

Works Finance (NZ) Limited

Financial Report

FOR THE HALF YEAR ENDED

31 DECEMBER 2014

Works Finance (NZ) Limited

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For the half year ended 31 December 2014

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Works Finance (NZ) Limited

Statutory Information

For the half year ended 31 December 2014

| | |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Directors | Cornelus Wihelmus Bruyn Grant Anthony Fenn Roger William Jarrold Andrew Arthur William Titter Peter John Tompkins |
| Nature of Business | Issue of Redeemable Optionally Adjustable Distributing Securities ("ROADS") and advances to Downer New Zealand Limited. |
| Holding Company | DGL Investments Limited |
| Ultimate Holding Company | Downer EDI Limited (incorporated in Australia) |
| Auditors | KPMG New Zealand |
| Solicitors | Wynn Williams Lawyers |
| Bankers | ANZ Banking Group (New Zealand) Limited |
| Company Number | 1909583 (New Zealand) |
| Registered Office | 130 Kerrs Road Wiri Auckland 2104 New Zealand |

Works Finance (NZ) Limited

Directors' Report

For the half year ended 31 December 2014

The Directors are pleased to present the Financial Report of Works Finance (NZ) Limited for the half year ended 31 December 2014 on pages 6 to 13.

Principal Activity

Works Finance (NZ) Limited ('the Company') is a subsidiary of Downer EDI Limited and was formed for the purpose of issuing Redeemable Optionally Adjustable Distributing Securities ('ROADS'). The proceeds have been advanced to Downer New Zealand Limited.

Downer EDI Limited elected to leave the ROADS securities on issue on the step-up date of 15 June 2012. The margin was stepped up in accordance with the terms of the "Prospectus and Investment Statement" dated 7 March 2007. The dividend rate was reset on 17 June 2013 to 6.82% per annum and to 7.95% on 16 June 2014. The next reset date is 15 June 2015.

Dividends

During the year the following dividends were paid:

| Date | Paid to holders of ROADS |
|-------------------|-----------------------------|
| 15 September 2014 | 2,862,000 |
| 15 December 2014 | 2,862,000 |
| Total | <u>\$5,724,000</u> |

Imputation credits were attached to the dividends.

No dividends have been paid to the holders of ordinary shares during the half year (2013: nil).

Interests Register

There were no entries in the Interests Register.

Director Remuneration

No Director received any remuneration or other benefits from the Company.

Employee Remuneration

Works Finance (NZ) Limited has no employees and accordingly no remuneration was paid.

Donations

Works Finance (NZ) Limited made no donations during the half year (2013: nil).

Financial Statements

The Board of Directors have approved and authorised the financial statements on pages 6 to 13.

For and on behalf of the Board



C W Bruyn
Director

Dated: 19 February 2015



R W Jarrold
Director



Independent review report

To the shareholder of Works Finance (NZ) Limited

We have completed a review of the interim financial statements of Works Finance (NZ) Limited on pages 6 to 13 which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities

The directors of the Company are responsible for the preparation and fair presentation of interim financial statements in accordance with the NZ IAS 34 Interim Financial Reporting and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the NZ IAS 34 *Interim Financial Reporting*. As the auditor of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

Other than in our capacity as assurance practitioners we have no relationship with or interests in the company.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of Works Finance (NZ) Limited do not present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and of its financial performance and its cash flows for the period ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting*.

Other matter

The financial statements of Works Finance (NZ) Limited, for the year ended 30 June 2014, were audited by another auditor who expressed an unmodified opinion on those statements on 27 August 2014.

