



Managing risk and steady progress

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| Company/ASX Code | Downer EDI Ltd/DOW |
| AGM date | Thursday 7 November, 2019 |
| Time and location | 10:30 AM, The Auditorium, Northside Conference Centre, corner Oxley Street and Poole Lane, Crows Nest, NSW 2045 |
| Registry | Computershare |
| Webcast | Yes |
| Poll or show of hands | Poll on all items |
| Monitor | Nick Bury |
| Pre AGM Meeting? | By telephone with Chair Mike Harding and others |

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

Summary of ASA Position

DOW is adept at ameliorating risk, which is fortuitous, as were it to badly manage its ongoing awarded contracts (being its business), then a lot of shareholder's monies would be quickly lost.

When DOW took over Spotless, it also inherited Spotless's Royal Adelaide Hospital contract, which was losing money and had generated historical abatement claims. DOW has now settled these claims and improved that contract's monthly cash position.

DOW has also been awarded a number of new contracts. In May 2019, Downer won the Chorus Field Agreement in NZ's South Island. The Company was also awarded a five year extension worth \$350m on its gas services contract with Ausnet as well as a five year contract to provide services across AusNet's grid in Northern, Eastern and Central Victoria for an estimated \$600m. The contract also has an option to extend for another six year period. In August 2019, DOW announced a four year contract extension with the Department of Defence. In the same month, DOW also announced that it has become the preferred contractor to deliver CS Energy's capital works program over the next five years at the Callide and Kogan Creek power stations in Queensland.

DOW incurred a \$31.5m loss (after tax) on its Murra Warra contract after its German partner Senvion went into administration. The company working to meet those contractual obligations and is working its way through this arising difficulty.

During financial year 2019 (FY19), total revenue increased 6.6% to \$13,448.3 billion. DOW's underlying EBITA (Earnings Before Interest Tax and Amortisation) margin increased by 0.4% to 4.2%, operating cash flow grew about 8% to \$630.2m, and underlying NPAT (Net Profit After Tax) was up 14.7% to \$340.1m.

These measures could indicate that DOW is bedding down Spotless and its other acquisitions and is successfully managing its operations.

Urban services - comprising of transport, utilities and facilities generated about 76% of DOW's revenue and about 83% of its EBITA at about a 5.4% EBITA margin, whereas Mining, Energy and Industrial Services produced about 24% of revenue and about 17% of EBITA at a 3.5% EBITA margin. Consequently, DOW is positioned to weather any bad mining and resources downturn, especially as it mainly shies away from high risk contract type work, as demonstrated by its manageable impairment levels (see its 2019 annual report which we encourage shareholders to read).

Debt provisions increased to \$577.1M (increase of 86.6m) due to the Royal Adelaide and Murra Warra contracts problems encountered in the previous year. Shareholder equity decreased by \$154.9m, but that reduction was mainly driven by the adoption of accounting standard AASB 15 (Australian Accounting Standards Board).

Total FY19 dividends marginally increased to 28c at a 50% franking level, up from 27c in 2018.

The company's financial position and immediate future outlook presents as solid, and the FY19 annual report is better set out than its FY18 report.

DOW Summary

| (As at FYE) | 2019 | 2018 | 2017 | 2016 | 2015 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| NPAT (\$m) | 340.1 | 247.8 | 181.5 | 180.6 | 210.2 |
| UPAT (\$m) | 290.8 | 71.1 | 181.4 | 187.7 | 199.9 |
| Share price (\$) | 7.04 | 6.81 | 6.44 | 3.80 | 4.68 |
| Dividend (cents) | 28 | 27 | 24 | 24 | 24 |
| TSR (%) | 3.97 | 10.1 | 86.32 | -14.91 | 11.30 |
| EPS (cents) | 42.9 | 10.7 | 35.8 | 38.0 | 43.9 |
| CEO total remuneration, actual (\$m) | 6.274 | 3.705 | 3.769 | 4.154 | 3.283 |

For 2019, the CEO's total reported remuneration was 55 times the Australian Full time Adult Average Weekly Total Earnings (\$1695.20 based on May 2019 data from the Australian Bureau of Statistics).

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| Item 2(a) | Election of Peter Watson as a Non-Executive Director (NED) |
| ASA Vote | For |

Summary of ASA Position

His experience for this role, as set out in the AGM 2019 Notice, is not only extensive, but in those areas that have specific pertinence to his NED role at Downer. He was Chief Executive Officer and Managing Director of Transfield Services Limited for ten years, he was a success in that role, and he also has considerable experience in various Non-executive Director roles. His career experience also extends to senior roles in the construction, engineering, industrial, transport, defence, health, justice and utilities sectors.

His academic qualifications are as a Fellow of the Australian Academy of Technological Sciences and Engineering, he is a Graduate of the Wharton Advanced Management Program of the University of Pennsylvania, he holds a Diploma of Civil Engineering from the Caulfield Institute, and he is both a Member of the Institute of Engineers Australia and Australian Institute of Company Directors.

His candidacy is supported.

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| Item 2(b) | Re-election of Teresa Handicott as a Non Executive Director |
| ASA Vote | For |

Summary of ASA Position

Ms Handicott is a former corporate lawyer who has lengthy experience in mergers and acquisitions, capital markets, corporate governance. and in the governance of local and state government organisations.

She is the Chair of listed company PWR Holdings Limited and of Peak Services Holdings Pty Ltd, which is the subsidiary of the Local Government Association of Queensland that is responsible for its commercial operations. She also serves as a Director of Bangarra Dance Theatre Limited, and a Divisional Councillor of the Queensland Division of the Australian Institute of Company Directors. She is a former Director of CS Energy Limited, a former member of the Queensland University of Technology (QUT) Council, the Takeovers Panel and Corporations and Markets Advisory Committee and a former Associate Member of the Australian Competition and Consumer Commission.

