DOWNER GROUP ANNUAL GENERAL MEETING 2012
CHAIRMAN'S ADDRESS AND CHIEF EXECUTIVE OFFICER'S REPORT

Chairman's Address, Mike Harding

Ladies and Gentlemen,

I am very pleased to report that Downer delivered a much improved financial performance in the 2012 financial year.

This is a welcome improvement for you, our shareholders, after the poor performances of recent years. I am also pleased for our workforce of more than 20,000 people who worked very hard during the year to achieve these results. However, it is only one year and we are all aware that we must continue to build on the improvement achieved this year and deliver consistently in the years ahead.

Your Chief Executive Officer, Grant Fenn, will soon outline the highlights of our financial and operational performance in his report to shareholders.

The health and safety of our people is paramount at Downer and while, compared with our peers, incidents and injuries remain low as a percentage of hours worked, we have suffered three workplace fatalities over the past 18 months.

This is a profoundly disappointing aspect of Downer's performance. Two of the fatalities involved reversing vehicles on road maintenance sites – one in Victoria and one in New Zealand. This is an industry-wide problem and we are working with the industry to address the issue. The Board has ensured that management is implementing initiatives to address the hazards associated with reversing vehicles on all our work sites.

The third fatality occurred when one of our most experienced drilling operators was struck by a compressed air hose on the Milford Road in New Zealand following a major rock slide. The incident is the subject of an ongoing investigation.

While we are entitled to be pleased with the improvement of this year's financial performance, I would like to mention a number of other notable achievements.
As you can see from the people seated at the front of the room, the process of Board renewal has continued.

Lucio Di Bartolomeo will retire from the board at the end of this meeting and I would like to thank him for his outstanding contribution to Downer over the past six years. This includes his service as Chairman of the Remuneration Committee and being a key driver of Downer's sound governance culture. On behalf of the board, I wish Lucio all the best for the future.

Later in this meeting you will be asked to vote for the election of three Non-executive Directors who were appointed during the year – Phil Garling, Eve Howell and Kerry Sanderson. You will hear briefly from each of them before you vote on their election as part of the formal proceedings.

I note that if all the new directors are elected, three of Downer's seven Non-executive Directors will be women, significantly improving the gender balance on the board.

Women constitute about 11 per cent of the total Downer workforce, which is comparable with other companies operating in the engineering, mining and infrastructure sectors. We recognise the benefits of increasing the number of women working at Downer and our objectives for 2013 are outlined in our Annual Report.

Ladies and gentlemen, the board believes that the capability of Downer's senior management team, under the leadership of Grant Fenn, has continued to strengthen this year and there is now a strong performance and business culture across the Group. The executive team has made significant progress addressing the problems of the past as well as preparing the company for the future.

This includes making substantial progress on the Waratah Train Project. It is clear that the manufacturing process in both China and Australia has improved significantly. There is plenty of work still to be done, but there are now 18 Waratah trains available for passenger service on the Sydney network and they are performing very well. Grant will provide you with more details about the current status of the Waratah Train Project in his report.

The Board has made substantial changes to the executive remuneration structure in recent years and, while there are no major changes this year, we continue to listen to investors and other stakeholders. This year's Remuneration Report is once again very detailed and can be found in the Annual Report. Adoption of the Remuneration Report is item 3 on today's agenda, and I will answer any questions you may have on remuneration when we consider item 3 as part of the formal proceedings.

We have also made substantial improvements to our risk management processes in recent years and we are making good progress in standardising our approach to project management.

We continue to focus closely on tender assessment. This means, for example, that prospective new projects worth over $30 million must be reviewed and approved by the Tender and Capital Committee chaired by the Chief Risk Officer and attended by the CEO and CFO. If the value exceeds $250 million, or if there are special risk features, the project must be reviewed and approved by the Board Tender Risk Evaluation Committee.

Our improved risk and project management processes are also helping us to develop people with the right skills for Downer's future. This includes having project managers with appropriate skills to run the complex projects we deliver for our customers.

Risk and project management are the lifeblood of a company like Downer and getting them right will be a key foundation for our future success.

I would like to address a question that is frequently asked by shareholders.

When is Downer likely to resume paying dividends?

The Board's position is that we would like Downer to pay dividends as soon as it is appropriate, having regard to the company's performance, its balance sheet strength and its capacity to distribute franking credits. The Board will monitor these criteria closely during the year.

I now invite your Chief Executive Officer, Grant Fenn, to provide an update on the Group's operations before I return to discuss the items outlined in the Notice of Meeting.

Chief Executive Officer's Report, Grant Fenn

Thank you, Mike, and good morning everyone.

2012 was a much better year for Downer.

We reported a 22.5% increase in total revenue to $8.5 billion for the 2012 financial year, including a contribution of around half a billion dollars from joint ventures. To put this into context, Downer's total revenue in 2010 was $6 billion. So we have seen a 41% increase in revenue over the past two years. Our customers like the job we do and support us accordingly.

We reported underlying earnings before interest and tax of $346.5 million, up 18.6% from the prior year, and underlying net profit after tax rose 17.4% to $195.3 million. These are very good results that include the negative impacts from closing out a number of historic legacy issues.

Operating Cash Flow increased by 96.3% to $364.5 million. This represents a 91% cash conversion to EBITDA, including $93 million of net outflow relating to the Waratah Train Project. This was a very strong result reflecting the emphasis placed on working capital management by the business at all levels. Although, I must say that the cash result will be hard to replicate in the current environment.

