Downer Group 2012 Half Year Results

21 February 2012

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Financial overview

Revenue	• Total revenue[1] $3.9 billion, up 14.5%
Earnings and cash flow	• EBIT[2] $160.4 million, up 21.1% • NPAT $85.0 million, up 19.4% • Operating cash flow[3] $107.1 million
Work-in-hand	• Work-in-hand remains strong at over $20 billion
Capital management	• New debt/bonding facilities: $112 million • Refinancing of Waratah syndicated bonding facility: $260 million • Extension of existing bilateral multi-option facilities: $602 million • Total available liquidity: $820 million • Gearing[4] 26.9% (36.8% including operating leased plant and equipment) • No interim dividend declared
Outlook	• Underlying EBIT $340 million, up 16.4% • Underlying NPAT $180 million, up 8.2%

1 Total revenue including joint ventures

2 EBIT: Derived by adding back net interest expense & tax expense to NPAT

3 Net cash flows from operating activities after $83.4m cash outflows relating to Waratah project.

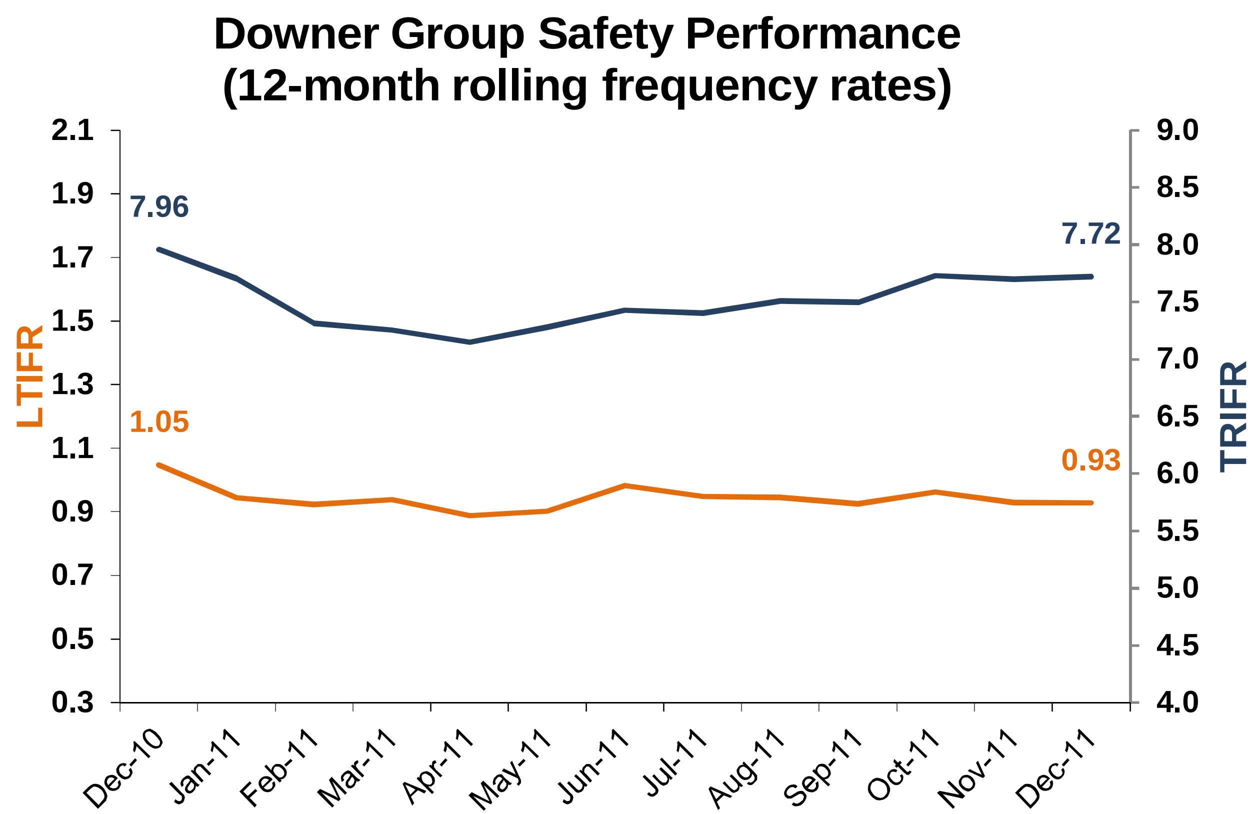
4 Net debt / net debt + equity

Downer

Making solid progress

Waratah	• Reliance Rail restructure announced 6 February 2012 • Practical Completion of Set 7 a significant milestone • Continuing improvement to processes in China and Australia
Customers	• Contract wins and renewals with major customers across all businesses
Portfolio	• New divisional structure, successful establishment of Downer Australia • Agreement to sell CPG Asia, scheduled for completion end of March
Performance	• Risk and project management processes continue to be strengthened • Fit 4 Business delivering benefits
Governance	• Appointment of three new Non-executive Directors