19 February 2015
Auckland

Works Finance (NZ) Limited

Condensed Interim Statement of Comprehensive Income

For the half year ended 31 December 2014

| | | Six months ended 31-Dec-14 (unaudited) \$ | Six months ended 31-Dec-13 (unaudited) \$ |
|--------------------------------------------------------------------------------------------------|------|----------------------------------------------------|----------------------------------------------------|
| | Note | | |
| Interest received | 2 | 8,421,260 | 7,152,428 |
| Total revenue from continuing operations | | 8,421,260 | 7,152,428 |
| Operating expenses | | 50,231 | 42,894 |
| Total expenses | | 50,231 | 42,894 |
| Profit before income tax expense | | 8,371,029 | 7,109,534 |
| Income tax expense | 3 | 2,343,888 | 1,995,066 |
| Profit after tax and total comprehensive income attributable to members of the entity | | 6,027,141 | 5,114,468 |

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 - 13.



Works Finance (NZ) Limited

Condensed Interim Statement of Changes in Equity

For the half year ended 31 December 2014

| | Share capital \$ | ROADS \$ | Retained earnings \$ | Total \$ |
|-----------------------------------------------------------------------------|------------------------|--------------------|----------------------------|--------------------|
| Balance at 1 July 2013 (audited) | 100 | 200,000,000 | 4,640,143 | 204,640,243 |
| Profit for the period | - | - | 5,114,468 | 5,114,468 |
| Total profit after tax and total comprehensive income for the period | - | - | 5,114,468 | 5,114,468 |
| Dividends paid to: - ROADS holders | - | - | (4,910,400) | (4,910,400) |
| Total dividends paid | - | - | (4,910,400) | (4,910,400) |
| Balance at 31 December 2013 (unaudited) | 100 | 200,000,000 | 4,844,211 | 204,844,311 |
| Balance at 1 July 2014 (audited) | 100 | 200,000,000 | 4,990,450 | 204,990,550 |
| Profit for the period | - | - | 6,027,141 | 6,027,141 |
| Total profit after tax and total comprehensive income for the period | - | - | 6,027,141 | 6,027,141 |
| Dividends paid to: - ROADS holders | - | - | (5,724,000) | (5,724,000) |
| Total dividends paid | - | - | (5,724,000) | (5,724,000) |
| Balance at 31 December 2014 (unaudited) | 100 | 200,000,000 | 5,293,591 | 205,293,691 |

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 - 13.



Works Finance (NZ) Limited

Condensed Interim Statement of Financial Position

As at 31 December 2014

| | Note | 31-Dec 2014 (unaudited) \$ | 30-Jun 2014 (audited) \$ |
|----------------------------------|------|-------------------------------------|-----------------------------------|
| Current Assets | | | |
| Advances: | | | |
| Downer New Zealand Limited | 8 | 6,256,420 | 6,482,590 |
| Total Current Assets | | <u>6,256,420</u> | <u>6,482,590</u> |
| Non Current Assets | | | |
| Advances: | | | |
| Downer New Zealand Limited | 5 | 200,000,000 | 200,000,000 |
| Total Non Current Assets | | <u>200,000,000</u> | <u>200,000,000</u> |
| Total Assets | | <u>206,256,420</u> | <u>206,482,590</u> |
| Current Liabilities | | | |
| Bank overdraft | | 144,482 | 143,957 |
| Trade and other payables | | 18,000 | 22,500 |
| Income tax payable | | 800,247 | 1,325,583 |
| Total Current Liabilities | | <u>962,729</u> | <u>1,492,040</u> |
| Total Liabilities | | <u>962,729</u> | <u>1,492,040</u> |
| Net Assets | | <u>205,293,691</u> | <u>204,990,550</u> |
| Equity | | | |
| Ordinary shares | 6 | 100 | 100 |
| ROADS | 7 | 200,000,000 | 200,000,000 |
| Retained earnings | | 5,293,591 | 4,990,450 |
| Total Deemed Equity | | <u>205,293,691</u> | <u>204,990,550</u> |

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 - 13.



