

# Full Year Report

12 months to 30 June 2011

 **Downer**

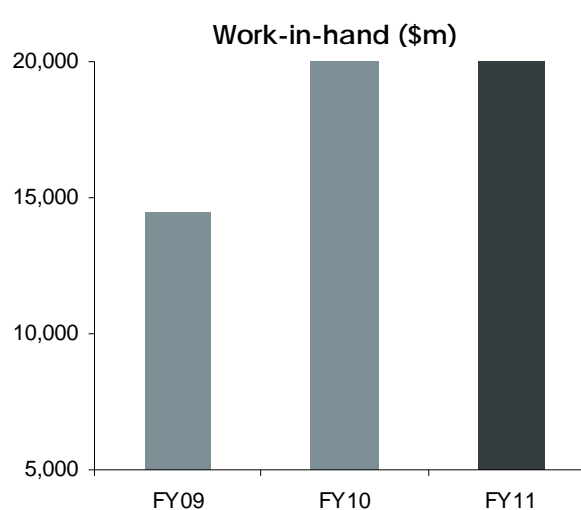
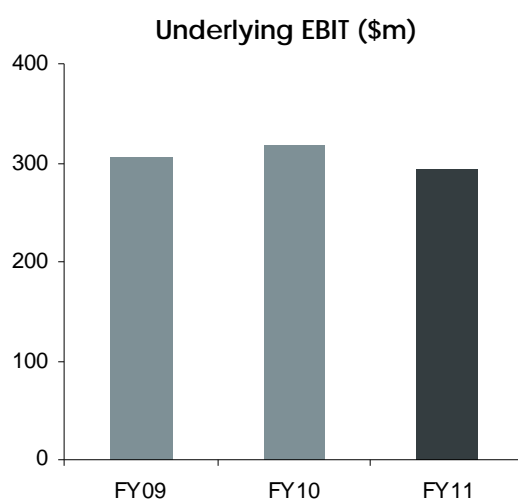
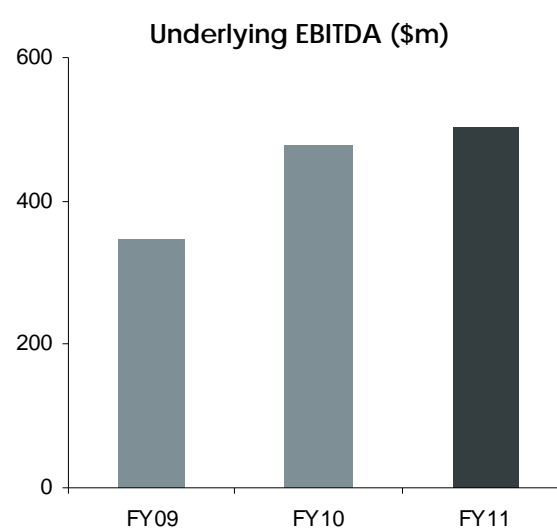
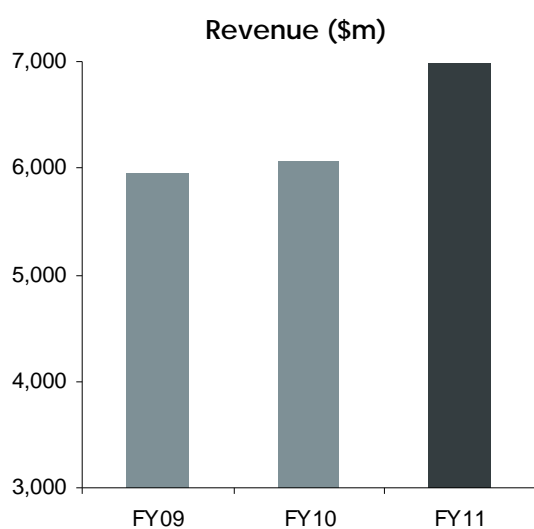
# Financial Performance

\$m	FY11	FY10	Change (%)
Total revenue <sup>1</sup>	6,975.1	6,055.9	15.2
EBITDA <sup>2</sup>	502.7	478.0	5.2
EBIT <sup>2</sup>	292.2	317.8	(8.1)
Net interest expense	(64.3)	(54.2) <sup>3</sup>	(18.6)
Tax expense <sup>2</sup>	(61.5)	(66.3)	7.2
<b>Net profit after tax<sup>2</sup></b>	<b>166.4</b>	<b>197.3</b>	<b>(15.7)</b>
ROFE <sup>2</sup>	15.8%	17.5%	

<sup>1</sup> Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.

