



2020

HALF YEAR RESULTS



THINK DIFFERENTLY. WE DO.

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DECMIL POSITIONING AND SECTOR EXPOSURES

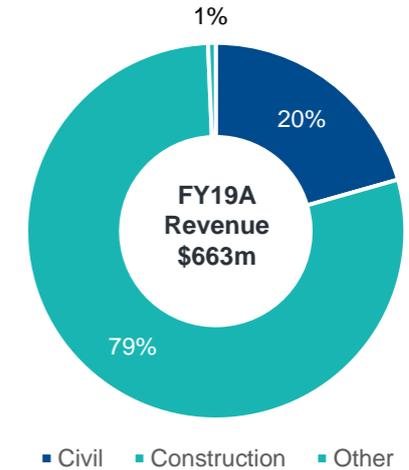


Decmil is a specialist in engineering, construction and maintenance for the infrastructure, resources, renewable, energy and transport sectors

Capabilities

- ### Civil
- Roads & Bridges
 - Rail
 - Well site installation
 - Access roads, site preparation, earthworks
 - Concrete foundations
 - Defence & Detention
 - Marine
 - Fuel storage tanks

- ### Construction
- Structural, Mechanical & Piping (SMP)
 - Non-process infrastructure (NPI)
 - Buildings
 - Accommodation
 - Wind, Solar & Battery
 - Electrical, Instrumentation & Controls
 - Mining infrastructure



Sectors

Infrastructure



Defence
Corrections
Education
Health

Renewables



Solar
Wind
Battery

Resources



Iron Ore

Energy

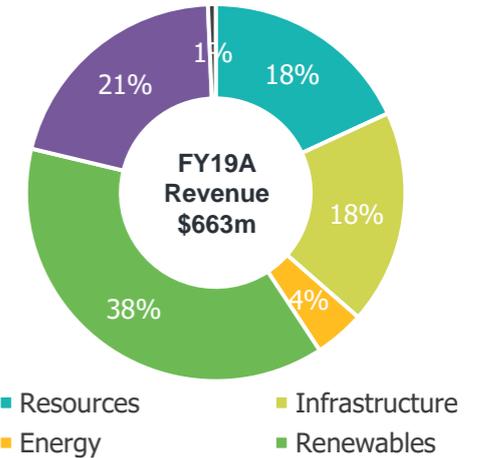


LNG & Coal Seam Gas
Oil & Gas

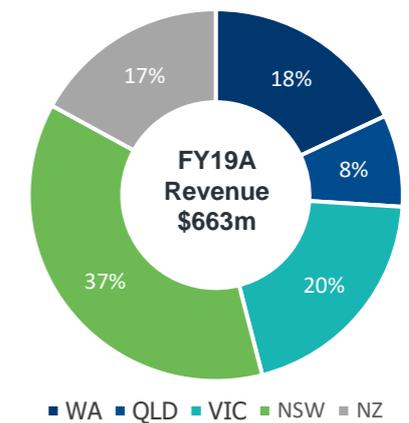
Transport



Transport



Geographies



CORONAVIRUS IMPACTS

- COVID-19 pandemic impacts changing day to day
- Presently office-based staff generally working from home
- Site based staff working at site – projects continuing (except New Zealand)
- Suppliers impacted by changes in insurance and funding markets
- Clients now see all bidders as potentially distressed companies
- Productivity expected to slow on site
- Government so far looks like they will be sympathetic and have accelerated payment terms on government contracts

HY20 GROUP HIGHLIGHTS

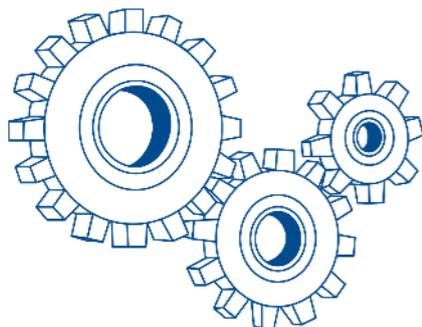


FINANCIAL



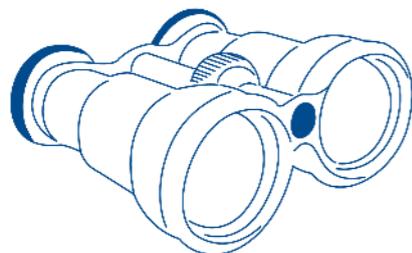
- Loss of \$75 million primarily due to termination of Rapid Deployment Prisons contract in New Zealand and revaluation of Homeground
- Group revenue of \$239 million
- \$65 million cash as at 31 December 2019

