

Works Finance (NZ) Limited

Financial Report

FOR THE HALF YEAR ENDED

31 DECEMBER 2013

Works Finance (NZ) Limited

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For the half year ended 31 December 2013

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Works Finance (NZ) Limited

Statutory Information

For the half year ended 31 December 2013

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

Works Finance (NZ) Limited

Directors' Report

For the half year ended 31 December 2013

The Directors are pleased to present the Financial Report of Works Finance (NZ) Limited for the half year ended 31 December 2013 on pages 6 to 14.

Principal Activity

Works Finance (NZ) Limited ('the Company') is a wholly owned subsidiary of Downer EDI Limited and was formed for the purpose of issuing Redeemable Optionally Adjustable Distributing Securities ('ROADS'). The proceeds were invested in Redeemable Preference Shares ("RPS") in Downer New Zealand Limited.

In July 2009 the Company issued \$150,000,000 unsubordinated, unsecured debt securities ("Works Bonds") with the proceeds being advanced to Downer Group Finance (NZ) Limited on the same terms as the Works Bonds.

The proceeds from the ROADS and Works Bonds were advanced to other parts of the Downer Group to repay debt, reduce gearing levels and other general corporate purposes.

In April 2011 the Company redeemed its RPS investment in Downer New Zealand Limited. This was replaced by an advance of \$200,000,000 to Downer New Zealand Limited.

While Downer EDI Limited had a number of options available to it on the ROADS Step-up Date of 15 June 2012, it elected to leave the securities on issue and to step-up the margin in accordance with the terms of the "Prospectus and Investment Statement" dated 7 March 2007. The dividend rate was reset on 17 June 2013 to 6.82% per annum, with the next reset to be on 15 June 2014.

On 17 September 2012, the Company repaid the Works Bonds and the related intercompany advances were repaid.

Dividends

During the year the following dividends were paid:

Date	Paid to holders of ROADS
15 September 2013	2,455,200
15 December 2013	2,455,200
Total	<u>\$4,910,400</u>

Imputation credits were attached to the dividends.

No dividends have been paid to the holders of ordinary shares during the year.

Interests Register

There were no entries in the Interests Register.

Director Remuneration

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

Employee Remuneration

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

Donations

Works Finance (NZ) Limited made no donations during the half year (2012: nil).

Financial Statements

The Board of Directors have approved and authorised the financial statements on pages 6 to 14.

For and on behalf of the Board

C W Bruyn

Director

Dated: 27 February 2014

R W Jarrold

Director

REVIEW REPORT TO THE SHAREHOLDERS OF WORKS FINANCE (NZ) LIMITED

We have reviewed the condensed interim financial statements on pages 6 to 14. The condensed interim financial statements provide information about the past financial performance of Works Finance (NZ) Limited (the Company) and its financial position as at 31 December 2013. This information is stated in accordance with the accounting policies set out on page 10.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the condensed interim financial statements which present fairly the financial position of the Company as at 31 December 2013 and the results of operations and cash flows for the 6 months ended on that date.

Independent Accountant's Responsibilities

We are responsible for reviewing the condensed interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the condensed interim financial statements do not present fairly the matters to which they relate.

Basis of Opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the condensed interim financial statements of the Company for the 6 months ended 31 December 2013 in accordance with the Review Engagement Standards issued by the External Reporting Board.

Other than in our capacity as auditors under the Companies Act 1993 and the provision of taxation advice, we have no relationship with or interests in Works Finance (NZ) Limited.

Opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed interim financial statements on pages 6 to 14 do not present fairly the financial position of the Company as at 31 December 2013 and the results of its operations and cash flows for the 6 months ended on that date in accordance with *NZ IAS 34: Interim Financial Reporting* and *IAS 34: Interim Financial Reporting*.

Our review was completed on 27 February 2014 and our review opinion is expressed as at that date.