Works Finance (NZ) Limited

Condensed Interim Statement of Cash Flows

For the half year ended 31 December 2014

| | Note | Six months ended 31-Dec-14 (unaudited) \$ | Six months ended 31-Dec-13 (unaudited) \$ |
|---------------------------------------------------|------|----------------------------------------------------|----------------------------------------------------|
| Cash flows from operating activities | | | |
| Interest received | | 8,309,865 | 7,077,698 |
| Income tax payments | | (2,869,225) | (2,911,137) |
| Tax credit transfer received | 8 | - | 3,759 |
| Payments to suppliers | | (54,730) | (24,894) |
| Net cash generated by operating activities | 4 | <u>5,385,910</u> | <u>4,145,426</u> |
| Cash flows from investing activities | | | |
| Advances to Downer New Zealand Limited | | 337,565 | 758,253 |
| Net cash generated by investing activities | | <u>337,565</u> | <u>758,253</u> |
| Cash flows from financing activities | | | |
| Dividends paid on ROADS | | (5,724,000) | (4,910,400) |
| Net cash used in financing activities | | <u>(5,724,000)</u> | <u>(4,910,400)</u> |
| Net decrease in cash and cash equivalents | | (525) | (6,721) |
| Bank overdraft at the start of the year | | (143,957) | (138,599) |
| Bank overdraft at the end of the year | | <u>(144,482)</u> | <u>(145,320)</u> |

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 - 13.



Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements For the half year ended 31 December 2014

1 Summary of Accounting Policies

Statement of compliance

Works Finance (NZ) Limited (the Company) is a profit-oriented entity that is domiciled and incorporated in New Zealand.

The condensed interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with NZ IAS 34 Interim Financial Reporting. They also comply with IAS 34 Interim Financial Reporting.

Basis of preparation

The condensed interim financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange of assets. The reporting currency is New Zealand dollars.

The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The same accounting policies, presentation and methods of computation are followed in the condensed interim financial statements as applied in the Company's annual audited financial statements.

| | Six months ended 31-Dec-2014 (unaudited) \$ | Six months ended 31-Dec-2013 (unaudited) \$ |
|-------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| 2 Interest Received | | |
| Interest received from Downer New Zealand Limited | 5,8 8,421,260 | 7,152,428 |
| | 8,421,260 | 7,152,428 |
| 3 Income Taxes | | |
| (a) Reconciliation from pre-tax accounting profit to tax expense | | |
| Profit before income tax expense | 8,371,029 | 7,109,534 |
| Income tax expense calculated at 28% of operating profit before tax | 2,343,888 | 1,990,670 |
| Tax effect of amounts which are not deductible | - | 6,139 |
| Tax under provided in prior periods | - | (1,743) |
| Total tax expense | 2,343,888 | 1,995,066 |
| (b) Imputation credit account balance | | |
| Balance at end of the period | 1,098,482 | 1,050,295 |
| 4 Reconciliation of net cash flow from operating activities | | |
| Profit for the period | 6,027,141 | 5,114,468 |
| Movements in working capital | | |
| Increase / (decrease) in income tax payable | (525,336) | (912,312) |
| Increase / (decrease) in trade and other payables | (4,500) | 18,000 |
| Deduct items reclassified as investing activities | (111,395) | (74,730) |
| Net cash generated by operating activities | 5,385,910 | 4,145,426 |



Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2014

5 Advance - Downer New Zealand Limited

The Company has advanced \$200,000,000 to Downer New Zealand Limited under a loan agreement dated 21 April 2011. The advance is repayable on demand, however it has been provided in line with the terms of ROADS. ROADS were stepped up on 15 June 2012 which keeps the existing ROADS instrument in place with revised pricing.

Downer EDI Limited and the Company have provided confirmation to Downer New Zealand Limited that neither they, nor their subsidiaries will take any action to demand or effect repayment of the loan during the period to 19 February 2016.

The interest rate is to be agreed in writing between the parties from time to time. In April 2013 it was agreed to set the interest rate to the ROADS gross dividend rate plus a margin of 0.20%. The interest rate from 15 June 2013 to 15 June 2014 was set at 7.02% per annum and from 15 June 2014 to the next reset date of 15 June 2015, 8.15% per annum.

