HD **Interim 2014 DOWNER EDI LTD Earnings Presentation - Final**

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Presentation

GRANT FENN, MANAGING DIRECTOR AND CEO, DOWNER EDI LIMITED : Well good morning ladies and gentlemen and thank you for joining us this morning for this presentation of the Downer EDI Limited results for the six months to 31 December 2013.

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The order of events will be that I'll take you through an overview of the results of the Group in the divisional levels and then Kevin Fletcher , our Group CFO will cover the financial aspects of the year's performance and current position in a lot more detail.

I'll then come back to give you our view on work-in-hand and the outlook for the full year and we'll follow that with questions at the end of the presentation. So let's move on now to the results overview.

Firstly, I'd just say that this last six months has been a pretty challenging period for each of our businesses. Revenue has been difficult to come by and prices have been very competitive. Now this wasn't a surprise to us; we essentially highlighted this scenario in our earnings guidance at the full year and in general I've been pleased with how each of our businesses and the Group has responded to the many challenges that the market's provided.

As a whole despite revenue being off by over 16% we've been able to improve our net profit after tax by a bit over 5% -- 5.4% -- and our operating cash flow at AUD280 **million** was up 54% with an EBITDA conversion of 99%.

Now in the circumstances I think these numbers are impressive and they've been delivered as we continue to invest in the business and in our people. Downer is continuing to build on its reputation for quality and service and this is coming through. One of the very pleasing and important elements of the past six months is the strength of the work-in-hand which has gone up from the 2013 full year to AUD19.6 **billion**. I'll have more to say on that in a moment.

Our win rates have improved, particularly on the jobs that are strategically important to us. I must give due credit to our management teams and our employees. Now these times are tough and it is hard for people to maintain their focus in this type of environment and I commend our people for their efforts.

Our balance sheet continues to improve with net debt now at just AUD170 **million** and gearing is at 8.2%. Even if we include off balance sheet debt our gearing is only 16.2%. We are in a good position to deal with any issues or opportunities which may come our way in the future.

I'**m** pleased to announce that the Board has decided to increase the interim dividend to AUD0.11 per share which will again be 70% franked and it's our current expectation that any final dividend recommended by the Board will be fully franked.

As you'd know health and safety at Downer is our most important priority and we take this aspect of our business extremely seriously. Our safety metrics have continued to improve, with a loss time injury frequency rate of 0.76 and that's down from 0.77 and a total recordable injury frequency rate of 4.82 and that's down from 5.49, so I'**m** very happy with those results.

Because there's been quite a move in Group revenue, we've included a bridging slide the presentation to take you from revenue in the first half of 2013 to the first half of 2014. As you can see from the slide and perhaps as we expected **mining** and infrastructure have been impacted greatly by material contracts that have finished and not been replaced. Rail too has been impacted by the lack of locomotive manufacturing and sales.

Mining and rail have also been substantially impacted by volume reductions on continuing projects. In Rail's case it's the Waratah and in mining it's the volume reductions as customers adjust their operations, but it's not all bad news. Each of the businesses has one new work in the period and as I said before, our work-in-hand is very strong.

Now we'll move onto each of our divisions, infrastructure first.

As you can see from the revenue reduction the infrastructure result has been impacted by the reduction in mining related capital works. Now this impact has been greater in the West and in the mining consultancies like Snowden, QCC and Mineral Technologies. The business did take early action on costs to offset the 18% reduction in Australian based revenue substantially reducing the negative impact on earnings and very pleasingly the New Zealand business continued to improve in both revenue and earnings and detailed splits are set out in the 4D.

During the period, Downer infrastructure has achieved a higher win rate on a reduced number of market opportunities. We are focused on winning a bigger share of available work. Our success in this area has been one of the most important aspects of the first half performance.

Just a couple of wins to note, in November 2013 DownerMouchel joint venture was awarded a seven year AUD100 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 AUD400 million.

Now onto mining.

After significant growth over the past three years the market downturn has provided an opportunity for Downer Mining to focus on productivity improvements and cost efficiencies. This has been very positive for the business, although revenue reduced by around 23% when compared with the previous corresponding period. This was largely offset by a mix of cost reduction and production productivity improvements along with improved capital efficiency on the use and funding of fleet.

The mining business has been very active in bidding new work and was very pleased to be awarded a four and a half year mining services contract with Roy Hill Iron Ore during the period, the only significant new mining contract announced.

The mining business continues to maintain strong relationships with its customers and continues to be proactive in working with them to reduce costs and improve productivity. I'm very positive about our mining business. Customers are increasingly looking for greater efficiency in production and the use of capital and this is what we bring.

Now moving onto rail.

The rail performance for the half was clearly well below expectations. The size of the reduction in market demand did surprise us somewhat and as a result the restructure of the business has been accelerated. Restructure costs of around AUD10.5 million are included in the result. The rail business has reduced its headcount by over 300 full-time equivalents during the period. This will allow position earnings momentum in the second half of the financial year.