Her re-election is supported.

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| Item 2(b) | Re-election of Dr Charles Grant Thorne as a Non Executive Director |
| ASA Vote | For |

Summary of ASA Position

Dr Thorne has over 36 years' experience in the mining and extraction industry, and he has performed senior operational and executive roles with Rio Tinto, including as Group Mining Executive from 1996 to

1998 in London. He worked in Indonesia as President Director of Kaltim Prima Coal, and later managed Rio Tinto's Australian coal business, and the publicly listed Coal and Allied Industries. He was President of the Queensland Resources Council between 2001-2003.

In 2006 he was appointed global head of Rio Tinto's technology, innovation and project engineering functions, and later retired from Rio Tinto in 2011. He is a Director of Spotless Group Holdings Limited, a former Director of Wesley Research Institute, JK Tech and Queensland Energy Resources Limited, and also holds directorships with a number of private companies. His experience is pertinent to what DOW does, and his NED re-election is supported.

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| Item 3 | Adoption of Remuneration Report |
| ASA Vote | For |

Summary of ASA Position

CEO remuneration framework

| | Target \$m | % of Total | Max. Opportunity \$m | % of Total |
|--------------------|------------|------------|----------------------|------------|
| Fixed Remuneration | 2.08 | 36.4 | 2.08 | 33.33 |
| STI - Cash | 0.78 | 13.6 | 1.04 | 16.7 |
| STI - Equity | 0.78 | 13.6 | 1.04 | 16.7 |
| LTI | 2.08 | 36.4 | 2.08 | 33.33 |
| Total | 5.72 | 100% | 6.24 | 100% |

DOW's remuneration and incentivising of its key staff comprise of paying a base salary, Short-Term Incentive (STI) (assessed over a year's performance) and Long-Term Incentive (LTI) payments. As stated last year, the LTI's are measured over a 3 year time period, as opposed to ASA's minimum preferred period of at least four years or more.

The STI hurdles set to be met before either the payment of cash or payment of performance rights can occur are in the forms of set Group NPATA (net profit after tax and before amortisation of acquired intangibles) and Divisional EBITA and Free Cash Flow (FFO) targets required to be met, and those Zero Harm and People Measures referred to in the Remuneration Section of DOW's Annual 2019 Report.

Their STI vesting requirements are lucidly explained, the hurdles set for vesting are sufficiently rigorous, and a detailed explanation as to how those impairments set would negate the awarding of these STI's is also clearly set out.

Three sets of hurdles to be met are set out for the awarding/vesting of LTIs, the first being a Total Shareholder Return (TSR) hurdle. DOW's share price must outperform 50% of its comparator group of companies for 30% of LTI's to vest. The comparator group of companies comprises of the ASX100 Group of

Companies minus all financial services companies listed in that group.

A further 2.8% of LTIs vest for each percentage point over 50% by which DOW might outperform, so should it outperform say 60% of these listed entities then a 58% vesting could be achieved, provided of course that its remaining targets set out below were likewise achieved. If DOW outperforms 75% of its comparator group, then this set target would be 100% met.

The second hurdle set is in the form of EPS targets. If DOW's EPS grows by 5% then 30% of this hurdle is met. For each percentage point over 5% that DOW grows its EPS, 14% more of this target is met. Should DOW grow its EPS by 10% or more, then 100% of this hurdle would be discharged.

The third hurdle set is more complex, in the form of what is termed a Scorecard. This scorecard is succinctly set out in DOW's Remuneration Report, and is based on set NPATA and FFO targets. The criticism made last year of these targets opaqueness stands, and the same are also a duplication of DOW's STI targets set.

All that said, and those criticisms made above aside, DOW's 2019 Remuneration Report and proposed incentivising plans for its staff are of a good standard, do not entail too much largesse, and accordingly the ASA intends voting for this motion.

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| Item 4 | Approval of Managing Director's (MD's) long term incentive (LTI) plan |
| ASA Vote | For |

Summary of ASA Position

The MD at best can earn 3 times his base salary, comprising of that salary, and STI and LTI payments in equal accompanying measures. His maximum opportunity is to earn in excess of about AUD\$6 million per annum, which is large, but not disproportionate to what other CEO's of similar sized companies in comparable industries earn. DOW has more recently become bigger through acquisition, increasing the CEO's responsibilities both geographically and workwise.

All his hurdles set are outlined above in Item 3. The ASA intends voting in favour of this motion for those reasons nominated above. His ongoing performance can be judged in part by the results that the company has achieved.

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| Item 5 | Re-insertion of proportional takeover approval provisions |
| ASA Vote | For |

Summary of ASA Position

These provisions are designed to protect shareholders interests by affording them a majority vote decision as to whether a proportional takeover bid proceeds. This bargaining power can be wielded to obtain an adequately priced takeover bid and affords shareholders an insight into whether a majority of the same consider that a given offer is fairly priced.

The premises that these provisions discourage proportional takeover bids, and so reduce opportunities to sell shares at a premium price to persons or entities vying for company control, need to be balanced against the to be voted on safeguards for shareholders set out above, which the motion provides. In any event shareholders are entitled to expect that their board would carefully any related takeover offers made with their best interests in mind.

Shareholders should read this proposal set out in DOW's Notice of Meeting, but the ASA representative intends supporting the motion on the day for the reasons given.

The individual involved in the preparation of this voting intention does not have a shareholding in this company.

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