

Major changes in personal and business focus – Initial good results

Company/ASX Code	Downer EDI Limited (DOW)
AGM time and date	11.00 am AEDT Wednesday 20 November 2024
Location	THE AUDITORIUM Northside Conference Centre Oxley Street (Cnr Oxley Street & Pole Lane) Crows Nest NSW
Registry	Computershare
Type of meeting	Physical with webcast
Monitor	Allan Goldin
Pre-AGM Meeting	Chair Mark Menhinnitt, Company Secretary Peter Lyons & Melanie Buffie Group Head of Investor Relations

The individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2	Election of Peter Barker	For
3	Adoption of Remuneration Report	For
4	Approval of Managing Directors Long Term Incentive	For
5	Appointment of PricewaterhouseCoopers (PWC) as auditor of the Company	For

2. Summary of Issues and Voting Intentions for AGM

- Major changes in personal and structure
- Change of Auditor in exceptional circumstances

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

Very few listed companies have made such a dramatic change in such a short time. However, they had no choice:

On 8 December 2022, Downer EDI informed the market that it no longer expected to meet its FY23 underlying net profit after tax and before amortisation of acquired intangibles (NPATA)

guidance and announced that it now expected to achieve underlying NPATA in FY23 of between \$210 million and \$230 million, being growth of approximately -7% and 2% versus FY22.

On the same day, Downer EDI also informed the market that it had identified accounting irregularities in its Australian Utilities business involving historical misreporting of revenue and work in progress in one of Downer EDI's maintenance contracts, which had resulted in a historical overstatement of pre-tax earnings in the order of \$30 million – \$40 million at the end of November 2022, accumulated across FY20-23.

Downer EDI also informed the market that its investigation into the accounting irregularities had been completed, which had found, among other things, that its post-tax earnings were overstated by a total of \$22.2 million between April 2020 and 30 June 2022, of which \$1.7 million related to FY20, \$8.8 million related to FY21 and \$11.7 million related to FY22. Downer EDI also disclosed that its post-tax earnings for the contract the subject of the accounting irregularity for 1H23 was a loss of \$12 million.

Its share price immediately fell 30%.

Then came an Independent Commission Against Corruption (ICAC) inquiry because of suspected fraud on the part of a couple of employees.

During the first quarter of 2023, in came a new Chair Mark Menhinnitt, new CEO Peter Tompkins, and a new CFO Malcolm Ashcroft, and a restructure both of management and the business took place.

DOW increased the pace of divestments of either noncore or risky business. At the same time Downer targeted a cumulative \$100 million cost saving which in which in mid-2024 was increased to \$170 million cost out- currently \$130 million has been achieved.

They integrated a new trans-Tasman operating structure to remove organisational silos. The Group is very prominent in New Zealand with a 1/3 of its revenue generated in the founder's homeland. However, a silo mentality had grown up so that, besides being inefficient, it was very costly in running two head offices. The silos were collapsed, and it is now run as one Company.

There was a strong focus on EBITA margin improvement through consistent project delivery, risk management and overhead efficiency. There has been a major change in managing risks on tenders. The Downer standard was always very high with a good level of sophistication and understanding of value. However, sometimes in the past, it was not subject to proper scrutiny as the Board only saw the proposal at the last minute.

Now the Directors are involved much earlier, not in an operational sense, but strategically to ensure at an early stage that a proposal makes sense and is a good use of Group resources.

Utilities

Enhanced tender risk guardrails helped the business target new opportunities that have acceptable risk characteristics, with low margin water construction projects complete or nearing completion. With these and other initiatives reducing costs and driving efficiencies, the Utilities

business delivered positive earnings growth in FY24 and, importantly, has the foundations in place for continued earnings growth.

Downer provides end-to-end services to owners of utility assets. Downer constructs and maintains electricity and gas networks, provides asset inspection and monitoring services, connects tens of thousands of new power and gas customers each year and provides metering technology for efficient energy consumption for governments, utilities and corporations.

Facilities

Excellent profit margin and good growth prospects. Public Private Partnership projects across the defence, education, health and leisure sectors Downer helps to enhance learning environments through integrated services such as catering, building and grounds maintenance, conserving energy with air-conditioning and lighting solutions and supporting a secure environment.

