



Chairman and MD/CEO's address  
AGM 2014

**Chairman's address**

Good afternoon. I'm Diane Smith-Gander, the Chairman of the Board of Transfield Services Limited.

There clearly being a quorum present, I now declare the meeting open.

Joining us today are my fellow directors; I ask each of them to raise their hand when I call their name:

- Managing Director and Chief Executive Officer Graeme Hunt
- Steve Crane
- Roy McKelvie
- Doug Snedden
- Kathy Hirschfeld
- Dean Pritchard

Also here today with us is Geoff Kleemann, our newest Non-Executive Director. I'll ask Geoff to address you later in the meeting, along with those Directors standing for election.

If Transfield Services' past financial year could be summed up in one word – I believe that word would be transformational.

We have posted a strong result of \$67 million net profit after tax pre-amortisation.

This was in the middle of our guidance range. An important indicator of business health, underlying EBITDA, was up seven per cent on the prior period to \$217 million.

This result was despite another tough year in many of the sectors we serve, and despite ongoing necessary fundamental changes inside the Company at all levels.

Shareholder and analyst sentiment has improved, as has the share price.

Our powerful forward momentum has not gone unnoticed.

You will have all seen the recent ASX announcement regarding the indicative, non-binding and conditional proposal from Ferrovial to acquire 100 per cent of the issued shares in our Company for \$1.95 per share, less the value of any dividends or other distributions on 17 October 2014.

Your Board has rejected this offer because we do not believe it recognizes the underlying value of your shares, and the business' strong positive trajectory.

It is our responsibility as a Board to act in your interests.

We have engaged with Ferrovial to see if we can obtain a price that reflects Transfield Services' true value and future prospects.

Your management team has been proactive and is already well advanced in preparing limited due diligence materials.

As these materials could provide commercially sensitive information to Ferrovial, information will be disclosed on an orderly basis.

It will be subject to a normal confidentiality agreement and standstill.

Without appropriate legal protection we will not agree to any process which potentially disadvantages you, our shareholders.

Transfield Services will advise shareholders of the outcome of discussions with Ferrovial as soon as possible. The process may take some time and there can be no certainty that an acceptable proposal will eventuate.

Shareholders do not need to take any action in response to the Ferrovial proposal.

The Ferrovial offer will not distract us from the tasks ahead to optimize and grow Transfield Services.

There is still much to do and we do not expect the pace of change to be any less this financial year.

Given our desire to further strengthen the balance sheet, your Directors elected not to pay dividends to you during the year.

We will reconsider dividend payments when net debt levels are at our target level of two times EBITDA or less, which is expected to be attained within the current financial year.

Looking back over the previous year, your Board endorsed a number of significant management initiatives.

These encompassed a rigorous focus on operational excellence, business development, contract and overhead cost control and continued discipline in capital expenditure.

Our strategy was reviewed and further refined.

We will operate in growth sectors where the services that we offer are differentiated other than on the basis of price.

We will not grow the business or pursue contracts in commoditised sectors and are prioritizing organic growth over growth by acquisition.

We refinanced debt in FY14, increasing liquidity, doubling tenor, and continue to aggressively drive down gearing.

Net debt and trade creditor levels fell by \$145 million, demonstrating the cash generative ability of the business. An important metric for measuring shareholder value, return on capital employed, is approaching our target levels of 15 per cent.

We further rationalised and simplified the business portfolio – selling the Middle East and Indian businesses.

We also began our expanded contract with the Australian Department of Immigration and Border Protection, delivering garrison support and welfare services to its offshore processing centres on Manus and Nauru.

Your Board carefully weighed the responsibility of taking on this important work.

It is not our place to debate a policy endorsed by two successive Governments and which still has bi-partisan support.

We simply determined that caring for asylum seekers was a task Transfield Services had the skills and experience to do well.

We have since built strong relationships with the communities in Manus and Nauru, both formally and informally.

As Chair of the Health, Safety, Environment and Community Committee, Dean Pritchard has visited both Manus and Nauru this year.

Graeme Hunt has also visited Nauru. All other directors will visit these sites in due course, myself included.

At this point I want to speak about the recent serious allegations of misconduct made about our staff and contractors on Nauru.

Our investigations to date have found no evidence backing any of these recent claims.

Our staff and contractors on both Manus Island and Nauru have acted and continue to act with the highest integrity.

We believe these recent claims are being fed to journalists by both politicians and activists opposed to the policy of offshore processing.

We welcome the enquiry by former Integrity Commissioner Philip Moss. We are co-operating fully to expose these allegations and see if there is any substance to them at all.

