DOWNER GROUP ANNUAL GENERAL MEETING 2014
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 has delivered another strong financial and operational performance for the 2014 financial year. In particular, we:

- Delivered on our guidance, which was given at the start of the financial year
- Considerably strengthened our balance sheet so that at the end of the financial year we had almost no net debt, and
- Delivered the final waratah train set to the New South Wales government. Importantly, the Waratah trains are performing well and are very popular with Sydney's commuters and train drivers.

We are particularly pleased with the acquisition of Tenix last month, which you all would have heard about recently. Grant will tell you more about this in his address.

Downer paid dividends totalling 23 cents per share for the financial year, a 9.5% increase on last year. I am pleased that we were able to resume full franking on the final dividend, which was paid in September.

We have also announced an on-market share buy-back scheme as part of our ongoing capital management strategy.

In what has been a difficult year for companies in our sector, especially the mining sector, Downer's strong performance and the increase in dividends is a welcome outcome for you, our shareholders. On behalf of the board, I would like to thank you for your support.

I would also like to thank your Chief Executive Officer, Grant Fenn, his executive team and importantly all the Downer employees and contractors who worked exceptionally hard during the year to deliver the results.

I can assure you the hard work will continue and we will build on the foundations to deliver consistently in the years ahead.

Grant will soon outline the highlights of our financial and operational performance, and what the future looks like, in his report.

Ladies and gentlemen, the health and safety of all our people is paramount at Downer. Tragically, a Downer employee, Kane Maxwell, died while working for the company during the year. The incident occurred in April 2014 while Mr Maxwell was performing stringing work for the construction of a new transmission line in Western Australia. The incident has been investigated fully and Downer is determined to ensure that a fatality like this does not occur again.

Later in the meeting you will be asked to vote for my re-election. I would like to ask for your support to continue my role as a Director and as your Chairman. Board renewal will be one of the focus areas for my next period as Chairman, as will the integration of Tenix.

In September this year, Kerry Sanderson, AO was appointed Governor-designate of Western Australia. This is a tremendous accolade for Kerry and she will do a great job. Her new role means she retired as a Director of Downer on 30 September 2014. Kerry made a significant contribution to Downer in her three years on the Board and we wish her the very best for the future.

I believe the Board retains an appropriate mix of skills and experience but, as mentioned, we will be undertaking a Board renewal process to ensure that this remains the case well into the future.

Ladies and gentlemen, the 2015 financial year will be another challenging one for Downer and its peers. I believe Downer is well placed to weather these conditions because we have:

- Excellent underlying businesses, which are leaders in their fields
- A strong and stable management team and very good people right across the Group
- A sound balance sheet with strong cash flow and high levels of liquidity, and
- A range of opportunities for future growth.

I now invite our Chief Executive Officer, Grant Fenn, to provide an update on the Group's operations and the outlook for 2015 before I return to discuss the items outlined in the notice of meeting. Thank you.

Chief Executive Officer's Report, Grant Fenn

Thank you, Mike, and good morning everyone.

I am pleased to report that Downer has performed very well, both financially and operationally, since last year's Annual General Meeting and I would like to outline a number of the highlights from the past 12 months.

Our financial performance was strong in tough conditions and, significantly, we were again able to deliver on the guidance that we provided at the beginning of the financial year – one of very few companies in the sector to do so.

Our operating cash flow was a standout once again due to our continuing and rigorous focus on cash and working capital management. Our operating cash to EBITDA ratio was 94.7%. This is the sixth reporting period in a row in which our cash conversion has been over 90%. Downer's gearing was just 1.6% on 30 June 2014, with net debt down to $32.7 million. After the acquisition of Tenix, our gearing will still be around 10% – a very comfortable level. This is an extraordinary change from where we were a few years ago. Our cash performance and strong balance sheet sets us apart from most of our peers.

As the Chairman mentioned earlier, the 78th Waratah train was delivered to the New South Wales Government in May this year and it entered passenger service on the Sydney network at the end of May.

I am extremely proud that Downer has designed and manufactured a fleet of world class passenger trains for the people of New South Wales. Waratah trains now make up around 40% of Sydney's passenger train fleet and they will be the backbone of the Sydney rail network for many years to come. The trains are very popular with train commuters and crews because they provide first class comfort and accessibility, advanced safety and security and smart technology. They have become the new transport icon for New South Wales and the benchmark for passenger trains in Australia.

I am pleased to say the 30 year Waratah maintenance contract, known as the Through Life Support contract, is now operating fully and performing well.

We overcame numerous obstacles on this project over the past four years and I would like to acknowledge the hard work, persistence and professionalism of the Waratah team.

I will now provide an overview of our operational performance.