Transport

The largest Division in terms of both revenue and profit. A leading manufacturer of bitumen-based products Downer also has an extensive history of delivering airport infrastructure and surfacing projects across Australia, New Zealand, and the Pacific Islands. Services include the design and construction of light rail, heavy rail, signalling, track and station works, rail safety technology, bridges, roads and vertical construction (through Downer's Hawkins business).

Downer's big plus is governments are going to continue outsourcing and 90% of its revenue comes from government related entities and they are long dated projects.

Happily, there is a major transition to low carbon and Downer is a key player in this both in electricity and transmission.

There is increased emphasis on local manufacturer and Downer is one company that has considerable heavy manufacturing expertise and experience.

Some changes to contracts, whether forced or otherwise, are not necessarily bad. Downer Keolis lost the Melbourne tram contract that they had held since 2009. Then there was the potentially large South Australian \$2.1 billion contract that disappeared by being brought inhouse after a government change. However, in both cases Downer could still end up winning the maintenance side of the business and that is what they are primarily interested in. The main contracts require a great deal of capital and not necessarily a commensurate profit.

Regarding the Downer Keolis consortium, it is a good opportunity for the company to ask if it has done its dash. Does Downer and its 51% partner still have the same objectives?

Downer has stepped in as a subcontractor to Spain's Elecnor on the NSW section of the troubled Transgrid \$2.3 billion EnergyConnect cable from South Australia project which is critical for the transition to low-carbon energy.

Despite governments' cutting back on major road contracts, an important part of Downer's revenue, there is likely a major uptick in repair and maintenance of badly potholed roads. As asphalt is Downer's lifeblood, this could result in revenue upturns.

At first glance it seems strange that Downer, who is so committed to a low carbon future, sold its 45% in Repurpose It in pursuing its portfolio simplification strategy. However, this was another

minority position and more importantly its speciality is one of recycling construction materials, which is not really DOW's business anymore.

In a very unusual move, Downer commenced legal action against their Auditor KMPG because of the substantial variety of accounting irregularities that had come to light. Downer acknowledges that there was a weakness in its financial spine but contends that the auditor should have picked them up. While acknowledging that KMPG is a good firm, obviously at this stage they had to be replaced. This AGM has a resolution to approve the appointment of PWC.

Very interestingly, Downer is involved in a new project developing a battery electric Locomotive (BEL) with Fortescue Zero who is financing the project. Downer is contributing their expertise in rolling stock and engineering.

Financial performance

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	82.1	(385.7)	140.4*	172.8*	(157.5) *
UPAT (\$m)	193.9	155.8	189.3*	206*	163.5
Share price (\$)	4.64	4.11	5.05	5.59	4.38
Dividend (cents)	17	13	24	21	14
Simple TSR (%)	17.03	(16.03)	(5.36)	32.4	(34.9)
EPS (cents)	10.3	(59.0)	19.6*	24.1*	(26.4) *
CEO total remuneration, actual (\$m)	2.0	3.49**	3.17	4.51	5.69

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

- Adjustment made after accounting errors.
- ** Both Mr. Fenn and Tompkins.

Governance and culture

To support the new operating model and to drive achievement of strategic priorities, the Group's leadership team has been renewed with 75% of the Executive Leadership Team either new to Downer or new to their leadership role. These appointments include Chief Risk Officer, Chief Information Officer, Chief Operating Officer Energy & Utilities, Group Executive General Manager Finance, Group Executive General Manager Business Services Centre, and Group Executive General Manager Zero Harm.

Board renewal has continued to be an area of focus, with the following changes to the composition of the Board occurring in FY23/24:

Peter Watson retired from the Board on 30 September 2023. Nicole Hollows will retire just before the 2024 AGM, effective 15 November.

Steven MacDonald was appointed as a Non-executive Director, effective from 1 September 2023 and Sheridan Broadbent appointed as a Non-executive Director, effective from 2 October 2023. Then Peter Barker joined the Board as a Non-executive Director from 1 July 2024 and will stand for election at the Annual General Meeting in November 2024.

Following best practice Downer in the Annual Report lists the Directors ages and the State they live in. From last year a policy has been introduced to require Directors to have shareholding equivalent to one year remuneration by the later of 4 years of their appointment or the policy introduction.

