

**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 2015 financial year. In particular we:

- Delivered on our guidance, which we gave at the start of the year;
- Successfully integrated the Tenix acquisition into the Downer organisation;
- Maintained a very strong balance sheet with only 8.1% net debt following the Tenix acquisition; and
- Rebranded Downer and made changes to the organisation structure to enable us to better respond to the ever increasing difficult market conditions.

Downer paid fully franked dividends totalling 24 cents per share for the 2015 financial year, up from 23 cents last year.

In what has been another very difficult year for companies in our sector, especially the mining sector, Downer's strong performance and dividends are again 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. Grant will soon outline the highlights of our financial and operational performance and also the outlook for the future in his report.

Ladies and gentlemen, the health and safety of our people is paramount at Downer. I am pleased to say that both key safety indicators, our lost time injury frequency rate and total recordable injury frequency rate, improved this year. We know, however, that we must remain vigilant and we will continue to seek further improvement.

Later in this meeting you will be asked to vote for the re-election of two of your directors, Eve Howell and Phil Garling. I also note that John Humphrey is entering his final year as a non-executive director. We will soon be embarking on a board renewal process to ensure we have the appropriate mix of skills and experience for running Downer's future business.

Ladies and gentlemen, the 2016 financial year will be extremely challenging, especially now that our major customers are coming to the end of a major capital spend era – especially in the oil, gas and mining businesses. I believe Downer is well placed to weather these conditions because we have:

- Excellent underlying businesses which are leaders in their fields;
- A very strong and stable management team with a changed organisation structure to enable us to better respond to the changing business environment;
- A strong balance sheet, strong cash flows and a high level of liquidity; and
- A range of opportunities for the future.

I now invite our Chief Executive Officer, Grant Fenn, to provide an update on the Group's operations and the outlook for 2016 before I return to discuss the items outlined in the notice of meeting.

Thank you.

Chief Executive Officer's Report, Grant Fenn

Thank you, Chairman, and good morning everyone.

The 2015 financial year was very tough to navigate for Downer as well as the other companies in our sector. I am pleased to say that we delivered on our NPAT guidance of \$210 million and that this was a very pleasing result in a difficult environment. This achievement took considerable effort, energy and focus from our people.

Downer's consistent cash performance and strong balance sheet continues to set us apart from most of our peers.

Our operating cash flow remains a major focus of the business and we again delivered a strong result of \$486.5 million, with cash conversion just under 90% of EBITDA. This focus on cash and capital management also helped us to reduce interest costs by 30.5% to \$29.9 million.

Our net debt was only \$179 million at 30 June 2015, and this was after we spent \$300 million acquiring Tenix in October 2014. Gearing was 8.1% at the end of the financial year.

The flow-on impact of low commodity prices on business investment and operating expenditure has required us to work even more closely with our customers. We are becoming more efficient, better at what we do and we have continued to build our customer base.

At the beginning of this meeting you saw a video that outlines the new brand we launched in March this year. Our "relationships creating success" program has been received very positively by our customers and our people. Being customer-centric and helping our customers succeed has never been more important to our business.

In February this year we introduced a new organisational and reporting structure to better align to our customers. I will now provide an overview of operational performance, reflecting the new service line structure.

Transport Services – which includes the group's road, rail infrastructure, airport and port infrastructure businesses – performed well, continuing to win a high share of available contracts in both Australia and New Zealand.

We have been market leaders in Australia and New Zealand in road maintenance and network management for a long time, but we are now building capability in light rail design and construction. We see this as a niche growth opportunity as cities in Australia and New Zealand increasingly look to light rail to help solve their public transport needs.

I am pleased to say that Downer's *Activate* consortium has been shortlisted to build, operate and maintain Canberra's new light rail system, with the preferred bidder expected to be announced in early 2016.

I would like to note that we acquired VEC Civil Engineering during the year, a specialist in design and construction of road and rail bridges and structures. We are excited about the opportunities for this business as we extend our service offering to state and local government across Australia.

Our **Technology and Communication Services** business, which comprises the Group's fibre, copper and radio network infrastructure capabilities, also had an improved year.

In New Zealand, Downer is the major supplier of technology and communication services to Chorus, Vodafone and Spark. We are well-regarded and positioned and during the year we signed an additional agreement with Chorus to provide UFB network connections to around 300,000 homes.