<sup>2</sup> EBITDA, EBIT, Tax expense, NPAT and ROFE exclude the \$250.0 million provision relating to the Waratah train project and other impairments of \$16.6 million.

<sup>3</sup> Represents reported net interest adjusted for interest provision release related to disposal of MB Century.



# THE YEAR TO 30 JUNE 2011

## **A year of rebuilding and transformation**

The 2011 financial year has been one of rebuilding and transformation for Downer and the company made substantial progress addressing a number of challenges facing the business.

Very good progress was made on the Waratah train project including: recruitment of a new project team with experience in large and complex rolling stock projects; implementation of a revised production and delivery schedule; and delivery of the first two Waratah trains to RailCorp. The first train entered passenger service on 1 July 2011 and is performing well. More detail on the Waratah train project is provided on page 8.

Clear business priorities were set for the company and the Group's tender and project risk management processes were overhauled. More information about Downer's risk management is provided on page 7.

Management capability was strengthened, with a number of senior executive appointments, and a new management structure was put in place. The heads of each Downer division now report directly to the Group Chief Executive Officer.

Following a review of Downer's business portfolio, the Australian Works, Engineering, Emerging Sectors and CPG Resources businesses were combined into one division, Downer Australia. This important change was made in order to organise the business around key customers and markets. Downer Group now consists of four divisions – Downer Australia, Downer New Zealand, Downer Mining and Downer Rail. Downer is also conducting a review of its CPG Asia, CPG Australia and CPG New Zealand consulting businesses, including the potential divestment of these businesses.

Over \$55 million in cost savings were achieved during the year by driving a range of Fit 4 Business initiatives. Fit 4 Business is a five year program, launched in August 2010, which is targeting \$250 million in savings across the Group. More information about the Fit 4 Business program is provided on page 6 of this Full Year Report.

Importantly, Downer maintained its industry leading safety performance, with continuing improvement in both Lost Time Injury Frequency Rate and Total Recordable Injury Frequency Rate. More information about Downer's Zero Harm performance is provided on page 6.

All Downer's businesses continued to win new contracts and secure contract renewals during the year. Downer Mining won contracts with Fortescue Metals Group, BHP Billiton Mitsubishi Alliance and Idemitsu Australia Resources. Downer Rail won contracts with QR National, Pacific National, BHP Billiton, Genesee & Wyoming and Queensland Rail. Downer Engineering won a number of new projects including with OneSteel Manufacturing and Karara Mining. Downer Works won many new contracts including three Integrated Services Agreements with Main Roads Western Australia and contracts with Australian Rail Track Corporation. Further details are provided in the Operations Review later in this report.

Overall, the Group won about \$7 billion of new work and renewals and work-in-hand is now about \$20 billion. This strong performance highlights the fact that Downer continues to deliver for its customers.

In the year ahead, Downer will continue to drive transformation across the Group. The company's priorities are to deliver the Waratah train project within the revised program, deliver other existing projects across the Group, drive growth in core markets with key customers, focus intensely on risk management and improve project management capability.

Downer will also seek to "simplify/consolidate/enable" where appropriate. This includes implementing a number of Fit 4 Business initiatives and exiting non-core and sub-scale businesses.

## Financial Performance

Downer reported total revenue of \$7.0 billion for the year to 30 June 2011, 15.2% higher than the previous year, with revenue growth driven by the Mining, Rail and Engineering businesses.

The divisional contributions to Group revenue were: Mining \$1.5 billion (up 50.6%); Rail \$1.1 billion (up 7.9%); Engineering \$2.3 billion (up 21.4%); and Works \$2.1 billion (down 0.5%).

Underlying earnings before interest and tax (EBIT) was \$292.2 million, 8.1 % lower than last year. Underlying net profit after tax (NPAT) was 15.7% lower at \$166.4 million, reflecting higher interest expenses than last year.

Downer currently has work-in-hand worth about \$20 billion comprising the following divisional contributions: Mining \$7.5 billion; Rail \$5.2 billion; Engineering \$2.2 billion; Works \$5.2 billion.

