Half Year Report

6 months to 31 December 2012

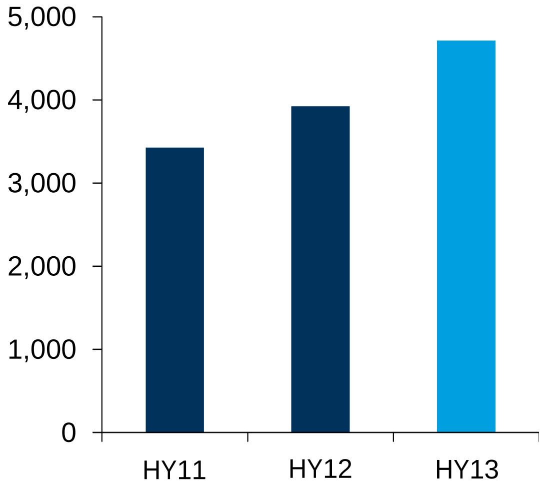
Downer

Financial Performance

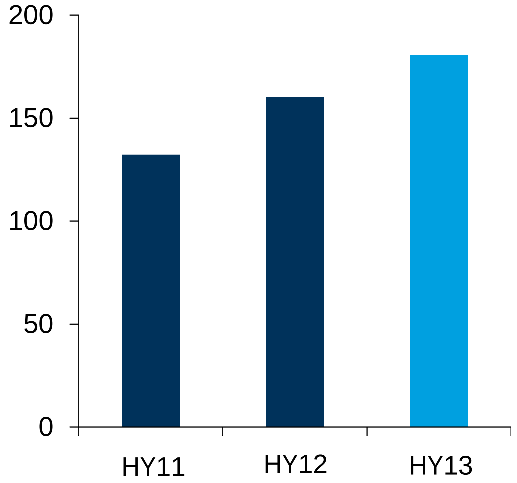
$m	HY13	HY12[4]	Change (%)
Total revenue[1]	4,716.6	3,922.8	20.2
EBITDA[2]	335.6	280.1	19.8
EBIT[2]	180.8	160.4	12.7
Net interest expense	(32.7)	(38.9)	16.1
Tax expense	(42.6)	(36.4)	(16.9)
Net profit after tax[2]	**105.5**	**85.0**	**24.1**
ROFE[3]	17.4%	17.0%	
Dividend (cents per share)	10.0	-	

[1] Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.
[2] Numbers are "underlying", i.e. excluding individually significant items
[3] ROFE = EBIT divided by average funds employed (AFE) (AFE = Average Opening and Closing Net Debt = Equity)
[4] Previous corresponding period includes continuing and discontinuing operations

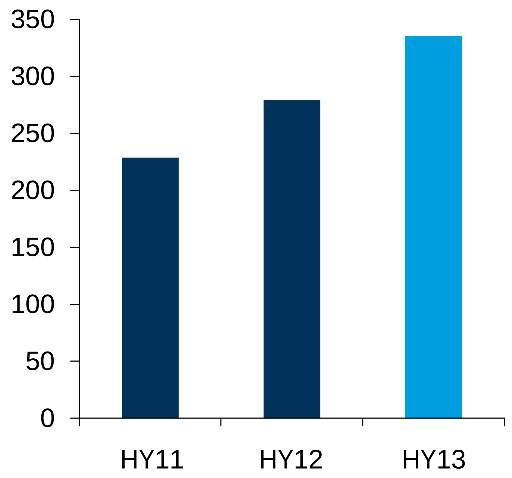
Total Revenue ($m)



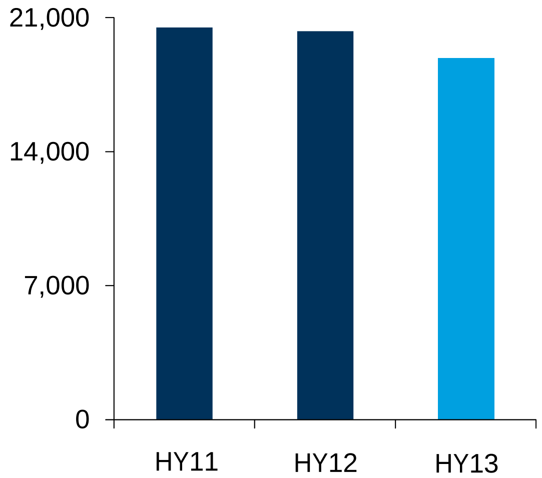
EBIT ($m)



