Condensed Consolidated Half-year Financial Report
31 December 2016

Downtown
Relationships creating success

Condensed Consolidated Financial Report
for the half-year ended 31 December 2016

Contents

DIRECTORS' REPORT
For the half-year ended 31 December 2016

The Directors of Downer EDI Limited (Downer) submit the condensed consolidated financial report of the Company for the half-year ended 31 December 2016. In accordance with the provisions of the *Corporations Act 2001 (Cth)*, the Directors' Report is set out below:

Directors

The names of the Directors of the Company during, or since the end of, the half-year are:

R M Harding (Chairman, Independent Non-executive Director)

G A Fenn (Managing Director and Chief Executive Officer)

S A Chaplain (Independent Non-executive Director)

P S Garling (Independent Non-executive Director)

T G Handicott (Independent Non-executive Director) – appointed on 21 September 2016

E A Howell (Independent Non-executive Director)

J S Humphrey (Independent Non-executive Director) – retired on 3 November 2016

C G Thorne (Independent Non-executive Director)

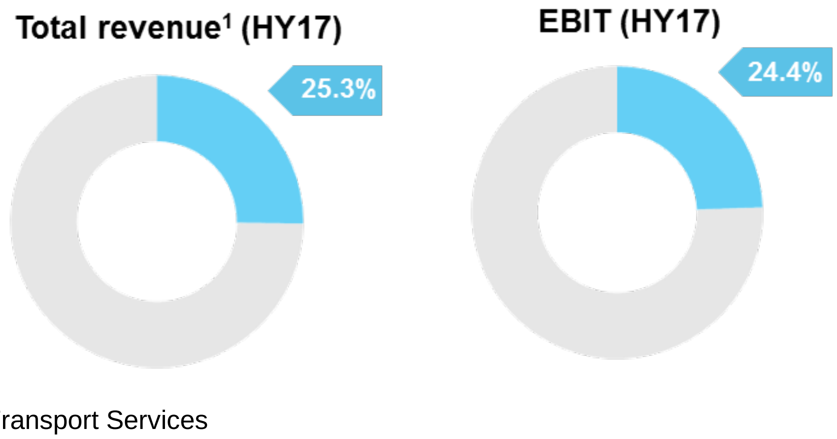
REVIEW OF OPERATIONS

PRINCIPAL ACTIVITIES

Downer EDI Limited (Downer) is a leading provider of services to customers in markets including: Transport Services; Technology and Communications Services; Utilities Services; Rail; Engineering, Construction and Maintenance (EC&M); and Mining. Downer employs about 19,000 people, mostly in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa. An outline of each service line is set out below.

TRANSPORT SERVICES

Transport Services comprises Downer's road, transport infrastructure, bridge, airport and port businesses. It features a broad range of transport infrastructure services including earthworks, civil construction, asset management, maintenance, surfacing and stabilisation, supply of bituminous products and logistics, open space and facilities management and rail track signalling and electrification works.



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. Due to rounding, divisional percentages do not add up precisely to 100%.

Road Services

Downer offers one of the largest non-government owned road infrastructure services businesses in Australia and New Zealand, maintaining more than 40,000 kilometres of road in Australia and more than 32,000 kilometres in New Zealand.

Downer delivers a wide range of tailored pavement treatments and traffic control services and also provides high-level capabilities in strategic and tactical asset management, network planning and intelligent transport systems. The Company continues to invest in state-of-the-art technology to drive innovation and performance, including asphalt plants that use more recycled products and substantially less energy.

Downer is also a leading manufacturer and supplier of bitumen based products and a provider of soil and pavement stabilisation, pressure injection stabilisation, pavement recycling, pavement profiling, spray sealing and asset management.

In October 2016, Downer acquired RPQ Group (RPQ). The principal activities of RPQ include the supply of asphalt, bitumen spray sealing, road milling and profiling, road maintenance, foam bitumen stabilisation, mobile asphalt production, mobile crushing and equipment hire.

Downer's Road Services customers include all of Australia's State Road Authorities, the New Zealand Transport Agency and the majority of local government councils and authorities in both countries.