Zero Harm

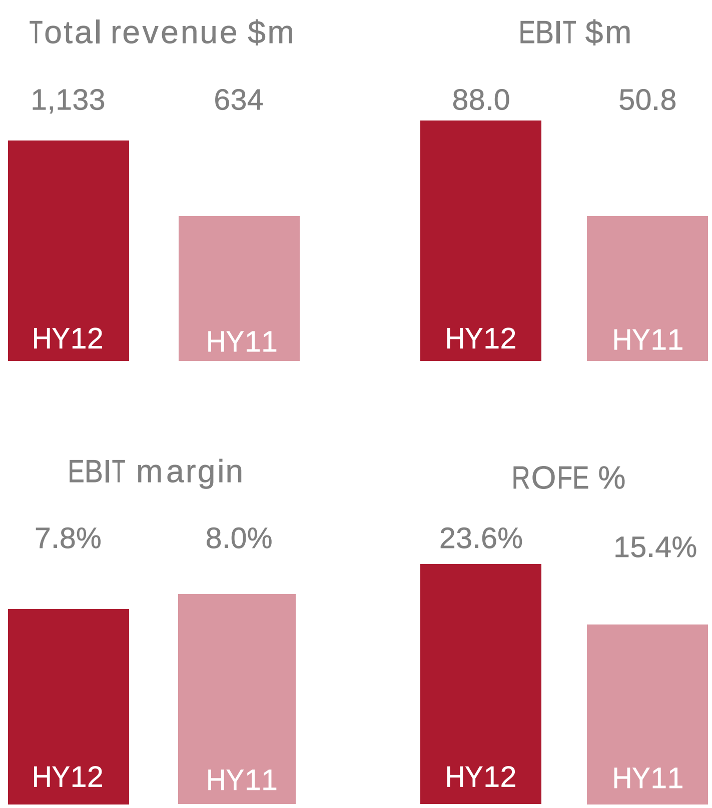


LTIFR: Lost Time Injury Frequency Rate

TRIFR: Total Recordable Injury Frequency

Downer Mining

Downer Mining

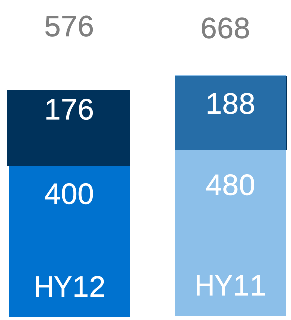


- Strong revenue growth, driven by ramp-up at Christmas Creek, Goonyella and Norwich Park
- Revenue up 79%, EBIT up 73%
- Commencement of Boggabri expansion
- Solid revenue and earnings growth for Downer Blasting Services and Otraco
- Focus on consolidating position and successful execution of contracted work
- Ongoing improvement in Zero Harm
- Six year magnetite mining contract with Karara Mining Limited (6 February 2012)
- Work-in-hand $7.0 billion

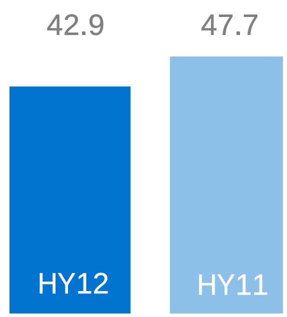
Downer Rail

Downer Rail

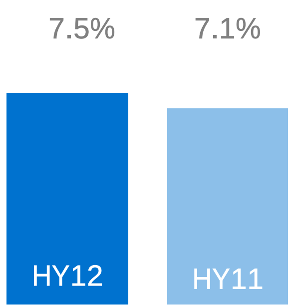
Total revenue $m[1]