Again I remain 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. There is a large market out there to be opened up and we're investing to get our services and capabilities right.

On the Waratah we've currently got 67 trains available for passenger service with the seventy-eighth (sic - sixty-eighth) train due to be delivered in May 2014 and the final train has departed China.

Seventeen trains have achieved final completion and 36 more have achieved the required reliability for final completion. The trains are performing well in service as you would attest if you're a Sydney rail commuter. AUD21 million remains as a general contingency on this project.

Now Kevin over to you for the detailed financials.

KEVIN FLETCHER , CFO, DOWNER EDI LIMITED : Thanks Grant and good morning ladies and gentlemen.

Moving straight into the results, the key movements in total revenue across Group half on corresponding half have already been covered and as Grant mentioned, these are largely in line with the key assumptions we outlined when we reported to the market last August. It is worth noting that the composition of total revenue has marginally changed with the adoption of AASB 11 joint arrangements, with our joint ventures with Mouchel in the road maintenance space and Clough on the Gladstone LNG project now proportionally consolidated as joint arrangements, meaning the revenue from those **operations** are now included in statutory revenue. Full details of the adoption of AASB 11 are included in note 17 to the consolidated financial statements.

Now whilst earnings before interest, tax, depreciation and amortisation decreased by 8.2% and earnings before interest and tax likewise decreased by 5.4%, these are both substantially lower than the decline in revenue of 16.7% with costs above the EBIT line decreasing by 17.1% on a like-for-like basis, reflecting the rigorous focus on cost reduction, productivity improvement and asset utilisation during the period across all of our businesses.

Included within the result, sadly for those affected, are AUD18.3 **million** of redundancy costs as the businesses have aligned the workforce to the current levels of activity and implemented various initiatives to improve productivity. The restructuring costs within rail of AUD10.5 **million** also reflect the reintegration of personnel working on the Waratah project back into the core business and costs associated with the decision to exit maintenance activities at our Bathurst facility.

Pleasingly we have also continued to improve performance below the line, with net interest expense reducing by 27.3% to just under AUD24 **million**, reflecting the systemic and ongoing focus on cash and working capital management and the impact of lower interest rates following the refinancing of a number of our facilities in the second half of the last financial year.

Our net interest expense forecast for the full year is now under AUD50 **million** which is a marked improvement on the prior year. Tax expense of AUD37 **million** reflects an effective tax rate of 27.3% which is below the Australian statutory rate of 30% and is due to franking credits recovered against joint venture distributions, research and development grants received and lower overseas tax rates principally in New Zealand.

Whilst not shown on the slide, basic earnings per share -- EPS -- was AUD0.218 per share up 3.8% while net tangible assets per share improved 13.2%. Return on funds employed declined marginally by 30 basis points to 16.6% reflecting the modest deterioration in earnings against a relatively stable net asset base with capital expenditure only marginally above depreciation.

The interim dividend of AUD0.11 per share is in line with last year's final dividend and represents a payout ratio of 48% and a net dividend yield of 4.5% based on the share price at 31 December of AUD4.86.

We have decided to continue the operation of the DRP with zero discount. The dilution is minimal at zero discount and it provides an opportunity for shareholders to increase their investment in [that] and with no transaction costs.

In terms of summary of earnings, I said to the market a few periods ago that over time I hoped to dispense with this slide but would continue to include it if it aided an understanding of the steady state or normalised performance of our businesses. So I have again included the slide today but pleasingly have much less to talk about.

I've already covered the redundancy costs of AUD18.3 **million** included in -- incurred in the half, the bulk of which is in rail and infrastructure. Whilst **mining** has seen a 23% reduction in revenue following the completion of the Wambo and Millenium contracts and volume reductions across other projects, the workforce adjustment for those changes was largely incurred in the second half of last year.

Government grant income relates to research and development expenditure with 10% of the 40% credit against tax payments received recognised above the line as other income in accordance with accounting standard AASB 120. While this will be a feature of our results going forward, we have called it out again this year given the AUD7.9 **million** in part included a true-up from prior year R&D claims.

Now Grant has already talked about the divisional performance and I have already mentioned how our focus on cash has helped improve the bottom line. However, another feature of our result has been a substantial reduction in unallocated or corporate costs in the period. If we strip away the abnormal costs from last year's first half being the Singapore Tunnel settlement, the Spiire Australia business impairment and gross settlements provisions against claims which included AUD3.7 **million** related to asbestos remediation at our Cardiff facility, true corporate costs totalled AUD28.3 million. This period's equivalent is AUD22.1 million or a 22% reduction.

Head office costs are down 19.5% in dollar terms, reflecting a 20% reduction in corporate office headcount and flow-on savings as we respond to both the tougher external environment but also as we remove duplication as the divisions have built stronger governance within their own operations. For example, the project management office within Downer infrastructure has dramatically enhanced project, contract and risk management across that business.

IT costs are down just under AUD2 million largely as we come to the end of our infrastructure transformation. We will continue to invest in IT and are now moving into phase two of our transformation which focuses on our application portfolio to ensure we have the optimal solutions to manage our own operations and those of our customers.

