Downer Group 2010/11 Half Year Results

28 February 2011

Downer

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Agenda

- Overview
- Group financials
- Transformation
- Waratah update
- Outlook

Overview

Overview

Revenue

- Total Revenue[1] up 20.7% to $3.4 billion
- Strong growth in Mining, Rail and Engineering but softer Works Revenue in both Australia and NZ
- Pipeline of opportunities very strong across all businesses

Earnings and cash flow

- Underlying[2] results reflect previous guidance of a softer first half
- Underlying EBITDA[3] of $228.7 million (up 3%) and underlying EBIT[4] of $132.4 million (down 5.5%) impacted by weather, lower and deferred government expenditure, margin pressure and a small number of underperforming contracts within the Engineering business
- Underlying cash flow[5] very strong at $185.9 million (140.4% underlying EBIT)

Work-in-hand

- Work-in-hand remains very strong at $20.5 billion
- Mining $7.6 billion, Engineering $2.2 billion, Rail $5.4 billion, Works $5.3 billion

1 Total revenue including joint ventures

2 'Underlying' excludes individually significant item

3 EBITDA: Derived by adding back net interest expense, tax expense and depreciation & amortisation to Net Profit After Tax (NPAT)

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

5 Net cash flows from operating activities before $62.3m cash outflows relating to Waratah project.

Overview

Weather impact

- Wet weather conditions impacted operations throughout the first half
- Overall impact of wet weather was $23 million:
  - Works Australia and Downer New Zealand: $12.5 million
  - Mining and Engineering combined: $10.5 million

Transformation in progress

- Good progress being made across the range of focus areas
  - Risk management
  - Market and client focus
  - Capability
  - Cost efficiency
  - Returns on capital
  - Portfolio structure
  - Financial strength

Overview

Waratah

- Provision of $250 million on 27 January 2011, total project provision $440 million
- First set expected into service between May and July 2011
- Staged program to address manufacturing challenges in China and Cardiff
- Revised Downer production schedule reviewed by independent experts

Outlook

- Full year underlying EBIT of around $300 million and underlying NPAT of around $169 million
- Guidance is subject to risks including weather and market conditions

Capital

- Group capital structure needs to support
  - Maintaining investment grade credit rating metrics
  - Strong balance sheet
  - Group growth opportunities
- Launch of accelerated renounceable entitlement offer: 1 for 4 to raise $279 million

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Zero Harm

Zero Harm

- 2010 Sustainability report
- Investment in systems
- Focus on TRIFR

LTIFR/ TRIFR

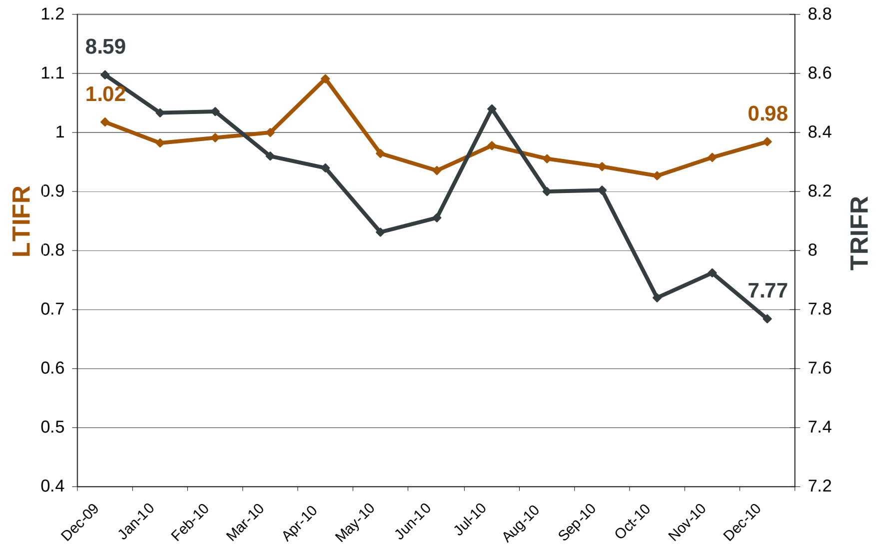
- Industry leading
- LTIFR 4% reduction
- TRIFR 10% reduction

People

- Leadership development
- Recruitment and retention programs
- Appointment of Group HR executive

Downer safety performance

(12-month rolling frequency rates)



LTIFR: Lost Time Injury Frequency Rate

TRIFR: Total Recordable Injury Frequency

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Group Financials

Underlying financial performance

$m	HY11	HY10	Change (%)
Total revenue	3,429.1	2,841.4	20.7
EBITDA[1]	228.7	222.0	3.0
EBIT[1]	132.4	140.2	(5.5)
Net interest expense	(34.9)	(26.7)	31.0
Tax expense[1]	(26.3)	(26.5)	0.7
Net profit after tax[1]	**71.2**	**87.0**	**(18.2)**
Effective tax rate[1]	27.0%	23.4%	-
ROFE[2]	17.2%	16.4%	-

1 'Underlying' excludes individually significant item
2 ROFE = underlying 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

Operating cash flow

$m	HY11	HY10
EBITDA	228.7	222.0
Net interest paid[1]	(31.8)	(24.1)
Tax paid	(7.4)	(15.9)
Movement in working capital[2]	(73.3)	36.9
Other	7.4	(53.7)
Operating cash flow	**123.6**	**165.2**
Add: Waratah train net cash outflow to suppliers	62.3	104.0
Underlying operating cash flow	**185.9**	**269.2**
Underlying EBIT conversion	**140%**	**192%**

1 Interest received minus interest and other costs of finance paid.
2 Movement in trade and other receivables, inventory and trade and other payables.

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Cashflow

$m	HY11	HY10
Total operating	123.6	165.2
Total investing	(137.8)	(153.0)
Total financing	(35.9)	14.5
Net increase in cash held	(50.1)	26.7
Cash at 31 December[1]	**322.5**	**326.4**

1 Cash excludes bank overdrafts of $4.7 million (2010: $8.7 million) which are included in borrowings

Balance sheet and capital management

$m	Dec 10	Jun 10
Total assets	3,413.4	3,456.0
Total shareholders' equity	1,095.5	1,242.9
Net debt	608.3	530.7
Net debt to net debt plus equity	35.7%	29.9%
Adjusted net debt / adjusted EBITDAR[1]	2.7x	2.6x
Interest cover[2]	3.5x	4.1x

1 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

2 Interest cover equals EBIT adjusted for significant items + 1/3 of FY10 (on a rolling 12 month basis) plant and equipment operating lease rentals divided by Net interest expense + 1/3 of 12 month rolling plant and equipment operating lease rentals

Debt and bonding facilities

Debt facilities	$m
Total facilities	1,447
Drawn[1]	931
Available facilities	**516**
Cash	323
Total liquidity	**838**