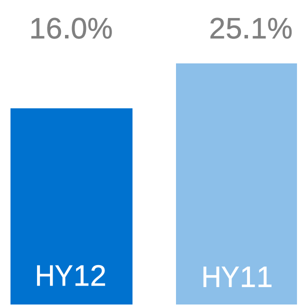
EBIT $m



EBIT margin



ROFE

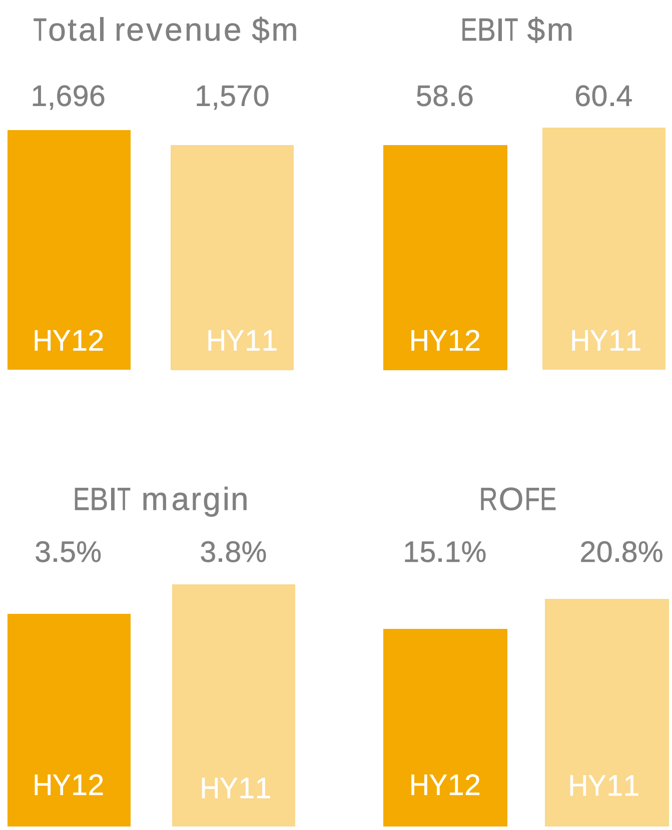


- Continuing to win the majority of new passenger and locomotive contracts in Australia
- Contract wins with Western Australia PTA (passenger) and TasRail (locomotives)
- Focus on efficiencies and cost reduction
- Project management strengthened
- Positive project close-outs continued
- Work-in-hand $4.9 billion

1 Total revenue shows the combination of revenue related to the underlying business ($400m) and the Waratah contracts ($176m)

Downer Australia

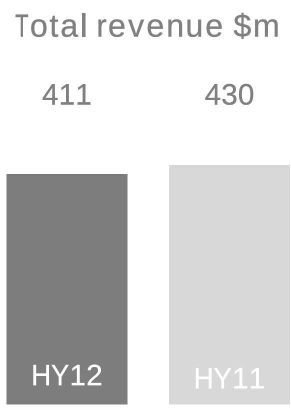
Downer Australia

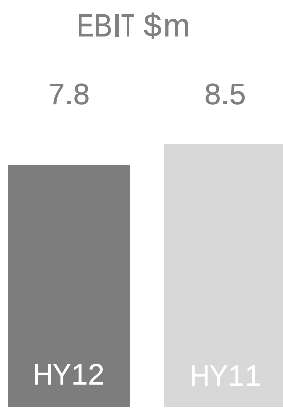


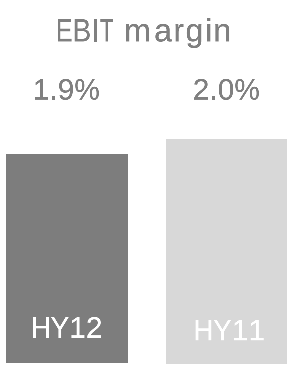
- Successful integration (of Engineering, Works, Emerging Sectors, CPG Resources) delivering a range of benefits
- Significant contract wins and renewals:
  - Ravensworth North CHPP (Xstrata)
  - Ammonium Nitrate/Nitric Acid Plant (CSBP/Wesfarmers)
  - 4 year renewal of Foxtel contract
  - Gladstone LNG project (Fluor/Santos)
  - E&I contracts in WA (BHP, Rio Tinto, FMG)
  - Numerous road and rail infrastructure projects across Australia
- Close to completing legacy contracts, including Curragh
- Significant pipeline of opportunities, improved results expected
- Work-in-hand $5.8 billion

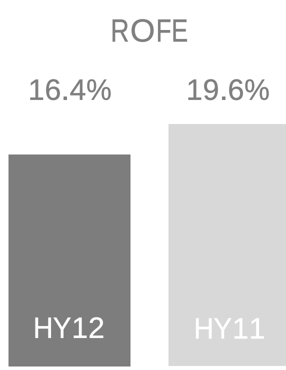
Downer New Zealand

Downer New Zealand









- Tough economic conditions compounded by ongoing seismic events in Christchurch
- Highly competitive markets, tight margins
- Significantly reduced Central and Local government expenditure
- Christchurch Infrastructure Rebuild Team Alliance now operational (Downer 20%)
- Ultra Fast Broadband work for Chorus
- Ongoing business restructure
- Work-in-hand $2.6 billion

Risk Management

- Ongoing strengthening of risk management processes:
  - tender assessment
  - contract formation and execution
  - project reviews
  - capturing "lessons learned"
  - regular risk profiling

- Commenced roll out of standardised project management methodology
  - contract administration
  - project review requirements
  - improved clarity and consistency
  - standardised templates and tools