Full year unallocated costs are projected at around AUD60 million to AUD65 million, with the scoot of the second half driven by the inclusion of projected senior executive and Group office staff incentive bonuses forecast in June and bid costs on a number of proposals we hope to be tendering on, including the Sydney Light Rail project.

In terms of operating cash flow, once again I am particularly pleased to report a very strong operating cash flow result of up to AUD280 million in the period. This is a AUD99 million or 54.9% improvement half-on-corresponding-half and reflects not only the strength of our processes around cash and working capital management, but the continued progress with the Waratah train project as this nears completion and we have turned the corner on cash flow.

Adjusting for interest and tax paid and the AUD28 million proceeds received against the Waratah project, our cash conversion comes in at 98.8%. When you look through our results it is clear that our cash and working capital management processes are not just about optimising cash on reporting date, although like all companies, there is heightened activity within Downer to convert work in progress and collect claims and debtors in both December and June.

The reduced interest expense does not come about however by optimising cash one day each half year, but through ongoing and relentless focus and attention on cash throughout the period. Likewise, our processes are not about adversely impacting our customers or our suppliers, with our debtor days again improved from 30 June down 2.7 days to 21.5 days and creditor days while increasing by 4.4 days to 36.9 days, are well within our terms of trade and substantially below the 45.2 days reported this time last year. As I mentioned earlier, the Waratah project has now turned cash flow positive, with net inflows for this fiscal year projected to be around AUD50 million, with a further AUD150 million to be received in fiscal 2015 and the remaining AUD12 million in September 2018, or upon the earlier refinancing of Reliance Rail. Further details on the Waratah cash flow are shown on the bottom of slide 22.

Our projections in terms of Waratah cash flow are, of course, premised on the assumption that AUD80 million of the MDA interest is received in July 2014, i.e. next fiscal year, although the team is working very hard to pull this through to this year.

Turning to the overall cash flow statement, net investing cash flow was just under AUD164 million, a 26% reduction on the corresponding half. Capital expenditure totalled AUD171 million, of which AUD125 million was on mining equipment including major fleet component replacements of AUD46 million, AUD41 million on the purchase of equipment that was on operating lease as it matured, and a new R9800 excavator, which has been positioned at our Goonyella operation.

Net capital expenditure forecast for the year remains below AUD300 million and includes additional growth CapEx related to our successful tender at Roy Hill, which was not included in our guidance of AUD300 million last August.

Cash held at December 31 was just under AUD364 million, a reduction of AUD121 million since June 30, and largely reflects the repayment of the AUD150 million 2009 medium term note facility which matured in October, having effectively been refinanced in May last year.

Turning to the balance sheet, shareholders' equity increased by AUD70 million to AUD1.897 billion, reflecting the profit in the period of AUD99 million, plus equity-accounted gains on foreign exchange on cross-currency contracts, less the final 2013 dividend payment of AUD47 million after DRP participation. Our focus on cash has seen net debt reduced a further AUD73 million since June 30 to AUD170 million, with on balance sheet gearing now below 10% at 8.2% and gearing, including the present value of operating lease rentals on plants and equipment, at 16.2%.

Interest cover under our legacy covenant platform has improved to 3.21 times, which continues to build head room above that target. We are working hard, however, to migrate all of our facilities onto the new common terms deed we introduced with the refinancing of our Australian dollar-syndicated facility in April last year, under which we have a new interest cover covenant, which is simply EBIT over net interest. At December 30, this was exactly six times and well above our new threshold.

Adjusted net debt over adjusted EBITDA has likewise continued to improve, trending downward to 2.17 times, which is below our new Fitch target of less than 2.5 times following our re-rating to BBB stable outward look in June last year.

Available debt facilities have been allowed to reduce to AUD1.18 **billion** at December 31, largely reflecting the repayment of the 2009 medium term note in October as I mentioned earlier. Drawn debt was down to AUD533 **million** at December 31, giving us total liquidity of just over AUD1 **billion** and our bonding capacity remains healthy, with available facilities of over AUD400 **million**.

Average debt maturity has increased marginally to 2.7 years in the period, which follows not only the repayment of the 2009 medium term note but also the re-negotiation by our treasury team of our bilateral facilities in November and December, in which we achieved not only a reduction in rates of around 30 basis points but also an increase in average tenor from the traditional 12 months for bilateral facilities to just under 2 years.

Our next major maturities are two USPP facilities for a total of $70 **million** in September this year, which will leave us with $7 **million** outstanding, which matures in 2019.

On that note, I'll hand over to Grant. Thank you.

GRANT FENN: Thanks, Kev. Let's now look at the outlook, starting with work-in-hand. As I highlighted earlier, the very positive aspect of the Group's performance over the past 6 months is the level of work-in-hand, which has risen to AUD19.6 **billion**. The increase has been driven by the infrastructure business in both Australia and New Zealand. We've put a lot of effort into winning new business in each of the divisions, and it is paying off.