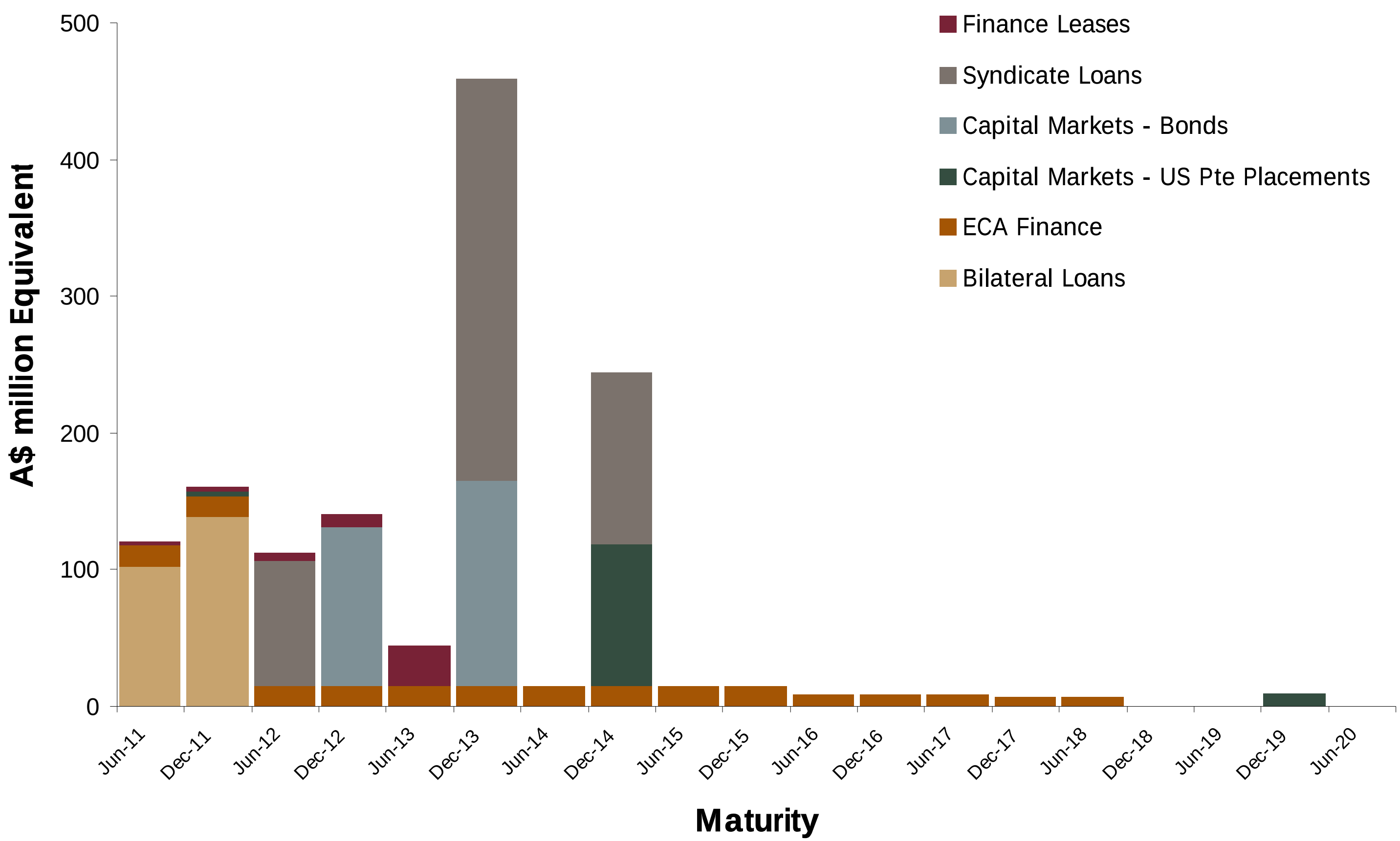
Bonding	$m
Total facilities	1,209
Drawn	767
Available facilities	**442**

Debt facilities by type	%
Syndicated bank loans	36
Bilateral bank loans	18
Capital markets: bonds	18
Capital markets: UPP	8
Export credit finance	13
Finance leases	7
	100

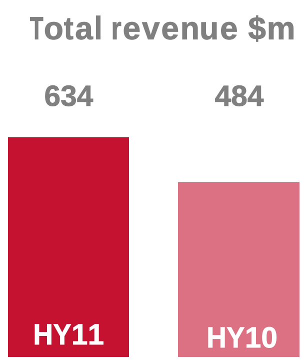
Debt facilities by geography	%
Australia/NZ	68
Asia	9
Europe	4
North America	19
	100

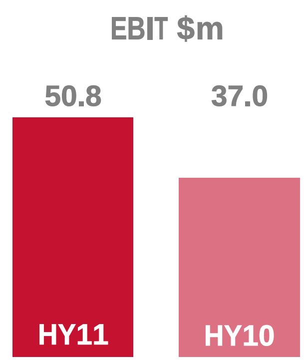
1 Includes mark-to-market revaluation adjustments for swap hedges plus deferred finance charges

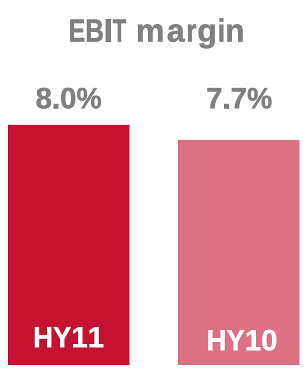
Debt maturity profile

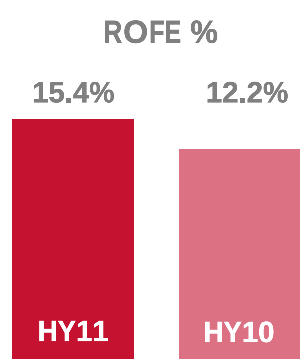


Mining



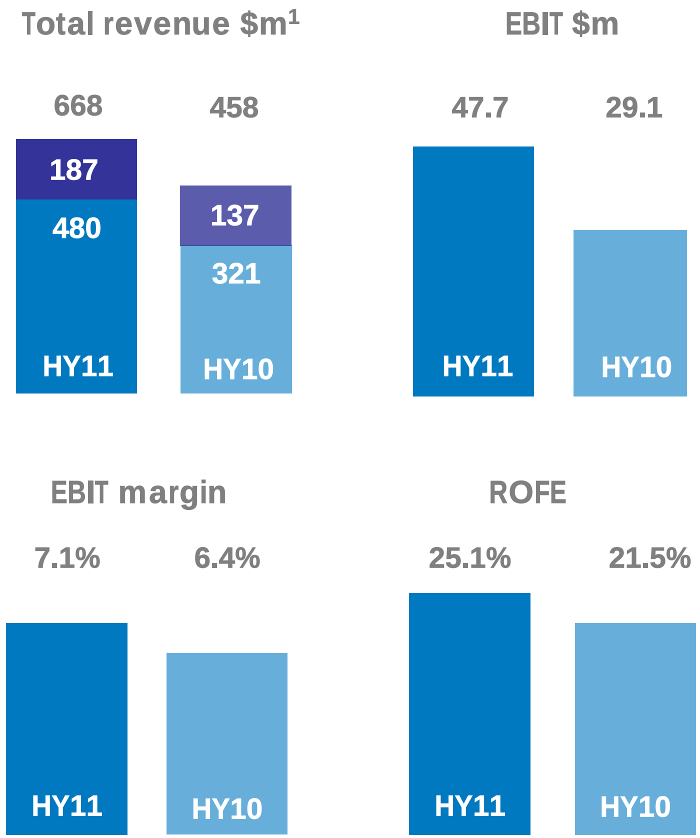






- Continued strong performance, driven by large contract wins with BMA and FMG
- Successful initial mobilisation at Christmas Creek, Goonyella and Norwich Park
- Wet weather has had an impact on eastern operations and risk remains for ongoing weather disruptions in 2H
- Improved returns from successful business model and a strong operational performance
- Growth focus on contract extensions and expansions

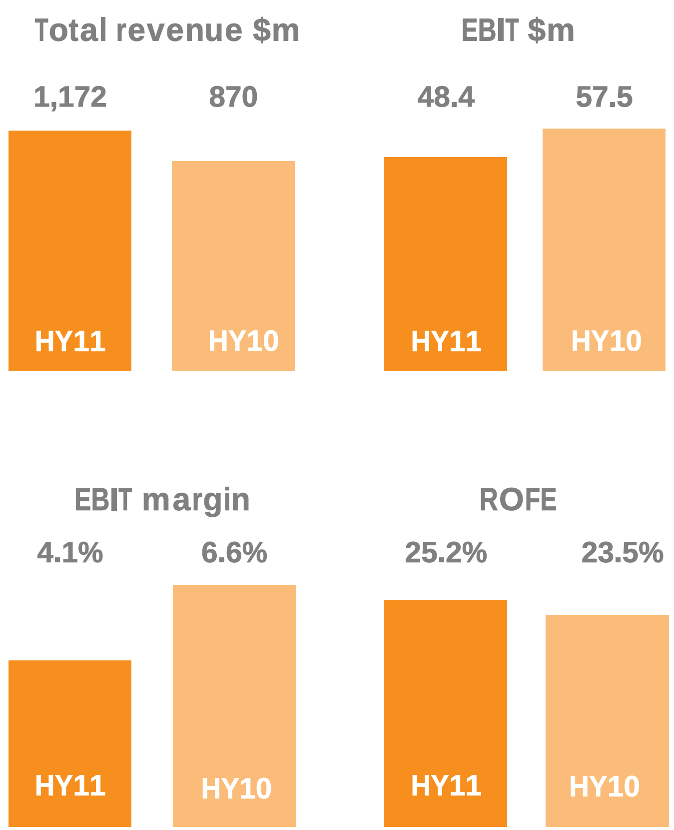
Rail



- Revenue and EBIT performance a result of strong growth in locomotive demand and successful completion of projects
- Close to full capacity in both passenger and freight locomotives during the period and into the second half
- Cardiff asbestos costs will be incurred in the second half

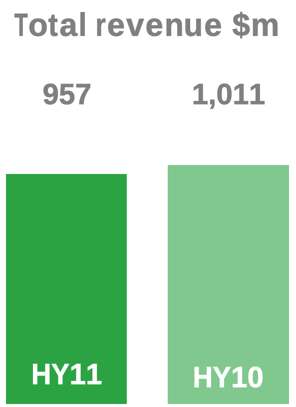
1 Total revenue shows the combination of revenue related to the underlying business (HY2011: $480m) and the Waratah contract (HY2011: $187m)