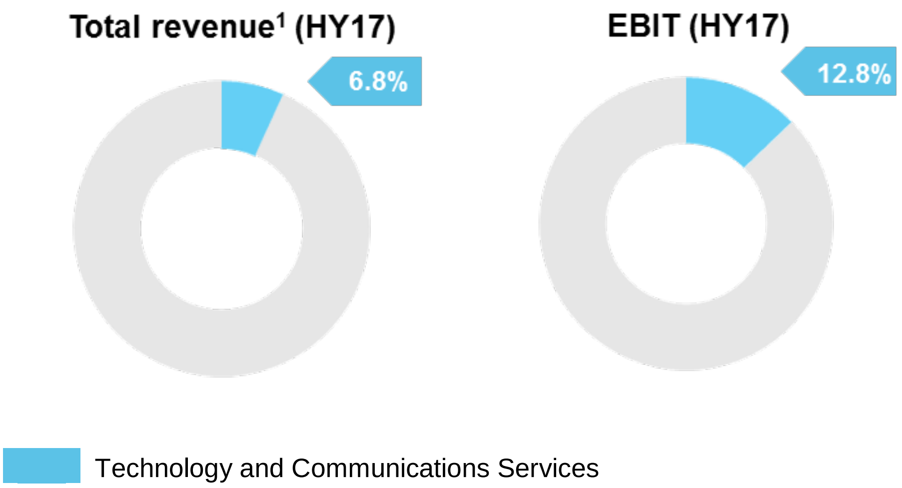
Other Transport Infrastructure

Downer provides a range of transport infrastructure services to its customers including earthworks, civil and rail track construction, design, construction and commissioning of facilities and signalling and electrification works.

Downer also provides integrated services to its airport and port customers including pavement construction, facilities maintenance, communications technologies, open space and asset management and turnkey electrical and communication systems. It also provides whole-of-life asset solutions for associated infrastructure such as roads, rail lines and car parks.

TECHNOLOGY AND COMMUNICATIONS SERVICES

Downer provides an end-to-end infrastructure service offering comprising feasibility, design, civil construction, network construction, commissioning, testing, operations and maintenance across fibre, copper and radio networks in Australia and New Zealand.



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Downer's expertise in the feasibility and design phases of the life cycle provides customers with a high level of assurance and reduces uncertainty at the beginning of the investment process.

Downer has a track record of delivering both fixed and mobile networks across Australia and New Zealand.

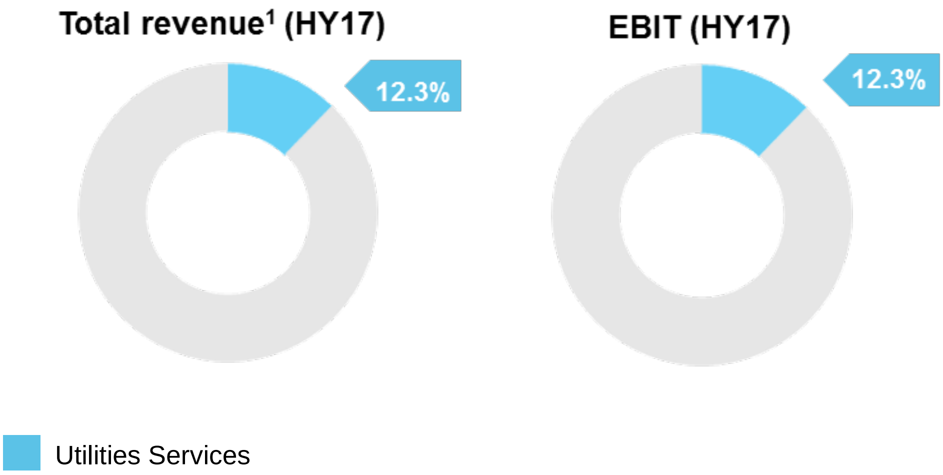
Downer is a leader in intelligent transport technology systems (ITS) in both countries.

Comprehensive project and program management capabilities are supported by our world class engineering and technical capabilities. This allows Downer to deliver projects safely, cost effectively and on time.

Customers include nbn™, Telstra, Chorus, Spark and Vodafone.

UTILITIES SERVICES

The Utilities Services division provides complete lifecycle solutions to customers in the power, gas, water and renewable energy sectors.



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Power and Gas

Downer offers customers a wide range of services including planning, designing, constructing, operating, maintaining, managing and decommissioning power and gas network assets.