Group Financials

Underlying financial performance

$m	HY12	HY11[1]	Change (%)
Total revenue	3,926.1	3,429.1	14.5
EBITDA	280.1	228.7	22.5
EBIT	160.4	132.4	21.1
Net interest expense	(38.9)	(34.9)	(11.5)
Tax expense	(36.4)	(26.3)	(38.3)
Net profit after tax	85.0	71.2	19.4
Effective tax rate	30.0%	27.0%	
ROFE[2]	17.0%	17.2%	

1 HY11 numbers are 'underlying' – i.e. excluding individually significant items
2 ROFE = EBIT divided by average funds employed (AFE) (AFE = Average Opening and Closing Net Debt + Equity)
All financials contained in this presentation reflect the numbers in the Appendix 4D and therefore there may be minor rounding differences within these slides

Summary of earnings

$m	Total	Downer Australia	Consulting	Mining	Rail	Downer NZ	Corporate
Underlying EBIT	160.4	58.6	(6.0)	88.0	42.9	7.8	(30.9)
Add back unfavourable items:							
• Onerous legacy contracts (including Curragh CHPP)	42.8	42.8					
• Retention bonuses related to CPG Asia sale	6.5		6.5				
• Settlement of contract dispute in CPG Asia	4.0		4.0				
Less favourable items:							
• Profit adjustments on extended/expanded contracts	(11.0)			(11.0)			
• Positive project close-outs	(18.0)	(12.3)			(5.7)		
• Equity accounted profit	(15.0)	(1.3)		(9.8)	(3.9)		
• Provision releases	(10.4)	(6.4)					(4.0)
Adjusted underlying EBIT (approx)	159.3	81.4	4.5	67.2	33.3	7.8	(34.9)

Operating cash flow

$m	HY12	HY11[1]
EBITDA	280.1	228.7
Net interest paid[2]	(35.4)	(31.8)
Tax paid	(9.9)	(7.4)
Movement in working capital[3]	(109.8)	(73.3)
Other	(17.9)	7.4
Operating cash flow	107.1	123.6
Add: Waratah train project net cash outflow	83.4	62.3
Underlying operating cash flow	190.5	185.9
Underlying EBIT conversion	119%	140%

1 'Underlying' excludes individually significant items

2 Interest received minus interest and other costs of finance paid.

3 Movement in trade and other receivables, inventory and trade and other payables.

Downner

Cash flow

$m	HY12	HY11
Total operating	107.1	123.6
Total investing	(148.9)	(137.8)
Total financing	(18.0)	(35.9)
Net decrease in cash held	(59.8)	(50.1)
Cash at 31 December 2011[1]	222.1	322.5

1 Cash excludes bank overdrafts of $0.7 million (HY11: $4.7 million) which are included in borrowings and includes CPG Asia cash balance ($10.9 million)

Balance sheet and capital management

$m	Dec 11	Jun 11
Total assets	3,886.8	3,710.7
Total shareholders' equity	1,513.1	1,442.4
Net debt[1]	557.6	492.5
Gearing: net debt to net debt plus equity	26.9%	25.5%
Gearing (including off balance sheet debt)[2]	36.8%	33.7%
Adjusted net debt / adjusted EBITDAR[3]	2.96	2.71
Interest cover[4]	2.85	3.00

1 Adjusted for the mark-to-market of interest rate and cross currency swaps and deferred finance charges
2 Includes the present value of plant and equipment operating leases discounted at 10% pa: $322.7m (June 2011: $241.3m)
3 Adjusted Net Debt includes Net Debt plus 6x operating lease payments in the year. Adjusted EBITDAR equals underlying earnings before interest, tax, depreciation, amortisation and equipment and properties operating lease rental expense
4 Interest cover equals rolling 12-month EBIT adjusted for Significant Items + 1/3 of FY11 plant and equipment operating lease rentals divided by Net interest expense + 1/3 of plant and equipment operating lease rentals

Downer

Capital expenditure outlook

$m	FY12
Mining	
Committed capital expenditure:	
• Boggabri	62
• Christmas Creek	73
• Karara	41
Maintenance and other growth	134
Sub-total (Mining)	310
Other Divisions	
• Maintenance and other growth	90
Total	400

Debt and bonding facilities

Debt facilities	$m
Total facilities	1,378
Drawn[1]	780
Available facilities	598
Cash	222
Total liquidity	820