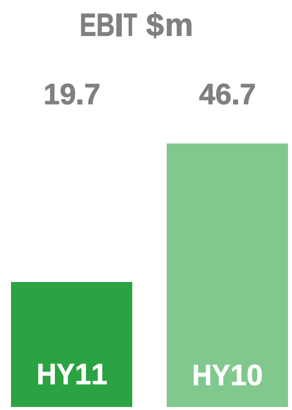
Engineering

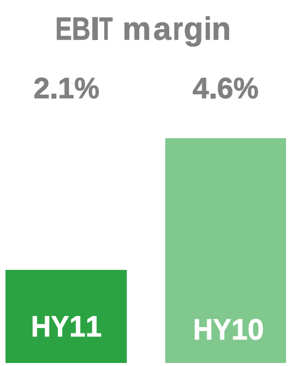


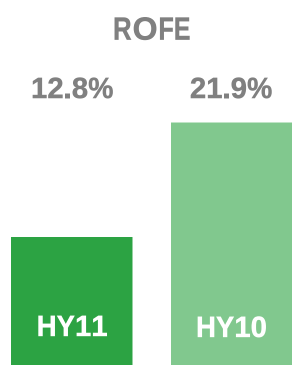
- Higher revenue from growth in WA activity as well as several projects hitting peak work load
- EBIT impacted by
  - Competitive market dynamics, tender costs and wet weather
  - Projects delays and maintaining operational capacity for pending demand
  - Certain underperforming contracts including Curragh
- Consulting operations in Australia and New Zealand continue to experience tough market conditions
- Well positioned for upcoming opportunities which will be aided by Downer Australia initiative

Works









Australia

- Extreme wet weather has significantly impacted operations and returns
- Local and regional government spend has softened; moving from maintenance to larger capital projects
- Market leading positions maintained

New Zealand

- Economic recovery has slowed; competition remains tight
- Downer New Zealand is continuing to restructure and drive efficiencies in response to these circumstances

‘Fit for business’ Overview

F4B FIT4BUSINESS

Target

- New five-year ‘Fit-for-Business’ program commenced August 2010
- Targeting $250 million in sustainable savings across Downer
- Build capability to sustainably, efficiently & profitably meet customer needs

Approach

- Transform Downer’s productivity and culture through significant and sustainable change to business models and processes
- Focus on all levers of margin improvement, including procurement

Programme Management

- Program led by Group CFO
- Central program office and procurement established, replicated in divisions
- Governance for ‘vital few’ and ‘useful many’ established
- Financial and milestone reporting in place

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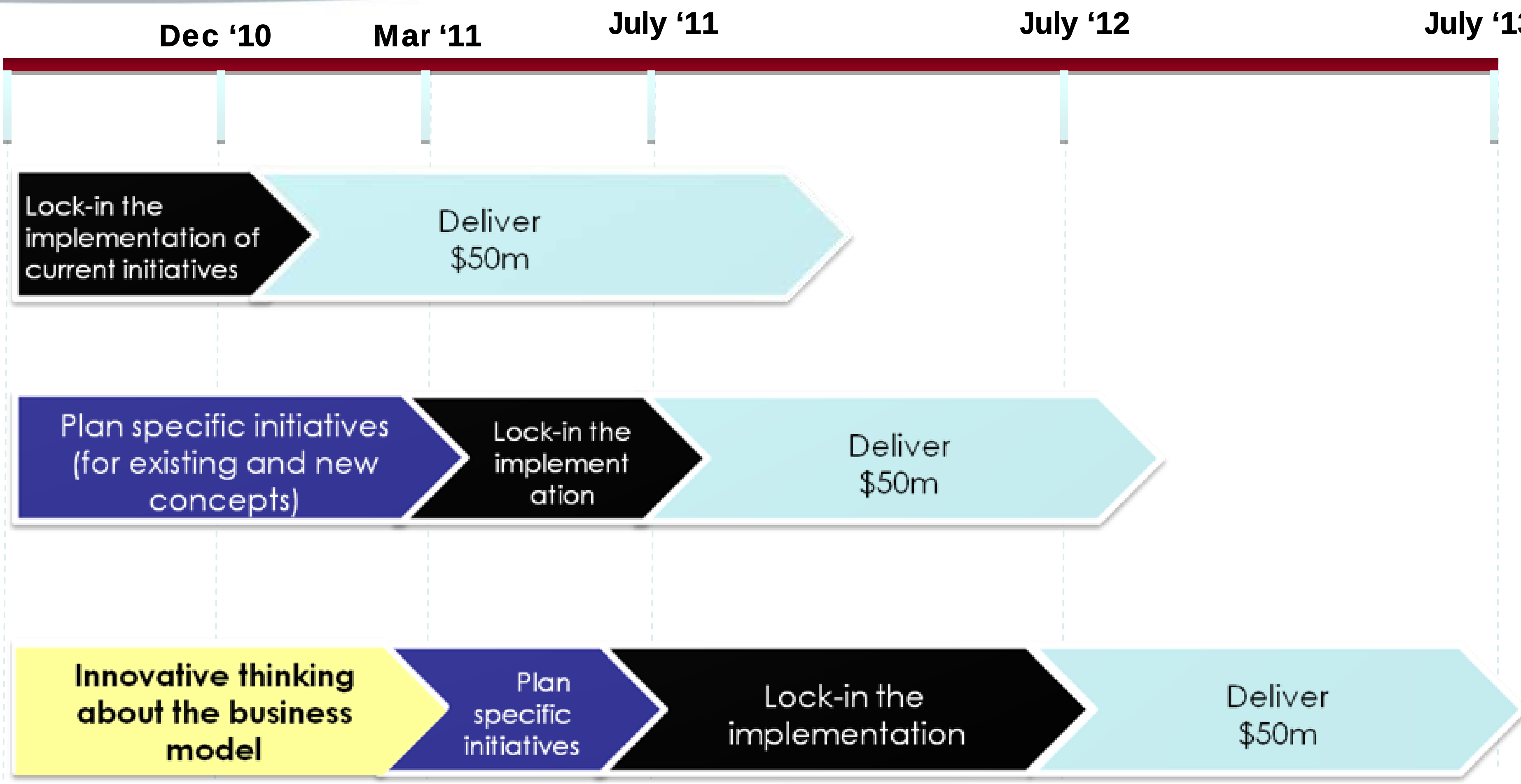
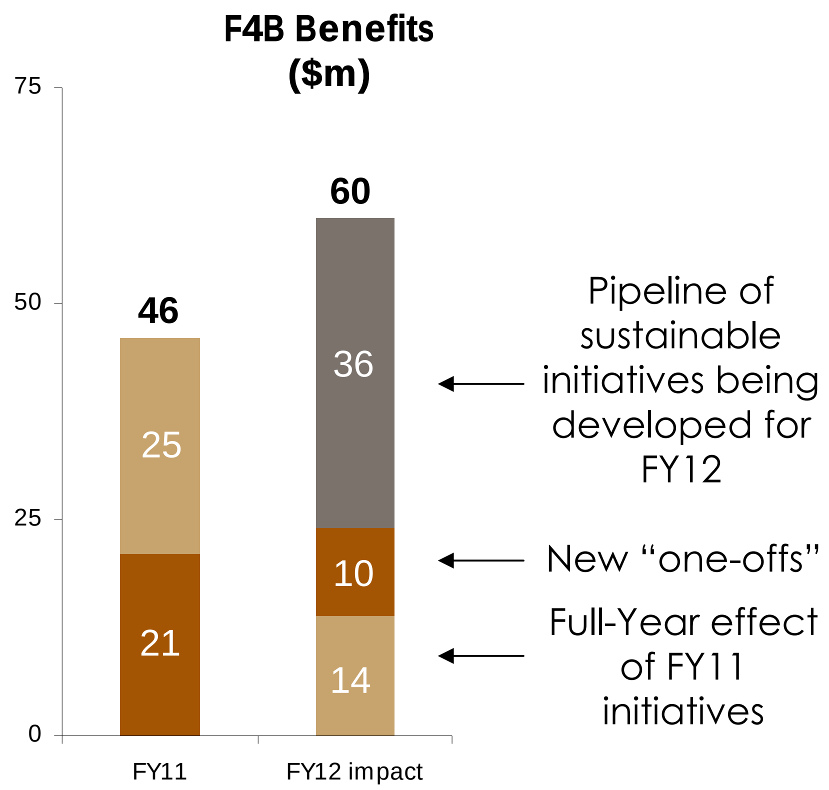
Schedule


Dec '10
Mar '11
July '11
July '12
July '13
Lock-in the implementation of current initiatives
Deliver $50m
Plan specific initiatives (for existing and new concepts)
Lock-in the implement ation
Deliver $50m
Innovative thinking about the business model
Plan specific initiatives
Lock-in the implementation
Deliver $50m