Downer erects steel lattice transmission towers, designs and builds substations and connects tens of thousands of new power and gas customers each year. It also maintains over 62,000 kilometres of electricity and gas networks across more than 115,000 square kilometres.

Customers include United Energy, AusNet Services, Ausgrid, Ergon Energy, Powerco, Wellington Electricity and Powerlink.

Water

Downer provides complete water lifecycle solutions for municipal and industrial water users, with expertise including waste and waste water treatment, pumping and water transfer, desalination and water re-use, and abstraction and dewatering.

Supporting its customers across the full asset lifecycle from the conceptual development of a project through design, construction, commissioning and optimisation, Downer also operates and maintains treatment, storage, pump station and network assets.

Customers include Logan City Council, Mackay Regional Council, Melbourne Water, Queensland Urban Utilities, Tauranga City Council, Yarra Valley Water, Wagga Wagga City Council and Watercare.

Renewable energy

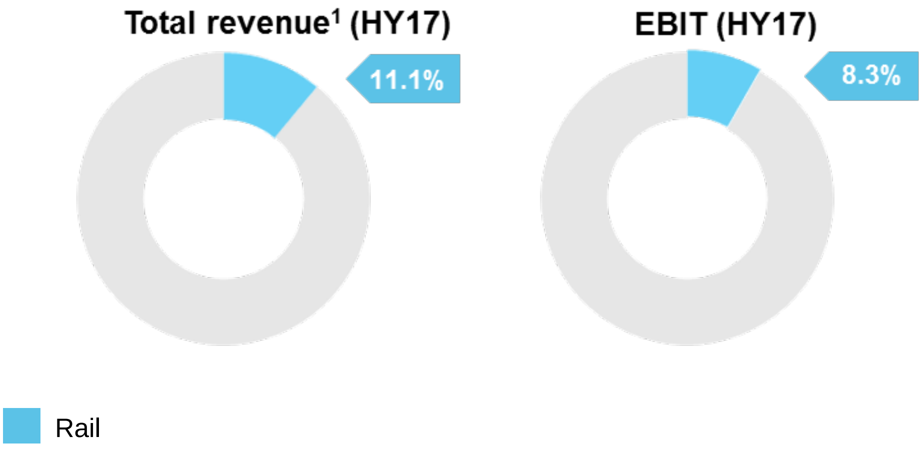
Downer is one of Australia's largest and most experienced providers in the renewable energy market, offering design, build and maintenance services for: wind farms and wind turbine sites; solar farms; landfill methane generation plants; sugar cane waste (Bagasse) fired cogeneration plants; and other biomass fired cogeneration plants.

Downer offers the services required for the entire asset life-cycle including procurement, assembly, construction and commissioning.

Downer is currently working on the Ararat Wind Farm Project (Victoria), the Sunshine Coast Solar Farm (Queensland) and the Clare Solar Farm (Queensland).

RAIL

Downer provides total rail asset solutions including freight and passenger build, operations and maintenance, component overhauls and after-market parts.



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Downer provides services to a range of public and private sector rail customers with capabilities spanning the maintenance, overhaul and provision of passenger and freight rolling stock, as well as importing and commissioning completed locomotive units for use in the resources sector.

Downer operates two fleet control centres, focused on monitoring and management of passenger and freight fleets on behalf of its customers, and four manufacturing plants.

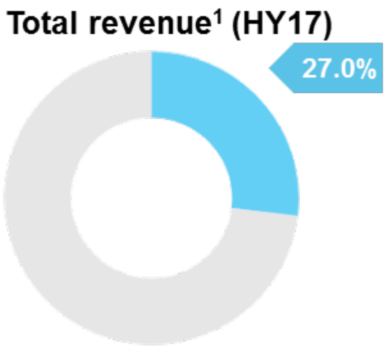
Downer has formed strategic joint ventures and relationships with leading technology and knowledge providers to support its growth objectives in the passenger and freight market. These include Keolis, Electro-Motive Diesel (owned by Caterpillar), and CRRC Changchun Railway Vehicles (CRRC).