OPERATIONS



- Award of \$417 million main works package for Mordialloc Freeway project as a 40% joint venture partner with McConnell Dowell
- Award of \$40 million rail accommodation contract for Carmichael Rail Network
- Completion of Princes Highway duplication project and substantial progress on Plenty Road Upgrade and Drysdale Bypass in Victoria
- Continuation of the relationship with QGC on the three-year framework agreement
- Significant progress made on two balance of plant wind farms worth \$151 million

OUTLOOK



- Order book of ~\$490 million to FY22
- Continued significant public sector infrastructure spend by State and Federal Government
- Project pipeline very strong
- Organisation restructuring completed in Jan/Feb 2020
- Strategic review of Decmil operations

RECENT CONTRACTUAL ISSUES



Rapid Deployment of Prison Accommodation (RDP)

	Project Details	Project Overview
Contract	D&C of 5 modular prisons	<ul style="list-style-type: none"> Decmil undertook a contract for NZ DOC to design and construct 5 prison sites using modular buildings Modular buildings and construction materials were sourced from China, after confirmed selection by DOC through a prototype mock-up stage
Client	NZ Department of Corrections (DOC)	<ul style="list-style-type: none"> Use of modular buildings was novel and untested in NZ, with acceptance by DOC that there were difficulties and with both parties working to process commercial readjustments of the contract for a best for project outcome In September 2019 DOC changed its project director and also its position, requiring strict contractual compliance including defect free completion
Contract commenced	October 2017	<ul style="list-style-type: none"> Subsequently DOC rejected Decmil's variation claims, denied that it made design selection, not paid certified progress payments, applied liquidated damages and insisted on an impossible to achieve defect free outcome for the modules, notwithstanding that DOC's requirements are the cause of the problem
Contract size	A\$234m	<ul style="list-style-type: none"> DOC made a commercial decision in late 2019 to implement steps which would include terminating Decmil, and subsequently did so in late February 2020
	Dispute Overview	
Potential Impact	<ul style="list-style-type: none"> Project sustained heavy losses for unapproved variations undertaken and anticipated revenue not received. Decmil is currently trying to recover some of the incurred losses via claims for payments for works undertaken and reduce liability exposure with regards to liquidated damages (LD) which would result in a cash outflow The arbitrator has been agreed and an arbitration agreement is being developed, and the process is likely to take between 12 – 18 months 	
Effect of termination	<ul style="list-style-type: none"> No further performance obligations for Decmil given termination of the contract by DOC Decmil is claiming the construction materials selected made defect free completion impossible to achieve <ul style="list-style-type: none"> If this position is upheld Decmil is to receive payment to the date the arbitrator determines when the frustration took place at contract price, and for work carried out after that date paid at a reasonable rate or price If Decmil was incorrect, it would still be entitled to be paid for all the work done on a reasonable price basis, if DOC have wrongfully terminated and therefore repudiated the contract, which is also Decmil's position 	
Delay and liquidated damages	<ul style="list-style-type: none"> LD charged to date are in dispute as DOC wrongfully failed to grant extensions of time or to consider its own delays <ul style="list-style-type: none"> If this position is upheld some, or all of the damages will have to be refunded depending on the arbitrator's apportionment in respect of the delays If Decmil's position regarding frustration termination is upheld, then depending on the date at which this is determined, all LD may have to be repaid 	
Payment adjustments	<ul style="list-style-type: none"> If Decmil's position on termination is correct, then the amounts which were certified but unpaid would be the minimum amount payable to Decmil 	
Outstanding variations	<ul style="list-style-type: none"> If Decmil is proven correct, the minimum amount recoverable will be the amount that should have been assessed for those under the contract 	

RECENT CONTRACTUAL ISSUES (CONT'D)



Sunraysia

	Project Details	Project Overview
Contract	EPC of 200MW solar farm	<ul style="list-style-type: none"> Physical construction was completed in December 2019, the original date for substantial completion However project is currently not complete due to the client not having secured the required R1 registration <ul style="list-style-type: none"> Delays are as a result of the AEMO and related Transgrid involvement in the approval process Formal extension of time claims by Decmil are yet to be determined by the client The client is instead holding Decmil liable for all delays Separately, Decmil identified, through the additional testing performed, an issue concerning the operation of the inverter transformers, which is being treated as a defect by Decmil under its supply contract with Schneider Electric, but in Decmil's opinion this does not prevent R1 registration
Client	John Laing / Maoneng	
Contract commenced	October 2018	
Contract Size	\$286m	
	Dispute Overview	
Potential Impact	<ul style="list-style-type: none"> Decmil disputing LD claim by client The arbitrator has been agreed, and process is likely to take between 12 – 18 months 	
Delay and liquidated damages	<ul style="list-style-type: none"> Decmil's position is that once the effect of its extension of time claim is determined the Project is not in delay In relation to the R1 registration, Decmil's view is that it has provided everything necessary to obtain R1 registration, and anything further required is simply part of assisting the client in obtaining its registration <ul style="list-style-type: none"> Decmil does not have a direct involvement in obtaining the registration, it can only be obtained by the client The arbitrator has been appointed to resolve the issues between Decmil and Schneider Electric and Decmil continues to enforce defect rectification and damages recovery 	
Outstanding variations	<ul style="list-style-type: none"> Decmil has also submitted variations for changes in client requirements which if not approved will be the subject of a further arbitration process 	