‘Fit for business’ program

- FY11 cost savings of $46m targeted
  - Includes a number of one-off initiatives
- Includes $25m of sustainable savings
  - Annualised benefit $39 million
- Areas of saving include:
  - Operational and organisational improvements
  - Strategic procurement and efficient purchasing
  - Transformation of IT infrastructure and rationalisation of IT equipment
  - Site consolidation



Transformation

Transformation program

Risk Management	• Standardising approach across Group • Focus on bidding, contract limits, execution and review • Strategic risk management and contract formation
Markets & clients	• Emphasis on Business development • Downer Australia to drive opportunities • Leverage Downer's unmatched scope and capability • Increased resources and focus on Western Australia
People & Capability	• Project management • Talent identification and succession • Human resources, training and development
Cost Efficiency	• Margin improvement • Fit-for-business program • Shared services
Return on capital /metrics	• Focus the business on capital efficiency and returns
Portfolio	• Ongoing assessment • Exit underperforming non core assets
Financial strength	• Balance sheet to support growth

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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

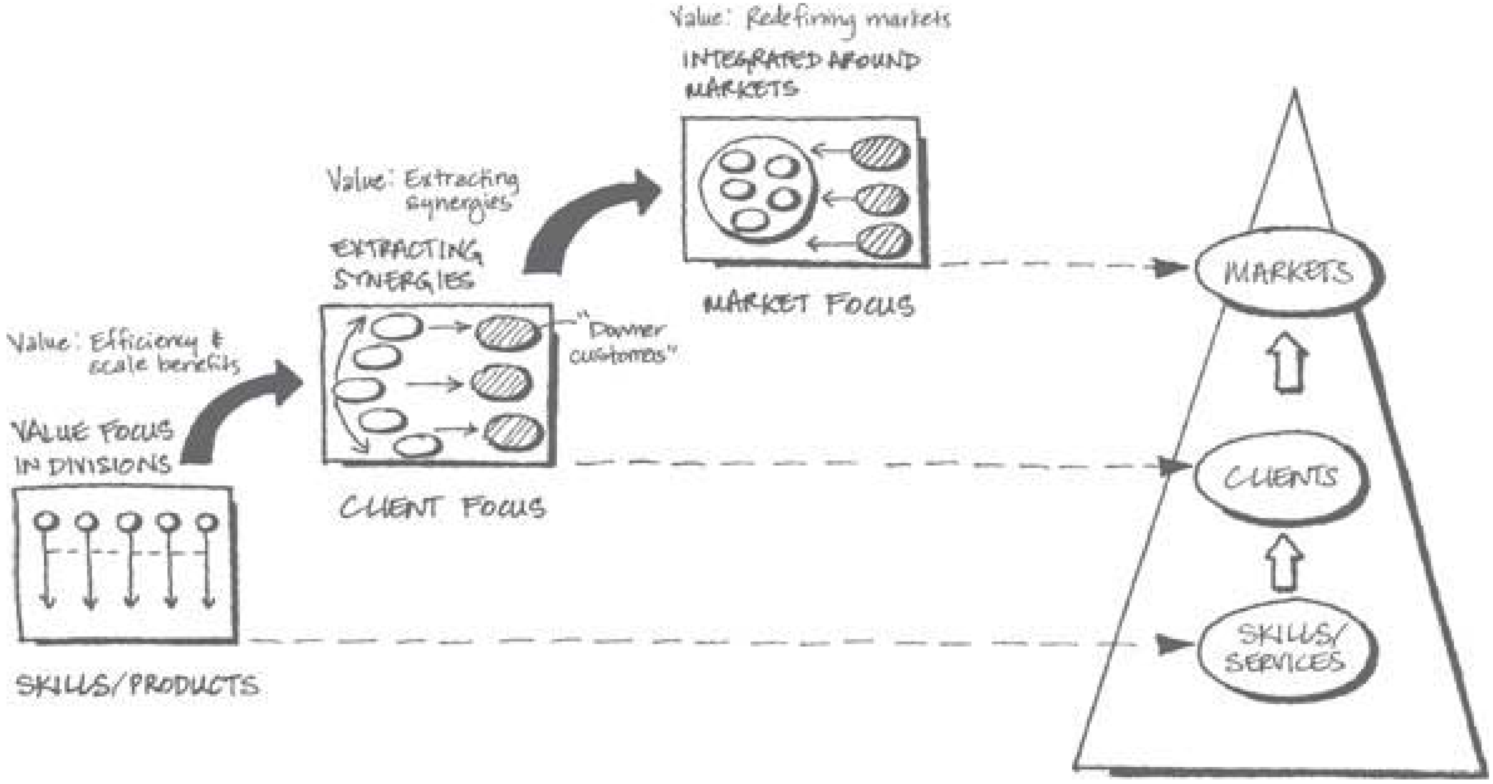
Execution & Monitoring

- 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

Market and Customer Strategy



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Downer Australia

- Downer Australia brings together Engineering, Works Australia and the Emerging Sectors businesses
- Annual revenues of almost $3 billion and over 7,000 people
- Outcome of an extensive Group review with a focus on our customers and markets
- Significant scale and stronger platform for leveraging capabilities
- Western Australia key focus
- Cost savings by creating a more efficient operating structure
- Transition to be implemented progressively with full commencement in FY12

Waratah update

Waratah project recap

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

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27 January — initial issues identified

First set delivery

- Software defects and integration issues requiring additional testing
- Estimated delivery to RailCorp of train Set 1 (A03) for Practical Completion further delayed to late April 2011, subject to software issues being addressed and accepted by RailCorp

Asbestos

- Operations at Cardiff disrupted due to asbestos contamination
  - resulted in delayed production work on train Sets 2-5 (A04-A07)
- Group implemented remediation plans in conjunction with statutory authorities and specialised service providers

Production

- Ross Spicer appointed Project Director in December 2010
  - reports directly to Group CEO
- Project review by Ross Spicer identified range of issues in train manufacturing program

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27 January update—current status

First set delivery

- Some software issues remain outstanding, but safe delivery into operation still considered feasible
- Working constructively with RailCorp to facilitate delivery for PC
- Delivery now expected in April to July 2011, subject to resolution of software issues and acceptance by RailCorp

Asbestos

- Asbestos remediation complete
- Disruption impacted train Sets 2-5 (A04-A07) only and not material to overall schedule
- Remediation has provided an opportunity to re-design Cardiff facility to accommodate improved "flow-line" production approach and to reorganise stored materials more efficiently

Financial impact

- In isolation, precise timing of early trains delivery is relatively immaterial to forecast cost to complete of the project
- Overall production schedule throughout the project is the key cost driver
- No additional provision following further review process

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Production—further review

Detailed review completed by Waratah Project team:

Key production issues

- Complexity of design to build and low level of in-built tolerances impacting production rate and quality at CRC in Changchun, China
- Primarily related to interior components which can be re-designed for more efficient assembly but will require acceptance by RailCorp
- Bodyshell design, bogies and traction system all working as expected and manufacturing to required timeline and quality
- Current production at Cardiff and CRC is “cellular” which creates difficulty in delivery production rates required for the contract

Key conclusion

- Production process improvements and recruitment of suitably experienced staff are key to successfully completing the contract by 1H 2014 - necessary to achieving a 10-day “cadence” rate
  - a “flow-line” production process at CRC and Cardiff is required to increase production rates
- Cadence of manufacture and delivery into passenger service are critical to managing project costs – including labour and liquidated damages

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Production—improvement process

Production improvement process developed by the Waratah Project team, focused on implementing the following initiatives:

Redesign for Manufacture ("value engineering")

- Simplify design for manufacture, reduce skill level required to build and increase production rate

Configuration freeze

- Freeze vehicle build configuration to provide a single, fixed blueprint or "baseline" to facilitate efficient vehicle production
  - three configuration phases through project: current (sets 1-15), Freeze 1 (sets 16-25), and Freeze 2 (26-78)

Redesign production process at CRC

- Additional jigs, fixtures, tooling, gauges to improve repeatability and "de-skill" build activity

Quality control

- Enhance process and quality controls - Inspection and Test Plans and Production Hold Points, supervision, progressive build sign off and witnessing by Downer

Transfer to Cardiff

- The most problematic CRC build scopes transferred to Cardiff – "fit once, don't rework"
  - transfer scope back after redesign

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Production—revised plan

Revised production plan implemented in two stages:

Stage 1: Quick wins

Objective

- Stabilise the production blueprint and reduce re-work requirements

Approach

- ***Configuration Freeze 1***: freeze build design and create production baseline (entry from Set 16)
- ***Scope transfer:*** finalise and project manage scope transfer from China to Cardiff to improve quality and minimise rework
- ***Cardiff preparation:*** establish new production "footprints" in Cardiff to accommodate transferred China scope
- ***Top 20:*** focus on hitting "Top 20" issues list identified by Downer and CRC staff in China
- ***"Back to basics"***: on process and quality controls in China – focus on in-line production process and sign-off at discreet hold points
- ***Ease of Assembly***: ensure consistent datums (component assembly reference points) are used throughout the build process