Infrastructure has increased by around AUD1.2 **billion**, while **mining** and rail have reduced by AUD400 **million** and AUD200 **million** respectively. The large increase in infrastructure is predominantly in Australia, although New Zealand has contributed around AUD400 **million** of the increase. Alliance and recurring work has increased, with a reduction in fixed price and schedule of rates contracts.

Mining's work-in-hand has reduced, due mainly to contract run-off and volume reductions, and that's been offset by the win on Roy Hill. Rail's work-in-hand is reduced as Waratah trains have been delivered during the period.

Now to the outlook. As expected, the 2014 financial year has been characterized by a reduction in new major capital works in the resources sector, a greater emphasis by **mining** customers on optimizing their volumes and cost of production, and budgetary pressure on the level of government expenditure on road and rail maintenance.

As a result, the year so far has been one 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 net profit after tax of around AUD215 **million** for the 2014 financial year.

So with that, that's the end of the formal part of the presentation and we'd like now to invite questions, please.

Questions and Answers

OPERATOR: Thank you. Your first question today comes from Ben Brownette with CBA. Please go ahead.

BEN BROWNETTE, ANALYST, CBA: Hi guys. Kevin, I was just wondering if you can give us a little bit more detail on some of the numbers. I'**m** just wondering what the rail work-in-hand might be without the Waratah maintenance contract. Is there anything left there for the other part of the rail business or is the revenue from there just going to be the ongoing spare parts and maintenance?

I was wondering if you could give us a bit of an idea what that was in the half to going forward. And with your leases that are rolling off, do they reflect some of the contracts that have ended? Then just one more general on strategy for Grant. Would you ever consider looking at a **company** that is having significant operational difficulties at the moment with respect to purchasing a business, or would that be less of a preference?

GRANT FENN: I'll just deal with the rail one, then I'll hand over to Kev for the leases and then I'll come back on the strategy. I don't have the list in front of me, but yes, there is a pipeline of work-in-hand for rail outside of the Waratah, I just don't have it with me at the moment. We don't go into too much detail, but perhaps Michael may be able to give you a little more detail later on. Kev, on leases?

KEVIN FLETCHER : Ben, the majority of the leases that have rolled off in the period actually are on our existing contracts, so these were put in place some years ago when the contracts were first put in place. Interest rate environment was high then. We've taken the opportunity, as these things have come off, to actually buy them outright at somewhat substantially lower rates.

It's a case-by-case basis. We've rolled over those where we feel there's a benefit or bought some where we think there's a benefit. Others we've just simply rolled over the operating lease.

BEN BROWNETTE: Okay, thank you.

GRANT FENN: Just on the strategy of perhaps buying poorly-performing businesses, you never say no on this, but in this type of business you've got to make sure that you're not picking up something with contracts that are very deep in the mire, that the existing **company** and you can't get a handle on. So it's fraught with difficulty, I think. You really need to get in and do a very, very extensive due diligence if you're going to do that.

BEN BROWNETTE: Okay, thank you very much.

OPERATOR: Thank you. The next question comes from Andrew Hodge with CIMB. Please go ahead.

ANDREW HODGE, ANALYST, CIMB: Good morning guys, just a couple of questions. The first is Kevin, just on the normalizing items, would you expect restructuring costs to moderate significantly in the second half?

KEVIN FLETCHER : Certainly I think in rail we've accelerated a lot of the restructuring in that business in the half. That's not to say that there's not more to do. We're continuing to look to improve the performance of the business. I don't think it's going to be of the same order as the first half and likewise in infrastructure it's really going to be a function of where revenue is. The bulk of our restructuring has been incurred in the first half.

ANDREW HODGE: Then just following in the same vein, are you able to quantify at this point if we take the fifth of business program as an overall five -year program, quantitatively where you think you're up to at this point of this half?

KEVIN FLETCHER : We're tracking well, to be honest. I don't have the detail with me, but as I said, we increased our target for the year to AUD125 **million** and we're certainly well on track with delivering those gross benefits.

ANDREW HODGE: Okay. Then just the last question for me. I just wanted to confirm that the guidance for this year, FY14, doesn't include any potential release of the AUD21 **million** general contingency out of the Waratah completion?

GRANT FENN: We haven't thought about that, Andrew.

ANDREW HODGE: So I guess that would mean that it's not -- the guidance is without having to release any of that provision?

GRANT FENN: We'd like that to be the case.

ANDREW HODGE: All right, thanks very much.

OPERATOR: Thank you. The next question comes from Craig Wong-Pan with Deutsche Bank . Please go ahead.

CRAIG WONG-PAN, ANALYST, DEUTSCHE BANK : First question just on the infrastructure business. Could you just give some more details around the weakness there? It seems like there was a large pull back, there was some deferrals and cancellations mentioned in your media release. Could you give some sort of colour around that?

KEVIN FLETCHER : Could you just say that again? I just missed the first part of the question.

CRAIG WONG-PAN: Just around the Infrastructure Australia business, I just want to know about some more details around the revenue weakness, where you're seeing the deferrals and cancellations.