ADDRESSING ISSUES FROM RDP, SUNRAYZIA



- RDP and Sunraysia have dented Decmil's short term liquidity by some \$70 million
- RDP has triggered a large loss
- RDP, Sunraysia claims moving to arbitration
- Business overhead structure rationalised
 - Removed regional reporting layers
 - Reduced corporate administration spend by \$6.5 million per annum
- Strategic Review
 - Engaged Moelis and Vantage to support
 - Considering options for Homeground
- Well positioned for government infrastructure boom

STRONG, DIVERSIFIED ORDER BOOK SERVING BLUECHIP CUSTOMERS

Decmil is supported by a blue-chip customer base across its core markets, many of which are long-standing customers of the business providing recurring project work or ongoing multi-year contract terms

Customer overview



INFRASTRUCTURE

Road transport projects underway in Victoria, Queensland and Western Australia

Reid Highway



Plenty Road



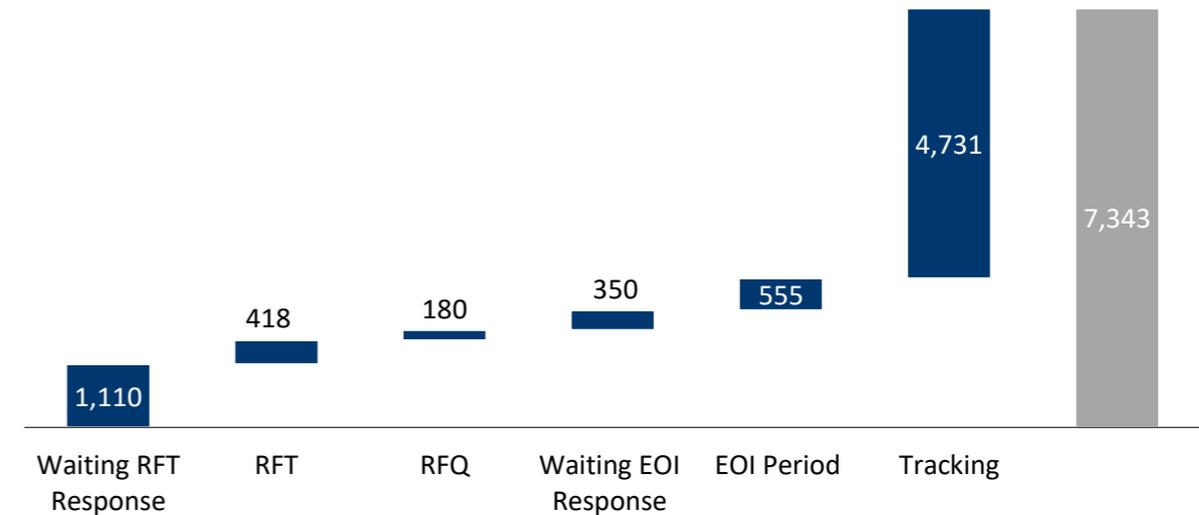
\$7.3BN PIPELINE⁽¹⁾ WITH STRONG AND STABLE CONVERSION RATE

High visibility over future tender opportunities allows Decmil to sufficiently prepare for and assess projects in advance of them coming to market, resulting in strong conversion rates particularly with existing clients

Overview

- Decmil is well positioned to take advantage of growth opportunities given its diversified capabilities and established Tier 1 client base
- Ability to capitalise on existing capabilities in new markets and geographies
- Potential to further expand core capabilities and leverage existing client relationships to offer more comprehensive suite of services
- Resources, transport, infrastructure, transport and renewable energy sectors are all experiencing strong market conditions
- Decmil is focused on optimising margin / risk profile through strategic selection of pipeline projects and implementation of new ERP system