In my first year as your Chairman I have continued the important process of Board renewal and am very grateful for the support I have received from all directors.

Kathy Hirschfeld's extensive international experience in the petrochemicals and refining industries has already proved valuable.

Dean Pritchard's 27-year career in the property, engineering, construction and services industries in both Australia and New Zealand has benefitted us; particularly his experience in driving safety initiatives.

Later this year we will farewell Steve Crane after almost seven years service to the Company.

He has been an insightful Chair of the Risk, Audit and Compliance Committee over a significant period.

Steve, we will miss your wise counsel.

Geoff Kleemann will follow Steve as the next Chair of the Risk, Audit and Compliance Committee, and will bring extensive experience in the global financial industry and markets.

Post balance date, Transfield Holdings also sold their significant shareholding in Transfield Services.

It is an historical inflection point for Transfield Services.

In cordial discussions, Transfield Holdings assured us they remained supportive of our strategic direction. We thank them and the Belgiorno-Nettis family for their interest and support over the last 13 years.

In concluding and handing to Graeme for an operational update, I want to first thank him on behalf of the Board.

Graeme – this year has been another tough one.

Despite that, you and the Transfield Services team have re-engineered your entire approach to working through the contract life cycle by introducing the new business operating model.

We are seeing further evidence this year that it is working.

We are seeing an increased focus on service delivery which creates client value.

There is a more strategic medium and long term view of future opportunities across the sectors in which we operate.

It's clear there is a turnaround underway, and I'd like to pay tribute to you and your team for your efforts.

### **MD & CEO's address**

Thanks Diane.

It is easy to claim that a business is turning around.

This afternoon I'd like to show you the proof.

We concluded FY2014 with many of the important metrics in this business beginning to trend in the right direction.

We have started this financial year with 74 per cent of FY2015 revenue already locked in, and earnings year to date are well ahead of the same period last year.

If you have a look at this table, you'll see how we compare with our peers.

Of the 12 key metrics we monitor, eight of ours have improved over the last financial year.

Revenue, underlying EBITDA and EBIT were all up. The average across our peers on all of those measures fell.

We announced no impairments, reduced creditor days and significantly increased our net cash from operations before interest and tax, as well as our cash conversion.

Not all of our metrics are green.

For example Diane has already mentioned our debt and the plan we have to tackle that. We expect it will be back within our target range by the end of the financial year.

It has improved year on year but more must be done.

By contrast with us, the peer group on average only improved on four metrics.

However we are tempering optimism with realism.

It is important to know how we compare against others. But the real measure is how we perform against what is possible.

In that regard, there is more potential we can unlock in this business, and as such, there is still more work to do.

Safety is the most important example.

Over the last 12 months our Total Recordable Injury Frequency Rate improved by 10 per cent to 5.4 injuries per million hours worked.

However, during the period we tragically had a workplace death in our India business.

We are now more rigorously tracking leading safety indicators such as near misses.

These are often indicators of hidden trends, which if not addressed can result in a more serious incident.

The last year has been one of strong results across our defence, social, property and telecommunications businesses.

Our Immigration contracts for Manus and Nauru continue to perform well.

In line with our commitment to closely and carefully manage these important services, I personally oversee the performance of these contracts on a regular basis.

Behind me on the charts here, you'll see our revenue splits by sector over the last financial year.

You'll note the balance across the portfolio, with roughly a third of group revenue derived from each sector.

To the right is shown revenue by service.

We now derive less than four per cent of Group Revenue from Mining Services, however we remain well positioned for a turnaround in this space.

There are some challenges in the portfolio and we've implemented a turnaround plan in our Flint Transfield Services joint venture and are monitoring performance on our Americas roads contracts.

Diane has already mentioned the Ferrovial bid, and explained that the Board rejected the offer because we felt it fundamentally undervalued your shares.

To support that position, I would like to speak to the future opportunities across our markets and our performance improvement potential in more detail.

Our trends over the last 12 months are the starting point and they indicate significant forward momentum.

Here are some examples.

In the energy sector we have strong positions in Australia as well as a presence in major oil and gas centres at the heart of the US Energy boom.

And it is a boom - this graph shows the growth in US crude production and rise in volume.

This seismic, historic shift is happening even as crude production in the rest of the world is declining.

You will see from this next stacked column graph that the majority of growth in US shale oil production is happening in the large orange and pink areas, the Bakken in North Dakota, and the Eagle Ford shale basin in Texas.

We have a presence in both locations.

