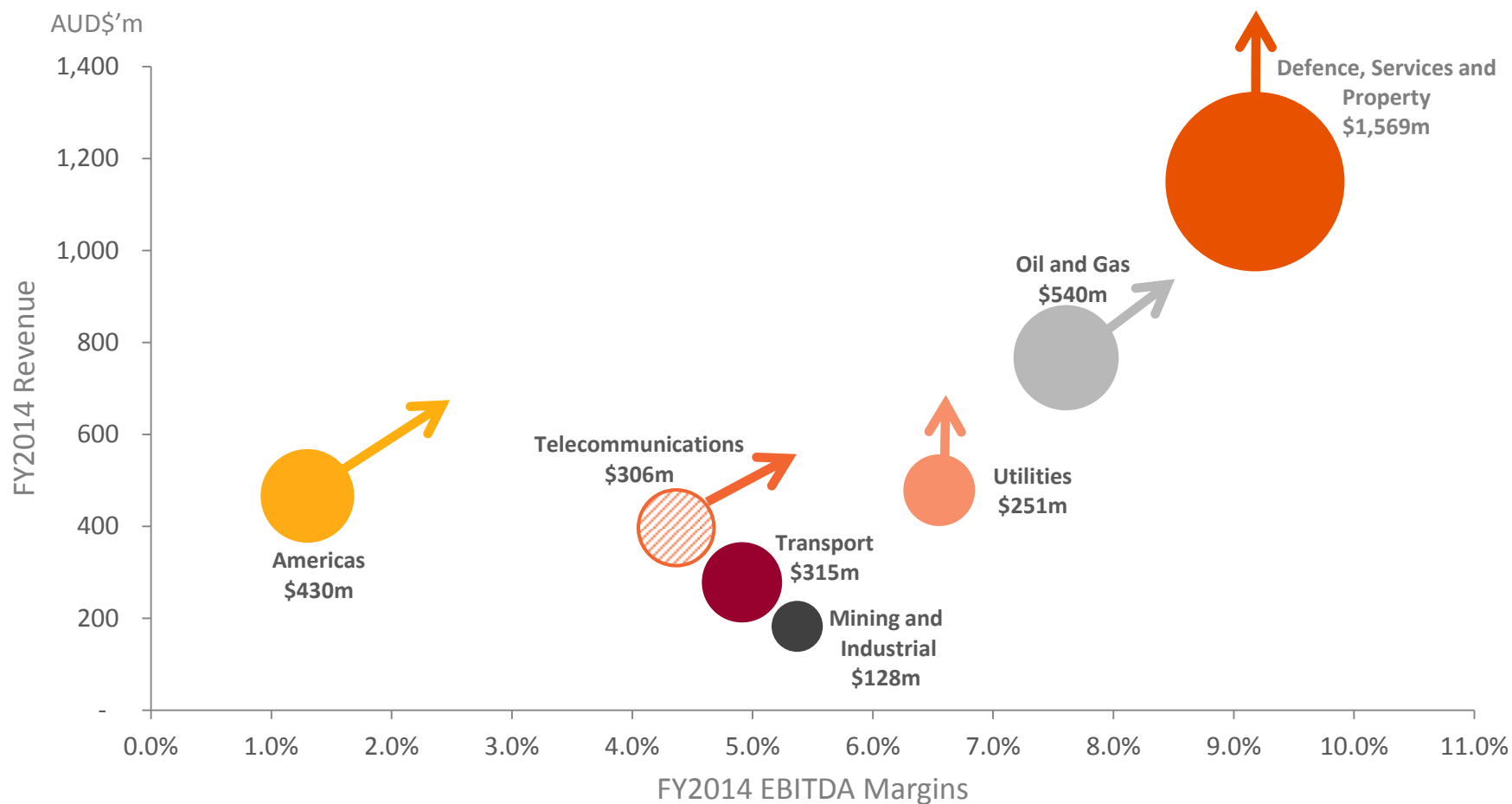
### Transportation Infrastructure Industry Value



### Road and Bridges Infrastructure Industry Value



# Well positioned, solid opportunities in most sectors:



- ▶ Circle size represents annualised contracted revenue
- ▶ Arrows represent directional outlook for our operations in the medium term – not to scale

# Our Clients

- ▶ Clients prefer full outsource offering, i.e. appointing a single head contractor rather than multiple contractors – this has led to an increase in complementary services offered by contractors. Transfield Services' examples include Immigration, Defence, CSG
- ▶ Government clients value service quality and reliability over price for essential services. Transfield Services' examples include Immigration facilities maintenance, Defence base operations and maintenance, Sydney Harbour Ferries, National Broadband Network
- ▶ The better Corporate clients value productivity and through-put over price given criticality of production costs to their bottom line
- ▶ All clients now demand ongoing cost reduction and innovation. Under legacy cost-reimbursable pricing models, contractors not motivated to drive cost improvement because lower costs means lower profit for contractors
- ▶ The change in contract types from cost-reimbursable to schedule of rates and fixed fee can result in the contractor initially pocketing productivity improvements, however clients expect this to be passed on as part of renegotiations. If contractors are too greedy, they get replaced!



