

## CHIEF EXECUTIVE ADDRESS

Good morning ladies and gentlemen.

Today I'll be talking about three main areas

First up, last year's results.

I'll then follow that with details of our new strategy

And finally, I'll provide a brief overview on performance year to date

As the Chairman rightly said, while performance last year was disappointing, with Operating Revenue down 7%, we accelerated the implementation of our global growth strategy, and we're starting to see the benefits. Importantly, after a very poor first half, we implemented a number of measures resulting in a much improved second half performance and that momentum has continued into this year – but more on that later.

Health and Safety is at the heart of everything we do and we continue to build a strong positive culture. 2016 saw further improvement with lost time incidents reduced by 30% – and I'll come back to that later as well.

But first I'd like to talk about last year's financial performance in a bit more detail.

In 2016, New Zealand had a record performance in terms of Operating EBIT.

Despite tighter procurement and more competition, we have secured 10 of the 19 Network Outcome Contracts with the NZ Transport Agency. This is critical as this represents long term multi-year contracts stabilising our revenue base and providing a sound platform for continued performance.

Our Operating EBIT for the year was an all-time record \$36.9m, with an impressive Operating EBIT margin of 13.2%. Gross revenue was up slightly by 1.1% on the prior year and work in hand remained steady as we secured

contracts with many key clients, including for example, a seven year services contract with Wellington Water, and architectural services for the Ministry of Social Development.

In the United Kingdom, our progress has been recognised through the many industry accolades we've received. Remember, this was a business hit hard by the GFC in 2009 & 2010, yet here we are now celebrating being named Company of the Year out of the top 100 global consultancy companies by New Civil Engineer. This prestigious award has materially raised our profile in the United Kingdom with potential clients and top talent.

Our business in the United Kingdom saw an 8.4% increase in revenue in local currency. However, operating EBIT decreased by half a million, mainly as a result of the uncertainty surrounding Brexit and higher staff costs in an increasingly competitive environment. We will continue to monitor the situation closely however, the business continues to grow well in the transportation sector and we recruited 24 new FTEs to tackle contracts won in the year with Network Rail, MTR Crossrail and Hertfordshire County Council amongst others.

Our result in North America was unfortunately dominated by the ongoing decline in oil and gas related work. Opus Stewart Weir, our geomatics business in Canada, saw revenue fall by \$31.5m. As a result, we dramatically reduced our workforce by 173 people and consequently our cost base.

Downsizing the business resulted in surplus office space with property lease provisions of \$2.4m. However, this is purely a timing cost and will reverse against future property lease payments.

We moved swiftly to mitigate the effects of reduced opportunities by applying the same hard lessons learned in the United Kingdom in 2009/2010 to turn our Canadian geomatics business around from a \$5.1m trading loss in the first half to a profitable second half of \$2m. However with the continued activity in OSW at record low levels, we continue to monitor the situation closely.

Opportunities in Australia remain patchy and highly competitive as the economy continues to slowly improve following the recent downturn. As a result our performance continues to disappoint and we posted a \$4.7m Operating EBIT loss. We took further measures to sharpen and focus the business last year with growth now centred on the main urban areas and particularly NSW and Victoria. As a result we closed a further five offices incurring a restructuring cost of \$1.1m. Excluding these items, measures put into the business saw underlying trading performance improve by half a million dollars year on year.

Despite the improvements in the second half in Canada and the measures taken in Australia, given the continued difficult business environments we reassessed the value of our operations and impaired the carrying value of our Canadian asset by \$33.2m and our Australian asset by \$4.4m.

Elsewhere, trading and opportunities in the MENA region are no longer considered to be supportive of profitable growth and as a result a \$1.1m provision was taken for the write-off of business set up costs.

So despite some positive aspects, particularly in the second half of the year, there is no hiding the fact that overall, our result was very disappointing and certainly not what we wanted.

However, there are areas of encouragement going forward. We must remember in 2016 we were also implementing the new global growth strategy – moving from a local geographic focus to a global market sector focus. This is a fundamental change for us, ultimately ensuring that we prioritise bidding and delivery of projects using the best resources wherever they are located. In the past, this was difficult as there was undue ownership and priority given to local resources working on local projects meaning more material strategic opportunities were sometimes missed.

We have now refocused and prioritised effort into three global growth sectors Buildings, Water and Transportation - breaking down geographic silos and repositioning ourselves as one connected global business.

