

ASX Announcement

28 November 2013



MANAGING DIRECTORS ADDRESS TO AGM

Good morning ladies and gentlemen, for those of you who do not know me my name is Nick Di Latte and as Managing Director of Diploma Group Limited I too extend my welcome to you all and thank you for your attendance at the 6th AGM today.

12 months ago, there were a number of challenges we needed to address as a business. Of those challenges, the most important was returning to profitability in FY13. I am pleased to report we achieved this goal having returned Earnings before interest and tax of \$3.5m on revenue of \$165m.

We also set ourselves the goal of implementing our second phase of three phase strategic review announced in August 2012. These goals were -

1. Refocus on executing our order book well
2. Finding solutions for our property portfolio
3. Fostering our existing relationships with clients and key stakeholders.

I am pleased to say that we have achieved and implemented these important steps, as was for shadowed at last year's AGM.

With respect to our property portfolio, we elected to sell two non-core assets to focus on retiring further high cost debt. On 22 July 2013 we completed the sale of 69 Adelaide Terrace East Perth for \$4.86m. Since year end, this asset sale and the recent successful rights issue of \$9.1m has resulted in debt reducing from \$18.1m at 30 June to \$6.9m today.

We have also commenced pre selling our apartment project in Highgate and have firm agreements for lease in place for our Adelaide Tce Quest and Rockingham Quest projects.

As touched on, the company completed a \$9.1m recapitalisation of the balance sheet during the month of July. The Board viewed this move necessary to ensure the company was able to move forward with both third party construction opportunities and also secure construction funding for our property portfolio. I am pleased to advise that since the recapitalisation was completed, we have been successful in securing funding for two of our developments. We have also increased access to our bonding facilities injecting further cash into the Group.

The recapitalisation has also introduced onto the register new shareholders and I welcome them. It has also improved tenfold the liquidity within the stock with daily average trade volume significantly increased. As a result of investor presentations undertaken over the past four months, there now appears to be greater awareness about Diploma, particularly on the east coast.

Operations – Construction

Our construction division currently has 13 projects under construction with a combined value of \$ 342m. The order book run off as at July stood at \$196m to be completed over the coming 18 months.

There appears to be a strong level of activity in the commercial construction space in Western Australia. A significant part of this market is made up of medium to high density residential apartment work for private developers. In addition to this are the large infrastructure projects such as the Perth City link, Elizabeth Quay, Water-bank, Crown Casino works, large scale health contracts such as the new children's hospital, are all fuelling the construction sector in Perth at present. We are working closely with a number of clients, many existing, on approximately \$345m excluding internal contracts which account for an additional \$50m. Many of these projects are in the presale phase and we would expect to commence securing these opportunities over the coming months.

We are also actively working on increasing the contribution from our Contracting division. This division is presently undertaking the Wickham Lodge Stage 1 FIFO accommodation project for Rio Tinto. This \$50m contract is expected to be completed in April next year. The division is presently working on a number of new opportunities in and around the Pilbara with the strong mandate to secure additional works, but only at the right margin and risk level.

There continues to be sufficient opportunity in the construction market to add to our current order book by leveraging the company's reputation for delivery and quality, with our existing client base. The challenge as I see it over the coming 12 months will be in securing the right delivery personnel to execute the order book and the right subcontractor base as the market heats up again next year.

Operations - Property Division

Diploma Properties presently has a portfolio of six development projects with a combined value of \$244m. These projects are –

1. One on Aberdeen - Northbridge
2. Abode – West Perth
3. 288 Lord – Highgate
4. Quest Adelaide Tce Perth
5. Quest Rockingham
6. Salt Apartments – Rockingham

Diploma Properties are the Development Manager across the entire portfolio and Diploma Construction the builder. We have varying degrees of equity across each project ranging from wholly owned, through to 50% JV's and a minority interest in one.

Our **One on Aberdeen** project in Northbridge is currently under construction with Practical completion expected in May next year. The 14 level building topped out last month and is tracking to program. All 161 apartments and 7 commercial tenancies are now sold. This project is a Joint venture with the State Governments Department of Housing.

Our **Abode** apartment project in West Perth is now under construction. Construction finance for the project was recently approved as mentioned earlier and Practical Completion is expected in February 2015. This project is also a Joint venture with the States Governments Department of Housing and consists of 86 apartments with 80 sold to date.

288 Lord – our JV project on Lord Street in Highgate commenced pre selling in September this year. This project consists of 68 apartments over 6 levels. We expect to have attained our presale target to satisfy bank funding requirements by the end of January with construction to commence in March/April 2014.

Quest Adelaide Tce Perth – this project is wholly owned by Diploma. We have received development approval and have executed a 15 year agreement for lease with the Quest Serviced Apartment Group headquartered in Melbourne. We are presently in discussions with financiers to lock down construction funding to enable construction to commence in the new year. We expect this 16 level building to be completed in first half FY16.

Quest Rockingham – this project is also wholly owned by the Group. As with our Quest development in the Perth CBD, we have received all approvals and executed an Agreement for Lease with Quest. We expect to commence construction of this project in late February next year with completion within 12 months. We see this project contributing to earnings in FY15.

Salt – Rockingham – this project will sit adjacent to but on the same site as our Quest Rockingham development. It is presently in for Development Approval which we expect to receive in January. This project consists of 75 apartments over 5 levels with parking on grade. We expect to commence preselling in February with prices starting from \$290,000.

At this stage, we see Abode and Quest Rockingham contributing to earnings in FY15 and 288 Lord, Quest Adelaide Tce and Salt contributing in FY16. We continue to assess new opportunities as they arise with particular emphasis on JV with existing land owners where we can add value through our vertically integrated model of development management and construction delivery.

Outlook

The company is focused on its core business divisions. Having returned to profitability in FY13, we are looking to improve again on that result in FY14 and are confident of doing so. Strengthening the balance sheet remains a key focus of mine. We intend to do this by delivering solid profit results over the coming 18 to 20 months, keeping overhead costs under control and executing our existing order book and development portfolio well. If we can do this, the business will be in great shape this time next year.

On a more pointed basis, ensuring the groups two Quest developments commence from a construction perspective over the coming months is a key milestone. I see these projects in the medium term underpinning our cost base by delivering recurring income year on year into the Group. These projects have the ability to be game changers for our business in the medium term.

Greater focus and effort will also be spent on ensuring the investment community are aware of who we are and what lies ahead for the Group. Improving shareholder returns over the coming 18 months is also a key goal.

As a major shareholder of this business, I remain committed to Diploma and more focused than ever having overcome a number of difficult challenges over the past 12 months. Turning a business around does not happen overnight. It requires commitment by all to the goals set by the Group. I am pleased that we have achieved this and would like to thank my dedicated team at Diploma for their commitment and efforts over the past year and to my fellow directors for their support.

Thank you