Bonding facilities	$m
Total facilities	1,141
Drawn	960
Available facilities	181

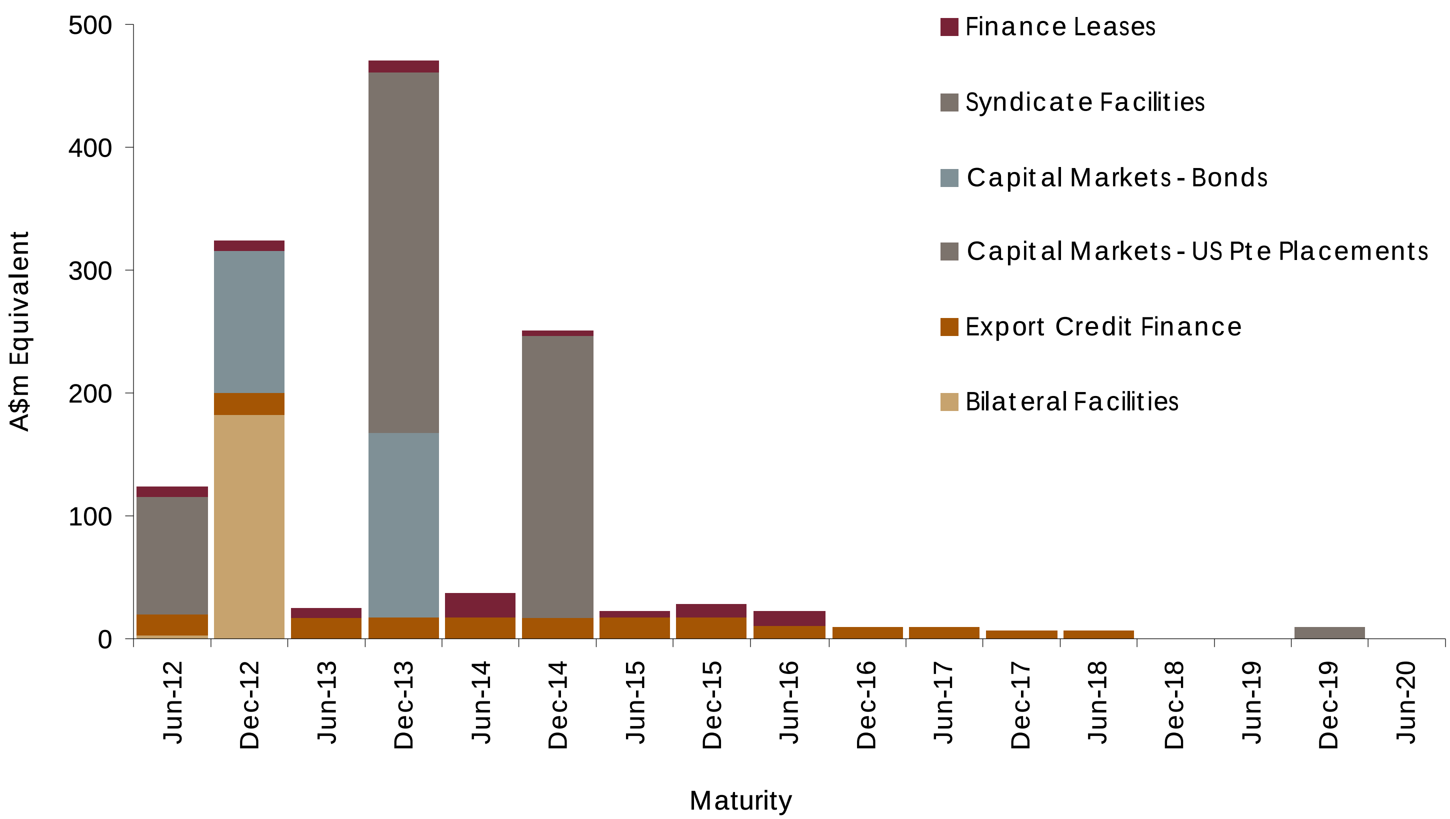
Debt facilities by type	%
Syndicated bank facilities	37
Bilateral bank facilities	17
Capital markets: bonds	19
Capital markets: USPP	8
Export credit finance	12
Finance leases	7
	100

Debt facilities by geography	%
Australia/NZ	66
North America	18
Asia	14
Europe	2
	100

1 Adjusted for the mark-to-market of interest rate and cross currency swaps and deferred finance charges

Debt maturity profile

Weighted average debt duration 2.1 years (June 2011: 2.4 years)



Downer

Debt strategy

- Singapore Syndicated Debt Facility to be repaid from proceeds of CPG Asia sale
- NZ Works Bonds to be repaid from combination of proceeds from CPG Asia sale and existing committed bank facilities
- Current intention to “step up” ROADS in June 2012 (i.e. existing instrument to remain in place at revised pricing)
- Currently assessing a range of financing markets including USPP and export credit finance

Agreement to sell CPG Asia

- Downer has signed an agreement to sell CPG Asia for A$147 million. Completion expected around end first quarter calendar 2012 and subject to satisfaction of conditions precedent e.g. Chinese regulatory approvals

- Gain on sale approximately $20 million. This offsets loss of CPG Asia's forecast FY12 earnings ($20 million) included in Downer's FY12 EBIT guidance

- Sale proceeds will be used to repay Singapore Syndicated Facility of SGD120 million due May 2012