6 Ordinary Share Capital

The Company has 100 fully paid ordinary shares on issue with a nominal value of \$1 each. All ordinary shares carry equal rights in respect of voting, dividend payments and any surplus on winding up of the Company.

7 ROADS

The Company has issued 200,000,000 fully paid Redeemable Optionally Adjustable Distributing Securities (ROADS) with a nominal value of \$1 each.

The ROADS offer quarterly, fixed rate, discretionary, non-cumulative dividends. Dividends are payable on 15 September, 15 December, 15 March and 15 June each year. Dividends are also payable on the date of redemption, repurchase, resale or exchange. Until the step-up date of 15 June 2012, (Step-up Date) dividends were fixed at 9.8% inclusive of imputation credits. This was based on the five year swap rate at 15 June plus a margin of 2.05% per annum.

On the Step-up Date, the Company elected not to redeem any of the ROADS. The dividend rate on the ROADS is reset on 15 June each year and is equal to the one year swap rate on the last reset date, plus a margin of 4.05% per annum, payable quarterly in arrears.

For the period 15 June 2013 to 15 June 2014, the gross dividend rate was set at 6.82% per annum and for the period 15 June 2014 to 15 June 2015, the gross dividend rate has been set at 7.95% per annum.

It is possible that dividends will not be paid. Dividends will not be paid if the Directors of the Company or Downer EDI Limited determine that a dividend is not payable. Dividends are non-cumulative, which means that if a dividend is not paid, it does not accumulate and may never be paid.

Each ROADS confers on its holder:

- An equal right to payment of the issue price of \$1 in a liquidation of the Company between other holders of ROADS and holders of any other class of securities ranking equally with ROADS; and
- The right to payment of the issue price in a liquidation of the Company in priority to any other class of shares other than any preference shares ranking equally with ROADS.

The ROADS rank for payment in a liquidation of the Company after all creditors of the Company.

The Company may elect to redeem or exchange:

- All or some ROADS on any dividend payment date;
- All (but not some) ROADS at any time, if certain specified events occur, including regulatory or legal changes which could lead to the Company or Group being exposed to significantly increased costs, or in the event of an acquisition of 50% or more of Downer EDI ordinary shares;
- All or some ROADS on any dividend payment date after an acquisition of 50% or more of the Downer EDI Limited ordinary shares has occurred; and/or
- All (but not some) ROADS at any time, if there is less than 50 million ROADS on issue.

If any ROADS are to be redeemed, the Company must pay to the holder in respect of each relevant ROADS an amount equal to the issue price.



Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements For the half year ended 31 December 2014

7 ROADS (continued)

If any ROADS are to be exchanged, the Company will request Downer EDI Limited to purchase those ROADS for a consideration consisting of ordinary shares and, if Downer EDI Limited agrees to do so, holders are required to transfer the relevant ROADS to Downer EDI Limited and Downer EDI Limited will issue to the relevant holders a number of ordinary shares at a 2.5% discount to the weighted average sale price of ordinary shares traded on the ASX during the 20 business days immediately preceding the date of exchange.

Holders of ROADS cannot request redemption or exchange in any circumstances. Holders have no right to receive notice of, attend or vote at meetings of shareholders of the Company, other than in respect of a proposal to amend or vary the terms of the ROADS to the detriment of a holder, or that otherwise affects any right attached to ROADS to the detriment of a holder. The full terms of the ROADS are set out in Appendix 1 to the Constitution of the Company. Transaction costs in connection with the issue of the ROADS were borne by Downer EDI Limited. The dividends paid in this half year, gross of imputation credits, totalled \$7.95 million, being 3.975c per share (2013: 3.410c per share).

There were no changes to the number of ordinary shares or ROADS on issue during the period.

