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DOWNER REPORTS HALF YEAR NET PROFIT AFTER TAX OF $99.1 MILLION

Downer EDI Limited (Downer) today announced net profit after tax (NPAT) of $99.1 million for the six months ended 31 December 2013, 5.4% higher than the previous corresponding period. Earnings before interest and tax (EBIT) reduced by 5.4% to $160.1 million.

Operating cash flow was up 54.9% to $280.3 million.

At 31 December 2013, Downer's gearing was 8.2% with available liquidity of $1.0 billion comprising cash of $364 million and undrawn committed facilities of $647 million.

"Despite revenues being down in each of our three divisions the focus on cost reduction, productivity improvement and capital management has delivered an improved result and put the Group in a good position to achieve its full year forecast of $215 million NPAT," said Grant Fenn, the Chief Executive Officer of Downer. "The environment has been very challenging and the business has responded well by reducing costs and securing forward revenue.

"One of the very pleasing and important elements of the past six months is the strength of the Work-in-hand, which has increased from $19.0 billion to $19.6 billion.

"Our cash performance was again a stand out, with cash conversion at 98.8% of earnings before interest, tax, depreciation and amortisation (EBITDA)."

Mr Fenn said that 67 Waratah trains were now available for passenger service and the last train had departed China on its way to Cardiff. Downer anticipates that the 78th train will be presented to Transport for NSW in May 2014.

The trains are performing well in service and are providing a considerable step up in comfort for Sydney's rail customers.

<u>Downer Infrastructure</u>

The reduction in mining-related capital works has had a negative impact on the financial performance of Downer Infrastructure.

The effects have been more pronounced for Downer Infrastructure's West business and the mining-related consultancy businesses (Snowden, QCC and Mineral Technologies) as projects have finished and new contracts are yet to make a material impact on financial performance. A number of projects have also been deferred or cancelled.

Whilst revenue reduced in Australia by 18.0%, early action to reduce costs has substantially reduced the negative impact on earnings.

During the period, Downer Infrastructure has achieved a higher win rate on a reduced number of market opportunities.

In November 2013, the DownerMouchel joint venture was awarded a seven year $100 million per annum Stewardship Maintenance Contract for the Sydney West Zone road network. The contract will further strengthen Downer's road infrastructure business.

In December 2013, Downer Infrastructure's West business was awarded all of the electrical and instrumentation work at Chevron's Wheatstone Project in Western Australia valued at over $400 million.

Downer Mining

Following significant growth over the past three years, the market downturn in 2013/14 has provided an opportunity for Downer Mining to focus on productivity improvements and cost efficiencies.

Downer Mining's total revenue declined 23.2% when compared with the previous corresponding period, reflecting contracts coming to an end and lower activity across a number of its major contracts as customers sought volume and margin reductions to optimise their operations and cost of production. The reduction in revenue was partially offset by a mix of cost reduction and productivity improvement, reduced utilisation of hired equipment and subcontractors, and a change in equipment funding from operating to finance leases for a small portion of the fleet.

Over the period, the Mining business has been working hard to meet the needs of its customers and was very pleased to be awarded a 4.5 year mining services contract with Roy Hill Iron Ore Pty Ltd, the only significant new mine contract announced during the period. Downer Mining is currently bidding, or has tendered on, a range of other opportunities.

Downer Rail

Downer Rail's financial performance during the period reflects reduced capital expenditure and maintenance activity across the Australian rail sector as well as restructuring costs of

$10.5 million that have been incurred as the business transforms its operations to reflect current demand levels and the move from manufacturing to asset management.

Rail revenue reduced by 19.3% with about 70% of this reduction due to the Waratah Rolling Stock Manufacturing contract nearing completion.

The Rail business has reduced its head count, predominantly overhead positions, by over 300 full time equivalents during the period. This will provide positive earnings momentum for the second half of the 2014 financial year.

Mr Fenn said he remained very positive about the prospects for the Rail business despite its current financial performance. "We have the right team to really get this business working efficiently and cost effectively for our customers," he said. "There is a large market out there to be opened up and we are investing to get our services and capabilities right."

Corporate Costs and Capital Management

Corporate costs reduced by $42.4 million or 65.8% to $22.1 million.

The reduction is due in part to a number of non-recurring costs incurred in the prior comparative half year including $11.5 million to settle the Singapore Tunnel dispute, $6.2 million impairment of the Spiire Australia business and $18.5 million settlement/provision against contractual claims. The further $6.3 million reduction reflects a 20% reduction in corporate headcount and related costs and lower IT transformation costs as the infrastructure transformation program nears completion.

Finance costs reduced by $8.9 million or 27.3% reflecting the lower interest rate environment, the refinancing of debt facilities at lower margins and the overall lower net debt position throughout the period as the business continues its strong focus on cash management.

The effective tax rate of 27.3% compares to 31.2% for the prior corresponding period reflecting a number of non-deductible expenses in the prior corresponding period .

Zero Harm

Downer's Lost Time Injury Frequency Rate of 0.76 remained below one incident per million hours worked for the year and Total Recordable Injury Frequency Rate reduced from 5.49 to 4.82 per million hours worked. Over the period the company intensified its focus on critical risks that have the potential to cause serious injuries.

Dividend

The Downer Board has declared a partially franked (70%) interim dividend of 11 cents per share, payable on 20 March, 2014 to shareholders on the register at 18 February, 2014. The company's Dividend Reinvestment Plan will operate for this dividend with no discount.

Outlook

As expected, the 2014 financial year has been characterised by a reduction in new major capital works in the resources sector, a greater emphasis by mining customers on optimising their volumes and cost of production and budgetary pressure on the level of Government expenditure on road and rail maintenance. As a result, 2014 has so far been a year of consolidation rather than growth and this is expected to continue through the full year.

That said, the performance of the Group in the first half of the year, including the focus on costs and efficiency, suggests that Downer is on track to meet its forecast NPAT of around $215 million for the 2014 financial year.

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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.