Pipeline value by status (\$m)⁽¹⁾



Horizon 1: Near-term strategic growth opportunities to drive work in hand

Identified opportunities in Power Generation	<ul style="list-style-type: none"> ▪ Strategic Joint Ventures have been identified in the Power Generation sector
Penetrate rail market given new capabilities	<ul style="list-style-type: none"> ▪ Strategic Joint Ventures/Alliances identified in the Rail sector ▪ Conversion of new projects with an extensive rail pipeline in Victoria
Leader in the solar market	<ul style="list-style-type: none"> ▪ Capitalise on limited competition within the solar market to capture greater share of market growth whilst maintaining appropriate contract risk controls as it relates to connection risk
Leverage current opportunities in LNG	<ul style="list-style-type: none"> ▪ Leverage proven capabilities and current operations within the LNG Sector to gain long-term contracts with new customers and capitalise on significant project pipeline ▪ Leverage through strong relationship and track record of previous projects with Woodside



RESOURCES

Providing Services to the LNG/CSG, Bauxite and Iron Ore Sectors



QGC



Amrun MIA



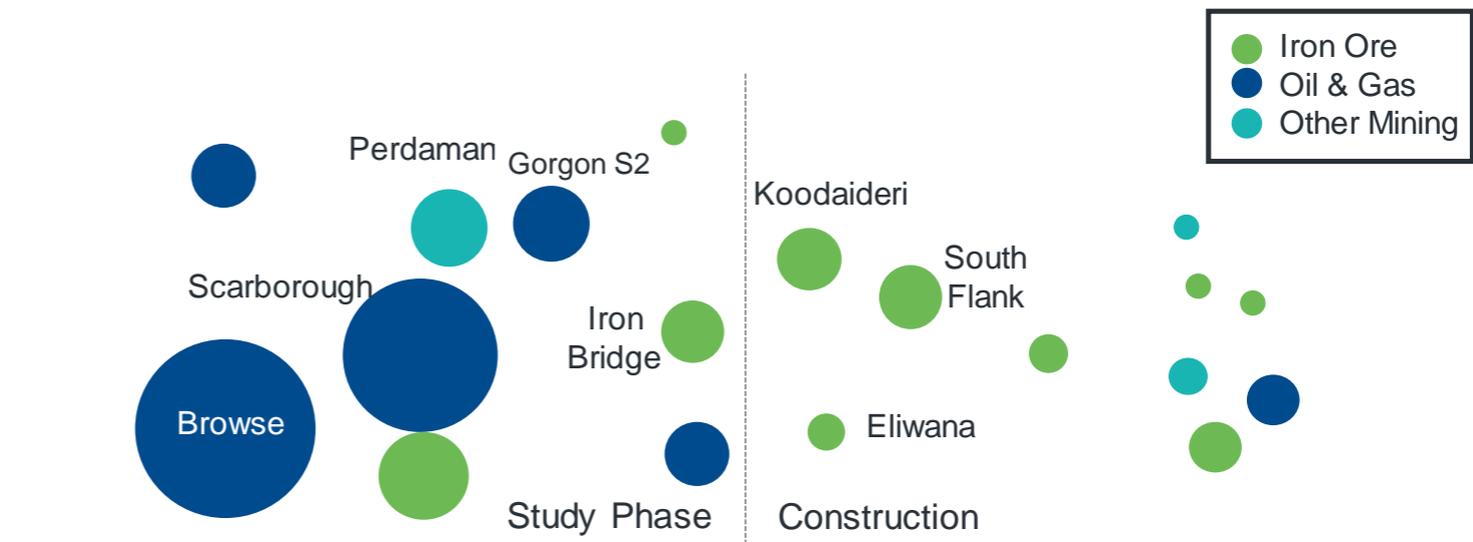
ATTRACTIVE END MARKETS – RESOURCES & ENERGY

Australia is currently experiencing a resurgence in resources and energy investment, after a sustained period of low activity post the mining boom

Resources sector

- Decmil has established itself as a key player in the WA resources sectors and has the capabilities and existing relationships to benefit from the recent uplift in investment
- Resurgence of investment in mining-related infrastructure, including replacement tonnage projects being developed in the WA iron ore market
- Increased exploration expenditure in recent years (growing 11% in FY19 vs pcp) is a strong indicator for a recovery in mining capital expenditure