In Australia, as you know, the nbn has been slow to get going and consequently hasn't made any material contribution to Downer's results. I am pleased to say that this is changing. In June this year we were awarded a new five year contract by nbn under the new multi-technology mix model. We began work in July and we expect the value of the contract to be approximately \$100 million in the first year. We believe that if we perform well, we will continue to grow this business – and there is a lot of uncontracted build work yet to come.

Utilities Services, which includes our power, gas and water network infrastructure businesses, grew significantly during the year, largely due to the acquisition of Tenix.

As we said at last year's meeting, this acquisition gives us strong, long term relationships with some of the largest utility businesses in Australia and New Zealand and also positions us well for the significant opportunity presented by the privatisation of power networks in New South Wales and other states.

We are seen as a market leader in this field and we are actively seeking opportunities to participate in the upcoming NSW privatisation as a key service provider.

Downer is also a market leader in renewable energy and the settlement of the renewable energy target has seen a significant boost in activity around wind and solar opportunities. In June this year we were awarded a contract for the construction of the Ararat wind farm in Victoria.

I will now move to our **Engineering, Construction and Maintenance** business, which had a challenging year characterised by fewer bid opportunities and lower bid margins.

In response to very tough conditions, we have restructured the EC&M business to operate nationally rather than by geographic region and we are also significantly reducing management layers and functional overhead.

Our **Mining** division, which has seen revenue fall due to contract completions and volume reductions, continues to perform well and remains the contract miner of choice in Australia.

During the year, we were awarded an expanded contract with Fortescue Metals Group at Christmas Creek, a two year contract extension with BMA at Blackwater in Queensland and a two year contract for underground mining services at the Cobar copper mine in New South Wales.

The Mining business continues to work closely with customers and we are now providing asset management services at a number of sites as customers look for us to help them improve their fleet utilisation.

Our **Rail** division is a couple of years into a significant transformation as a number of passenger manufacturing contracts, including the Waratah, come to an end and demand for new locomotives remains low.

Importantly for the Rail business, we signed a 10 year, \$1 billion locomotive maintenance agreement with Pacific National earlier during the year and we are also tendering for two substantial passenger rail opportunities.

The first is the New South Wales Inter City Fleet project and Downer is one of four parties shortlisted by Transport for New South Wales to supply and maintain a new fleet of approximately 520 passenger carriages. In bidding for this contract, which is expected to be awarded next year, we will capitalise on the expertise and IP created from the Waratah Train Project.

Downer is also in the early stages of bidding to supply 37 next generation, high-capacity trains for the Victorian government. This contract is expected to be awarded in late 2016.

I remind you that our Rail division includes the Keolis Downer joint venture, which is now Australia's largest, privately owned, provider of multimodal public transport solutions. Keolis Downer operates and maintains Yarra Trams in Melbourne, the world's largest light rail network, and also Gold Coast light rail in Queensland.

In April this year, Keolis Downer acquired Australian Transit Enterprises, one of Australia's largest route, school and charter bus businesses with a fleet of over 900 buses in South Australia, Western Australia and Queensland.

Keolis Downer is focused on growth in light rail, heavy rail and bus operations. As I mentioned earlier, it is a member of *Activate*, one of two consortia short-listed to deliver Canberra's new light rail system.

Keolis Downer is also partnering with Kiwirail in a bid to operate and maintain Wellington's regional passenger rail services from 2016.

Ladies and gentlemen, at our full year results announcement in August we noted that Downer's business mix has provided a sound base to navigate the current decline in our mining based markets. We are number one or two in virtually all of the markets in which we operate, and we have a high proportion of government related work in both Australia and New Zealand.

We expect the current low levels of mining related capital expenditure to continue through 2016 and customers across the board to focus on costs and efficiency as the broader economy feels the impact of low commodity prices.

Downer will continue to build and grow. We will invest in our existing businesses, including the major road, rolling stock and light rail opportunities, and look to expand through well targeted acquisitions or joint ventures.

In our 2015 result announcement in August, Downer provided profit guidance for the current 2016 financial year of NPAT of \$190 million. At this point in the year, whilst some of our markets are challenging, I confirm this guidance.

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