EBITDA ($m)



Work-in-hand ($m)



THE SIX MONTHS TO 31 DECEMBER 2012

In the first half of the 2013 financial year, Downer maintained the momentum it has built in recent times in both its operational and financial performance. Each of Downer's three divisions – Infrastructure, Mining and Rail – continued to win new work and the Group's work-in-hand remains high at $18.9 billion.

In Australia, Downer Infrastructure's revenue rose by 25.6% to $2.2 billion and earnings before interest and tax (EBIT) increased by 50.9% to $86.2 million. Revenue growth was achieved across most businesses and the Eastern region continued to perform strongly across road infrastructure services and resources based projects.

In New Zealand, revenue rose by 16.7% to $480.0 million and EBIT more than doubled to $16.4 million. All businesses performed to, or exceeded, expectations and contract wins were achieved across all sectors. The rebuilding of Christchurch is gaining momentum.

Downer Mining's revenue rose by 17.8% to $1.3 billion and EBIT increased 10.3% to $97.1 million. The ramping up of work at Karara and Meandu mines is proceeding well.

Downer Rail's revenue rose by 27.0% to $729.6 million while EBIT was down from $42.9 million to $34.2 million. The Rail business is undergoing significant change as it transitions out of locomotive manufacturing to focus on whole-of-life asset management (including sales, repairs and maintenance).

More than one third of the Waratah fleet, 28 trains, is now available for passenger service and the trains are performing well. The 78th Waratah train is planned to be delivered before the end of the 2014 financial year. More information about the Waratah Train Project is provided on page 6 of this report and also in the Appendix 4D lodged with the Australian Securities Exchange and available on the Downer website.

Group financial performance

Downer reported total revenue of $4.7 billion for the six months to 31 December 2012, 20.2% higher than the previous corresponding period. Total revenue includes $0.3 billion of contributions from joint ventures. As outlined above, all divisions recorded revenue growth.

Underlying EBIT increased by 12.7% to $180.8 million and underlying NPAT rose by 24.1% to $105.5 million. Statutory EBIT was $169.3 million after an individually significant item, $11.5 million relating to the settlement of a dispute in Singapore (announced on 11 December 2012). Statutory NPAT was $94.0 million.

	HY13 EBIT ($m)	**HY13 NPAT ($m)**
Underlying result	**180.8**	**105.5**
Individually significant item:		
• Singapore Tunnel	(11.5)	(11.5)
Statutory result	**169.3**	**94.0**

Capital Management

During the six month period, Downer closed $292.1 million in new financings ($142.1 million of debt, $150.0 million of bonding), repaid Works bonds of NZ$150.0 million, and rolled over $177.0 million in bilateral debt facilities.

At 31 December 2012, Downer had gearing of 19.7% (28.3% including operating leased plant and equipment) and total available liquidity of $841.7million, comprising cash of $214.9 million and undrawn committed facilities of $626.8 million.

The Downer Board has declared a partially franked (70%) interim dividend of 10 cents per share, payable on 15 April, 2013 to shareholders on the register at 15 March, 2013. The company’s Dividend Reinvestment Plan will operate for this dividend with a discount of 2.0%.

Fit 4 Business

Fit 4 Business was launched at Downer’s 2010 Full Year Results and is a five year program targeting $250 million in efficiency and cost savings across the Group. It covers a range of initiatives that:

- improve productivity through significant and sustainable change to business models and processes;
- make it easier for customers, partners and suppliers to do business with us – and for us to do business with them; and
- encourage innovation and leverage our skills and scale effectively so we are recognised as an industry leader.

