

**DOWNER GROUP ANNUAL GENERAL MEETING 2016
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 2016 financial year. In particular, we:

- Delivered on our guidance, which was given at the start of the year. This is the sixth successive year we have achieved this;
- Maintained a very strong balance sheet with little debt and strong cash flows;
- Paid a fully franked dividend of 24 cents per share and bought back 7.9 million shares;
- Were part of the consortium selected as preferred respondent to deliver the High Capacity Metro Trains project, the largest investment in new rolling stock in Victorian history; and
- Achieved a strong share price performance, with our share price this week around \$5.70.

We have delivered these results in what has again been a very difficult year for companies in our sector, especially as our major mining and oil and gas customers come to the end of an era of substantial capital expenditure.

Our strong performance and dividend are again a welcome outcome for you, our shareholders, and on behalf of the Board I would like to thank you for your continued support.

I would also like to thank your Chief Executive Officer, Grant Fenn, his executive team and all our employees and contractors who made our strong performance happen and delivered our results. Grant will soon outline the highlights of our financial and operational performance and also the outlook for the 2017 financial year in his report.

Ladies and gentlemen, the health and safety of our people is paramount at Downer and while our performance on the key safety indicators is good, sadly I have to report the death of one of our employees while working at the Alcoa plant in Western Australia. This fatality highlights the importance of our continuing focus on the critical risks that can cause death.

During the year we started a Board renewal program. As you are aware, John Humphrey is standing down this year after 15 years on the Board. John has been a first class Director and has made a strong contribution to Downer. We wish him well for the future. John will say a few words towards the end of the meeting.

As a first step in the Board renewal program, we will seek your support today to elect Teresa Handicott as a Non-executive Director. Teresa is a former partner of a national law firm and has extensive experience in mergers and acquisitions, capital markets and corporate governance. More details of her achievements are set out in the Notice of Meeting. Teresa will say a few words when the time comes to vote on her appointment.

Later in this meeting, you will also be asked to vote for the re-election of two of your Directors, Annabelle Chaplain and Grant Thorne.

On a very sad note, I want to mention the death of Kevin Fletcher, who had been with Downer for six and half years and was Chief Financial Officer for six years.

Kevin took the CFO role when Grant became Chief Executive Officer and I became Chairman. Kevin was instrumental in establishing the foundations beneath the strong financial performance that Downer enjoys today. Over the years, Kevin became a great friend to us all and he is sadly missed. Kevin, if you are up there listening, on behalf of us all I thank you.

On a happier note, I would like to confirm the appointment of Michael Ferguson as our CFO and introduce him to you today. Michael was Kevin's Deputy CFO for two years. I am pleased that both Kevin and Michael have been internal promotions to this important role.

Ladies and gentlemen, 2017 will be another challenging year however I believe Downer is well placed to weather the conditions because we have:

- Excellent underlying businesses with \$18.6 billion of work-in-hand as at 30 June 2016;
- A very strong balance sheet and underlying cash flows;
- A high level of liquidity; and
- Importantly, a very strong and committed team and employees.

I now would like to invite our Chief Executive Officer, Grant Fenn, to provide an update on the Group's operations and the outlook for 2017 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 shareholders.

2016 was the sixth consecutive year Downer has delivered profit on guidance and an outstanding cash flow result, a performance that clearly differentiates this business from its peers.

The highlights of our financial results for the 12 months to 30 June 2016 include:

- Net profit after tax of \$180.6 million;
- Total revenue of \$7.4 billion;
- Earnings before interest and tax of \$276.9 million;
- Operating cash flow of \$447.8 million – which represents cash conversion of 92.8% of earnings before interest, tax, depreciation and amortisation. Downer has produced EBITDA conversion ratios over each of the past six years of between 80% and 96%. This gives you a lens into the quality of the business, its management systems and its service performance;
- Our strong cash performance means our gearing at the end of June was just 4% with available liquidity of \$1.1 billion; and
- At the end of September 2016 our work in hand was \$20.1 billion, an increase of \$1.5 billion from June 2016.

Importantly, Downer is successfully transitioning for the growth in public transport infrastructure and government service delivery. Over 55% of our revenues are now generated from servicing public infrastructure customers in Australia and New Zealand – and this percentage will rise in the years ahead.

I will now run through the highlights of each of our service lines.

Transport services includes the group's road, rail infrastructure, bridge, airport and port capabilities.

This cornerstone business continues to perform well on both sides of the Tasman with notable highlights including our success in securing a number of long term road network management contracts in New Zealand, the turnaround of our Queensland road business and the development of our proprietary "FUSE" asset management system that is being rolled out across our operations.

We continue to invest in our facilities, products, services and people to maintain our market leading positions. This includes ongoing investment in asphalt technology which is improving the performance of our customers' assets and reducing their environmental footprint through lower energy use and high levels of reuse products.

A few months ago, we acquired RPQ group – a company that provides a range of quality services in road maintenance. RPQ is a well recognised and respected brand in Queensland and Northern New South Wales and will complement our current offering in road services.

Since the end of the financial year, we have won several significant transport services contracts, including the managing contractor role for the Newcastle Light Rail project and the design,

construction and commissioning of both a train maintenance facility and a light service facility as part of Victoria's High Capacity Metro Trains project. I will say more about this project later when I discuss the rail business.

