



## Media/ASX and NZX Release

13 August 2012

### **DOWNER REPORTS UNDERLYING EARNINGS BEFORE INTEREST AND TAX OF \$346.5 MILLION**

Downer EDI Limited (Downer) today announced that underlying earnings before interest and tax (EBIT) for the 2012 financial year had increased by 18.6% to \$346.5 million. Underlying net profit after tax (NPAT) increased by 17.4% to \$195.3 million.

Statutory EBIT after individually significant items, including the previously announced write off of the Reliance Rail hedge reserve of \$72.5 million, was \$264.2 million. Statutory NPAT was \$112.9 million<sup>1</sup>. A reconciliation of the underlying result to the statutory result is provided in the Investor Presentation and Full Year Report, both lodged with the Australian Securities Exchange and available on the Downer website.

Total revenue rose by 22.5% to \$8.5 billion, including \$0.5 billion of contributions from joint ventures. All businesses recorded revenue growth with Downer Mining up 67.9% to \$2.5 billion, Downer Rail up 14.0% to \$1.3 billion and Downer Infrastructure up 11.7% to \$4.6 billion (Australia up 13.6% to \$3.7 billion and New Zealand up 4.6% to \$0.9 billion).

Operating cash flow was strong at \$364.5 million. At 30 June 2012, Downer's gearing was 18.6% with liquidity of \$890.2 million.

The Chief Executive Officer of Downer, Grant Fenn, said the company had delivered on its promises and was capable of much more.

"The strength of the business is clear in this result," Mr Fenn said. "Despite closing out a number of legacy issues, the result is strong, particularly our cash performance. Our work-in-hand remains high at about \$20 billion and we are improving our win rates in the right areas.

"Importantly, the Waratah Train Project has passed a number of significant milestones during the year and, while still a challenging project, it now represents a substantially lower risk to the Group. We now have a good handle on our input costs at the required rates of production. Manufacturing in Changchun is consistently meeting quality standards and the production rate is at the required three trains per month. At Cardiff, we are successfully pulsing the manufacturing flow line every four days and will move to three days in February 2013," Mr Fenn said.

"The trains in passenger service are performing well."

Further information on the Waratah Train Project is provided in the Annual Report (Appendix 4E) and Full Year Report, both lodged with the Australian Securities Exchange and available on the Downer website.

Downer's portfolio structure is now well defined with the creation of Downer Infrastructure and the sale of CPG Asia for \$147 million. Downer's three divisions – Mining, Infrastructure and Rail – are leaders in their sectors.

"Our risk and project management processes have strengthened further and a number of legacy underperforming contracts were completed during the year. This included the Curragh coal handling preparation plant achieving Practical Completion in June 2012," Mr Fenn said.

Mr Fenn said Downer Mining performed particularly well during the year, with EBIT up 45.1% to \$173.5 million. Growth was driven by new and expanded open cut mining contracts and record levels of work in the blasting and tyre management businesses.

"Downer Mining has done a great job minimising the growing pains normally associated with ramping up on such a scale. There has been a lot of investment over the past two years and the Mining business is delivering," Mr Fenn said. "We continue to win new contracts and our full service offering with blasting services and tyre management is an advantage."

In Australia, Downer Infrastructure's EBIT rose by 38.2% to \$150.7 million despite the impact of underperforming contracts and wet weather. The Eastern region was particularly strong driven by road infrastructure services and the benefits of blending our engineering services and construction capabilities for resources based projects.

In New Zealand, Downer Infrastructure delivered a much improved performance in the second half of the year, achieving full year EBIT of \$29.6 million, more than double last year's EBIT of \$11.0 million. The efficiency improvements that have been introduced over the past two years are now starting to show up in the New Zealand results.

"There is a significant pipeline of opportunities for Downer Infrastructure in both Australia and New Zealand. The newly integrated business is already seeing the benefits of scale, increased management depth and technical expertise. This is having a real impact on the opportunities available and our success rate," Mr Fenn said.

Downer Rail's EBIT rose by 1.8% to \$76.4 million, in part driven by the close-out of locomotive and passenger build contracts that were completed during the year. On 26 June 2012, Downer announced a new five year agreement with Electro-Motive Diesel that will provide customers with more competitive pricing and improved lead times.

A profoundly disappointing aspect of Downer's performance during the year was the two workplace fatalities on road maintenance sites. Downer has implemented a number of initiatives to address the hazards involved with reversing vehicles.

Downer's Lost Time Injury Frequency Rate of 0.93 remained below one incident per million hours worked for the year and Total Recordable Injury Frequency reduced from 7.17 to 6.21 per million hours worked.

The Downer Board has decided not to declare a final dividend. Downer will continue to pay dividends on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

## **Outlook**

There is, at the current time, an increasing level of uncertainty around the level and timing of Government and private sector investment in infrastructure in both Australia and New Zealand.

That said, Downer is well positioned in terms of the percentage of work already secured that will impact on the year ahead.

Accordingly, Downer expects to deliver EBIT of around \$370 million and NPAT of around \$210 million for the 2013 financial year.

<sup>1</sup> Underlying EBIT and NPAT are considered a more appropriate measure of Downer's performance than 'statutory' results, because the statutory results include several Individually Significant Items ("ISIs") that are unlikely to be recurrent. Of these ISIs, the major item relates to the transfer of the equity accounted Reliance Rail hedge reserve via the income statement to retained earnings. This transfer has had no impact on cash, equity, net assets or underlying earnings. A reconciliation of the underlying result to the statutory result is provided in the Investor Presentation and Full Year Report, both lodged with the Australian Securities Exchange and available on the Downer website.

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Downer EDI Limited ([www.downergroup.com](http://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.