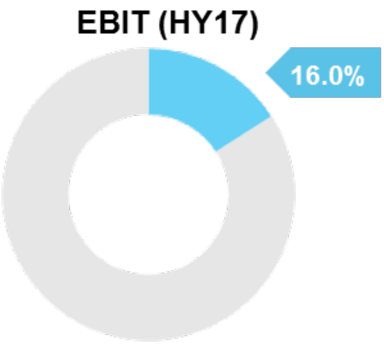
The Keolis Downer joint venture is Australia's largest private provider of multi-modal public transport solutions, with contracts to operate and maintain Yarra Trams in Melbourne and the Gold Coast light rail system in Queensland. Keolis Downer also owns Australian Transit Enterprises (ATE), one of Australia's largest route, school and charter bus businesses. ATE operates a fleet of over 900 buses in South Australia, Western Australia and Queensland.

Customers include Sydney Trains, Transport for NSW, Queensland Rail, Public Transport Authority (WA), Metro Trains Melbourne, Public Transport Victoria, Pacific National, Aurizon, BHP Billiton, Genesee & Wyoming and SCT Logistics.

ENGINEERING, CONSTRUCTION AND MAINTENANCE (EC&M)

Downer works with customers in the public and private sectors delivering services including design, engineering, construction, maintenance and ongoing management of critical assets.





EC&M

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. Due to rounding, divisional percentages do not add up precisely to 100%.

Multi-disciplined teams project manage and self-execute a wide range of services for greenfield and brownfield projects across a range of industry sectors including: oil and gas; power generation; commercial / non-residential; iron ore; coal; and industrial materials. These services are delivered on complex resources and industrial sites as well as commercial operations with critical infrastructure requirements such as data centres, airport facilities and hospitals.

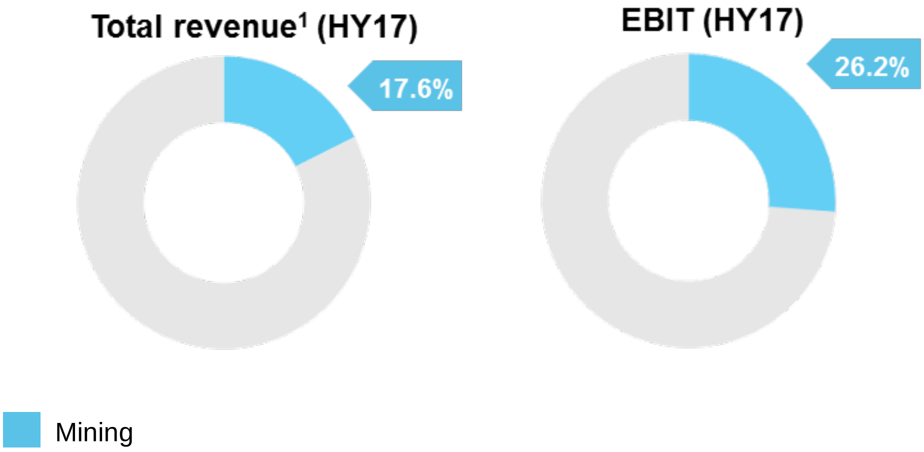
Downer supports customers across all stages of the project lifecycle with services including:

- feasibility studies;
- engineering design;
- civil works;
- structural, mechanical and piping;
- electrical and instrumentation;
- mineral process equipment design and manufacture;
- commissioning;
- operations maintenance;
- shutdowns, turnarounds and outages;
- strategic asset management; and
- decommissioning.

Customers include Alcoa, Bechtel, BHP Billiton, Chevron, Landcorp, Newcrest, Orica, Origin Energy, POSCO, Powerlink Queensland, Rio Tinto, Santos, Transgrid, Wesfarmers and Woodside Energy.

MINING

Downer is one of Australia's leading diversified mining contractors with around 3,500 employees working across more than 50 sites in Australia, Papua New Guinea, South America and Southern Africa.



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Downer's Mining division generates its revenues primarily from open cut mining and blasting services, with contributions also from tyre management and underground mining. Downer supports its customers at all stages of the mining lifecycle including:

- asset management;
- blasting services, explosives manufacture and supply;
- civil projects (mine site infrastructure);
- crushing;
- exploration drilling;
- mine closure and mine site rehabilitation;
- mobile plant maintenance;
- open cut mining;
- training and development for ATSI employees;
- tyre management (through the subsidiary Otraco International); and
- underground mining.

