



Media/ASX and NZX Release

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DOWNER REPORTS FULL YEAR NET PROFIT AFTER TAX OF \$216.0 MILLION

Downer EDI Limited (Downer) today announced a net profit after tax (NPAT) of \$216.0 million for the 12 months to 30 June 2014, 5.9% higher than last year. Earnings before interest and tax (EBIT) reduced by 4.9% to \$341.1 million.

Operating cash flow was up 30.2% to \$583.4 million. At 30 June 2014, Downer's gearing was 1.6% with available liquidity in excess of \$1.0 billion comprising cash of \$431.8 million and undrawn committed facilities of \$617.0 million.

The Chief Executive Officer of Downer, Grant Fenn, said that despite Downer again achieving its full year guidance, the results were a reflection of the tough environment for the engineering and construction sector.

"The mining based construction and services markets were subdued during the year and each of the company's three divisions – Infrastructure, Mining and Rail – reported lower revenue," Mr Fenn said. Group revenue was \$7.7 billion, 15.3% lower than last year.

"We did move quickly in each of our businesses to reduce costs and improve productivity and total expenses were 16.5% lower than last year. Along with a number of initiatives to drive organic revenue growth, this will be a continuing theme into the new financial year.

"Our cash performance continues to be very strong, with cash conversion at 94.7% of earnings before interest, tax, depreciation and amortisation (EBITDA). Downer's gearing is now at 1.6% and we will soon be net cash positive," Mr Fenn said.

Downer Infrastructure

It was a challenging year for the Infrastructure business in Australia due to the decline in mining-based capital expenditure. The Western Australia and Rail Infrastructure businesses and the resources-based consultancies were affected most by the difficult market conditions.

Prompt action was taken to reduce overheads and operating costs. As a result restructuring costs of around \$11.4 million were incurred during the year.

The New Zealand business performed well and this helped to partially offset the decline in Australia. New Zealand's performance was driven by robust levels of activity across all areas of operations, continued business improvement and the stronger New Zealand dollar.

Downer Infrastructure's revenue was \$4.7 billion, 9.5% lower than last year, and EBIT was 17.0% lower at \$191.1 million.

Downer Infrastructure won several large contracts during the period and these will start to contribute to revenue in 2015. This included the electrical and instrumentation work on the Wheatstone LNG Project in Western Australia, valued at \$400 million, and the Stewardship Maintenance Contract for the Sydney West Zone road network, which Downer won in a JV with Mouchel, valued at \$700 million over seven years.

In New Zealand, Downer won significant road infrastructure contracts with the New Zealand Transport Agency and local authorities in Auckland, Wellington and Hamilton as well as being selected as a lead contractor to work on the construction of the first stage of the NZ\$140 million Central Plains Irrigation scheme.

Downer Mining

Australia's mining industry remains under intense pressure due to subdued commodity prices, particularly for coal and iron ore. Revenue for Downer Mining was 22.3% lower than last year due to the completion of two Peabody contracts in March 2013 and reductions in scope at Goonyella, Boggabri and Christmas Creek mines.

A strong focus on cost reduction and improved productivity limited the reduction in earnings.

Downer Mining's revenue was \$2.0 billion, 22.3% lower than last year, and EBIT was 1.6% lower at \$171.4 million.

During the year, Downer Mining won a new 4.5 year, \$500 million contract with Roy Hill Iron Ore for early mining services at the Roy Hill open cut iron ore mine in Western Australia and also a new two-year, \$70 million contract with Crocodile Gold Corp for underground mining services at the Cosmo Gold Mine in the Northern Territory.

Downer Mining also won a five-year, \$200-250 million contract extension with Millmerran Power Partners for mining services at the Commodore open cut coal mine in South East Queensland and a one-year contract extension with Idemitsu Australia Resources for mining services at Boggabri open-cut coal mine in New South Wales.

Downer's contract with BHP Mitsubishi Alliance (BMA) at the Goonyella coal mine in Queensland was terminated in June 2014. This had no impact on this year's performance but it will reduce Downer's work-in-hand by around \$360 million over the 2015 and 2016 financial years.

Downer Rail

Downer Rail's financial performance reflects reduced demand for mining based locomotives and maintenance activity across the Australian rail sector. Restructuring costs of \$16.9 million have been incurred as the business transforms its operations to reflect current demand levels and the move from manufacturing to reliability based asset management.

Revenue was 24.9% lower than last year, with about 80% of this reduction due to completion of the Waratah Rolling Stock Manufacturing (RSM) contract. The 78th Waratah train entered into passenger service on the Sydney rail network at the end of May 2014.

"The Waratah trains are world class passenger trains and the introduction into service has been excellent. We will now look to utilise the Waratah design and skills base for new opportunities," Mr Fenn said.

Mr Fenn said the Rail business was very focused on meeting the needs of its customers and it would set the new benchmark for rail engineering services.

Corporate Costs

Corporate costs reduced by \$61.2 million or 58.5% to \$43.5 million.

Finance costs reduced by \$22.2 million or 30.9% reflecting the lower interest rate environment, the refinancing of debt facilities at lower margins and the overall lower net debt position.

The effective tax rate of 27.5% compares to 30.1% for last year reflecting a number of non-deductible expenses in the prior corresponding period.

Zero Harm

Tragically, a Downer employee died in April 2014 while performing stringing work for the construction of a new transmission line in Western Australia. This death occurred despite a very high level of safety management across the company and a mature safety culture. It reinforces the need across all Downer's businesses to focus intensely on understanding and managing the critical risks that have the potential to cause our people serious injury.

Our Lost Time Injury Frequency Rate is just over one incident per million hours worked. Our Total Recordable Injury Frequency Rate improved, from 5.42 per million hours worked to 4.83.

On Market Share Buy-back

The company announced today an ongoing share buy-back program that will operate from 20 August 2014. The total number of shares to be purchased under the buy-back will depend on share price levels and capital requirements.

Mr Fenn said the program was part of Downer's ongoing capital management strategy and would be managed in conjunction with capital requirements for growth.

"Downer's balance sheet is in very good shape and strong operating cash flows are expected into the future. Downer is in a good position to take advantage of growth opportunities, including M&A, but any prospect will be subject to robust risk assessment," Mr Fenn said.

"We continue to watch market developments closely and will focus on opportunities that are strategic, the right price and grow our capability."

The Appendix 3C in relation to the on-market buy-back is attached to this announcement.

Dividend

The Downer Board has declared a fully franked final dividend of 12.0 cents per share, payable on 17 September, 2014 to shareholders on the register at 19 August, 2014. The company's Dividend Reinvestment Plan will be suspended whilst the buy-back program is in operation and consequently will not operate for this dividend.

Outlook

The forward outlook varies by market. Government related expenditure on capital and services looks promising while resources based expenditure is expected to be flat, or declining, on current low levels. Underlying mining commodity markets are currently very difficult for a number of our major customers. The short term impact of this pressure on service providers like Downer is hard to predict. Longer term, this pressure will drive increased demand for our services as companies look for more efficient service delivery.

For the 2015 financial year, Downer is targeting NPAT of around \$205 million.

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Downer EDI Limited (www.downergroup.com) provides comprehensive engineering and infrastructure management services to the public and private Minerals & Metals, Oil & Gas, Power, Transport Infrastructure, Telecommunications, Water and Property sectors across Australia, New Zealand and the Asia Pacific region.