Fit 4 Business program

Launched in 2010, business improvement program targeting $250 million in efficiency and cost savings over five years

FY11 $55 million in gross benefits achieved

FY12 over $80 million in gross benefits forecast, initiatives include:

Downer Mining

- Low Emission Sustainability Solutions
- Overhead Reduction
- Plant Management

Downer Rail

- Loco cost reduction
- Supply Chain transformation

Downer Australia

- Rosehill Short Term Interval Control Improvement
- WA Rationalisation of Plant & Equipment
- Fuel Consumption Reduction
- CPG Resources – Trend Control System

Downer New Zealand

- Restructure business to market conditions
- Renegotiate Downer New Zealand wide Telecom contract
- Shared Services Rationalisation

Downer Group

A range of Group procurement initiatives

IT Managed Services Agreement

Downer

Waratah train project

- No material change in FCAC over six months to 31 December 2011
- $70 million general contingency remaining

$m	June 11	Change	Dec 11
Materials & Sub-Contracted Components	1,034	13	1,047
Labour	300	3	303
Engineering Services	148	8	156
Transport, Logistics & Procurement	172	(8)	164
Project Management	126	10	136
Insurance, Bonding & Finance	92	(33)	59
Forecast Liquidated Damages	150	20	170
Manufacturing Delay Account interest receivable	(117)	13	(104)
Other Costs	87	(2)	85
General Contingency	90	(20)	70
Total FCAC	2,082	4	2,086
Total Revenue	1,652	4	1,656

Downner

Reliance Rail restructure

- NSW Government investment of $175 million in 2018 for 100 per cent of Reliance Rail equity
- Downer's contribution limited to a contingent commitment of $12.5 million in 2018
- Reliance Rail's remaining debt funding of $357 million is subject to Reliance Rail lodging draw down notices over the next 18 months and the banks providing funding in line with their commitment
- The first drawdown notice was lodged by Reliance Rail on 21 February
- As a result of the restructure of Reliance Rail, Downer will transfer the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings:
  - no impact on cash, equity, net assets or underlying earnings
  - negative impact on full year statutory earnings

Downer

Waratah Train Project

Ross Spicer

Milestones

- Practical Completion of Set 7 on 20 February 2012
- 12 Waratah trains available for passenger service by end of June 2012; 26 by end of December 2012
- Manufacturing program on track to deliver improved cadence, new processes being implemented and outputs increasing
- Set 78 remains scheduled for delivery in mid-2014
- Through-life-support contract has started; performance of trains in service to date has been very good

Changchun

- Bodyshell shop has produced an average of 16 cars per month since October 2011
- Additional equipment has been funded and is being installed in the bodyshell shop to increase outputs to 20 cars per month
- Fit-out shop has produced an average of 14 cars per month since December 2011
- 4 flow lines implemented in the fit-out shop from Train 15
- CRC is building two additional flow lines that will come online with additional staff in March 2012; this will increase output to 22 cars per month
- Suppliers: 3 trains worth of materials available at any given time
- New production processes and other Value Engineering (VE) changes implemented at Set 15 have successfully eliminated large amounts of re-work
- Target of zero re-work by Train 26 looks likely to be met by CRC
- Further VE improvements implemented from Train 43

Cardiff

- Original flow line concept was two lines and eight stations; Train 11 was the last through this process
- Completely new flow line process designed and implemented from Train 15; investment has taken place in additional staging and other tooling
- Four flow lines with four stations now operating at a 5-day TAKT (the time between "pulses" on the flow line)
- Development work in progress to allow a 4-day TAKT to be implemented from Train 19
- Development work will then start on reducing the TAKT further
- Trains 12, 13 and 14 will be reworked on a separate flow line later in 2012 for delivery to RailCorp in 2013
- Trains 1 and 2 (that had no interiors fitted and were used as test trains) will be returned to CRC for retrofit during 2012, again for delivery to RailCorp in 2013
- Practical Completion process with RailCorp now repeatable and well managed by both parties with good spirit of cooperation

Train Performance

- Key systems performing to a very high level
  - Traction, auxiliaries, electrical systems, climate control, brakes
  - New design electric trains usually have one key system performing poorly
  - Waratah has had no delays attributable to these key systems
- Most defects have been with secondary systems
  - CCTV, eTIS and other electronic systems
  - All have been rectified; very low level of repeat faults
- Delays due to non-technical issues were initially too high
  - Trains late off depot or failing preparation by train crew
  - Measures were implemented in November to improve
  - Non-technical delays reduced to almost zero during December
- UK independent consultants during their January 2012 review of the project:
  - "In the experience of the Review Team and from public information available for rolling stock commissioning projects around the world it is clear the Waratah trains are exceptionally reliable for a new train at this stage of its introduction into passenger service."