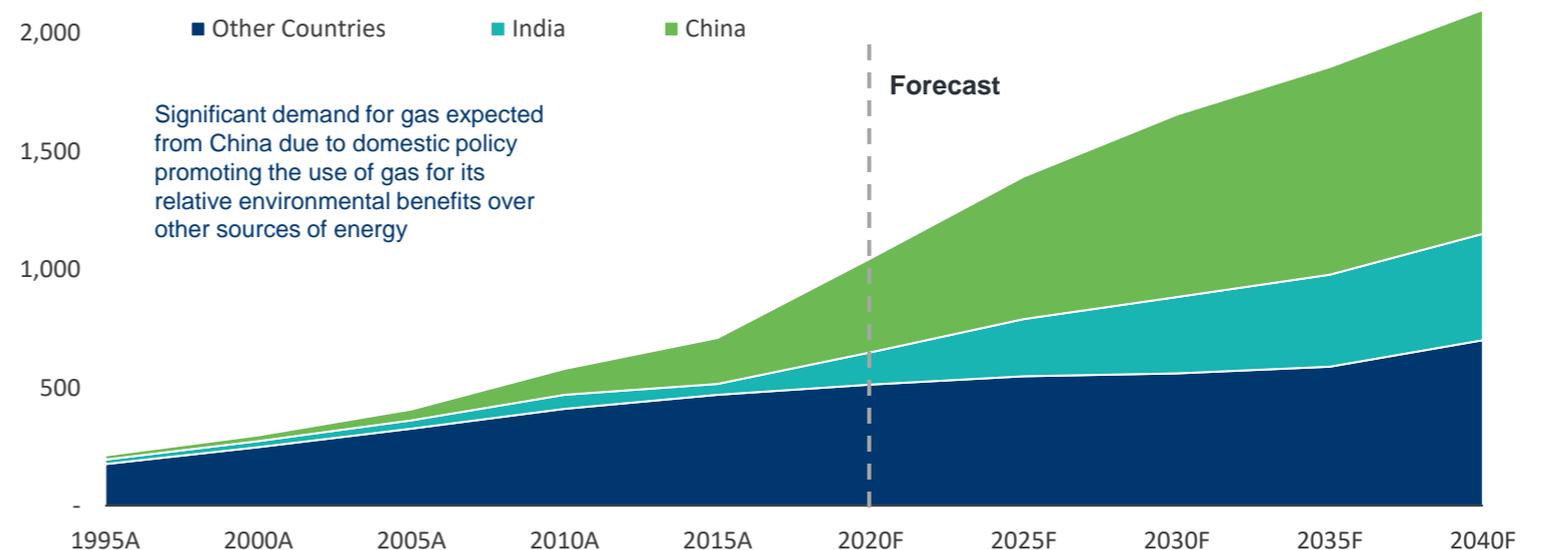
WA National Resources Project Pipeline



Energy Sector

- Strong future LNG demand is expected to be primarily driven by Southeast Asia, shifting from the more established markets of Japan and Korea
- Significant growth in demand expected from Asia up to 2040, providing strong visibility and certainty over long-term demand for Australian gas, with production expected to increase as a result
- Renewed investment in upstream CSG
- Ongoing need for drilling activity, new wells and additional pipelines

LNG Demand (Bcm)