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Production—revised plan

Stage 2: Redesign process and products

Objective

- Increase output quality and rate of manufacture through re-design of interior components or amendments to production processes

Approach

- ***Configuration Freeze 2***: incorporate re-designed areas to improve manufacturability and reduce skill required in assembly
- ***"Mini projects":*** execute prioritised improvement initiatives with responsibility assigned to cross functional teams: Engineering, Manufacturing, Quality Procurement, etc
- ***Production processes:*** increase use of jigs and fixtures to simplify and de-skill the build process and improve repeatability and quality control
- ***Production ease***: provide clear and simple Documented Work Instructions for the build process
- ***Supplier support:*** provide direct support to select tier 3 suppliers with high non-conformance/reject and manufacturability issues
- ***Scope re-transfer:*** review ability to transfer scope back to China from Cardiff

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Production– implementation phases

Sets 1-15

- Completion of sets in Cardiff
- Significant level of rework on fitout in Cardiff
- Flow-process implemented in Cardiff
- China sends sets reflecting existing design processes

Sets 16-25

- Configuration Freeze 1
- Reflects implementation of quick win design changes to interior fit-out
- Level of rework in Cardiff reduces from previous levels
- Some reduction of the scope of work in China, now undertaken in Cardiff
- Flow process implemented in China

Sets 26-78

- Configuration Freeze 2
- Full value engineering design changes implemented
- Significant reduction of rework levels in Cardiff
- Option to restore China to full scope of work on interior fit outs
- Practical completion in 1H 2014

Independent review

- Simultaneous with internal review and program development, two rollingstock manufacturing consultants were engaged to independently review the Waratah Project and the revised production schedule
  - primary review by First Class Partnerships (“FCP”)
  - secondary review by J Boyle Associates Ltd (“JBA”)
- Both have significant experience in manufacture and delivery and commissioning of high volume rollingstock manufacture and have prior understanding of Waratah Project
- FCP concluded that, on balance, if Waratah Project “ has sufficient management focus from within the Project team and Downer as a whole, the Programme has a high likelihood of success”
- Also identified opportunity to exceed the current delivery program through continuous improvement and value engineering processes
- Majority of issues identified / recommendations made by FCP and JBA have been adopted by the Project Director and incorporated into Downer’s current project plan

Through Life Support (TLS) contract

TLS contract terms

- 30 year contract from date of practical completion of train Set 69 to maintain Waratah fleet
- Availability payment regime with deductions/bonuses based on
  - availability of trains (72 sets available at all times)
  - in-service faults

Expected performance

- Expectation of ability to meet required performance benchmarks based on
  - extensive prototype tests and train A01and A02 reliability testing
  - Millennium train experience
- Expect low double digit EBIT margins

Risks and opportunities

- Risk: Not all aspects of train have been tested on-network – may not work as anticipated
- Opportunity: re-design process to consider maintenance simplification which would deliver higher margins if successful
- Critical that an experienced TLS Commercial Manager be appointed early in TLS phase to ensure appropriate focus from ‘Day 1’

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Financial impact

- Update to market on 27 January 2011 disclosed expected provision of $250 million
- Further work confirmed $250 million as an appropriate provision against the forecast cost to complete
  - independent reviews support this assessment
  - some movement in allocations to various cost categories
- The $250 million provision provides a risk contingency (“executive contingency”) of approximately $73 million
  - makes allowance for some slippage in the targeted manufacturing program delivery milestones
  - a one month delay in overall project delivery schedule estimated to have impact of $9-14 million – principally comprising liquidated damages (net of interest on the Manufacturing Delay Account) and labour costs

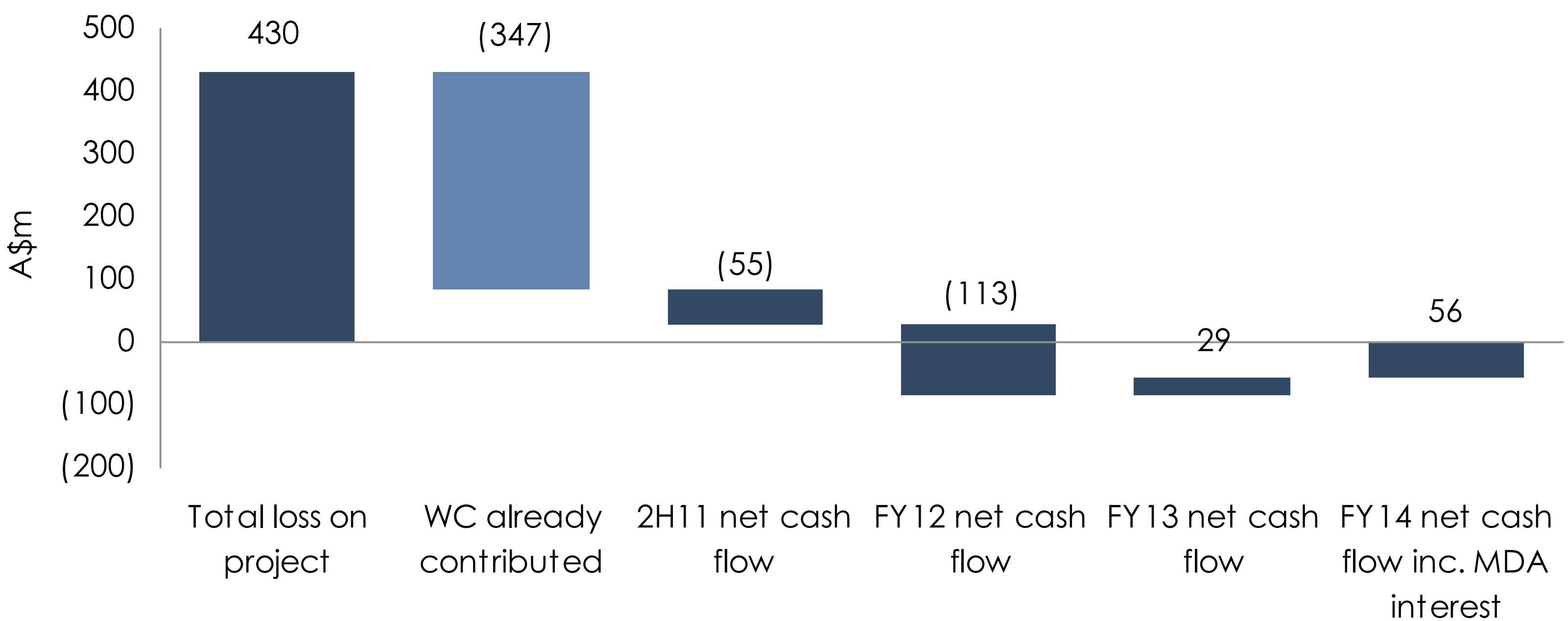
Financial impact

$m	$190m provision	$250m provision	Current FCAC[1]
Materials & Sub-Contract Components	117.3	37.7	1,018.8
Labour	0.4	67.3	324.2
Engineering Services (Incl T&C)	28.0	24.2	131.0
Project Management	3.8	47.1	143.2
Transport, Logistics & Procurement	0.5	21.2	175.3
Insurance, Bonding & Finance	-	11.9	95.3
Liquidated Damages	10.0	104.9	154.9
Manufacturing Delay Account interest	-	(111.2)	(111.2)
Other Costs	-	2.4	78.1
Executive Contingency	30.0	42.6	72.6
Total Net Costs	**190.0**	**248.1**	**2,082.2**
Total Revenue	-	-	1,652.6

1. Forecast cost at completion
2. The forecast loss of $430 million differs from the combined $440 million of onerous contract provisions announced on 1 June 2010 and 27 January 2011, and differs slightly due to the write-back of profit recognised against the project in prior years.

Financial impact

- As at 31 December 2010, total WIP of $347 million
- Total cash outflow estimate of $430 million for the entire contract, implying a ~$83 million net cash outflow for the remainder of the program
- Cash spend offset by accrued interest on Manufacturing Delay Account, currently projected at $111 million and payable at Practical Completion of Set 78.