The outlook for Transport Services is very positive with increasing demand for product innovation, smart asset management and intelligent infrastructure.

Technology and Communications Services comprises the group's fibre, copper and radio network businesses.

We are performing well on the nbn in Australia, our second year of a five year contract under the multi-technology mix model, and have established ourselves as a high quality delivery partner. In July, we were awarded an additional contract to carry out construction of the nbn across the Telstra hybrid fibre cable footprint.

Downer recently received the "We Deliver" award at nbn's annual supplier summit. This award recognised Downer as nbn's top performing construction partner. We are working closely with nbn to deliver for their customers and it epitomises our brand message of "Relationships creating success".

In New Zealand, the roll out of the Ultra Fast Broadband network continues to go well and while it is beginning to wind down we are preparing to bid on the second stage of this major project. We are also performing well for other New Zealand customers, notably Spark and Vodafone.

Utilities Services comprises our power, gas, water and renewable businesses.

The integration of Tenix into the Downer group has gone very well. The power and gas businesses performed strongly again and we were very successful in converting a number of water opportunities into long term design, build, operate and maintain contracts. State governments will continue to search for better solutions in water treatment and security and we are positioned very well to meet those needs.

Our Utilities business is also pursuing opportunities arising from privatisation, contestability and business improvement across State power distribution networks. We have an unmatched position in this space and I am confident of the outlook.

We are also well positioned to benefit from the investment in renewable energy that will take place over the next few years. To meet the Federal Government's renewable energy target of 33,000 gigawatt hours by 2020, it is estimated that \$10 billion must be invested in capacity over the next four years. That's the equivalent of 1,200 wind turbines or 20 million solar panels. To put that into perspective, only approximately 1,200 wind turbines have been commissioned in Australia over the past 12 years.

Downer has been strong in the wind sector for a long time – we have constructed over half the wind farms in Australia – and the acquisition of Tenix has provided capability in solar. Renewables will continue to be a sweet spot for Downer.

Our **Rail** division provides total rail asset solutions including passenger and freight build, operations and maintenance, component overhauls and after-market services.

The passenger business performed well during the year. We were awarded supply and maintenance contracts with Western Australia's Public Transport Authority and the 30 year Waratah Through-Life-Support contract continued to perform well due to the exceptional performance of the Waratah trains.

In September this year, the Evolution Rail consortium – which includes Downer – was selected as the preferred respondent to deliver the High Capacity Metro Trains project, the largest investment in new rolling stock in Victoria's history.

This is an excellent outcome for the Downer team, all of whom worked hard for over 15 months to achieve this result. We look forward to working closely with Public Transport Victoria to deliver excellent trains for the people of Victoria.

I will now move to our **Engineering, Construction and Maintenance** business which comprises the group's industrial construction and maintenance services, our New Zealand projects business and our resources based consultancies.

We have been very successful in converting our capability from mining to gas in the face of significantly lower resources related activity. In particular, we have performed strongly for our customers at our two major LNG projects, Gorgon and Wheatstone in Western Australia. We are working hard to create sustainable service positions over the long term as the construction phase rolls off over the next few years and our good performance to date gives us a very good chance of success.

The Engineering, Construction & Maintenance division is leading the Group's expanding role in the Defence supply chain. We see capability gaps in the defence industry sector and, as one of the very few Australian owned ASX 100 engineering services companies, we believe Downer can play a significant role in delivering the huge investment in facilities, machinery and services planned by the Australian government.

We recently purchased AGIS, a company that provides project management, systems engineering and integration advice to a range of defence-related government agencies. This is an example of the opportunities we are pursuing to acquire industry presence and capability and forge strategic partnerships in the defence sector.

Our **Mining** division provides a wide range of open cut and underground mining services as well as mine planning and design, blasting services, tyre management and mine rehabilitation services.

This business delivered another strong result and an excellent operational performance despite a very difficult mining services market. This included extending a number of existing contracts, an improved performance from Blasting Services and growth in our plant maintenance business.

At the end of September, we completed our contract with Fortescue Metals Group at its Christmas Creek mine. We provided mining services at Christmas Creek for six years and are very proud of the contribution we have made to the success of that mine. We have settled all claims relating to

this contract and worked closely with our customer through the transition to the owner operator model.

Our Mining business remains highly valued as an industry leader in Australia and continues to work closely with its customers.

Ladies and gentlemen, the market has responded favourably to our performance in 2016. Commentary and feedback from investors and analysts has been very positive and Downer's share price has risen 40 per cent since we reported our full year results three months ago. This is a very pleasing outcome for you, our shareholders.

At our full year results announcement we stated that whilst Downer faces continued pressure in its resources based businesses, the company is progressing well in repositioning to service increased investment and outsourcing in Roads and Rail, Public Transport, Utilities, Defence and Communications.

Downer anticipates that the company's diversity and strong market positions in key sectors will continue to provide reliable earnings, growth opportunities and high cash flow generation in 2017.

On 18 August 2016, Downer provided guidance to the market that its NPAT target for the 2017 financial year is \$163 million and today I confirm that guidance.

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