Downer

Train Performance during January 2012

- Distance travelled with six sets (five in passenger service daily)
  - Set average: 15,000 km
  - Fleet total: 92,000 km

- Availability of trains in service (number of Availability Periods)
  - 255/255 (100%)

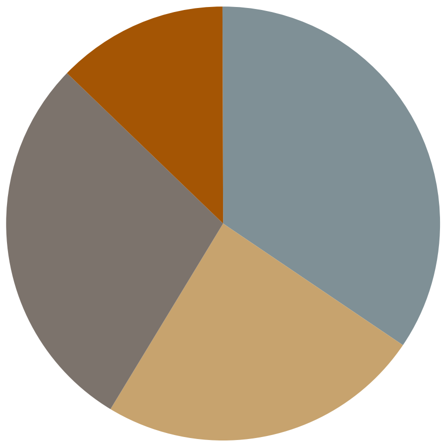
- Mean Distance Between Incidents (MDBI)
  - 13,150 km (worst case)

- Delay incidents
  - 5 delay incidents accepted by Downer (e.g. tripcock failure, radio antenna fault, radio talk back fault), two still under investigation

Outlook

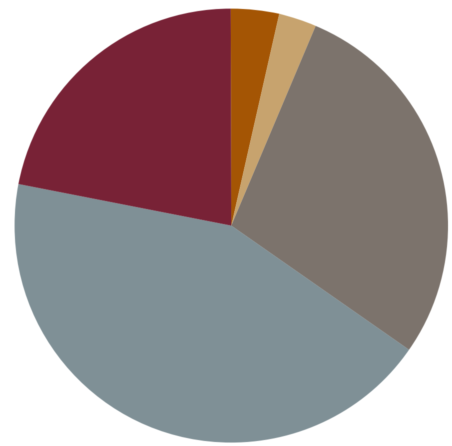
Work-in-hand: $20 billion

Work-in-hand by division[1]



	Mining	$7.0 billion	34%
	Rail	$4.9 billion	24%
	Downer Aus	$5.8 billion	29%
	Downer NZ	$2.6 billion	13%
	TOTAL	$20 billion	

Work-in-hand by type[1]

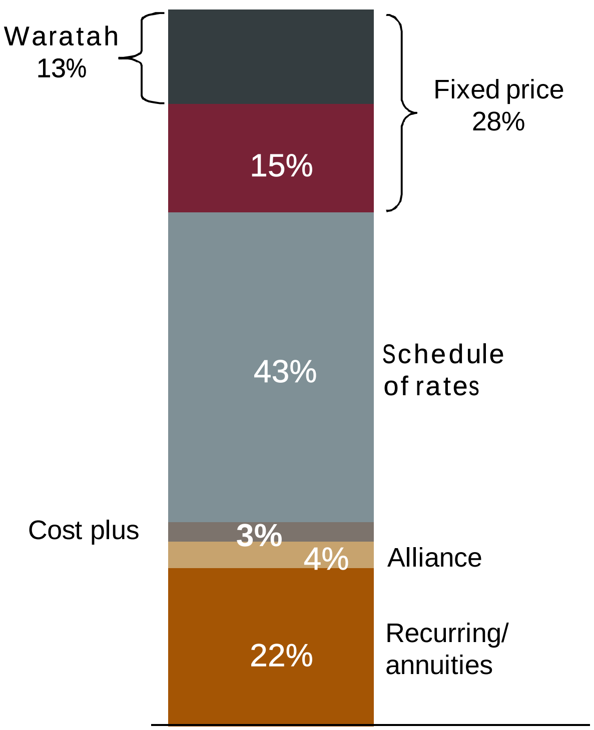


	Alliance	$0.7 billion	4%
	Cost plus	$0.6 billion	3%
	Fixed price	$5.7 billion	28%
	Schedule of rates	$8.8 billion	43%
	Recurring/annuities	$4.5 billion	22%
	TOTAL	$20 billion	

1 Work-in-hand value as at 31 December 2011 rounded to one decimal point. Percentage splits rounded to nearest whole percent

Work-in-hand

Work-in-hand by type[1]



Fixed price projects	Total value (approx)	% complete[2]	Profitable
Waratah – TLS	$1,970 million	<2%	ü
Waratah – RSM	$1,650 million	56%	x
KDR – Yarra Trams	$1,400 million	26%	ü
Locomotive orders (x7)	$630 million	74%	ü
PSMC – RTA North Sydney	$340 million	39%	ü
Millennium Train maintenance	$274 million	55%	ü
QR Tilt Train	$190 million	12%	ü
Curragh CHPP expansion	$180 million	96%	x
E&I contract - Pilbara	$142 million	3%	ü
Mornington Peninsula	$130 million	41%	ü
CSBP - AN Plant	$100 million	0%	-