GRANT FENN: They really occurred in the previous half that then impacted this half, jobs that were going to start that we'd almost won. I'm not going to go individually through those contracts, but there were a number of them. We've also had a number of very large jobs that finished at the end of the previous half, some hundreds of millions' worth as you can see in the slide, that we put in there on revenue. This is not new mate -- not news, anyway. I think all of the sector is feeling the impact.

CRAIG WONG-PAN: Okay. In terms of the cancellations and deferrals, can you characterize it? Is it more project work or is there some of the more recurring-type nature work?

GRANT FENN: No, project work.

CRAIG WONG-PAN: Okay. Next one, just on the mining business.

GRANT FENN: Sorry, I should also say that there's talk now of some of those kicking back off again, so the way I see 2014 is that this has really been, again, we call it a consolidation period. This is the period of subdued activity, and hopefully we'll see a number of those projects kick back off.

CRAIG WONG-PAN: Okay. So in terms of the revenue, you reported AUD1.8 billion for the Infrastructure Australia business. Is that the sort of revenue that we should be assuming going forward? Is that the new run rate?

GRANT FENN: We're yet to do our 2015 numbers and when we do those we'll talk about that at the full year. I would hope that we'd get back up there. We're working hard on winning new business, but that will come about and the time that it will take to get there, we'll work that through in our planning cycle, which we're not there yet. So really we can only talk about 2014 at this stage. The positive thing is that our work-in-hand is very strong and we're winning good business. I think our guys have done a great job in making sure that they keep that business rolling in.

CRAIG WONG-PAN: Okay. Next question, just on the mining business. You reported very good margins there of 8.8% in the half. It sounds like this has been driven by some operational improvements and cost out. Has this result changed your target? You typically targeted a 7% to 8% EBIT margin for that division.

GRANT FENN: I think in the longer term we should stay where we've talked about, between 7% and 8%. I think they've done particularly well in this half, and there's a lot of factors to that. As you say, cost improvement. There's also been some movement from operating leases to finance leases, which has helped as well.

CRAIG WONG-PAN: Okay, great. Thanks.

OPERATOR: Thank you. The next question comes from Brent Walsh with Merrill Lynch . Please go ahead.

BRENT WALSH, ANALYST, MERRILL LYNCH : Thanks, guys. I just wanted to follow up on that mining question. One of the key questions will be how sustainable is that margin performance in the near term? You mentioned that longer-term you expect it to maybe drift back to 7% to 8%, but I guess short term, how much of that is driven by contracts that have rolled off that were lower-margin, for example? Just looking out for the rest of this year, do you think that that sort of performance is still sustainable for the rest of the financial year anyway?

GRANT FENN: When we talk about 7% to 8%, we're talking in the longer term. I think the business is performing well and margins are better than we had expected, in fact. But again, driven by a number of factors, some of it being roll-off of contracts that weren't earning a lot of margin. There's been a lot of cost improvement. The guys have done very well working pro-actively with their customers and then there's been the movement of operating leases to finance leases, and all three things have driven that margin up and we're very happy about it, frankly.

In the longer term, this is a competitive business, so 7% to 8% is, I think, where we would see it in the longer term.

BRENT WALSH: Sure, and just one more quick one. On the New Zealand business, it looks like most of the revenue growth in the half was driven by currency. In New Zealand dollars it looks like revenue was pretty flat. Can we expect activity to start to pick up in New Zealand? Say you get some organic growth from Christchurch, et cetera? Is there any reason -- I guess I probably would have expected New Zealand might have been a little bit stronger, that's all.

GRANT FENN: We think New Zealand is going pretty well. The Telco business there has got increased revenue. I think the skirting in Christchurch is going well. On the transport side, on the road side, it's been a little more subdued than we'd like, but I think New Zealand is performing well and the benefit of Downer's diversity, I think, comes through in these results.

BRENT WALSH: All right, great. Thank you.

OPERATOR: Thank you. The next question comes from Guy Robinson with Citi. Please go ahead.

GUY ROBINSON, ANALYST, CITI: Morning Grant, morning Kevin. I guess a lot of my questions have been touched on already, but just if you look at Infrastructure Australia specifically, and I take the point you've not cut your numbers for 2015 yet. But when you look at the projects that you've won over the last 6 months and that growth in work-in-hand for Infrastructure Australia, do you see the ability to grow earnings for that business in 2015 on 2014, given the subdued result in the first half?

GRANT FENN: That's our aim, but we'll have to talk about that when we've done our work. We're still working through our forward order book and our CRM, so I'll just have to speak about that later on.

GUY ROBINSON: Okay. Could you just touch on LNG specifically East Coast? Do you see any opportunity for material involvement in the downstream electrical space over the next 12 months as those projects reach peak and move into commissioning? Then secondly, on that LNG, your chances on picking up one or two of those excess packages given your (inaudible)?

GRANT FENN: All I can say is we're working hard at it, all of it.

GUY ROBINSON: Okay. So that's a reasonable chance?