On 27 January 2011, Downer announced an additional pre-tax provision of \$250.0 million in respect of the Waratah train project. As a result of this provision and impairments of \$7.8 million relating to CPG New Zealand and \$8.8 million relating to the UK Works business, Downer reported a net EBIT of \$25.7 million and a net loss after tax of \$27.7 million.

	FY11 EBIT (\$m)	FY11 NPAT (\$m)
<b>Underlying result</b>	<b>292.2</b>	<b>166.4</b>
Individually significant items:		
• Waratah train provision	(250.0)	(175.0)
• Works UK impairment	(8.8)	(11.3)
• CPG NZ impairment	(7.8)	(7.8)
<b>Statutory result</b>	<b>25.7</b>	<b>(27.7)</b>

Underlying operating cash flow was \$324.9 million, which is 111% of underlying EBIT. After \$139.3 million of cash outflows relating to the Waratah train project, operating cash flow was \$185.6 million.

The main reasons for the lower underlying EBIT and NPAT results were:

- for Works, prolonged and severe wet weather conditions, particularly in Eastern Australia;

- for Engineering and Works, intense competition with significant pressure on margins and also the impact of maintaining capacity in these businesses as a consequence of delayed projects;
- for Works, including New Zealand, lower government expenditure on road and rail infrastructure maintenance;
- for Downer New Zealand, ongoing tough economic conditions, the impact of the Christchurch earthquakes, wet weather and restructuring costs;
- for Engineering, underperformance of certain contracts, particularly Curragh; and
- for Downer Group, restructuring and redundancy costs of \$16.3 million.

In contrast, both the Mining and Rail divisions performed strongly as they benefited from growth in the Minerals & Metals sector.

In terms of quality of earnings, the underlying EBIT of \$292.2 million comprised a number of favourable and unfavourable items as shown in the table below.

	(\$ million)
<b>Underlying EBIT</b>	<b>292.2</b>
Add back unfavourable items:	
• Wet weather	24.3
• Curragh contract	41.1
• NZ State Highway 20 -1 interchange contract	9.5
• Christchurch earthquake	10.0
• Asbestos remediation/claim	4.1
• Restructuring costs	16.3
Less favourable items:	
• Positive project close-outs	(44.6)
• Profit adjustment on extended/expanded contracts	(20.0)
• Property sales	(4.1)
• Equity accounted profits	(6.2)
• Settlement/provision for customer contracts	(13.2)
<b>Adjusted underlying EBIT (approximately)</b>	<b>309.4</b>

## Capital Management

During the year, Downer ensured it had continued access to debt and equity capital markets.

On 30 November 2010, Downer successfully completed the refinancing of an Australian dollar syndicated loan facility, replacing a three year \$390 million facility with a \$420 million facility split 70:30 into three and four year tranches.

On 29 March 2011, Downer successfully completed an equity raising of \$279.3 million. This capital raising was undertaken to strengthen Downer's balance sheet, support Downer maintaining investment grade credit rating metrics and provide financial flexibility to pursue attractive growth opportunities.

At 30 June 2011, Downer had gearing (net debt/ net debt plus total equity) of 25.5 % and liquidity of \$915.7 million, comprising cash of \$288.6 million and undrawn committed facilities of \$627.1 million.

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

## **Fit 4 Business**

Fit 4 Business was launched at Downer's 2010 Full Year Results and is a five year program targeting \$250 million in savings across the Group. It covers a range of initiatives that will:

- improve our productivity through significant and sustainable change to our business models and processes;
- make it easier for customers, partners and suppliers to do business with us – and for us to do business with them; and
- encourage innovation and leverage our skills and scale effectively so we are recognised as an industry leader.

Over \$55 million in gross cost savings were achieved in the 2011 financial year, with initiatives including:

- a comprehensive review of the asphalt laying process (conducted at the Rosehill plant in Sydney) to eliminate waste and optimise operational effectiveness;
- expansion of the use of biodiesel (Downer Mining is now the largest consumer of B20 biodiesel in the Australian mining sector);
- the establishment of a national supply agreement for personal protective equipment;
- synchronisation of shift patterns to reduce overtime costs;
- office consolidations and co-locations; and
- reduced cycle time in the locomotive build program.