Risks

Key personnel

- Recruitment of key personnel with necessary high volume rolling-stock production experience is required
  - Ross Spicer in role from December 2010
  - China Manufacturing Manager commenced in February 2011
  - Trains Into Service Manager commences today
  - preferred candidate identified for Production Director to oversee manufacturing, operations and engineering
  - Commercial Director and TLS Contract Manager appointment pending

Train acceptance

- The revised production plan assumes that RailCorp will adopt a reasonable industry approach to the acceptance of the Waratah trains for passenger service, including acceptance of software compliance. Non acceptance of the current version of the software is expected to result in a delay of up to 7 weeks of the first set delivery
- Contract imposes strict obligations on Downer regarding train delivery to RailCorp
- New joint project steering committee now established with RailCorp to allow informal discussions to take place with RailCorp at a senior level

Risks

Implementation of production improvements

- Need to fully engage with CRC management and workers in production improvement program
- Without full engagement, and partnership decision-making at manufacturing level, production rate will be slower than required
  - simplification of manufacturing through re-design should aid staff engagement
  - senior CRC management responding positively to new approach

Delivery acceptance rate

- 1H 2014 delivery completion date assumes RailCorp can accept trains later in program faster than 10 day rate
- Strict compliance with 10-day delivery cadence would push completion to 2H 2014

Risks

Timing of production enhancements

- Current production program assumes accelerating manufacturing rate from train Set 26, with steady state reached by train Set 38
  - assumes “quick win” initiatives for configuration Freeze 1 and temporary transfer of fit out work to Cardiff results in improved production rate and quality in China and reduces level of rework in Cardiff for train Sets 16-25
- Delay in re-design process or implementation of new program that moves program back would delay overall delivery schedule and increase costs
  - external reviews identified potential for production to exceed scheduled cadence at back end which could recover time

TLS contract

- Downer believes that it can deliver a high quality train able to meet required service performance thresholds – have utilised learning from Millennium
- Risk remains that issues arise through train life that result in penalties against Downer

Reliance Rail

- Special purpose vehicle established to fund Waratah Train project - $1.9 billion bonds outstanding, $357 million bank debt to be drawn
- Reliance Rail advises it remains solvent, although risk of 'switch date' if both monoline issuers become insolvent - would provide option for banks to not fund $357 million
- Non recourse to Downer
- Other stakeholders have significant interest in maintaining the structure
- It is considered unlikely that Reliance Rail (or any successor) will default under the contract, but in this event, the financial implication for Downer is illustrated below

$m	P&L impact ($m)	Cash impact ($m)
Write-off of WIP on Downer B/S 31 Dec 2010	347	-
Write-back of total provision on Downer B/S as at 31Dec 2010	(430)	-
Estimated cash payments on cancelled orders	250-300	250-300
Mark-to-market losses on hedge instruments	64	64
Write off of Reliance Rail hedge reserve	75	-
Supplier obligation to mitigate loss	Reduce loss	Reduce outflow
Sale of Waratah assets owned by Downer to mitigate loss	Reduce loss	Cash inflow
Approximate Net Impact (pre mitigation)	**306-356**	**314-364**

Downer

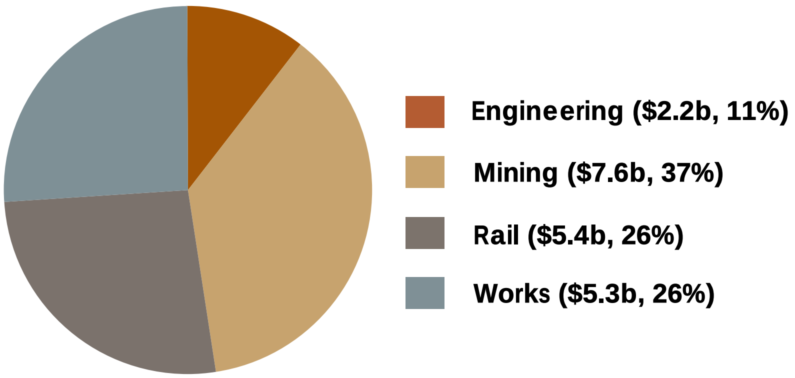
Summary

- Detailed review of Waratah Project completed by Ross Spicer and his team
- A number of remaining challenges in achieving practical completion of train Set 1 (A03), but working with RailCorp and expecting delivery in late April to July
  - financial impact of train Set 1 delivery timing, of itself, is immaterial
- Production rate and quality the key issues and main driver of financial outcome on project
- Implementing a multi-faceted program to address production issues, including focus on "value engineering and process improvement" exercise to facilitate flow-line production at required rate
- Program has been developed through detailed internal process
- External reviews by FCP, who concluded that on balance the revised program, as a whole, has a high likelihood of success, subject to sufficient management focus
- Risks remain to both near term delivery and overall production, but Downer is focused on mitigating these wherever possible
- Detailed review confirmed that the $250 million provision is appropriate
  - supported by external expert reviews

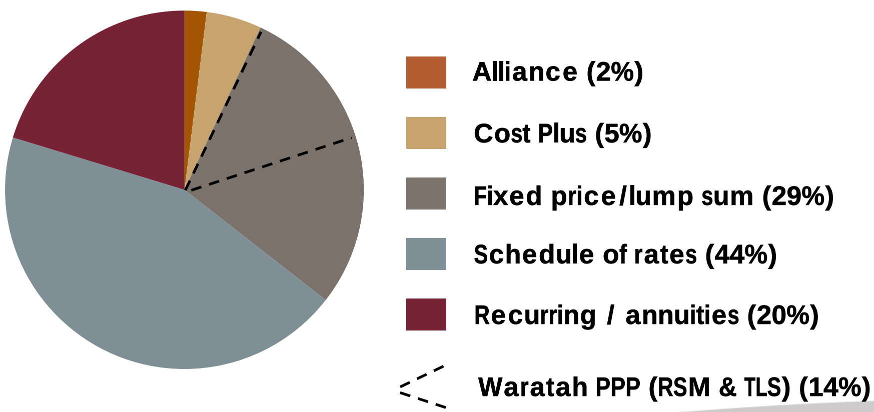
Outlook

Work-in-hand over $20 billion

Work-in-hand by division



Work-in-hand by type



- Downner maintained a strong work-in-hand
- Growth opportunities in all our markets
- Mining increasing its share of forward work
- Engineering sector has large volume of work pending
- Rail and Works see good opportunities ahead

Group outlook

- A number of factors expected to influence the second half:
  - Competitive markets in Engineering and Works Australia with Downer New Zealand operating in a tough economy
  - The ability of Works Australia and Downer New Zealand to deliver their typically stronger second half performances
  - Mining is expected to continue to ramp up work on its contracts at Goonyella, Norwich Park and Christmas Creek
  - Rail remains close to full capacity in the second half, however, an impact will be felt from costs and delays associated with asbestos remediation
  - High tender costs are anticipated as we continue to bid on a large volume of forward work
  - The overall impact of weather across all our businesses

Downer

Group outlook

- Based on the above, and subject to risks including weather and market conditions, Downer Group expects to deliver underlying EBIT of around $300 million for the Full Year and underlying NPAT of around $169 million.

- Downer Group continues to be well placed in its sectors and markets.

- Our transformation program is expected to drive profitable growth in the coming years

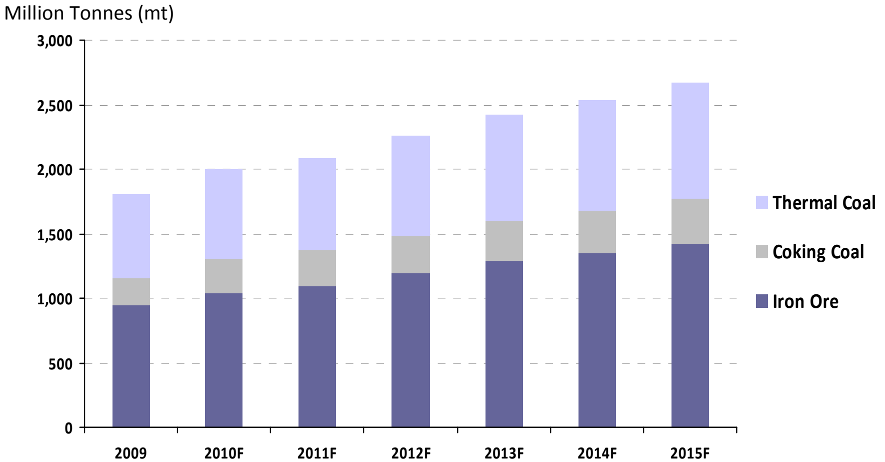
Downner Group 2010/11 Half Year Results

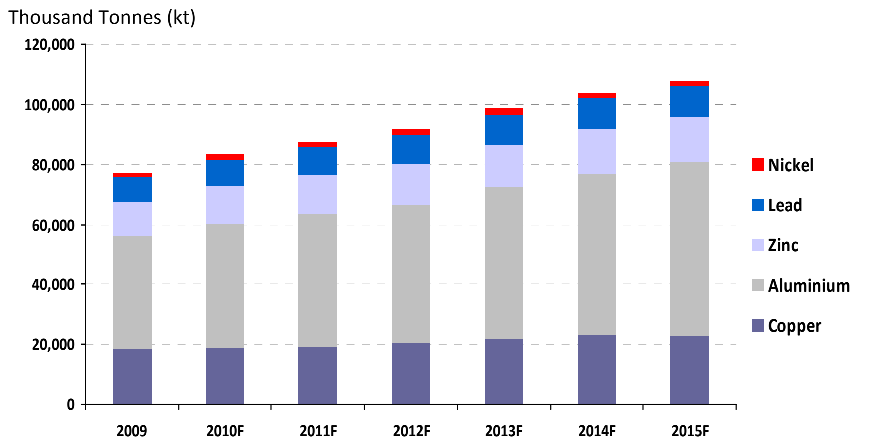
28 February 2011

Supplementary information

Market outlook – commodities

Demand for commodities is expected to remain solid globally. The Chinese structural growth story – of industrialisation, urbanisation and modernisation – will continue to underpin strong growth. Steady growth is expected for the production of thermal coal, coking coal and iron ore.