RENEWABLES

EPC and Balance of Plant Works for Remote Wind and Select Solar Projects

Warradarge & Yandin Wind Farms



Sunraysia Solar Farm



ATTRACTIVE END MARKETS – RENEWABLES

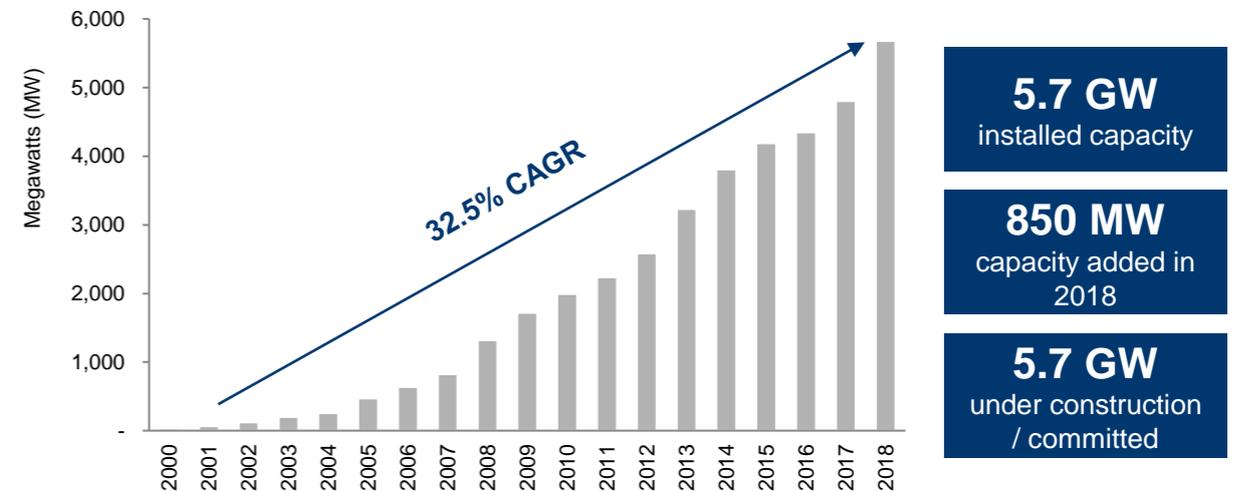


Decmil is well positioned to capitalise on the forecast growth of renewable energy projects in Australia, particularly given its recent wind and solar farm project experience. In addition, Decmil's key competitors have recently exited the sector and provided a significant opportunity to win market share

Unique opportunity to take share

- Decmil has a unique opportunity to take market share and win new work in the fast growing renewables construction market
- In recent years, various competitors (including Downer and RCR) have exited the sector because they have been unable to get comfortable with the increased risk profile associated with such projects
- Decmil has proven knowledge and experience in the sector across both wind farms and solar farms:
 - *Current wind farm projects:* Warradarge Wind Farm, Yandin Wind Farm
 - *Current solar farm projects:* Sunraysia

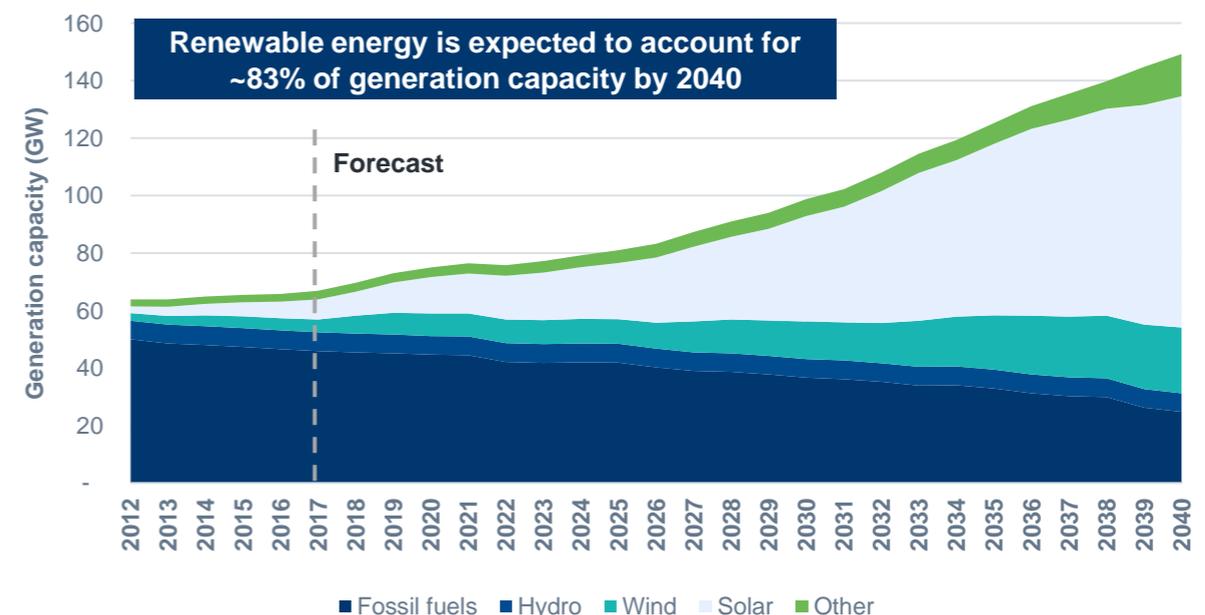
Strong growth in installed wind capacity



Strong growth forecasted

- Renewable energy was responsible for 21.3% of total electricity generation in Australia in 2018
 - With technological advancements, improved economics, social pressure and government policies aimed at reducing carbon emissions, renewable energy is forecast to account for ~83% of generation capacity by 2040
 - Renewable generation capacity is expected to increase from 48GW in 2018 to 125GW in 2040
- 87 large-scale renewable energy projects representing 14.5GW of new generation was under construction or financially committed at the beginning of 2019, including 24 wind farms with a combined capacity of 5.7GW