On 29 July 2011, Downer announced it had signed an IT Managed Services Agreement with Hewlett Packard (HP) to provide Downer with all its IT infrastructure needs over the next six years. This is an important step towards the transformation of Downer's IT infrastructure from an old and fragmented model to a single data system, operating system and network. Downer currently has eight data centres, five data networks and 36 operating systems.

This transformation will reduce risk, improve performance and provide high quality support for Downer's growing business needs. It will enable common systems and processes which support a single face to Downer's customers and deliver significant cost savings as part of the Fit 4 Business program.

## **Zero Harm**

Downer's Lost Time Injury Frequency Rate for the year was 0.93 per million hours worked, an industry leading performance. Total Recordable Injury Frequency Rate was 11.8% lower at 7.17 per million hours worked.

Zero Harm is embedded in Downer's culture and is fundamental to the company's future success. Zero Harm means sustaining a work environment which supports the health and safety of Downer's people and minimising the impact Downer's business has on the environment.

Downer has been included in the Carbon Disclosure Project's Carbon Disclosure Leadership Index for the second year running and is the only contracting organisation listed in this Index. The Carbon Disclosure Project was established in 2000 and is an independent, not-for-profit

organisation sponsored by governments and major investment institutions to accelerate solutions to climate change.

Downer's Sustainability Report is available on the Downer website ([www.downergroup.com](http://www.downergroup.com)).

## **Downer Australia**

On 22 February 2011, Downer announced that its Australian Engineering, Works, Emerging Sectors and CPG Resources businesses would be combined into one division, Downer Australia. From 1 July 2011, Downer Group consists of four divisions – Downer Australia, Downer New Zealand, Downer Mining and Downer Rail.

The establishment of Downer Australia is a significant change for the company because it involves organising the business around key customers and markets. Customers are increasingly asking for integrated, national solutions for their infrastructure needs and the establishment of Downer Australia allows us to provide it.

Downer Australia is the Group's largest division, contributing about half of total revenue. It has significant scale, providing a strong platform for growth and also for servicing its customers.

Downer Australia's customers include blue-chip companies, State Government departments and more than 350 local government authorities. Downer Australia's core markets are Minerals & Metals, Oil & Gas, Power, Transport Infrastructure, Water, Communications, Social Infrastructure and Property.

## **Risk Management**

Downer continues to enhance its risk management processes and is currently standardising its approach to contract bidding, execution and project monitoring across all operations. The process is becoming well established with regular, detailed reviews completed across all divisions. Depending on the value and complexity of a tender, requests from a division to prepare a tender response are submitted for approval to either the Board Tender Review Committee (TRC), Tender and Capital Committee (TCC) or Divisional CEO.

Authority to approve a tender is based on financial criteria. Where the contract value:

- exceeds \$250 million, TRC approval is required in addition to TCC endorsement and Group CEO approval;
- is less than \$250 million and greater than \$30 million, TCC endorsement and Group CEO approval is required; and
- is less than \$30 million, approval is within the delegated authority of Divisional CEOs.

Contracts with special risk features (e.g. for non-value related risks such as technology or geographic risk) may be elevated to the TCC or TRC for review and approval as appropriate.

These authority levels apply to each stage of the approval process.

While contract value is the key screening criteria for determining the appropriate level of tender approval, the following factors are assessed to determine whether or not a tender is endorsed and recommended for approval:

- Safety and environmental issues;
- The industry sector where the work will be undertaken because each has its own specific risk profile and market norms;
- Financial returns and capital expenditure;
- Compatibility with Downer Group capabilities;
- Previous relationship with the customer;
- The geographical region in which the contract work will be performed;
- Key contract terms and conditions;
- The contract type (fixed price, cost plus, schedule of rates or alliance); and
- Project execution risk.

Each stage of approval requires the relevant division to undertake an assessment of each of the above criteria. Regular Contract Reviews are conducted through the Corporate Office covering:

- Monthly Project Valuation Review - These reviews are undertaken for all projects with revenue greater than \$10 million and cover the project financial report and valuation analysis;
- Monthly Detailed Project Review – These reviews cover the project’s financial, commercial and operational status; identify and analyse key issues in order to establish their underlying causes; establish and regularly monitor improvement and remedial strategies for improving margins and/or mitigating losses; and review project resourcing;
- Quarterly Project Valuation Review – These provide a thorough desktop review with CEO/CFO and divisional executive management and the project manager; and
- Project Completion Reviews – These document actual performance results (margins and productivity) and other learning’s to support future tenders and projects.