Our Steier business is based in Williston, North Dakota.

The headquarters for our US operation is headquartered in Houston, the world's premier Oil and Gas hub city, and with proximity to the Eagle Ford shale.

On the Gulf Coast alone, there are many major oil and gas maintenance and expansion events planned over the next decade, in an extraordinarily tight labour market where the skills we have are in demand.

To quote one local chemical company CEO, you could take every one of the 74,000 residents of the city of Lake Charles Louisiana, train them to be welders, and you still wouldn't have enough welders.

We intend to expand our operational footprint in these regions.

Here in Australia there are in excess of 10,000 CSG wells forecast to be completed in Australia over the next 10 years. We are the number one provider of rigs to the well servicing market.

Each well is typically serviced every 18 months throughout its life.

There are high barriers to entry; well servicing is capital intensive and highly specialised.

There is further Australian potential in Shale Gas.

Easternwell is Australia's leading provider of CSG well servicing.

In telecommunications, the Australian NBN project alone is worth \$42bn, and just \$5bn of work has been let so far.

We are a highly rated service provider on this contract, and on its equivalent, the UFB rollout in NZ.

In Defence last month we began a staged mobilisation of our expanded \$1.6bn contract to provide services to many of the defence bases across Australia.

This contract has an additional four times one year options at \$270m per annum which we would expect to achieve.

It also gives us a significant presence for the first time in the Northern Territory; a state where the investment cycle is still strong.

There are further opportunities we see with the Defence Materiel Organisation, to leverage our wider company expertise to support their procurement programs, particularly in such regional and remote areas.

There is still significant potential for growth in the Defence sector, in both the services, projects and construction areas of our business.

There are a number of long term contracts due for release in the servicing of various combat platforms and multiple billions worth of contracts forecast for the construction and upgrading of the Defence estate over the next five years.

We are highly respected by Defence and work daily at many of their facilities – this style of contract sits right in our sweet spot.

In Social Services, our strong existing and forward looking Social Housing and Education portfolio is further supported by opportunities in the Health sector.

Health presents another \$5bn of outsourcing opportunities in provision of soft services such as catering, cleaning and ward support.

We also believe engineering services to the Health sector such as maintenance of plant and equipment represent another \$10 billion in contract opportunities.

We have demonstrated capabilities in all of these areas and currently provide such services on both the Gold Coast and in Victoria.

These forward projections show Transfield Services' future potential and are just a snapshot of pipeline opportunities in the near to medium term.

We have a clear plan to capitalise on these opportunities.

A significant factor in improving business performance has been the design and implementation of the new operating model.

Over the last financial year, I have reorganised the Australia and New Zealand business to focus on the five core services we provide across the three sectors we work in.

To join Ian Maxted, Chief Executive Defence, Social and Property I have appointed two new Sector leads.

Sandra Dodds is Chief Executive Infrastructure and Joe Sofra, is Chief Executive Resources and Industrial.

They are responsible for developing strategies, value added solutions and building the long term client relationships necessary to deliver the market opportunities across the sectors in which we operate – some of which I have just spoken about.

I have also appointed two new Chief Executives to Services roles.

Kate Munnings is Chief Executive Operations, Logistics, Consulting and Stuart Nevison, Chief Executive Operations, Maintenance and Well Servicing.

Our services team recognises that there is significant improvement possible within our existing contract book.

They accept clear accountability for driving operational service delivery to provide innovative, essential services to our clients.

They will simultaneously deliver improved value for our shareholders.

Sector and Service leads are already working closely together to identify and capture further value through both additional revenue and margin improvements.

Our clients say they like this approach.

Now that the implementation of the operating model is complete, we have embarked on a structured approach to turbo charge the benefits of what we expect to achieve in both growth and returns.

We are seeing an improvement in customer service that raises our chances of retention and winning future work.

I want to re-emphasise the fundamental sustainability and future growth prospects ahead of us.

When run well, Transfield Services is a strong generator of cash and is a sound business.

We are now living within our means and are committed to a strong focus on cost containment, billing, collecting and restricting capital expenditure to instances where there is a clear contribution to shareholder value.

Finally, turning to guidance.

As a result of these factors we are upgrading guidance and are expecting underlying EBITDA for the 2015 financial year to be in a range from \$260 million to \$280 million, compared with previously advised underlying EBITDA of \$240 million to \$260 million.

An update on outlook will be given at the Company's half year results.

I'd like to thank everyone at Transfield Services for their efforts during a tough but rewarding year.

Diane, thank you to you and the Board for your support.

ENDS.