Over $85 million in gross benefits were achieved in the 2012 financial year and $120 million of gross benefits are targeted for 2013. Major initiatives include:

- improving productivity of assets, labour and overhead;
- leveraging scale, consolidating suppliers, reducing unit costs, improving service delivery and developing the supply base through a range of procurement initiatives;
- improving plant and equipment management and productivity; and
- streamlining processes and operational tools to reduce unit costs.

Zero Harm

Zero Harm means sustaining a work environment which supports the health and safety of Downer’s people, environmental sustainability and the interests of the communities in which Downer operates. Success in achieving Zero Harm is fundamental to the company’s future and remains the highest priority for the Group.

Downer’s Lost Time Injury Frequency Rate (LTIFR) for the period of 0.77 remained below one incident per million hours worked and Total Recordable Injury Frequency Rate (TRIFR) reduced from 7.72 to 5.49 per million hours worked. Regrettably, despite our efforts to keep our people safe, there was a workplace fatality in New Zealand in October 2012.
The company has intensified its focus on critical risks and incidents that have the potential to cause serious injuries. This includes a focus on our Cardinal Rules that provide direction and guidance on these critical risks.

There is an increased focus across the Group on assessing, understanding and mitigating critical risks associated with plant-pedestrian interface, energy isolation, working at heights, working near suspended loads and maintaining and enforcing exclusion zones. In addition, working groups have been established within each Downer division to identify local and site based issues.

Downer's goal is to continue to sustain its LTIFR below one and to reduce TRIFR below five by the end of the 2014 financial year. To achieve these results, Downer will focus on visible and active leadership, development of culture, capability and implemented management systems.

Risk Management

Downer has established risk management processes, including procedures relating to tender assessment and project management, which are subject to review and refinement on an ongoing basis.

Tender Assessment

Depending on the value and risk profile of prospective new projects, tenders are required to be reviewed and approved by a Board Tender Risk Evaluation Committee (TREC), the Tenders and Contracts Committee (TCC) or the Divisional CEO.

Authority to approve a tender is based on financial criteria. Where the contract value:

- exceeds $250 million, TREC approval is required in addition to TCC endorsement and Group CEO approval;
- is less than $250 million and greater than $30 million, TCC endorsement and Group CEO approval is required; or
- is less than $30 million, approval is within the delegated authority of Divisional CEOs.

In addition to the contract value criteria, projects with special risk features (e.g. relating to design, technology, scope of works, contract terms, counterparty or geographic region) may be elevated to the TCC or TREC for review and approval as appropriate.

At Divisional and Group levels, the following factors are among those assessed to determine whether or not a tender is endorsed and recommended for approval:

- Safety and environmental issues;
- The industry sector in which the work will be undertaken;
- Financial returns and capital expenditure;
- Compatibility with Downer Group strategy and capabilities;
- Resourcing requirements and availability;
- Relationship with the customer;
- The geographical region in which the work will be performed;
- Partnering arrangements;
- Key contract terms and conditions;
- The contract type (e.g. fixed price, cost plus, schedule of rates or alliance); and
- Project execution risk and mitigation measures.

Project Management

Downer is continuing to standardise its approach to Project Management throughout the project life including procedures for handover, planning, execution and project close-out which are tailored according to the scale and complexity of the project.

These procedures incorporate regular project reviews which include monthly reviews carried out by Divisional executive management and periodic reviews by Group management of selected projects with total revenue greater than $10 million or with a significant risk profile. These reviews cover the project's financial, contractual and operational status, project risks and opportunities, current key issues and remedial strategies for improving performance.

Waratah Train Project

A total provision of $440.0 million has previously been provided against the Waratah Train Project (WTP) based on an estimate to complete the contract. The provision was based on program design, manufacture, production and delivery schedules (the program) to complete the contract within the estimated provision.

The WTP team has continued to implement changes to the program over the past six months. Importantly, the WTP team continues to estimate future events; make key assumptions in relation to the revised program and drive change within the project to ensure project compliance within the financial parameters established.