Campbell Mason joined Downer as Chief Risk Officer on 22 August 2011. Mr Mason is responsible for the management of Risk across the Downer Group and also chairs Downer’s Tender and Capital Committee.

## **Waratah Train Project**

The first Waratah train received a certificate of Practical Completion from RailCorp on 30 June 2011, entered passenger service on 1 July 2011 and is performing well. The second Waratah train was presented to RailCorp for Practical Completion on 28 July 2011. Train sets three to six are scheduled for delivery to RailCorp by the end of the 2011 calendar year.

On 27 January 2011, Downer announced an additional pre-tax provision of \$250.0 million in respect of the Waratah train project. The provision reflects the revised project program which now provides for production of trains in four distinct phases:

1. Train Sets 1 to 10, which required or require significant additional work on the interior fit-out and related areas due to design related production issues, inadequate methods and processes in assembly. These train Sets were all delivered to Australia by 30 June 2011;
2. Train Sets 11 to 15 are being built by Changchun Railway Vehicles Company (CRC or China) to a first configuration freeze (Configuration Freeze 1) using new methods and processes to aid production of the bodyshell and interior fit-out. Whilst implementation of these new methods and processes has caused a delay to the program announced in February 2011 of two to eight weeks, this has meant that the interior fit-out scope that was planned to be transferred to Cardiff from Train Set 16 will no longer be required,

releasing the provision of \$17 million in the Forecast-Cost-At-Completion (FCAC) to contingency to fund:

- (i) other program improvement initiatives or otherwise de-risk the project; and
  - (ii) eight shop floor mentors/coaches from Downer's Cardiff assembly plant who have been based in CRC to assist in the installation of the more difficult aspects of the interior design;
3. Train Sets 16 to 25 are intended to be built using a flow-line process that is being implemented in the interior fit-out shop in CRC. Process improvements in the bodyshell shop will see bodyshells built to tighter tolerances that will further aid interior installation; and
  4. Train Sets 26 to 78 are intended to be built completely in CRC based on a second configuration freeze (Configuration Freeze 2) following implementation of further design improvements for ease of assembly and higher quality. Increased output from the flow-lines in CRC will be required by Train Set 38 to match the targeted delivery program with planning currently underway with CRC to ensure this is achieved. Provisional cost estimates for the increased output are within the FCAC allowances.

The manufacturing program is targeting the following delivery milestones, which remain broadly within the "bands" outlined in February 2011:

- Train Set 1 was presented to RailCorp for Practical Completion (PC) on 19 April 2011 and received PC on 30 June 2011;
- Train Sets 2 to 6 are being progressively delivered to RailCorp for PC between August 2011 and December 2011;
- Train Set 7 to be entering passenger service in mid January 2012 following the achievement of reliability performance targets by Train Sets 1 to 6; and
- Train Set 78 being delivered to RailCorp and entering passenger service in the first half of calendar 2014.

Key assumptions underpinning the manufacturing program include:

- ongoing commitment to the resolution of minor defects on Train Sets to enable presentation to RailCorp for PC;
- the "quick win" initiatives introduced for Train Sets 11 to 25 result in the estimated improvement in production rate and quality in China and reduce levels of re-work in Cardiff;
- the re-design of certain components and assemblies to achieve the estimated production rates and required quality levels in the bodyshell and interior fit-out shops in China for Train Sets 26 onwards;
- CRC deploy the requisite number of resources to the interior fit-out shop in Changchun with the appropriate skill and experience to achieve the required productivity and quality in Train Sets;
- achieving the reliability performance targets for Train Sets 1 to 6 to allow Train Set 7 to be delivered by mid-January 2012 (the performance of Train Set 1 in service is to date achieving its targeted reliability);
- the trains must meet certain performance thresholds while in passenger service (failure of the trains to meet the required thresholds is likely to result in additional costs being incurred by Downer);
- all parties continue to honour their contractual obligations;
- that RailCorp continues to adopt a reasonable industry approach to the acceptance of the Waratah trains for passenger service through the manufacture phase of the project

- (including supporting documentation) and the required track access will be made available to allow the project to achieve reliability and growth targets;
- that monies held in the Manufacturing Delay Account (MDA) are paid to Downer upon achievement of contracted milestones, and that interest that accrues on the MDA is to be paid when Train Set 78 is delivered to Reliance Rail, together with the balance of MDA. MDA interest receivable in the FCAC assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature; and
  - an accelerated eight business day delivery cadence from Train Set 30, which has not yet been approved by RailCorp.