8 Related Parties

The Company is wholly owned by DGL Investments Limited. The ultimate parent company is Downer EDI Limited, a company listed on the Australian Stock Exchange and with a secondary listing on the NZX.

The Company has advanced a loan to Downer New Zealand Limited, a fellow Group subsidiary, and receives interest as described in Note 5 to these condensed interim financial statements. Some transaction costs associated with the issue of ROADS are met by Downer EDI Limited. Under a Deed Poll entered into, Downer EDI Limited guarantees the payment by the Company of dividends on ROADS, and of amounts payable on redemption of ROADS, on an unsecured and subordinated basis.

The Directors of the Company or Downer EDI Limited may at any time determine that a dividend is not payable. If the Directors of the Company or Downer EDI Limited determine that a dividend is not payable, the relevant amount will not become payable by the Company, and the guarantee by Downer EDI Limited will not apply. Accordingly, the guarantee will be effective only if the Directors of the Company, (and in the case of a dividend, Downer EDI Limited), at their discretion determine that payment should be made, but payment is not then made by the Company. As the guarantee is subordinated, the claims of holders under the guarantee rank behind the claims of all creditors of Downer EDI Limited.

| | Note | 31-Dec-2014 (unaudited) \$ | 30-Jun-14 (audited) \$ |
|--------------------------------------------------|------|----------------------------------|------------------------------|
| Advances to related parties: | | | |
| Downer New Zealand Limited - Current balance | | 6,256,420 | 6,482,590 |
| Downer New Zealand Limited - Non current balance | 5 | 200,000,000 | 200,000,000 |

The Downer New Zealand Limited current account is unsecured and repayable on demand. Interest is accrued at an average of 3.3% per annum (2013: 2.4% per annum).

Transactions with related parties:

| | Note | 31-Dec-2014 (unaudited) \$ | 30-Jun-14 (audited) \$ |
|-----------------------------------|------|----------------------------------|------------------------------|
| Downer New Zealand Limited | | | |
| Interest received | 2 | 8,421,260 | 7,152,428 |
| Tax credit transfer | | - | 3,759 |

All the Directors, except Andrew Arthur William Titter, are also Directors of DGL Investments Limited and Downer New Zealand Limited.

Key management personnel received no compensation from the company during the period (2013: nil).



Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements For the half year ended 31 December 2014

9 Segmental Information

The only business of the Company is the issue of ROADS to New Zealand and overseas residents, and advances to Downer New Zealand Limited.

10 Contingent liabilities

The Company has no contingent liabilities (2013: nil).

11 Capital and lease commitments

The company has no capital or lease commitments as at 31 December 2014 (2013: nil).

12 Subsequent events

On 10 February 2015, the Directors approved the payment of a fully imputed dividend of \$3,975,000, comprising a cash dividend of \$2,862,000 (1.431 cents per ROADS security) and imputation credits of \$1,113,000 (0.5565 cents per ROADS security) to be paid on 16 March 2015.

There are no other subsequent events.

13 Financial Instruments

Financial instruments carried in the statement of financial position include bank balances, investments, receivables, payables and accruals.

The Company was established by Downer EDI Limited for the purpose of issuing ROADS, and as such its exposure to liquidity risk and interest rate risk is managed by being passed back to other Group companies through issuing intra-group loan advances with similar terms to those issued by the Company.

The most significant concentration of credit risk of the Company as at 31 December 2014 comprises the advance to Downer New Zealand Limited of \$200,000,000. This is expected to have a similar credit risk profile as Downer EDI Limited. Downer EDI Limited has a long-term issuer default rating of BBB (outlook stable) issued by Fitch Ratings. Issuers rated BBB- or above (or the equivalent by other rating agencies) are described as "Investment Grade".

The maximum exposure to credit risk is the carrying amount of the Company's financial assets.

The Company is not directly exposed to foreign currency risk.

99.1% of ROADS holders are domiciled in New Zealand.