During the half year ended 31 December 2012, the project has made considerable progress against the primary goal of program certainty. The current Master Program Schedule (MPS11) and all significant milestones within the program have largely been achieved within the reporting period. Since 30 June 2012, 18 trains have been presented to RailCorp and received PC. There are currently 28 trains available for passenger service.

The achievement of program compliance has however resulted in the incurrence of additional cost. The December 2012 half year Forecast Cost At Completion (FCAC) has resulted in consumption of $13.0 million of the general contingency, which reduced the general contingency to $51.0 million.

Further information in relation to the WTP is provided in the Appendix 4D lodged with the Australian Securities Exchange and available on the Downer website.

Board change

Lucio Di Bartolomeo retired as a Non-executive Director following Downer's Annual General Meeting on 7 November 2012. Mr Di Bartolomeo served on the Downer Board for six years.

Operational Review

Downer Infrastructure

In Australia, Downer Infrastructure reported total revenue of $2.2 billion for the six months, an increase of 25.6% compared with the previous corresponding period. EBIT was 50.9% higher at $86.2 million and the EBIT margin was 4.0%, up from 3.3%. Return on Funds Employed (ROFE) rose from 13.3% to 23.9%. Downer Infrastructure in Australia has work-in-hand of $5.5 billion.

Downer Infrastructure was awarded a number of new projects in Australia during the period, including:

- road and rail maintenance and civil construction work across the ACT, New South Wales, Queensland, Tasmania, Victoria and Western Australia;

- a number of electrical and instrumentation contracts with customers including BHP, Rio Tinto and FMG;

- a contract for design and construction services to connect flats and units to the National Broadband Network (NBN). The contract is valued at up to $66 million and covers a range of different sized residential multi-dwelling units (MDUs) over the next two years in NSW, Victoria and the ACT; and

- a $70 million contract with Meridian Energy Australia for engineering work on the Mt Mercer Wind Farm, located 30 kilometres south of Ballarat, Victoria. Downer will conduct balance of plant work which includes the design and construction of the electrical and civil works including the wind farm sub-station, 33kV collector system, internal road network, crane hardstands and wind turbine foundations.

On 22 January 2013, Downer announced it had been awarded new rail infrastructure work in New South Wales valued at more than $90 million. Transport for NSW awarded Downer the Gosford Passing Loops Project, which is one of four projects that form part of the broader Northern Sydney Freight Corridor Program. Downer will be responsible for the design and construction of two new passing rail loops between Gosford and Narara with the works expected to be completed in mid-2015.

In New Zealand, Downer Infrastructure continued the improved performance reported in the second half of 2012. Revenue rose by 16.7% to $480.0 million and EBIT more than doubled to $16.4 million. EBIT margin improved from 1.9% to 3.4% while ROFE rose from 6.0% to 21.2%. Downer Infrastructure in New Zealand has work-in-hand of $2.6 billion.

Downer is a member of the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) that is rebuilding Christchurch's earthquake-damaged roads, sewerage, water supply pipes and parks. SCIRT is expected to undertake works valued at more than NZ$2 billion over five years and Downer will carry out approximately 20% of this work. After a slower than expected start, due to a range of issues, the rebuilding of Christchurch is gaining momentum.

Downer continues to work with Chorus, New Zealand's largest telecommunications utility provider, to install ultrafast broadband (UFB). The telecommunications team is also working with Chorus and Vodafone on the Rural Broadband Initiative.

Downer Mining

Downer Mining's revenue of $1.3 billion for the six months was 17.8% higher than the previous corresponding period. EBIT increased by 10.3% to $97.1 million while EBIT margin was down slightly, from 7.8% to 7.3%. ROFE was 21.3%, down from 23.6%. Downer Mining currently has work-in-hand of $6.2 billion.

A highlight of the half-year period was securing a long-term rolling contract with TEC Coal Pty Ltd, a wholly owned subsidiary of Stanwell Corporation Limited, to provide mining services at Meandu Mine in South East Queensland. The contract was announced on 11 July, 2012 and commenced in January 2013. It has an initial term of five and a half years and a value in the range of $600 million to $800 million. The project employs about 340 people.