Further information in relation to the Waratah train project is provided in the Annual Report (Appendix 4E) lodged with the Australian Securities Exchange.

### **Senior executive changes and Board renewal**

Grant Fenn was appointed Chief Executive Officer of Downer on Friday, 30 July 2010 following the resignation of Geoff Knox. Mr Fenn was previously Chief Financial Officer of Downer. Kevin Fletcher, Downer's Deputy Chief Financial Officer, was appointed Acting Chief Financial Officer at the same time and then appointed Chief Financial Officer in November 2010.

The process of Board renewal continued during the year. Peter Jollie AM did not stand for re-election as Chairman at the company's Annual General Meeting on 3 November 2010 and Mike Harding was appointed Chairman. Mr Harding was previously Deputy Chairman of Downer and has been an independent Non-executive Director of Downer since July 2008. Dr Grant Thorne was appointed a Non-executive Director of Downer on 1 July 2010 and Chris Renwick retired as a Non-executive Director on 9 December 2010 after serving on the Board for six years. Downer will continue the process of Board renewal in 2012 as appropriate.

## Operational Review

### Downer Mining

Downer Mining performed strongly during the year driven by continuing demand for contract mining services. Downer Mining currently has work-in-hand worth \$7.5 billion.

Downer Mining's total revenue for the year was \$1.5 billion, 50.6% higher than last year. EBIT was 75.4% higher at \$119.6 million and EBIT margin rose by 1.2 percentage points to 8.2%. Return on Funds Employed (ROFE) increased by 6.8 percentage points to 19.8%.

Downer Mining's performance was driven by a number of large contract wins and renewals during the year, in particular:

- a six-year contract, awarded in August 2010 and valued at approximately \$3 billion, with Fortescue Metals Group Limited (Fortescue) for the provision of mining services at its Christmas Creek operation in the East Pilbara region of Western Australia. The Christmas Creek contract is one of the largest mining services contracts of its type in Australia; and
- five-year extension and expansion contracts, awarded in July 2010, with BHP Billiton Mitsubishi Alliance (BMA) at Goonyella Riverside and Norwich Park Mines in the Bowen Basin, Central Queensland. The contracts, jointly valued at approximately \$2 billion, are for load and haul of prestrip material and drill and blast services at Goonyella Riverside Mine, and for load and haul of prestrip material at Norwich Park Mine.

Both these major projects are making good progress.

In addition, in December 2010 Downer signed a five-year mining service agreement with Idemitsu Australia Resources Pty Ltd (Idemitsu) for the provision of mining services at Boggabri open-cut coal mine in the Gunnedah Basin, New South Wales.

This extended contract starts in December 2011 and will continue the company's involvement at Boggabri to over a decade. Services provided will include drill and blast, mine planning, and load and haul of both overburden and coal. The value of the contract revenue will depend on the mine's production output, which has yet to be finalised. The base case values revenue at approximately \$900 million over the duration of the contract.

Downer Blasting Services and Otraco International (a tyre and rim management business) also continued to grow during the year, winning new contracts and contract extensions.

On 10 June 2011, Downer Mining won the Queensland Premier's Corporate ClimateSmart Sustainability Award for demonstrating it is at the forefront of understanding and tackling minerals industry sustainability challenges and opportunities. Downer Mining's environmental achievements include being the largest consumer of B20 biodiesel in Australia.

Downer Mining continues to implement indigenous employment programs successfully. A further 90 indigenous people were recruited during the year and 16 per cent of the Downer Mining workforce in Western Australia is now indigenous. Downer Mining is involved in a successful partnership with Fortescue Metals Group, the Federal Department of Employment Education, the Australian Children's Trust and Kimberley TAFE to provide training for members of the Fitzroy Crossing community who work at the Christmas Creek mine.

