



Becoming Lite to Prosper.

Company/ASX Code	Downer Group (DOW)
AGM date	Thursday November 5 , 2020
Time and location	11:00 Am Virtual https://web.lumiagm.com/370243971
Registry	e.g. Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Allan Goldin assisted by Nick Bury
Pre AGM Meeting?	Yes, with Chair Rupert Mike Harding, Teresa Handicott Chair of Remuneration Committee, Michael Sharp Group Head of Corporate affairs & Investor Relations, Peter Lyons Company Secretary and Michael Ferguson CFO

ASA WILL BE ATTENDING THIS VIRTUAL AGM VOTING ALL PROXIES WE RECEIVE AND ASKING QUESTION JUST LIKE NORMAL.

Please note any potential conflict as follows: An individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Downer like most companies have had their 2020 results heavily affected by COVID-19 related close downs. Spotless Hospitality business generated virtually no revenue from March. New Zealand operations over March and April were only operating at 30% capacity.

Downer is undertaking a major restructure of its business and has been progressively moving away from traditional sources of revenue and major fixed price contracts, as the margins are no longer there and the risks that the contractor has to carry are too high and in some cases unfair. The Group is now moving toward a capital light, services-based business model generating lower risk, and more predictable revenues and cash flows

Downer's strategy is to focus on the core Urban Services businesses within the Transport, Utilities and Facilities service lines because they have demonstrated strength and resilience. A high proportion of the contracts are with government and government related entities providing attractive medium and long term growth opportunities.

COVID-19 interrupted much of Downers plan to reform the business but they are now back in deal mode. The sale of Spotless's laundry business to South Pacific Laundry and AlSCO's acquisition of

the garment side of the business are currently subject to further questions from the ACCC. The Company is hopeful that both deals will go ahead but there is definitely a plan B in place. There are also discussions around the Spotless Hospitality business. In the meantime, the Group took an impairment of \$165M in Spotless mainly on goodwill.

Originally the plan was to sell mining as a complete division but since then it has morphed into separately selling parts of the mining business. Now that we have moved out of the initial COVID-19 hit, we could see firms interested in taking the entire remaining mining portfolio or continuing with the selling of different projects. While all the selling discussions are taking place in the background, mining is continuing to operate and win business. Downer is being cautious and not bidding on greenfield projects but is active in bidding and retaining work on existing developments.

Selling divisions, general downsizing and restructure always comes at a cost. The accounts have allowed for portfolio restructure and exit cost including redundancies and reviews of \$142.4M. As more parts of the business are sold off the associated selling costs will be reflected when reporting the sales.

It should be clear although Downer will not be undertaking big scale fixed priced construction contracts, they remain energy heavyweights. Through facilities management and maintenance, including infrastructure they will be heavily involved with all energy generation whether that is fossil fuels, solar, wind or hydrogen.

Although Downer has suffered through the COVID-19 lockdown(s) the recent budget looks very hopeful and should see Downer enjoying a good uplift both in the near and medium term.

We asked why Mr. Harding who has performed well as Chair is up for re election after being on the board for 12 years. We were told it was mainly a timing issue caused by COVID-19 related reasons which suspended Spotless and Mining sales, then the opportunity to purchase the rest of Spotless came up, which required a capital raising. With all this happening the Company was not in the right space to appoint a new Chair. Currently a search is under way looking at both current and external directors for a new Chair. Mr. Harding says as soon as a new appointment has been made and settles in, he will be leaving the board.

In a good example of “sharing the pain”, the funds from the board and senior executives voluntarily taking pay cuts during the worst of COVID-19 lockdowns were put into a special fund to provide financial assistance to Downer and Spotless employees who were experiencing severe hardship.

Recently there have been both media questions and state government ministers commenting about reports that USA blacklisted CRRC Corporation, which has supplied NSW trains and now Victorian high capacity rail has been using exploited Uyghur labour. As Downer’s name has been linked to these expressed concerns it is important to clarify the relationship.

Evolution Rail is the name of the consortium delivering the High Capacity Metro Trains (HCMT) for the Victorian Government. Evolution Rail is comprised of Downer, CRRC and Plenary. Essentially, CRRC is responsible for manufacturing and delivering the trains while Downer is paid a fee as project manager. Downer will then be solely responsible for maintaining the trains until 2053.

Reliance Rail is the name of the consortium that delivered the first 78 Waratah trains for the NSW Government. The Reliance Rail consortium also included Downer and CRRC. The last of the 78 Waratah “Series 1” trains was delivered in 2014. Downer is solely responsible for maintaining those trains until 2044.