GRANT FENN: I don't know. I hope.

KEVIN FLETCHER : We've got our fingers crossed.

GRANT FENN: We're just working hard. We can't do any more.

GUY ROBINSON: All right. NBN, can you just give a sense of how your roll-out on those packages that you've won is tracking? Is it tracking to plan? Just taking the point that if you had any delays here that would really start to crunch the margins on those NBN contracts.

GRANT FENN: We're not unhappy with our NBN performance, but it doesn't mean that we're perfect at it. We've got some of the issues, not to the degree of others in the market, but we have had some of the issues around delays and issues with design, et cetera. We've had all of those issues impact us. We're getting better at it, we're getting better at design, we're getting better at roll-out, and we're in good discussions with NBN Co about all of that.

We think ultimately NBN will be a very, very good earner for the business and NBN, I think, are doing their best to try and get a roll-out program that's going to work for the contractors, so we're pretty hopeful on it. We think we'll make good money.

GUY ROBINSON: Great. That's all from me, thanks.

OPERATOR: Thank you. The next question comes from Anthony Passe-de Silva from JP Morgan . Please go ahead.

ANTHONY PASSE-DE SILVA, ANALYST, JP MORGAN : Good morning gentlemen. A couple of questions. Firstly that FY14 CapEx number, I didn't quite catch it earlier and I just was hoping to get a bit more colour on the breakdown of how much Roy Hill is and what other factors are going into that CapEx number, whether it's a new asphalt plant or where the combining CapEx is for non-Roy Hill projects? If I could get some colour there, please?

KEVIN FLETCHER : I'll have to come back to you. I've got a figure of AUD40 **million** in my head, but I could be wrong on that one. As I said, we're projecting now -- we projected at the full year an indicative outlook for capital of around about AUD300 **million**. The business has worked hard in terms of optimizing and how it uses capital, so we've found some savings in our forecast and that's been available to then fund Roy Hill, which I think is AUD40 **million** this year, but I will come back on that one.

In terms of asphalt plants, we invested in a number of new asphalt plants last year. There's a little bit of residual completion this year, but not the same order of spend that we saw in the last fiscal year. Notwithstanding, infrastructure and rail is still investing, replacing existing equipment and plant and upgrading facilities on a case-by-case basis, but there's nothing material in there.

ANTHONY PASSE-DE SILVA: Okay. Sorry, what was the total number again now for FY14, and then what do you think it looks like on --

KEVIN FLETCHER : Under AUD300 **million**.

ANTHONY PASSE-DE SILVA: Okay. In terms of an ongoing basis, you said that you've been able to find some savings across the business. Does that mean that your longer term projections around CapEx for what the business looks like today also come down?

KEVIN FLETCHER : Look, if you want to use an assumption I'd use AUD300 million but it will be a function of growth contracts and that sort of stuff. So we're still bidding and working on a lot of things in mining which wouldn't be reflected in that sort of baseline number. But we'll continue to give guidance as we come through on each half year.

ANTHONY PASSE-DE SILVA: And on the EBITDA cash conversions, another very strong result there. What are your expectations for the full year and has, given the changes and improvements you've seen through Fit 4 Business and other restructuring, have you made any changes to your longer term projections around what you think is a sustainable EBITDA operating cash flow conversion for the business?

KEVIN FLETCHER : I think I've been saying for about the last three periods it isn't going to be above 90% but it keeps coming in at that. Look, we're still forecasting pretty strong cash flow in the second half. The businesses have done all their forecasts based on the December half year and what they received. At the end of the day if our customers pay us then we'll have a good conversion. But again I don't think it's going to be in the high 90s forever. But suffice to say, look, we've done a lot of work over the last three years in focusing on cash and I've said before, it's a systemic process now and the business is focused right on cash, because cash is king. I made the point in my presentation that it's not about just optimising cash on one day, and our interest expense for the period reflects the fact that it is an ongoing process for us.

ANTHONY PASSE-DE SILVA: Okay. Excellent, thanks very much.

OPERATOR: Thank you. The next question comes from Andrew Johnston with CLSA. Please go ahead.

ANDREW JOHNSTON, ANALYST, CLSA: Good morning gentlemen. A couple of questions. First up, can we assume that the improvement in work-in-hand is going to be converted in a similar sort of improvement in revenue for a 2015 number? I mean, Grant, you did mention that you certainly hoped to win more work but is there something in that work-in-hand that makes that profile different to what revenue will look like?

GRANT FENN: Some part of the work-in-hand increases longer-dated contracts. Obviously we won the Western Sydney job with the DownerMouchel. But yes, conversion of work-in-hand directly into 2015 revenue, look, we haven't done the work. I guess it's something that we'll do over the course of the next month or two. But if work-in-hand continues to go up I guess that's a reasonable reflection of what revenue we'll do but we just haven't done the work yet.

ANDREW JOHNSTON: Okay. Look, just if you look out the next couple of years, Grant, can you just talk about how you see the balance for your business between the slowdown in the East Coast LNG work and I suppose ultimately the LNG work around the country? And then the pickup in domestic road and rail-related infrastructure work. How do you see that playing out in terms of how it affects your business?