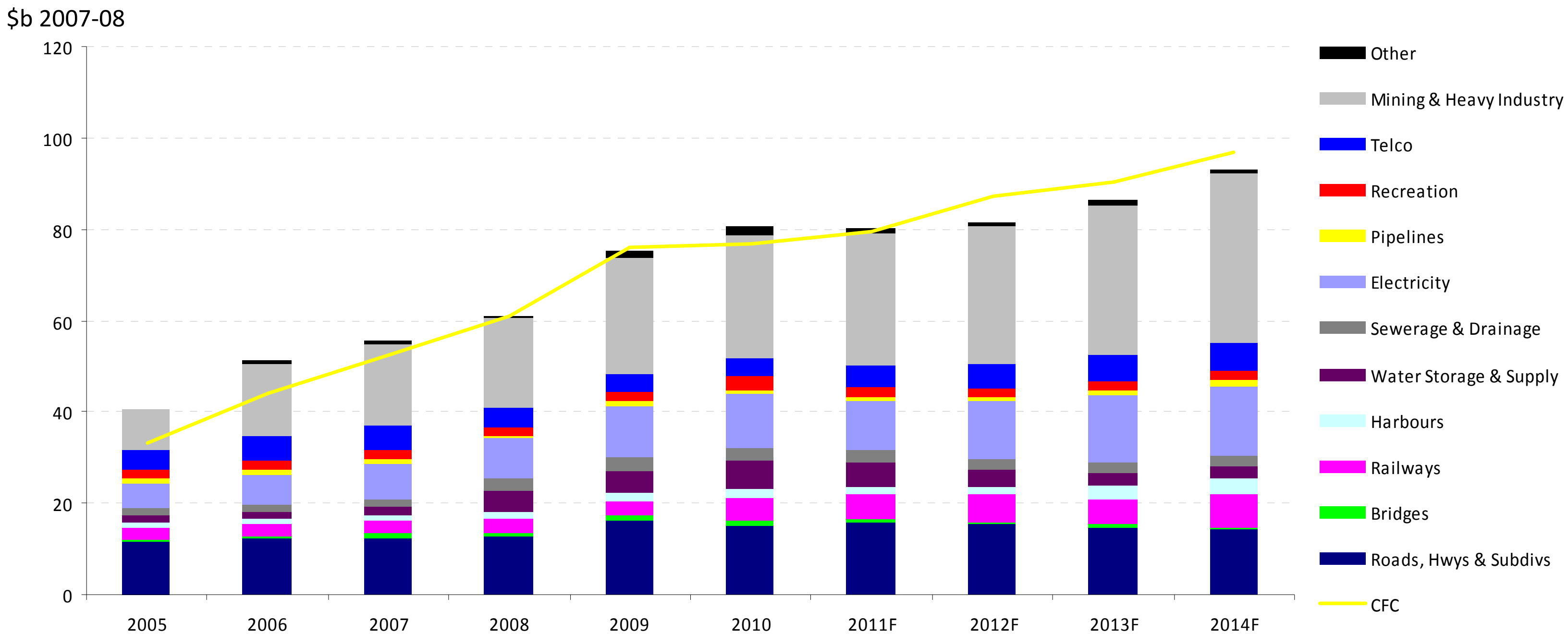




Source: Macquarie Research, January 2011.

Market outlook – engineering construction

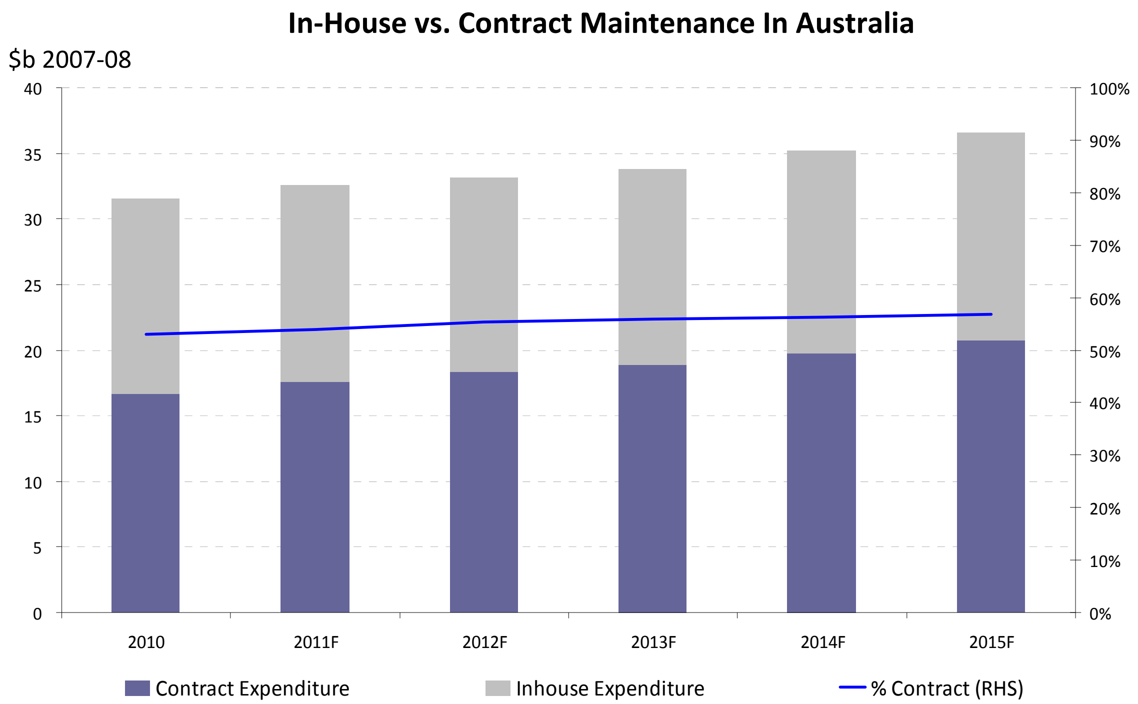
Some softening is expected in Australia's civil construction market as major private sector projects move to completion without being completely offset by new work and with pull-back in public sector commitments to new projects.



Sources: BIS Shrapnel, Engineering Construction in Australia 2009/10-2023/24, October 2010; BIS Shrapnel, Road Construction In Australia 2010 – 2025, November 2010 (updated for Roads Hwys & Subdivs and Bridges); Constructing Forecasting Council, January 2011.