Sustainability/ESG

Downer's services positively impact millions of people each day, underscoring the importance of sustainable operations for their people, partners, shareholders, customers, and the communities in which they operate. Safety and sustainability are a foundational pillar of their strategy.

Details on Downer's sustainability-related performance for the financial year ended 30 June 2024 can be found in their 2024 Sustainability Report. This report contains Downer EDI Limited's first climate-related disclosures, which comply with the Aotearoa New Zealand Climate Standards (NZ CS) issued by the External Reporting Board. These disclosures inform stakeholders about Downer's governance of climate-related risks and opportunities, scenario analysis and our climate related plans including metrics and targets. Downer's sustainability commitments are outlined in policies available at www.downergroup.com.

Rationale for Voting Intentions

Resolution 2 Election of Peter Barker FOR

Mr Barker's experience includes finance, risk management, corporate structuring including mergers, acquisitions and divestments, and systems transformation in complex multi-jurisdictional environments in the engineering, services and technology sectors. Mr Barker has 14 years' experience as a Chief Financial Officer of ASX-listed multinational companies including Computershare Ltd and Cardno Ltd. Mr Barker is currently a Non-executive Director of Workpac Group and Chair of Metarock Group Limited.

The Directors, believe Barker's skills and experience are valuable to the Board's existing skills and experience. Mr Barker also adds considerable strength and leadership to the Committees on which he serves, being the Audit and Risk Committee and Project Governance Committee

Peter Barker has yet to buy any shares in Downer however it is assumed that this will be immediately remedied, ASA will vote their open proxies in favour of his election.

Resolution 3 Adoption of Remuneration Report FOR

Overall, a very good and detailed remuneration structure.

It is excellent that there is a STI gateway of NPATA prior to any award being considered. Due to the previous problems, 2024 STI financial measures increased from 60% to 70%. This allowed the inclusion of an additional 'one-off' Portfolio and Performance measure focused on net financial benefits derived from measurable transformation initiatives.

Tragically there were 3 deaths during the year, which correctly resulted in 20% of the incentive not being awarded.

The 2025 STI financial criteria falls back to 65% and allocation to Zero harm increased. All the areas of measurement are very clearly spelt out and then reported on. There was an increased focus on employee engagement to target moving the current 67 score to the mid 70's. Uniquely the STI has a gateway requiring an average EBITA margin increase to at least 4.5% across FY25 and FY26, which results in a minimum EBITA margin threshold of 4.2% in FY25.

50% of the award is deferred with the first tranche of 25% vesting one year following award and the second tranche of 25% vesting two years following award subject to the satisfaction of a continued employment condition.

The LTI is very good with many measurements. Downer must be complimented for the fact that after a poor year, which had to be restated, the EPS for measurement purposes was increased to provide a higher base. In addition, the RTSR measure now requires absolute TSR to be positive. Another good feature if Downer achieves 50% of the benchmark RTSR the minimum is met but only for 30% of potential is awarded, not 50% of incentive as is the case in many other companies.

Our only criticism of this plan is LTI should be measured over 4 years.

ASA will be voting all its open proxies in favour of this very good remuneration structure.

Resolution 4. Approval of Managing Directors Long Term Incentive FOR

This resolution is for the maximum number of performance rights granted to Mr Tompkins being 360,149. This quantity was calculated as his annual fixed remuneration of \$1,550,000 multiplied by the participation rate of 130% divided by \$5.5949 being the daily average of the volume weighted average price of Downer shares for the 10 trading days following the release of Downer's results for the year ended 30 June 2024. Each performance right will convert to one ordinary share once all vesting conditions are met.

ASA will be voting its open proxies in favour of this very good Long term Incentive plan.

Resolution 5 Appointment of PricewaterhouseCoopers (PWC) as auditor of the Company FOR

Due to a number of accounting irregularities that were discovered in late 2023, Downer commenced legal action against their then Auditor KPMG. This resolution is for approval of their new auditor PWC. ASA will vote all open proxies in favour of this resolution.

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Appendix 1

Remuneration framework detail

CEO rem. Framework for FY25	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.55	32.8%	1.55	30.4%
STI - Cash	.58	12.3%	.77	15.1%
STI - Equity	.58	12.3%	.77	15.1%
LTI	2.01	42.6%	2.01	39.4%
Total	4.72	100.0%	5.10	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration framework set a maximum opportunity amount, but not all.