Chartered Accountants
27 February 2014
Auckland, New Zealand

This review report relates to the unaudited condensed interim financial statements of Works Finance (NZ) Limited for the 6 months ended 31 December 2013 included on Works Finance (NZ) Limited's website. The Board of Directors is responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the reviewed unaudited condensed interim financial statements and related review report dated 27 February 2013 to confirm the information included in the reviewed unaudited condensed interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Works Finance (NZ) Limited

Condensed Interim Statement of Comprehensive Income

For the half year ended 31 December 2013

		Six months ended 31-Dec-13 (unaudited) \$	Six months ended 31-Dec-12 (unaudited) \$
	Note		
Interest received	2	7,152,428	13,137,018
Total revenue from Continuing Operations		<u>7,152,428</u>	<u>13,137,018</u>
Operating expenses		42,894	120,355
Interest paid to Works Bond holders		-	3,015,630
Interest paid to Downer New Zealand Ltd		-	4,186
Total expenses		<u>42,894</u>	<u>3,140,171</u>
Profit before income tax expense		7,109,534	9,996,847
Income tax expense	3	1,995,066	2,799,117
Profit after tax and total comprehensive income attributable to members of the entity		<u><u>5,114,468</u></u>	<u><u>7,197,730</u></u>

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 - 14.

Works Finance (NZ) Limited

Condensed Interim Statement of Changes in Equity

For the half year ended 31 December 2013

	Share capital \$	ROADS \$	Retained earnings \$	Total \$
Balance at 1 July 2012 (audited)	100	200,000,000	482,426	200,482,526
Profit for the period	-	-	7,197,730	7,197,730
Total profit after tax and total comprehensive income for the period	-	-	7,197,730	7,197,730
Dividends paid to: ROADS	-	-	(4,752,000)	(4,752,000)
Total dividends paid	-	-	(4,752,000)	(4,752,000)
Balance at 31 December 2012 (unaudited)	100	200,000,000	2,928,156	202,928,256
Balance at 1 July 2013 (audited)	100	200,000,000	4,640,143	204,640,243
Profit for the period	-	-	5,114,468	5,114,468
Total profit after tax and total comprehensive income for the period	-	-	5,114,468	5,114,468
Dividends paid to: ROADS	-	-	(4,910,400)	(4,910,400)
Total dividends paid	-	-	(4,910,400)	(4,910,400)
Balance at 31 December 2013 (unaudited)	100	200,000,000	4,844,211	204,844,311

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 - 14.

Works Finance (NZ) Limited

Condensed Interim Statement of Financial Position

As at 31 December 2013

	Note	31-Dec 2013 (unaudited) \$	30-Jun 2013 (audited) \$
Current Assets			
Advances:			
Downer New Zealand Limited	10	5,708,858	6,392,380
Total Current Assets		<u>5,708,858</u>	<u>6,392,380</u>
Non Current Assets			
Advance:			
Downer New Zealand Limited	6	200,000,000	200,000,000
Total Non Current Assets		<u>200,000,000</u>	<u>200,000,000</u>
Total Assets		<u>205,708,858</u>	<u>206,392,380</u>
Current Liabilities			
Bank Overdraft		145,320	138,599
Trade and other payables		40,751	22,750
Income tax		678,476	1,590,788
Total Current Liabilities		<u>864,547</u>	<u>1,752,137</u>
Total Liabilities		<u>864,547</u>	<u>1,752,137</u>
Net Assets		<u>204,844,311</u>	<u>204,640,243</u>
Equity			
Ordinary shares	8	100	100
ROADS	9	200,000,000	200,000,000
Retained earnings		4,844,211	4,640,143
Total Deemed Equity		<u>204,844,311</u>	<u>204,640,243</u>

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 - 14.

Works Finance (NZ) Limited

Condensed Interim Statement of Cash Flows

For the half year ended 31 December 2013

	Note	Six months ended 31-Dec-13 (unaudited) \$	Six months ended 31-Dec-12 (unaudited) \$
Cash flows from operating activities			
Interest received		7,077,698	13,097,817
Interest paid to Works Bond holders		-	(3,015,630)
Income tax payments		(2,911,137)	(1,787,780)
Income tax transfer received		3,759	-
Payments to suppliers		(24,894)	(48,761)
Net cash generated by operating activities	4	<u>4,145,426</u>	<u>8,245,646</u>
Cash flows from investing activities			
Repayment of advance to Downer EDI Group Finance (NZ) Ltd		-	150,000,000
Advances to Downer Group Finance International Pty Ltd - NZ Branch		-	(1,988,000)
Advances to Downer New Zealand Ltd		758,253	(1,486,000)
Net cash generated by investing activities		<u>758,253</u>	<u>146,526,000</u>
Cash flows from financing activities			
Dividends paid on ROADS		(4,910,400)	(4,752,000)
Repayment of Works Bonds		-	(150,000,000)
Net cash used in financing activities		<u>(4,910,400)</u>	<u>(154,752,000)</u>
Net increase / (decrease) in cash and cash equivalents		(6,721)	19,646
Cash and cash equivalents at the beginning of the year		(138,599)	4,052
Cash and cash equivalents at the end of the period		<u>(145,320)</u>	<u>23,698</u>

These financial statements should be read in conjunction with the notes to the financial statements on pages 10 - 14.

Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2013

1 Summary of Accounting Policies

Statement of compliance

Works Finance (NZ) Limited (the Company) was incorporated on 16 February 2007.

The condensed interim financial statements comply with NZ IAS 34 Interim Financial Reporting. They also comply with IAS 34 Interim Financial Reporting.

Basis of preparation

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

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

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

		Six months ended 31-Dec-2013 (unaudited) \$	Six months ended 31-Dec-2012 (unaudited) \$
2 Interest Received	Note		
Interest received from Downer EDI Group Finance (NZ) Limited	5	-	3,015,625
Interest received from Downer New Zealand Limited	6	7,152,428	10,082,192
Interest received from Downer Group Finance International Pty Limited - NZ Branch	10	-	39,201
		<u>7,152,428</u>	<u>13,137,018</u>
3 Income Taxes			
(a) Reconciliation from pre-tax accounting profit to tax expense			
Profit before income tax expense		7,109,534	9,996,847
Income tax expense calculated at 28% of operating profit before tax		1,990,670	2,799,117
Tax effect of amounts which are not deductible		6,139	-
Tax under provided in prior periods		(1,743)	-
Total tax expense		<u>1,995,066</u>	<u>2,799,117</u>
(b) Imputation credit account balance			
Balance at end of the period		1,050,295	970,021
4 Net cash flow from operating activities			
Profit for the period		5,114,468	7,197,730
Movements in working capital			
Increase / (decrease) in income tax provision		(912,312)	1,011,337
Increase / (decrease) in trade and other payables		18,000	71,594
Deduct items reclassified as investing activities		(74,730)	(35,015)
Net cash generated by operating activities		<u>4,145,426</u>	<u>8,245,646</u>

5 Advance - Downer EDI Group Finance (NZ) Limited

The Company had advanced \$150,000,000 to Downer EDI Group Finance (NZ) Limited under a loan agreement dated 13 July 2009. The terms of the loan were the same as the Works Bonds, with the same interest rate and maturity date. This advance matured on the 15 September 2012 and was repaid on 17 September 2012. The proceeds from the repayment of this advance were then used to repay the Works Bonds (refer note 7).

Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2013

6 Advance - Downer New Zealand Limited

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

Downer EDI Limited and the Company have provided confirmation to Downer New Zealand Limited that neither they, nor their subsidiaries will take any action to demand or effect repayment of the loan during the period to 27 February 2015.

The interest rate is to be agreed in writing between the parties from time to time. The initial rate of interest was set at 10% per annum. In April 2013 it was agreed to reset this to the ROADS gross dividend rate plus a margin of 0.20%. The interest rate from 1 May 2013 to 15 June 2013 was 6.80% and from 15 June 2013 to the next reset date on 15 June 2014, it has been set at 7.02% per annum.

7 Works Bonds

The Company issued 150,000,000 (at nominal value of \$1) unsubordinated, unsecured debt securities on 14th July 2009 called "Works Bonds". The bonds matured on 15th September 2012 and were repaid on 17 September 2012, being the following working day. The interest rate on the bonds was 9.65% per annum, with interest payable on 15 December, 15 March, 15 June and 15 September each year.

The Works Bonds carried an investment grade credit rating from Fitch Ratings of BBB-, with a stable outlook. The rating was based on the Works Bonds being guaranteed by Downer EDI Limited and its subsidiaries representing at least 90% of the Consolidated Group EBIT and Consolidated Group Total Tangible Assets.

Works Bonds were debt securities and the bond holders had no right to receive notice of, attend or vote at meetings of shareholders. Works Bonds constituted unsecured and unsubordinated obligations of the Company, these ranked equally with each other and also ranked at least equally with all other unsecured and unsubordinated indebtedness of the Company, except indebtedness preferred by law.

Transaction costs in connection with the issue of Works Bonds were borne by other Downer EDI Limited Group companies.