# Trends in outsourcing industry

- ▶ First generation of outsourcing driven by cost pressures and were/are often cost-reimbursable contracts
- ▶ Subsequent generations of outsourcing tend to move to schedule of rates or fixed fee contracts as clients gain a better understanding of value, look to lock in costs and pass pricing risks to contractors

Contract type	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14
Cost reimbursable	47.0%	38.0%	22.0%	18.6%	11.3%
Schedule of rates	37.0%	41.0%	42.0%	39.9%	35.9%
Fixed fee	12.0%	19.0%	35.0%	40.8%	49.9%
Lump sum (D&C)	4.0%	2.0%	1.0%	0.7%	2.9%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

- ▶ Many contractors (Transfield Services included) did not keep up with this shift, resulting in some mispricing of contracts, leading to underperforming contracts
- ▶ With the reduction in client capital spending, some contractors have attempted to move up or down the supply chain to boost revenues, e.g. some constructors purport to offer operations and maintenance services post completion of project build
- ▶ Contracts requiring low technical skills for commoditised services (and hence lower margins) have become more competitive as minimal barriers to entry

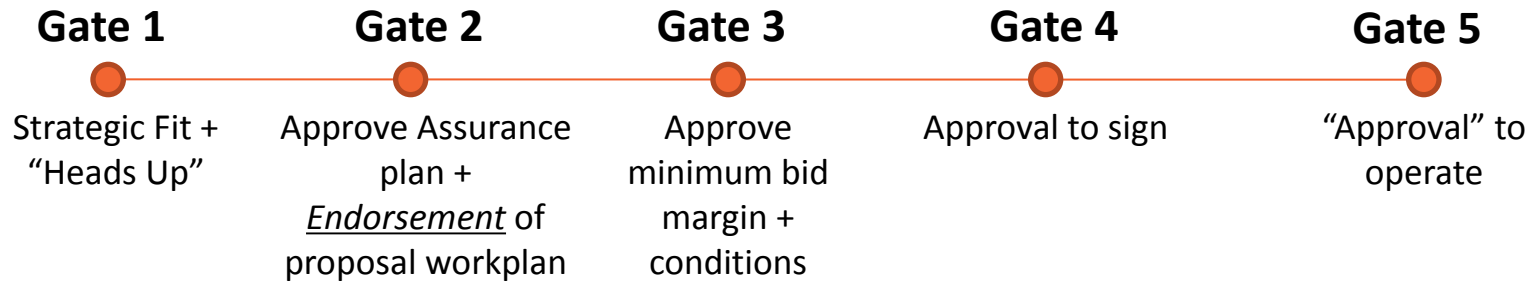
# How we are adapting

- ▶ Improve information capture through systems, processes and discipline. Know your value drivers, understand the cost of activities, speak to clients about their objectives
- ▶ Separate responsibilities for growing the business and execution performance, however embed dual accountabilities for achieving company's objectives and financial targets
- ▶ Instil disciplined risk-based approach to contract tender evaluation
- ▶ Measure business performance as though each month is a year end, and assess each contract against annual budget and initial bid metrics
- ▶ Client relationships need to be stronger than ever. Be open with clients regarding items that are going well and items that are not going well. The most beneficial and productive contract outcome is win-win
- ▶ Engage contract renegotiation in advance of tender in order to help shape contract type, terms, tenor and deliverables. Formal contract tenders can be drawn out and expensive



# Gate Review Process

- ▶ Transfield Services' revised its contract tender evaluation process in 2013 – this is known as the Gate Review Process



## Oversight of decisions to tender via the Gate Review Process

- **Gate 1** - the client and opportunity, how it fits/contributes to strategy, what is known about the commercial model, how Transfield Services would propose to deliver
- **Gate 2** - Preliminary risk assessment, workplan, independent assurance plan and budget for proposal preparation
- **Gate 3** - Define the minimum margin, expected financial returns and boundary conditions/qualifiers for bidding/negotiation
- **Gate 4** - Verify whether there has been any material change in the risk profile or expected financial returns since Gate 3 – if so, confirm final bid margin and boundary conditions are acceptable
- **Gate 5** - Verify that all actions, management controls and milestones defined in the Transition Plan have been delivered

# Strategies to deliver

## Superior safety proposition

- Our customers require service providers to meet or exceed their safety standards
- We aim to be safer than our customers and competitors and continue to invest in training initiatives
- Our Total Recordable Injury Frequency Rate fell from 6.0 injuries per million hours worked in FY2013 to 5.4 injuries per million hours worked in FY2014, representing a 10% year-on-year decline

## Differentiated, non-discretionary service offering

- We expect that our new sector-focused operating model will improve our knowledge of customers and competitors
- We plan to avoid contracts where services are commoditised or heavily exposed to a client's discretionary expenditure
- We plan to target non-discretionary services with blue chip clients in attractive end-markets

## Integrate into our customers' operations

- We aim to integrate our workforce into customer operations
- We believe this builds incumbency and allows Transfield Services to position itself as a critical partner
- It also allows us to develop insights and deliver efficiencies and other solutions to the customer

## Disciplined contract selection maximizing efficiency & profitability

- We have improved tender governance through a new contract bidding framework (the Gate Review Process)
- We focus on profitability and return on capital and proactively seek to influence key commercial arrangements
- We seek to win or renew contracts we believe can be secured on desired terms at satisfactory returns

## Refine portfolio with select non-core divestitures

- We are focused on more targeted and disciplined business development and a simplified asset portfolio
- In FY2014, we sold our stake in the Transfield Worley joint venture in New Zealand, JV investments in the U.A.E. and Qatar and the Hofincons business in India
- We will seek to dispose the 20% investment in Ratch Australia Corporation Limited in the short term

## Strong balance sheet and increased liquidity

- We are focused on steadily reducing net leverage through non-core divestitures and increased profitability
- Our working capital reduction plan has seen a significant improvement in debtor days
- Free cash flows to be used to reduce net debt in FY2015
- Overall balance sheet funding (creditors and net debt) is lower than previous period