We've strengthened our leadership in key areas through the external appointment of Lee Arasu Group Director, Buildings and Paul Casamento Group Director, Transportation. Both have significant experience, knowledge and capability in prior senior roles and have been brought in specifically to lead our transformation and grow revenue.

In North America we have established a bridge engineering team now securing work locally and supporting other teams around the world on major bridge and transportation projects.

Canada is becoming our centre for water excellence combined with our award-winning training and development facility here in New Zealand. This borderless collaboration is helping us win more projects, such as providing increased Wastewater consultation services for Metro Vancouver.

In a very significant move, we combined the leadership of our New Zealand and Australian operations last year, reducing costs and improving efficiency but as importantly, leveraging our capability, driving better collaboration and

ensuring consistency across both countries. We have just appointed a senior leader from outside the industry, Ian Blair. Ian brings many years of experience from a number of senior executive roles he has held primarily in the banking sector and will bring a new perspective as the Managing Director for Australia and New Zealand.

With the alignment of our Australian and New Zealand businesses we continued to rationalise the number of P&Ls across the company from over 200 to 3 market sectors, simplifying reporting and strengthening accountability, allowing our people to spend more time focusing on our clients rather than non-value added administration functions.

The continued rapid onset of technology is another area creating both disruption and opportunity.

We are currently streamlining our business around the world by digitising our internal processes in HR, sales pipeline, finance, procurement, research, and communication, increasing mobility and making us more agile than ever before.

In addition we intend to increase investment and deliver better returns on the already significant innovation happening across the business and are in the process of recruiting a Group Director of Innovation and Technology to drive this.

As an example we are accelerating the implementation of Building Information Modelling, or BIM. We added BIM level 2 accreditation to our operations in the United Kingdom and will be rolling this out progressively around the globe, positioning ourselves well ahead of our competitors.

Building on our strength in Asset Management we have more ISO 55001 Certified Asset Management Assessors than any other single organisation in the world, so clients can always trust our methods, competency and practice.

As the strategy starts to bed in, and the benefits of the improvement initiatives take hold, early trends are positive and encouraging as can be seen in the graphs here.

Gross Margin has improved in the first quarter of 2017 and is ahead of the same comparable period over the last four years.

We are also seeing improvement in Net revenue per FTE especially marked in the first quarter of 2017 driven by both consolidation of FTEs and relative Net revenue increases.

In addition, the key measure of labour productivity is also showing positive improvement.

The benefits of our new strategy were highlighted last year when New Zealand experienced the biggest and most complex earthquake since 1855, in Kaikoura.

The level of damage to the road and rail networks between Picton and Christchurch was unprecedented and is one of the most demanding infrastructure projects ever seen in New Zealand, costing the economy over \$10m per day.

Our global teams were rapidly mobilised immediately after the initial quake to support our main client the NZ Transport Agency to get Kaikoura back on its feet with over 100 people involved in the rebuild and repair work from around the world.

In addition, we have a lead role in the North Canterbury Transport Infrastructure Recovery panel, an alliance tasked with the major repair works around Kaikoura and currently have around 50 people seconded in the team.

Events like the Kaikoura earthquake reinforce why a stringent Health, Safety and wellness culture is so critical. Our people must be just as safe working in any part of the globe as they are at home. We've built a global team which is bringing us greater consistency, visibility of our risks and accountability for improvement.

In 2016 we continued to drive initiatives to reinforce and promote a positive safety culture throughout the organisation. One of the major changes in April 2016, was the enactment of the new health and safety at work Act in New Zealand. Having implemented a comprehensive e-learning programme for all employees and aligning our processes and practices prior to the act coming in, transition was seamless.

Taking a lead indicator like Safe Behaviour observations, these improved by 13% in the second half of 2016 and as I said earlier, our global lost time incidents went down by 30% from the previous year, which is a very positive result.

Industry awards are also important to us because they help attract and retain top talent and increase our profile as a leading global infrastructure company.

Last year our people and projects won more than 60 industry awards and the current slide shows a selection of our successes.

Ultimately as I said earlier though, while the result in 2016 was not what we wanted, even in a challenging year we continued to win awards, celebrate our people and drive the business forward with our new strategy.

As we celebrate our 20<sup>th</sup> anniversary as Opus International Consultants, we are continuing our proud 140 year legacy of making a difference. Moving from the Public Works Department to a publically listed business, our ability to adapt to change is what defines us. Our purpose is creating what matters for future generations and I am very proud of the work our people continue to do for so many communities and clients around the world.

Thank you for listening this morning. I look forward to your questions and talking with you after.