Forecast Australian electricity generation capacity by type



EXPERIENCED MANAGEMENT TEAM

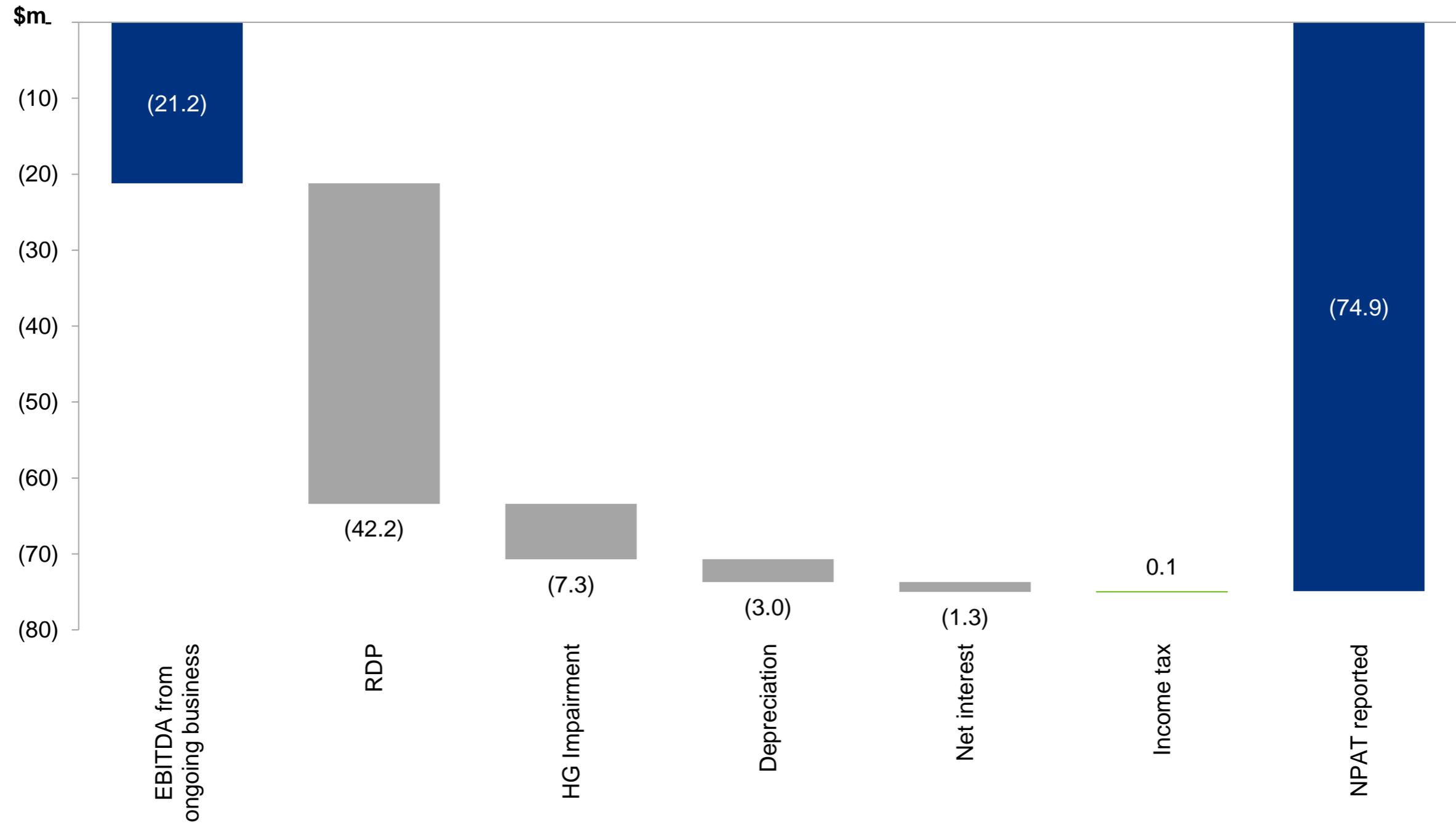


Decmil has a high quality management team with experience across relevant industry sectors including infrastructure, resources and renewables