GRANT FENN: Look, I think the benefits that Downer has is that it's a multi-faceted business and we don't rely on any one aspect of our business to drive our earnings. So what we find, and we're finding in this particular half the results out of New Zealand have been significantly better than what they've been previously and that has helped to offset some of the reduction in Australia in the infrastructure business. We've also had periods where mining has been doing extremely well when again the construction side of the business hasn't been doing so well. Look, our position is that because of our diversity, we're working hard on all of our pieces. Never have I seen it, so far anyway, where all of them are firing on all of the cylinders at the one time, all right. So as we see parts of our base drop off, because we will see that around cycles, particularly energy and mining, we'll see other parts pick up. So I'm not particularly concerned about it.

As you say, mining capital works have been off but energy has been picking up. We're now seeing much more investment out of the governments in road construction, et cetera. So look, I think it's swings and roundabouts and I think across the range of things that we do in Australia and in New Zealand and elsewhere, I think we've got very good coverage on where growth will be in the economy. So we're not particularly concerned about it. That doesn't mean that we don't look to cover large projects that drop off, and you've seen in this last half where we've had a couple of very large projects in infrastructure that have dropped and then we've had to replace it and some of that's not fully replaced yet. But I think because of the diversity Downer is in a very good spot to withstand any of those impacts.

ANDREW JOHNSTON: And finally, Grant, can we just step back and strategically thinking about what you do with the capital coming out of the business, and it is a nice -- it put in a nice position there (technical difficulties) having to think about this, but you could take this capital and reinvest it to grow the business or you could give it back to shareholders. So I'm not thinking this year or next year, but I'm thinking over a five year period. Where do you -- how do you think about the business and think about the capital and what you're going to do with that?

GRANT FENN: Yes. Look, it's pretty simple. If we've got the opportunity to earn good returns then we'll invest it. If we can't then we'll give it to our shareholders. It's pretty simple for us. I don't think -- or certainly, I'm not feeling a heap of pressure at this stage to be throwing a heap of money back at our shareholders. I think right now over the course of the next 12 months we'll see what happens, both on the investment side and other opportunities and that's the way we should be thinking.

ANDREW JOHNSTON: Yes. Okay. All right, look, I really appreciate the questions and well done, another great result.

GRANT FENN: Thank you. Thanks.

OPERATOR: Thank you. The next question comes from John Purtell with Macquarie Group . Please go ahead.

JOHN PURTELL, ANALYST, MACQUARIE GROUP: Good morning guys. Just a quick question on [DOW] Australia. Obviously you've won the work in the last sort of six months. We know that's going to be more influential for 2015 but are you expecting some positive impact for that in the second (inaudible) that we're in at present? And the second part to that is there's always an element of sort of win-and-do work required in the second half which are typically sort of seasonally stronger. Grant, is there more or less a usual amount of work that you're assuming that you win to meet your full year guidance? So just really sort of just trying to sort of test the assumption there around your second half guidance. Thanks.

GRANT FENN: No, I don't think so, John. I think we're -- as we would be in this place, the first half's about 46% as you know, the maths show, and I think the second half, we feel, I wouldn't say comfortable but we're in a position not unlike we have been in the last three, four years. The larger work that's come on board will really kick in late in the second half, mate, so they won't have an impact or any serious impact on 2014.

OPERATOR: Thank you. The next question comes from Emma Alcock with Credit Suisse . Please go ahead.

EMMA ALCOCK, ANALYST, CREDIT SUISSE : Thank you. Just two questions from me. Firstly, just on your outlook commentary, I notice that there's not really much reference in a way to kind of uncertainty around market conditions. That said, there is still comments around the reduced amount of capital work you're seeing. Just wanted to get your views on how you're seeing the market from that kind of -- whether you're still seeing the same level of uncertainty that you did six months ago.

GRANT FENN: Look, I think of late it's improved slightly. As I said, there's some work that we've been very positive on which stopped, you know, looks like it has resurfaced. So there is some positive signs out there but it is still hard to win the work. There's a lot of competition and bidding margins are lower, there's no doubt about that. But you know, this is what we do. We -- this is what we do for a living and we're out there working very hard at it. So there's not much point in my putting in our outlook statements around uncertainties. Of course they exist. Nothing more -- you shouldn't read anything more into outlook statement than that. We think at this stage that our 2015 -- 2014 guidance will be delivered. If something changes then you'll hear from us.

EMMA ALCOCK: Excellent, thanks. And just further than that, the bid pressure that you notice, are you seeing that more from the corporates as opposed to government or vice versa?

GRANT FENN: When we say bid pressure, I mean it's more competitively. There's a lot of guys out there with not a lot of work. We're one of the lucky ones that have been able to secure quite a bit of work and we have again a multi-faceted business which helps us. We're not stuck in just structural mechanical and we're not stuck in just civil, we have a whole host of different bits to us which leaves us in good stead here. It would be far more difficult for the guys that are not quite as diverse as this business, and what that drives of course is pretty fierce competition when you're bidding work.