The NSW Government has ordered a further 41 Waratah “Series 2” trains (i.e. in addition to the original 78). Like HCMT, CRRC is responsible for manufacturing the Waratah Series 2 trains while Downer is paid a fee as project manager. Downer is solely responsible for maintaining the Waratah Series 2 trains until 2044.

A report issued by ASPI earlier this year alleged that a Chinese company called KTK may use Uyghur labour when it supplies rolling stock companies including “Alstom, Bombardier, CRRC and Siemens”.

Downer investigated the serious allegations in respect of Uyghur labour being used by KTK as soon as they were raised. In response to Downer’s enquiries, CRRC and KTK have strongly denied the allegations. Downer is unaware of any evidence that substantiates the allegations. Downer continues to work with CRRC to ensure appropriate measures are in place to ensure the integrity of CRRC’s supply chain. It is noted that the part supplied by KTK to CRRC is used on HCMT trains but NOT on Waratah trains.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	(155.7)	276.3	71.1	181.5	180.6
UPAT (\$m)	215.1	340.1	296.5	181.4	187.7
Share price (\$)	4.38	6.92	6.78	6.41	3.80
Dividend (cents)	14*	28	27	24	24
TSR (%)	(34.9)	6.3	12.6	85.6	(15.5)
EPS (cents)	(26.6)	42.9	38	35.8	38.0
CEO total remuneration, actual (\$m)	5.690	6.274	3.705	3.769	4.154

*Dividend declared with payment deferred to and made in Sept2020 due to COVID-19 Impact.

For 2020, the CEO’s total actual remuneration was **61.8 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian

Item 2	Re-election of Mike Harding as a Director
ASA Vote	For

Mr Harding has held management positions around the world with British Petroleum (BP), including President and General Manager of BP Exploration Australia. Mr Harding is currently the Chair of Horizon Oil Limited and a Director of Cleanaway Waste Management Limited. He is a former Chair of Lynas Limited, Roc Oil Company Limited, Clough Limited and ARC Energy Limited and a former Director of Santos Limited. If re-elected, Mr Harding intends to focus on the long-term performance of Downer, the ongoing Board renewal process and transition of the role of Chair of the Board. Mr Harding does not intend to seek a further term.

Although we have continually criticised Mr Harding for holding less shares than a Chair should, he has performed well in the role. ASA guidelines would normally be against voting for a non-independent Chair, however as we discussed earlier the circumstances around his still being in the role and that he will leave the Board once a new Chair has been found, ASA will be voting its undirected proxies in favour of the Chairman.

Item 3	Adoption of Remuneration Report
ASA Vote	For

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.00	36.4%	2.00	33.3%
STI - Cash	.75	13.6%	1.00	16.65%
STI - Equity	.75	13.4%	1.00	16.65%
LTI	2.00	36.6%	2.00	33.3%
Total	5.50	100.0%	6.00	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration

COVID -19 ACTIONS

- The Directors decided to voluntarily reduce their fees by 50% for the Chairman and 30% for the other Non-executive Directors for the period 1 April 2020 to 30 June 2020
- The Managing Director, Chief Executive Officer – New Zealand and Chief Executive Officer – Spotless decided to voluntarily reduce their fixed remuneration by 50% for the period 1 March 2020 to 30 June 2020

- The other KMP decided to voluntarily reduce their fixed remuneration by 30% for the period 1 March 2020 to 30 June 2020
- A significant number of other executives decided to voluntarily reduce their fixed remuneration.

The funds from these voluntary remuneration reductions were used to establish a fund to provide financial assistance to Downer and Spotless employees who are experiencing severe hardship.

No short term bonuses were awarded as the minimum profit gateway was not met. This was even though some of the non financial hurdles were achieved.

The rationale behind the STI is very clear and well thought out. The scorecard and the performance measurement against each area is easily seen.

The LTI are also very good with two very notable exceptions the hurdles are only measured over 3 years not 4 or 5 and the TSR can be awarded even when the actual result for Downer is a minus.

Overall, ASA thinks that this is a very good Remuneration report and well aligned with both shareholders and senior executives

Item 4	Approval of Managing Directors Long Term approval
ASA Vote	For

Summary of ASA Position

This resolution is for the awarding of 584,317 performance rights based on a 100% of Mr. Fenn's fixed remuneration divided by the actual share price.

To earn all of the performance rights which will convert into no cost shares. Downer group over three years must have a Total Shareholder return (TSR) better than 70% of the ASX 100. Plus

Compound Earnings per Share (EPS) annual growth of 10%. 110% of the target Group Net Profit After Tax (NPTA) and the Group Funds From Operations (FFO).

Excellent stretch targets

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