Market outlook – maintenance

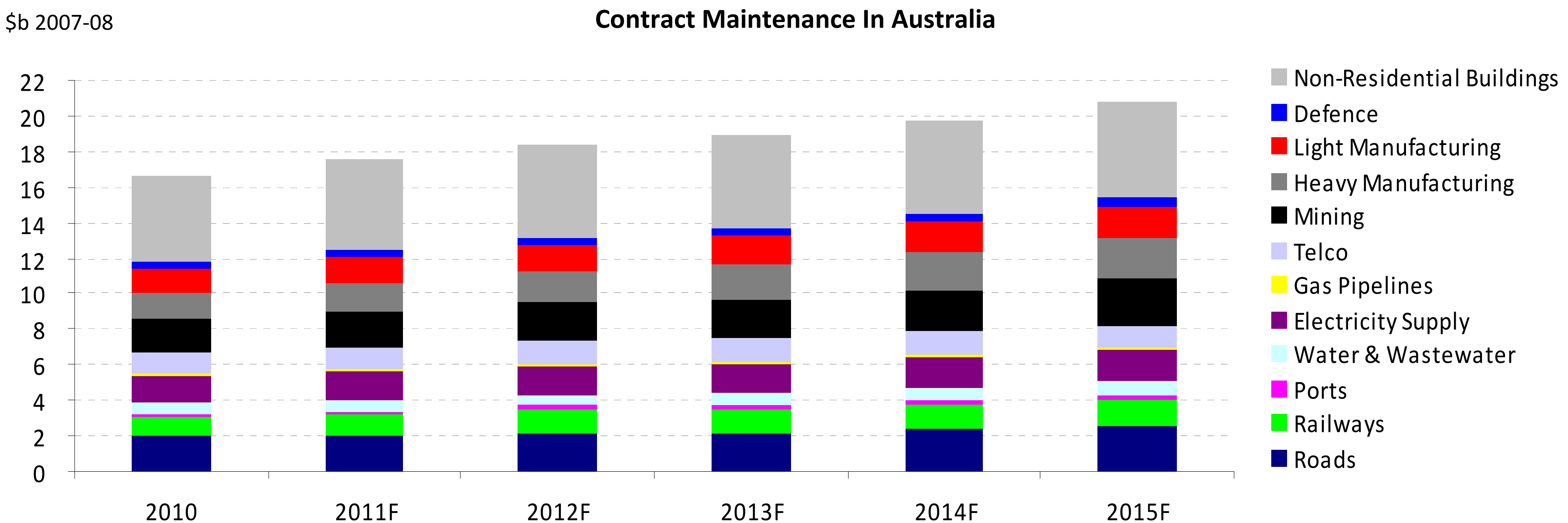
The total maintenance market in Australia was estimated at $32 billion in 2010 with over half (~53% or $16.7 billion) contracted out. The proportion of maintenance work being outsourced is expected to continue to grow to ~57% by 2015, which, when coupled with growth in the overall maintenance market to 2015, will add an additional $4.1 billion in outsourced contract maintenance spend.



Source: BIS Shrapnel, Maintenance in Australia 2010-2025, August 2010.

Market outlook – maintenance cont.

Maintenance spending was on pause during the GFC as private firms cut all non-emergency expenditure to control costs. Strong economic growth over the medium term will see high rates of capacity utilisation and rising incomes leading to a catch-up of maintenance delayed during the downturn. A rolling construction cycle in two years will also keep activity strong.



Downer

Source: BIS Shrapnel, Maintenance in Australia 2010-2025, August 2010.

Summary income statement

$m	HY11	HY10	Change	%
Revenue from ordinary activities	3,273.5	2,783.6	489.9	17.6
Interest revenue	4.0	8.1	(4.1)	(50.5)
Other revenue	2.4	19.6	(17.2)	(87.5)
Total revenue	3,280.0	2,811.3	468.7	16.7
Employee benefits expense	(1,111.9)	(999.1)	(112.8)	(11.3)
Raw materials and consumables used	(846.6)	(709.4)	(137.3)	(19.4)
Subcontractor costs	(605.3)	(434.9)	(170.4)	(39.2)
Plant and equipment costs	(320.6)	(266.9)	(53.6)	(20.1)
Other operating expenses[1]	(176.8)	(175.9)	(0.9)	(0.5)
Depreciation and amortisation	(96.2)	(81.8)	(14.4)	(17.7)
Finance costs	(38.9)	(34.7)	(4.2)	(12.1)
Share of net profit of JV	14.0	5.0	9.0	179.3
Significant item	(250.0)	-	(250.0)	(100.0)
Profit before income tax (PBT)	(152.5)	113.6	(266.0)	(234.3)
Income tax benefit/(expense)	48.7	(26.5)	75.2	283.5
Net (loss)/profit after tax	(103.8)	87.0	(190.8)	(219.3)

Downer

1 'Other operating expenses' includes communication expenses, occupancy costs, professional fees, travel and accommodation expenses and other expenses from ordinary activities.

Summary balance sheet – assets

$m	Dec 10	Jun 10	Change	%
Current assets				
Cash and cash equivalents	322.5	385.1	(62.6)	(16.3)
Inventories	190.4	193.1	(2.8)	(1.4)
Trade and other receivables	1,039.3	1,183.9	(144.6)	(12.2)
Other current assets[1]	60.3	55.3	5.1	9.2
Total current assets	1,612.5	1,817.4	(204.9)	(11.3)
Non-current assets				
Property, plant and equipment	971.2	862.1	109.1	12.7
Intangible assets (including goodwill)	582.1	589.4	(7.3)	(1.2)
Deferred tax assets	178.2	123.3	54.9	44.6
Other non-current assets[2]	69.3	63.8	5.5	8.6
Total non-current assets	1,800.8	1,638.6	162.2	9.9
Total assets	**3,413.4**	**3,456.0**	**(42.6)**	**(1.2)**

Downer

1 'Other current assets' includes other financial assets, current tax assets, other assets and non-current assets held for sale.

2 'Other non-current assets' includes equity-accounted investments, other financial assets and other assets

Summary balance sheet – liabilities

$m	Dec 10	Jun 10	Change	%
Current liabilities				
Trade and other payables	1,012.3	987.3	25.0	2.5
Borrowings	73.7	272.2	(198.4)	(72.9)
Provisions	215.6	199.4	16.2	8.1
Other current liabilities[1]	81.8	46.5	35.2	75.8
Total current liabilities	1,383.4	1,505.4	(122.0)	(8.1)
Non-current liabilities				
Borrowings	804.5	617.0	187.5	30.4
Deferred tax liabilities	22.7	23.3	(0.6)	(2.5)
Other non-current liabilities[2]	107.3	67.5	39.9	59.1
Total non-current liabilities	934.5	707.8	226.7	32.0
Total liabilities	**2,317.9**	**2,213.1**	**104.7**	**4.7**

Downer

1 'Other current liabilities' includes other financial liabilities and current tax liabilities.

2 'Other non-current liabilities' includes trade and other payables, other financial liabilities and provisions.

Summary balance sheet

$m	Dec 10	Jun 10	Change	%
Total assets	3,413.4	3,456.0	(42.6)	(1.2)
Total liabilities	(2,317.9)	(2,213.1)	(104.7)	(4.7)
Net assets	**1,095.5**	**1,242.9**	**(147.4)**	**(11.9)**
Issued capital	1,146.3	1,118.7	27.6	2.5
Reserves	(120.1)	(107.9)	(12.2)	(11.3)
Retained earnings	69.2	232.0	(162.8)	(70.2)
Non-controlling interest	0.1	0.1	-	2.1
Shareholders' equity	**1,095.5**	**1,242.9**	**(147.4)**	**(11.9)**

Downer

Engineering

$m	HY11	HY10	Change (%)
Total revenue	1,171.8	869.8	34.7
EBIT	48.4	57.5	(15.9)
EBIT margin[1]	4.1%	6.6%	
ROFE[2]	25.2%	23.5%	
Work-in-hand[3]	2.2b	2.9b	

1 EBIT Margin = EBIT divided by total revenue
2 ROFE = underlying EBIT divided by average funds employed (AFE) (AFE= Average Opening and Closing Net Debt + Equity)
3 Work-in-hand reflects current Work-in-hand at the end of January 2011 and includes an element of recurrent minor works

Mining

$m	HY11	HY10	Change (%)
Total revenue	634.2	483.5	31.2
EBIT	50.8	37.0	37.4
EBIT margin[1]	8.0%	7.7%	
ROFE[2]	15.4%	12.2%	
Work-in-hand[3]	7.6b	2.5b	

1 EBIT Margin = EBIT divided by total revenue
2 ROFE = underlying EBIT divided by average funds employed (AFE) (AFE= Average Opening and Closing Net Debt + Equity)
3 Work-in-hand reflects current Work-in-hand

Rail

$m	HY11	HY10	Change (%)
Revenue – Rail (ex Waratah PPP)	480.2	320.8	49.7
Revenue – Waratah PPP	187.4	137.2	36.5
Total revenue	667.5	458.0	45.7
EBIT	47.7	29.1	63.8
EBIT margin[1]	7.1%	6.4%	
ROFE[2]	25.1%	21.5%	
Work-in-hand[3]	5.4b	5.7b	

1 EBIT Margin = EBIT divided by total revenue
2 ROFE = underlying EBIT divided by average funds employed (AFE) (AFE= Average Opening and Closing Net Debt + Equity)
3 Work-in-hand reflects current Work-in-hand

Works

$m	HY11	HY10	Change (%)
Total revenue	957.0	1,011.4	(5.4)
EBIT	19.7	46.7	(57.9)
EBIT margin[1]	2.1%	4.6%	
ROFE[2]	12.8%	21.9%	
Work-in-hand[3]	5.3b	5.3b	

Downer

1 EBIT Margin = EBIT divided by total revenue
2 ROFE = underlying EBIT divided by average funds employed (AFE) (AFE= Average Opening and Closing Net Debt + Equity)
3 Work-in-hand reflects current Work-in-hand at the end of January 2011 and includes an element of recurrent minor works