8 Ordinary Share Capital

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

9 ROADS

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

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

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

For the period 15 June 2012 to 15 June 2013, the gross dividend rate was set at 6.60% per annum and for the period 15 June 2013 to 15 June 2014, the gross dividend rate has been set at 6.82% per annum.

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

Each ROADS confers on its holder:

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

Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2013

9 ROADS (continued)

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

The Company may elect to redeem or exchange:

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

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

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

Holders of ROADS cannot request redemption or exchange in any circumstances. Holders have no right to receive notice of, attend or vote at meetings of shareholders of the Company, other than in respect of a proposal to amend or vary the terms of the ROADS to the detriment of a holder, or that otherwise affects any right attached to ROADS to the detriment of a holder. The full terms of the ROADS are set out in Appendix 1 to the Constitution of the Company. Transaction costs in connection with the issue of the ROADS were borne by Downer EDI Limited. The dividends paid in this half year, gross of imputation credits, totalled \$6.82 million, being 3.410c per share (2012: 3.300c per share).

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

10 Related Parties

The Company is wholly owned by DGL Investments Limited. The ordinary shares were previously owned by Downer EDI Group Finance (NZ) Limited. Downer EDI Group Finance (NZ) Limited amalgamated with DGL Investments Limited on 15 April 2013. The ultimate parent company is Downer EDI Limited, a company listed on the Australian Stock Exchange and with a secondary listing on the NZX.

The Company has advanced a loan to Downer New Zealand Limited, a fellow Group subsidiary, and receives interest as described in Note 6 to these financial statements. Some transaction costs associated with the issue of ROADS are met by Downer EDI Limited. Under a Deed Poll entered into, Downer EDI Limited guarantees the payment by the Company of dividends on ROADS, and of amounts payable on redemption of ROADS, on an unsecured and subordinated basis.

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

The Company advanced money to Downer EDI Group Finance (NZ) Limited on the same terms as the Works Bonds. Both the advance to Downer EDI Group Finance (NZ) Limited, and the Works Bonds, were repaid on 17 September 2012.

	Note	31-Dec-2013 (unaudited) \$	30-Jun-13 (audited) \$
Advances to related parties			
Downer New Zealand Limited - Current balance		5,708,858	6,392,380
Downer New Zealand Limited - Non current balance	6	200,000,000	200,000,000

Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2013

		Six months ended 31-Dec-2013 (unaudited)	Six months ended 31-Dec-2012 (unaudited)
Note		\$	\$

10 Related Parties (continued)

The Downer Group Finance International Pty Limited - NZ Branch advance was unsecured and repayable on demand. Interest was accrued at 2.4% per annum (2012: 2.4% per annum). This advance was transferred to Downer New Zealand Limited in April 2013.

This advance to Downer New Zealand Limited is unsecured and repayable on demand. Interest is accrued at 2.4% per annum.

Transactions with related parties

Downer Group Finance International Pty Limited - NZ Branch

Interest received	2	-	39,201
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Downer EDI Group Finance (NZ) Limited

Interest received	2	-	3,015,625
Repayment of loan	5	-	150,000,000

Downer New Zealand Limited

Interest received	2	7,152,428	10,082,192
Interest paid		-	(4,187)
Subvention payment received		3,759	-

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

Key management personnel received no compensation from the company during the year (2012: nil)

11 Segmental Information

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

12 Contingent liabilities

The Company has no contingent liabilities (2012: nil).

13 Capital and lease commitments

The company has no capital or lease commitments as at 31 December 2013 (2012: nil).

14 Subsequent events

On 13 February 2014, the Directors approved the payment of a fully imputed dividend of \$3,410,000, comprising a cash dividend of \$2,455,200 (1.2276 cents per ROADS security) and imputation credits of \$954,800 (0.4774 cents per ROADS security) to be paid on 17 March 2014.

There are no other subsequent events.

15 Financial Instruments

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

Works Finance (NZ) Limited

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2013

15 Financial Instruments (continued)

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

The most significant concentration of credit risk of the Company as at 31 December 2013 comprises the advance to Downer New Zealand Limited of \$200,000,000. This is expected to have a similar credit risk profile as Downer EDI Limited. Downer EDI Limited has a long-term issuer default rating of BBB (outlook stable) issued by Fitch Ratings. Issuers rated BBB- or above (or the equivalent by other rating agencies) are described as "Investment Grade".

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

The Company is not directly exposed to foreign currency risk.

99.3% of ROADS holders are domiciled in New Zealand.