Each of Downer's three divisions experienced a decline in revenue this year, driven by subdued end markets in the sectors in which we operate.

Downer Infrastructure's resources-based consultancies were hit particularly hard by the decline in mining capital expenditure. More broadly, there was a lack of new contract awards to replace several large projects that were completed during the year. Downer Infrastructure continues to reduce overheads and operating costs to minimise margin decline.

It is important to note that Downer Infrastructure won a number of substantial contracts during the year. The two largest are a $400 million contract for electrical and instrumentation work at the Wheatstone LNG project in Western Australia and the Sydney West Zone Stewardship Road Maintenance contract, which is worth $350 million to Downer over seven years.

Downer Infrastructure has also begun ramping up at a number of other projects, including Ulan West, Hay Point, Mooka, Yandi and Tan Burrup, as well as on a number of telecommunications and renewables projects.

The New Zealand business performed well during the year, driven by robust activity across all operational areas, continued business improvement and a stronger New Zealand dollar. We won a number of road infrastructure contracts and were selected as a lead contractor on stage one of the Central Plains Irrigation Scheme.

Downer Mining again had a strong year despite a 22% drop in revenue. The revenue decline was due to the completion of two contracts with Peabody in March 2013 and scope reductions at Goonyella, Blackwater, Boggabri and Christmas Creek. Downer Mining's earnings before interest and tax was only marginally lower than last year due to ongoing productivity improvements and changes to equipment financing.

As we announced in June 2014, Downer's contract at the Goonyella coal mine in Queensland was terminated two years early by BHP Mitsubishi Alliance. The termination took effect on 9 September 2014 and, as a result, Downer's work-in-hand reduced by approximately $360 million.

On a much more positive note, Downer Mining won several new contracts and contract extensions during the year. The highlights were a four and a half year $500 million contract with Roy Hill Iron Ore, a two year $70 million underground contract with Crocodile Gold Corporation, and a 200 to 250 million dollar contract extension with Milmerran Power Partners on the Commodore coal mine in Queensland.

The mining industry remains under intense pressure due to subdued commodity prices, particularly coal and iron ore. Our Mining division continues to work closely with its customers to help reduce operating costs and improve efficiencies.

Downer Rail experienced a challenging year. The division experienced a large drop in revenue due to the completion of the Waratah manufacturing contract and reduced demand for locomotives and freight maintenance services as a result of the mining downturn. Earnings were also affected by restructuring costs associated with the consolidation of site depots and staff redundancies.

The Keolis Downer joint venture continues to perform well. Keolis Downer operates and maintains Melbourne's Yarra Trams and, in July this year, it began the operations and maintenance of the Gold Coast light rail, now known as G:link.

Ladies and gentlemen, just over two weeks ago we announced we had signed an agreement to acquire all of the shares in Tenix Holdings Australia Pty Limited for $300 million on a cash and debt free basis. That agreement was completed last Friday, 31 October.

We have been considering acquisition opportunities in power, gas and water distribution markets for some time now and have said consistently we were looking for opportunities that are strategic, will grow our capability and, importantly, that are the right price. The acquisition of Tenix achieves these goals.

Tenix has high quality people and a focused safety culture. It is a leader in the electricity, gas and water sectors in Australia and New Zealand and will be the foundation for a new core Utilities business for Downer. Tenix has strong, long term relationships with some of the largest utility businesses in Australia and New Zealand, working with many of its customers for over a decade. It is a low capital intensity business that operates on long term operations and maintenance contracts.

Importantly, Tenix has strong prospects for future growth. Tenix has played a leading role in driving efficiency from the privatisation of electricity networks in Victoria and South Australia and is well placed to do the same in other States as power distribution assets are privatised. Following the acquisition of Tenix, Downer will have:

- More long term, collaborative customer relationships
- More long term, recurring, IP driven operations and maintenance contracts
- Enhanced growth opportunities
- Strong, leading positions in stable and growing markets, and
- A continuing culture of investing in high quality people.

It is an excellent strategic fit that will help us build a stronger Downer Group.

Ladies and gentlemen, at our full year results in August we stated that the forward outlook varies by market.

Government related expenditure on capital and services looks promising while resources based expenditure is expected to be flat, or declining, on current low levels. Underlying mining commodity markets are currently very difficult for a number of our major customers. The short term impact of this pressure on service providers like Downer is hard to predict. Longer term, this pressure will drive increased demand for our services as companies look for more efficient service delivery.

In relation to guidance, following the acquisition of Tenix, and despite the subdued outlook for a number of our end markets, we are increasing our target statutory net profit after tax for the full year to $210 million.

The existing business continues to perform in line with previous guidance whilst the incremental increase from the Tenix acquisition reflects eight months of trading net of interest expense, transaction costs, amortisation and taxation.

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