Downer Mining is also making solid progress on all its major projects, including:

- Christmas Creek, Pilbara, WA (Fortescue Metals Group): mine infrastructure, drill and blast services and load and haul of overburden and iron ore. Downer employs over 850 people on the project and its fleet includes two Liebherr R9800 excavators, the largest in Australia, and over 70 trucks. This six-year contract was awarded in August 2010 and valued at approximately $3 billion. Downer Mining was recently awarded additional civil works for Christmas Creek 2;

- Goonyella Riverside, Bowen Basin, QLD (BHP Mitsubishi Alliance (BMA)): load and haul of prestrip material and drill and blast services. Initially this was a five-year contract, beginning in July 2010 and valued at $2.0 billion, for the supply of contract mining services at both Goonyella Riverside and Norwich Park. In April 2012, BMA announced it would cease production at Norwich Park indefinitely. Since then, Downer's Norwich Park fleet has been redeployed to other BMA mines. Downer employs almost 800 people at Goonyella Riverside and its fleet of over 50 trucks includes 20 ultra-class Komatsu 930Es. Downer is actively involved in cost-reduction programs with the customer at this site;

- Boggabri, Gunnedah Basin, NSW (Idemitsu Australia Resources): blasting services, mine planning, and load and haul of both overburden and coal. The project employs about 340 people and more than half of Downer's fleet of over 30 trucks is made up of ultra-class Komatsu 930Es. This five-year agreement commenced in December 2011, with base case revenue valued at approximately $900 million over the duration of the contract; and

- Karara, Mid West region, WA (Karara Iron Ore Project): mine infrastructure, drill and blast services and load and haul of waste and ore. This contract commenced in February 2012 and has total estimated revenue of approximately $570 million over six years.This project employs about 140 people.

Downer's tyre management business (Otraco International) and Downer Blasting Services continued to win new contracts and contract extensions, and reported solid revenue and earnings growth for the period. In line with the Mining business's long-term strategy of expansion into overseas markets, Otraco extended its reach into Southern Africa with a new contract win at Jwaneng diamond mine in Botswana.

A major ongoing review of Downer Mining's plant strategy is bringing increased efficiencies into operations, with the current period of consolidation presenting opportunities to standardise fleets through transfer of plant between East and West Australia.

Downer Rail

Downer Rail reported revenue of $729.6 million for the six months, 27.0% higher than the previous corresponding period. Revenue growth was driven by the Waratah Train Project, the Sunlander project and deliveries of locomotives to BHP Billiton Iron Ore and Fortescue Metals Group. Downer Rail currently has work-in-hand of $4.6 billion.

EBIT was down from $42.9 million to $34.2 million due to weaker locomotive sales. EBIT margin was 4.7%, down from 7.5%, and ROFE was 14.4%, down from 16.0%.

Downer Rail is undergoing significant change as it transitions out of locomotive manufacturing to focus on whole-of-life asset management (including sales, repairs and maintenance).

In June 2012, Downer announced that it had signed a new five year agreement with Electro-Motive Diesel (EMD). Downer and EMD, which is owned by Progress Rail, a Caterpillar company, have worked together for more than six decades supplying and maintaining locomotives in Australia. Under the new agreement, EMD will manufacture all locomotives for the Australian market with Downer continuing to sell EMD locomotives and after-market products, including spare parts.

Downer Rail continues to service its passenger rail customers, including: RailCorp (NSW), Public Transport Authority (WA), Queensland Rail, MTM (Victoria) and VLine (Victoria).

In December 2012, Downer was awarded a $41 million extension order from Perth Transport Authority for the manufacture of seven “B” Series passenger trains.

Downer continues to build its partnership with French company Keolis, one of Europe’s leading public transport operators. The joint venture currently operates and maintains the Melbourne tram system, Yarra Trams, and will also operate and maintain the Gold Coast Light Rail, which is currently under construction and scheduled to open in 2014.

Downer Group Outlook

Downer expects to deliver underlying EBIT of around $370 million and NPAT of around $210 million for the 2013 financial year.