## Downer Rail

Strong demand for resources, particularly coal and iron ore, is driving demand for Downer Rail's narrow and standard gauge locomotives from customers including QR National, Pacific National, BHP Billiton and Genesee & Wyoming (GWA). Downer Rail also won a contract during the year to supply and maintain passenger rolling stock for Queensland Rail.

Total revenue for the year was \$1.1 billion, 7.9% higher than last year. Excluding the Waratah train project, revenue rose by 19.9% to \$928.6 million.

EBIT was \$75.0 million, marginally down on the previous year and including \$13.8 million of costs associated with asbestos remediation works at the Cardiff and Bathurst facilities offset by positive close-out of a number of train build projects.

EBIT margin was 0.8 percentage points lower at 6.6% and ROFE fell 6.8 percentage points to 18.4%.

During the year, Downer Rail secured:

- a contract valued at approximately \$190 million to expand and upgrade Queensland Rail's fleet of high speed passenger diesel Tilt Trains that service the Brisbane to Cairns rail corridor. The vehicles will be delivered progressively from April 2013;
- an order for 13 new standard gauge diesel electric locomotives to support Pacific National's coal haulage services in NSW. The fleet will be delivered progressively between mid-2011 and mid-2012 and Downer will maintain these locomotives;
- an order for seven new standard gauge diesel electric locomotives for GWA. The locomotives will be delivered in the fourth quarter of 2011 and Downer will maintain these locomotives for GWA; and
- a contract extension for four new narrow gauge diesel electric locomotives to support Pacific National's coal haulage services in Queensland. These locomotives will be delivered in the second quarter of 2012 and be maintained by Downer.

In addition, Downer (through a joint venture with Keolis), was a member of the GoldLinQ Consortium that was the successful proponent for the Gold Coast Rapid Transport Project.

Since 30 June 2011, Downer Rail has been awarded:

- a contract, through a 50:50 joint venture with Bombardier Transportation Australia (Bombardier), with PTA for the supply of 15, three car, single-deck electric trains to grow the PTA's existing B Series fleet. The value of the contract is more than \$160 million, of which Downer's share is over \$80 million; and
- a contract, through its 50:50 joint venture with Bombardier, that extends the maintenance work it has been providing to Western Australia's Public Transport Authority (PTA) to cover all PTA's suburban fleet. The contract is for seven and a half years with an option to extend for an additional seven and a half years. The value of the seven and a half year contract is more than \$285 million, with Downer's share exceeding \$140 million.

Downer Rail currently has work-in-hand worth \$5.2 billion.

## **Downer Engineering** (includes Consulting, Emerging Sectors and Asia)

Downer Engineering reported total revenue of \$2.3 billion for the year, an increase of 21.4% on last year. However, EBIT was 36.0% lower at \$72.0 million and EBIT margin was down 2.8 percentage points to 3.1%. ROFE fell 8.1 percentage points to 18.3%.

Downer Engineering currently has work-in-hand worth \$2.2 billion.

The increase in revenue during the year was driven by projects including Collgar Wind Farms (WA), the Mangoola coal project (NSW), the Curragh expansion (central Queensland) and construction of transmission lines from Yabulu South to Ingham (North Queensland).

The main reasons for the lower EBIT and EBIT margin performance were very competitive market conditions, high tender costs, the cost of maintaining capacity following delayed projects, and a number of underperforming contracts, particularly Curragh. Action has been taken to address the underperforming projects. In addition, wet weather had a \$6.8 million impact on Downer Engineering's EBIT for the year.

Downer Engineering won a number of new projects during the year including:

- a contract with OneSteel Manufacturing Pty Ltd to construct an iron ore beneficiation plant in Iron Baron, South Australia. The contract, valued at more than \$60 million, is for the design, procurement, construction and commissioning of all process equipment as well as site preparation and civil works; and
- a \$120 million contract with Karara Mining Limited for the construction of a 180 kilometre, 330kV power transmission line from the Karara Iron Ore Project to Eneabba in Western Australia.

The Mineral Technologies consulting business performed well, driven by the strength of the iron ore industry and high prices for mineral sands products. The QCC consulting business also reported increased revenue and EBIT. Both these consultancies, which are now part of Downer Australia, have a strong pipeline of opportunities.