	<p>Scott Criddle Managing Director and Chief Executive Officer</p>	<ul style="list-style-type: none">▪ Scott was appointed Chief Executive Officer in July 2009, and Managing Director of Decmil Group Limited in April 2010▪ He was previously the Managing Director of Decmil Australia from 2002, where he was responsible for the long-term growth and strategic direction of the company, playing a key role in building relationships with stakeholders and clients▪ Scott joined Decmil Australia in 1993 as a construction labourer to gain experience and learn about the company from the ground up. He held a variety of roles within Decmil Australia including Construction Manager, Estimator, Business Development Manager and Area Manager
	<p>Peter Thomas Chief Financial Officer</p>	<ul style="list-style-type: none">▪ Peter was appointed Chief Financial Officer in February 2020▪ Mr Thomas is an experienced executive in the construction and resources industry with a proven track record in delivering large construction projects, and leading commercial, financial and corporate affairs▪ Mr Thomas' experience in the last decade includes CFO, CEO and Project Director roles with Fortescue Metals Group, Adani and Balla Balla Infrastructure (part of the New Zealand Todd Group)
	<p>Damian Kelliher Executive General Manager – Commercial Risk and Strategy</p>	<ul style="list-style-type: none">▪ Damian joined Decmil in October 2018 as the Executive General Manager – Commercial, Risk and Strategy▪ Prior to joining Decmil, Damian held senior commercial roles with CPB (formally Leighton Contractors), including Commercial Director on the Gorgon Project and the role of Executive General Manager – Commercial and Risk for Civec Construction and Engineering
	<p>Dickie Dique Executive General Manager – Operations</p>	<ul style="list-style-type: none">▪ Dickie joined Decmil as Executive General Manager in February 2019, overseeing the Western and Northern Regions▪ Dickie has over 25 years' industry experience covering the mining, modular, civil and residential sectors▪ He has been a Non-Executive Director on the Board since July 2018, and is very familiar with the Decmil business, having held the roles of General Manager and Chief Operating Officer for the Decmil Group until 2011▪ Prior to re-joining Decmil, Dickie was a Director at Pindan Contracting, and previously sat on the Board of GO2 People Ltd, a leading provider of vertically integrated recruitment and building services to industry throughout Australia

FINANCIALS

Bridge of EBITDA from ongoing business to NPAT reported for H1FY20



FINANCIALS

Current Balance Sheet Position

	29-Feb-20
	\$m
Current Assets	
Cash and cash equivalents	(13)
Trade and other receivables	51
Contract assets	39
Current tax receivable	1
Other assets	10
Total Current Assets	88
Non-Current Assets	
Investment property	85
Property, plant and equipment	10
Right-of-use assets	17
Deferred tax assets	31
Intangible assets	75
Total Non-Current Assets	218
Total Assets	306
Current Liabilities	
Trade and other payables	67
Contract liabilities	29
Borrowings	26
Lease liabilities	3
Provisions	5
Total Current Liabilities	130
Non-Current Liabilities	
Lease liabilities	19
Provisions	1
Total Non-Current Liabilities	20
Total Liabilities	150
Net Assets	156
Equity	
Issued capital	218
Retained earnings	(62)
Total Equity	156



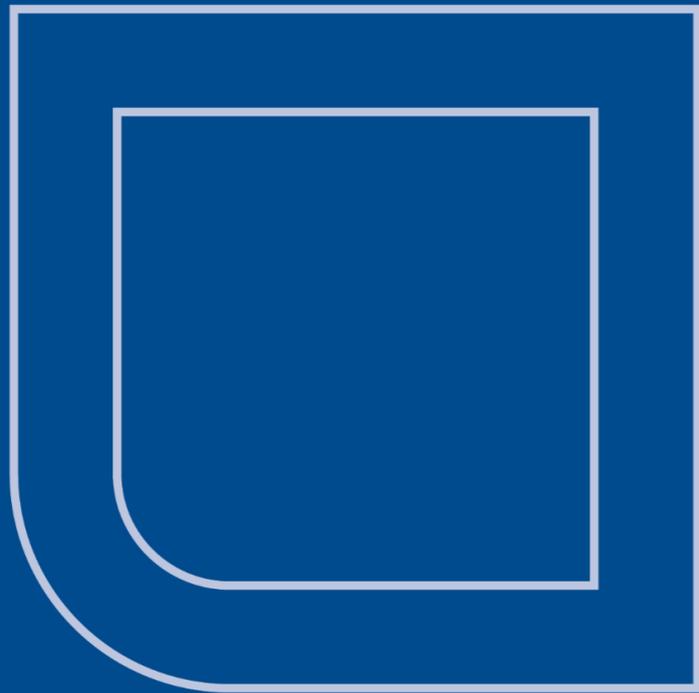
Today (26 March 2020)

- Cash of \$8.5m
- Bank facilities of \$65m comprising
 - \$25m term loan (drawn)
 - \$25m overdraft (undrawn)
 - Factoring facilities, Bank Guarantee facilities
- Surety providers of \$373m
 - \$100m utilised (\$273m unutilised)
- Toyota lease facility of \$8m (\$5.4m utilised)

OUTLOOK

Assuming construction sites in Australia are NOT shut down due to Coronavirus:

- Several projects close to award but revenue impact won't kick in until FY21
- Revenue guidance for FY20 of \$475 – \$525 million
- H2FY20 profit positive
- Cash and liquidity similar to today
- Corporate administration expenses lower than \$30 million per annum run rate at mid year



THANK YOU