EMMA ALCOCK: Okay then, excellent. Thank you.

OPERATOR: Thank you. The next question comes from Sam Theodore with UBS . Please go ahead.

SAM THEODORE, ANALYST, UBS : Hi. Just I guess a bit of housekeeping. In **mining**, given how strong the margins were I think one of the things you pointed to was moving operating leases to finance leases. In the accounts because there's a bit of movement it's hard to actually get a feel on how big that is. I'm just wondering if you can give us some colour about that.

KEVIN FLETCHER : We spent AUD41 million in capital in buying out operating leases. Look, as a rule of thumb we're paying somewhere between three and 3.5 times annual rentals, so you can do the maths there. It's probably -- the annual rental would have been around about AUD12 million to AUD15 million for those pieces of equipment, but I can come back with a specific detail on that.

SAM THEODORE: Okay, thank you. And just obviously the big E&I contracts at Wheatstone, I think Grant, you I guess spoke to this, but just checking. So some of this revenue falls through in the second half but we shouldn't expect too much?

GRANT FENN: No, no. It's sort of immaterial, for your purposes I think.

SAM THEODORE: Okay. No problems, thank you.

OPERATOR: Thank you. The next question is a follow-up from Craig Wong-Pan from Deutsche Bank . Please go ahead.

CRAIG WONG-PAN: Hi, just a couple of questions. Firstly, on the Waratah projected cash inflows, I know that they have come down from the slide that you put out in June. Is that due to using some of the general contingency?

KEVIN FLETCHER : No, it's actually just trueing up the accounts, probably because I think the guys included in their cash flow projects some wind back of some of the working capital provisions within the actual balance sheet of the Waratah, so we just got the numbers right, so --

CRAIG WONG-PAN: Okay, and then just following on. The MD&A interest receivable that has come down, what's the reason for the slight reduction in cash inflows expected?

KEVIN FLETCHER : Look, partly because we've actually accelerated some of the milestones in terms of delivery. Obviously getting the trains out of China in January was a little ahead of where we thought and some of the sort of more granular milestones in terms of sort of parts and all that sort of stuff, so there's actually less money in the MD&A account and also the interest rates that we've received on those were lower than we projected.

CRAIG WONG-PAN: And then from memory you were sort of expecting that cash to come through in FY15 but I think you mentioned that you were looking or you were hoping to get some of that or have that come through before June.

KEVIN FLETCHER : Go on.

CRAIG WONG-PAN: Could you talk through sort of some of the -- I guess the factors which could lead to you getting out before June?

KEVIN FLETCHER : Look, we've just got to work hard. We're presenting the last train in May, hopeful to get PC obviously before the end of the year and then we've got to go through a process with effectively the parties in the PPP to get the MDA interests released. And nothing's ever been easy on this, so we'll work hard to get it in this year but I think we're just being conservative. We've projected it all along to be in June 2014 but we'll do everything we can to pull it through in this fiscal year. July 2014, yes.

CRAIG WONG-PAN: Okay, and then last question, just on rail and mining, you have mentioned that there is some opportunities out there, and I know you can't talk about specifics but could you maybe give a sense for what the size of those opportunities are, like in terms of total bid work or opportunities out there?

GRANT FENN: Oh, look I'd have to add them up. I don't have them here in my head. Obviously mining is a lot larger than rail given just the natural size of each of the projects there. There's many billions. On rail it's a small op. It still adds up to a lot of money. Perhaps Michael can give you some detail on that later.

CRAIG WONG-PAN: Okay, thanks.

OPERATOR: Thank you. The next question comes from Brent Walsh with Merrill Lynch . Please go ahead.

BRENT WALSH: Hi guys, just very quickly. Did I hear that you hope to be able to pay fully franked dividends at the full year?

KEVIN FLETCHER : Yes.

BRENT WALSH: Yes, okay.

KEVIN FLETCHER : We start paying tax March this year, I believe, based on the instalment regime. And so based on the franking credits that we received from the dividends from our joint venture arrangements plus the franking credits that will build up on the tax payments we make, we expect to be able to fully frank any dividend, or certainly a reasonable dividend that may be declared by the board with the full year results.

BRENT WALSH: Okay. Thank you.

OPERATOR: Thank you. The next question is a follow-up from Sam Theodore with UBS . Please go ahead.

SAM THEODORE: Sorry, I forgot to ask one. I was just looking at your D&A, so you've shown some improvements on D&A but PP&E was up, I'**m** sure -- I'**m** just wondering if you can explain to us how that's moving around.

KEVIN FLETCHER : I'll have to come back to you on that one. I mean we spent AUD160 **million** on capital and we've had depreciation of AUD137million in the period I believe, so.

SAM THEODORE: Okay. All right, thanks.

OPERATOR: Thank you. At this stage we're showing no further questions.

GRANT FENN: Okay, thank you very much for your time.

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