Since 30 June 2011, Downer has secured an alliance contract with Xstrata Coal for the development of a coal handling and preparation plant (CHPP) at the Ravensworth North Coal Project in New South Wales. Downer successfully delivered the Mangoola CHPP for Xstrata in May 2011. The Ravensworth North contract has a total value of more than \$400 million and the scope of work includes the design, procurement, construction and commissioning of the CHPP as well as low voltage power supply and reticulation and high voltage transmission supply and relocation.

On 17 August 2011, Downer signed a four year contract with FOXTEL to provide installation and maintenance services for FOXTEL's satellite and cable customers in Adelaide, Brisbane, Melbourne and Sydney. The value of the contract is expected to exceed \$200 million over the four years.

On 3 August 2011 Downer announced it was conducting a review of CPG Asia, CPG Australia and CPG New Zealand, including the potential divestment of these consultancy businesses, as part of its ongoing focus on optimising the Downer Group portfolio. The review does not include Downer's resource-focused consultancy businesses, Snowden, QCC and Mineral Technologies.

## **Downer Works** (includes Works Australia, Downer New Zealand, and Works UK)

Downer Works' profitability was significantly affected by prolonged and severe wet weather, particularly in Eastern Australia. Wet weather had an estimated negative impact of \$10.0 million on the Australian and New Zealand Works businesses during the year.

Total revenue was \$2.1 billion, down 0.5% from last year. EBIT was 47.5% lower at \$54.0 million, EBIT margin was down 2.3 percentage points to 2.6% and ROFE fell 5.6 percentage points to 10.8%. Downer Works currently has work-in-hand worth \$5.2 billion.

New Zealand is experiencing continuing recessionary economic conditions, with discounting putting pressure on margins. There has been significant reduction in expenditure by central and local governments. The severity of the Christchurch earthquake of 22 February 2011 placed further pressure on maintenance and infrastructure expenditure across New Zealand. The negative impact on EBIT as a consequence of the earthquake was about \$10.0 million. In addition, the New Zealand business recognised a loss of \$9.5 million in relation to the interchange between State Highway 20 and State Highway 1 (State Highway 20-1 contract).

On 3 May 2011, Downer and four other contractors signed an interim alliance agreement with the Christchurch Earthquake Recovery Authority (CERA), New Zealand Transport Agency (NZTA) and Christchurch City Council for the rebuilding of infrastructure in Christchurch. The agreement covers city roads, sewerage, water supply pipes and parks damaged in the earthquakes and is expected to involve works valued at more than NZ\$2 billion over five years.

Despite the severe weather and difficult market conditions, Downer Works maintained its market leading position and secured a number of contract wins during the year, including:

- (with joint venture partner Mouchel) three Integrated Service Agreements (ISAs) with Main Roads Western Australia for the delivery of fence-to-fence road network asset management. Under these three ISAs (Metropolitan, Mid-West and Gascoyne) Downer Mouchel will manage 6,600 road kilometres and the contracts will deliver annualised revenues of approximately \$50 million over the next 10 years;
- a five year contract renewal, valued at over \$30 million, to deliver routine road maintenance services on Yarra Ranges Council's road network east of Melbourne;
- a contract with Australian Rail Track Corporation (ARTC) to undertake rail upgrade work as part of the Federal Government's Nation Building Rail Investment; and
- an 18 month extension of the V1 Alliance with ARTC for rail track maintenance and infrastructure work in Victoria and southern New South Wales, continuing an alliance relationship spanning more than 10 years.

Chorus, New Zealand's largest telecommunications utility provider, has won approximately 70% of New Zealand's ultrafast broadband work which it expects to deliver through its existing field services contracts with existing maintenance providers. Downer New Zealand is well placed to carry out a significant proportion of this work.

## Outlook

Downer has work-in-hand of around \$20 billion, is strongly aligned to the resources and energy sectors and is well placed to capitalise on the pipeline of opportunities driven by those markets. Tendering activity has been very high over the past six months particularly in Downer Australia and Downer Rail.

There is short term risk relating to the timing of projects. It is also unclear at this point whether the broader financial market volatility will have a negative impact on the project pipeline.

Subject to the risks highlighted and general market conditions, Downer expects to deliver EBIT of around \$340 million for the 2012 financial year and NPAT of around \$180 million.