1 Work-in-hand split by type rounded to nearest whole percent
2 Fixed price project completion rounded to nearest whole percent

Group outlook

- Downer’s operational outlook is strong and we confirm our previous full year guidance of underlying EBIT of around $340 million and NPAT around $180 million

- Full year statutory result will be affected by the transfer of the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings

Supplementary information

Downner Mining priorities and outlook

Divisional priorities

- Continued strong focus on Zero Harm
- Deliver current projects safely, on time, on budget
- Manage ramp-up of new projects and project expansions
- Recruitment and retention strategies
- Expand mining services
- Ongoing focus on risk management

Outlook

- Focus on successful execution of current contracts
- Ramp-up of Karara
- Risk management processes in place to reduce wet weather impact
- Continue growing the services businesses
- Work-in-hand of $7.0 billion
- Opportunity pipeline ~ $20 billion

Downer Rail priorities and outlook

Divisional priorities

- Continued focus on efficiency and cost reduction programs
- Delivering Tilt Train and locomotive orders
- Support passenger growth opportunities
- Expanding asset management capabilities

Outlook

- Locomotive demand returning to more sustainable levels
- Increasing competition; margin pressure
- Growth of maintenance business
- Work-in-hand of $4.9 billion
- Opportunity pipeline ~ $2 billion

Downer Australia priorities and outlook

Divisional priorities

- Continue to build strong Work-in-hand foundation
- Complete business integration and implement common operating principles and processes
- Enhanced Zero Harm strategy
- Retention and recruitment strategies
- Build capability – structural and mechanical

Outlook

- Strong market demand for core services
- Improved profitability as integration benefits realised
- Work-in-hand of $5.8 billion
- Opportunity pipeline ~ $9 billion

Downer New Zealand priorities and outlook

Divisional priorities

- Christchurch Infrastructure Rebuild
- Deliver Ultra Fast Broadband for Chorus for initial year and Rural Broadband Initiative work for Chorus/Vodafone
- Adapt to changing market conditions, including large scale projects
- Continued focus on structure, cost base and overheads

Outlook

- Economic outlook expected to remain flat
- Competitive marketplace with pressure on margins
- Business restructuring will continue
- Work-in-hand of $2.6 billion
- Opportunity pipeline ~ $1.8 billion

Waratah train project overview

Maintenance facility	• Design, build and commission Auburn Maintenance Centre • Total revenue $220 million (fixed price lump sum) • Practical completion achieved in June 2010
Train build	• Design, build and commission 78 eight-car sets (626 carriages) • Joint venture with Hitachi Australia • Total Downer revenue $1.65 billion (fixed price lump sum) • Original delivery period: 2010-2013
Through-life-support contract	• Provide TLS for all 78 eight-car sets • 72 sets in service • Total revenue $2.25 billion over 30 years • Deductions/bonuses based on performance

Reliance Rail

Reliance Rail (RR)	• Special purpose vehicle (SPV) established to fund Waratah train project • $1.9 billion bonds outstanding • $357 million committed bank debt to be drawn • Funding arrangements non-recourse to Downer
Bank funding	• $357 million bank debt to be drawn down between Feb 2012 and Aug 2013 • First draw down lodged 21 February 2012 • Banks can terminate undrawn commitments on insolvency of both monoline insurers
SPV structure	• Project funding established in 2006; substantial value remains within SPV • Low-cost funding in place to 2018 • Stakeholders have significant interest in maintaining the structure

Impact of termination of WTP

- Current view of Downer that Reliance Rail will continue as the operating entity of the WTP

$m	P&L impact	Cash impact
Write-off of WIP on Downer B/S 31 December 2011	362	-
Write-back of B/S provision at 31 December 2011	(212)	-
Estimated cash payments on cancelled orders	~230	~230
Mark-to-market losses on hedge instruments	56	56
Write back of B/S provision against mark-to-market losses on hedge instruments	(56)	-
Write off of Reliance Rail hedge reserve	73	-
TLS WIP, FMFS and Inventory	49	16
Sale of Waratah assets owned by Downer (subject to PPSA)	Reduce loss	Reduce loss
Approximate pre-tax net impact (pre mitigation)[1]	450-500	300-350

1 Assumes that all staff in Cardiff and China can be redeployed and that legal costs are expensed as incurred in the ordinary state of business

Risk management framework

Tender → **Execution & Monitoring** → **Post Completion**

Tender

- Approval to prepare bid
- Approval to submit bid
  - >A$250m – TCC and Board approval
  - <A$250m – TCC endorsement and CEO approval
  - <A$30m – Divisional CEO approval

Execution & Monitoring

- Approval of contract formation
- Mobilisation and commercial set-up
- Project valuations
- Project reviews
- Internal audit reviews

Post Completion

- Project reviews
- Key learnings
- Update risk processes