At 30 June our work-in-hand was around $20 billion, very similar to the position 12 months earlier. In practical terms, we deliver our work at an average of $700 million per month. Importantly, we are working hard to get better sight of, and manage, our future revenue opportunities. This is increasingly important as the market becomes less certain and more difficult.

Following on from our good cash performance, our net debt at 30 June 2012 reduced by 25% and our gearing reduced by 6.9 percentage points. As you know, our balance sheet has been the subject of much discussion and speculation over the past year. Our reported results show that the balance sheet continues to strengthen.

On the capital management front, there has been a significant amount of refinancing during the year by our Treasury team with only a modest level required over the next 12 months. Overall, our liquidity remains strong.

I would now like to highlight some of the key operational achievements that were instrumental in driving the 2012 results.

First, we have made substantial progress on the Waratah Train Project. Quality standards are being met in China and the production rate has increased to three trains per month. We are also meeting our production targets in Cardiff.

There are now 18 Waratah trains available for passenger service on the Sydney network. We are scheduled to deliver the 23rd train to RailCorp by Christmas and the 78th train in mid-2014. Very importantly, the trains are performing well in service.

We are a long way down the track, so to speak, on the total Waratah program. We have placed over 95% of the purchase orders with suppliers. Around 75% of the interior fitout components and 70% of major supply components have been delivered. We have manufactured 65% of the train car bodies and almost 60% of the total fitout task is now complete. I was in China last month and saw the 39th train (the half way mark for train deliveries) leave the CRC factory destined for Australia. So, 50% of the trains are either in Australia or are being shipped here as I speak, and we are approaching the 40% mark for production at Cardiff.

As far as funding the Waratah project is concerned, we refinanced our $260 million Waratah bonding facility and Reliance Rail was restructured with no equity contribution from Downer. Reliance Rail has now drawn $228 million of its $357 committed bank debt.

I am very pleased to say that while the Waratah project remains challenging and complex it now represents a substantially lower risk to the business. There has been so much improvement in the Waratah project delivery that our Cardiff operation recently won the Hunter Manufacturing Award for Excellence in Manufacturing Process.

During the year we reshaped our business portfolio substantially. We now have three Divisions that are leaders in their markets. They have scale, a critical mass of capable management and a service offering that is unparalleled. The joining together of our Works, Engineering and New Zealand business into Downer Infrastructure is providing new opportunities, better performance and a safer work place.

I will now move on to the performance of each of our Divisions.

Downer Mining's result was very strong. Importantly, our Mining division is delivering on the capital we have allocated to it. Downer Mining's ROFE, the return on funds employed, is now over 20%. What is clear is that Downer Mining's customers see them as highly competent and valuable. This will be a key differentiator as things get a little tighter on the demand side. This is a good business that will continue to deliver in the 2013 financial year.

In Australia, Downer Infrastructure improved its EBIT performance despite a material drag from some loss-making legacy contracts. Revenue generation has remained strong and growing off the back of a lot of focus from the team. The Eastern region was the stand out performer for the year gone by. The business is investing in its asset management platform and the signs are promising.

In New Zealand, Downer Infrastructure has had a marked rebound in fortunes. Its cost reduction and efficiency measures over the past couple of years are now paying dividends as they win new work. This improvement trend should continue as the New Zealand business has had a number of material wins and has secured a high proportion of its revenue for the 2013 financial year.

Downer Rail's earnings were slightly up on last year, although positive contract closeouts contributed to that performance. Locomotive demand was significantly down from the prior year, although we did secure contracts with BHP Iron Ore, Fortescue Metals Group and TasRail.

Importantly we signed a new agreement with EMD, our locomotive technology partner, which will provide a sustainable business model into the future. Manufacturing locomotives in Australia is simply not price competitive, so our freight business will now concentrate on sales, after-sale service, maintenance and overhaul.

In the rail passenger market, we continue to manufacture rolling stock and are currently in production on vehicles for Queensland Rail, WA PTA and, of course, Waratah.

There is a significant efficiency drive across each of the Divisions to help offset the changing market and to improve our competitive position.

As the Chairman has already noted, a profoundly disappointing aspect of our performance was the three workplace fatalities on road maintenance sites in Victoria and New Zealand. Hazards around plant and people interfaces have caused numerous deaths over the past decade in the road services industry and frankly it has been a real blight on the whole industry. We have implemented initiatives to address hazards associated with reversing vehicles on our work sites across Australia and New Zealand and we continue to work on safer ways of doing our job.

A key point here is that we must concentrate on our critical risks even if our injury statistics might tell us we are doing very well compared with our peers. Our critical risk or "Cardinal Rules" program is so important and it is having a real impact on how we go about our work.

Ladies and gentlemen, at our Full Year Results in August we noted an increasing level of uncertainty around the level and timing of Government and private sector investment in infrastructure in both Australia and New Zealand and we have, over the past two months, seen a number of prospective projects deferred. We do anticipate that competition for available work will increase, presenting challenges but also opportunities.

Against this background, Downer's work-in-hand remains at solid levels and our industry-leading businesses are well placed to capitalise on the pipeline of opportunities in the markets in which we operate. As I said earlier, our three Divisions are leaders in their sectors, with substantial scale and capability, and they continue to deliver for our customers. Now is the time that we can present real value to our customers.

Our results in the first three months of the financial year have been to plan. Consequently, at this point, despite future market uncertainties, we maintain our guidance for the full year result of earnings before interest and tax of $370 million and net profit after tax of $210 million.

Ladies and gentlemen thank you very much, and I would now like to hand the meeting back to the Chairman.