Customers include BHP Mitsubishi Alliance, Glencore, Idemitsu Australia Resources, Karara Mining, Millmerran Power Partners, Newmarket Gold, Newmont, Rio Tinto, Roy Hill Iron Ore, Stanwell Corporation and Yancoal Australia.

GROUP FINANCIAL PERFORMANCE

For the six months ended 31 December 2016, Downer reported increases in total revenue, earnings before interest and tax (EBIT) and net profit after tax (NPAT).

REVENUE

Total revenue for the Group increased by $59.6 million, or 1.7%, to $3.6 billion.

Transport Services revenue increased 13.5% to $911.2 million due to continuing strong performance on existing contracts, improved contribution from Infrastructure Projects including Newcastle Light Rail and the acquisition of RPQ.

Technology and Communications Services revenue decreased 1.6% to $245.9 million due to lower revenue from the completion of the Foxtel contract in Australia, partially offset by favourable performance on the nbn™ contracts in Australia and the Chorus contract in New Zealand.

Utilities Services revenue increased 17.5% to $442.3 million, due to new contracts and strong contributions from renewable energy, power, gas and water projects in Australia and New Zealand.

Rail revenue decreased 4.9% to $399.7 million due to the completion of freight build manufacturing contracts and reduced revenue from the joint venture operations. This was partially offset by higher revenue in passenger maintenance and from improved After Market Services (AMS) sales.

EC&M revenue increased 4.9% to $973.4 million as a result of the increased activities on the Gorgon and Wheatstone projects in Western Australia, offset by the continued downturn in the resources sector in Australia, with significant projects completed in the prior period not being fully replaced.

Mining revenue decreased 18.7% to $635.4 million mainly as a result of the completion of the Christmas Creek contract.

EXPENSES

Total expenses increased by 2.2% which is in line with the 1.7% increase in total revenue.

Employee benefits expenses increased by 2.8%, or $37.7 million, to $1.4 billion and represents 42.7% of Downer's cost base. This increase is mainly due to higher activity across the Group and a more labour intensive contract base in the current period compared to the prior corresponding period (pcp).

Subcontractor costs increased by 16.1% to $729.2 million and represents 22.6% of Downer's cost base. This increase accords with the increase in total revenue and the change in the sub-contractor mix on some contracts. The continued use of subcontracting accords with the Group's strategy to retain cost base variability.

Raw materials and consumables expense increased 0.4% to $567.9 million and represents 17.6% of Downer's cost base. The slight increase is the net impact of raw material requirements for new projects (particularly in Utilities and Transport) offset by lower requirements as a result of completion of contracts in Mining and Rail.

Plant and equipment costs decreased by 16.0% to $253.2 million and represents 7.8% of Downer's cost base. This largely reflects the continued reduction in operating leased assets coupled with increased utilisation of owned assets, more efficient maintenance practices and scope reduction on some Mining contracts.

Depreciation and amortisation decreased by 18.0% to $105.0 million and represents 3.3% of Downer's cost base. This decrease is predominantly as a result of project completion in Mining.

Other expenses, which includes communication, travel, occupancy and professional fees costs, have decreased by 1.0% to $193.5 million and represents 6.0% of Downer's cost base. Included in other expenses is $10.0 million referable to Downer's share of pre-tax bid costs written off in relation to Downer's unsuccessful bid for the New Intercity Fleet contract for Transport for NSW.

EARNINGS

EBIT for the Group increased 6.7% to $120.8 million, consistent with the increase in revenue and with higher margins in Transport Services, Technology and Communications Services, EC&M and Rail. Net Profit After Tax (NPAT) for the Group increased 8.5% to $78.2 million which includes the $10.0 million write-off of New Intercity Fleet bid costs.

Transport Services EBIT increased 31.0% to $41.4 million due to continued strong performance and the successful integration of the RPQ acquisition.

Technology and Communications Services EBIT increased 53.9% to $21.7 million mainly as a result of the continued strong performance in Australia and improved performance in New Zealand.

Utilities Services EBIT decreased 8.8% to $20.8 million, driven by the completion of a major gas project in the pcp in Australia and lower than expected profit from the Ararat wind farm project.

Rail EBIT increased $9.5 million to $14.0 million reflecting improved profitability relating to Waratah TLS, benefits from cost saving initiatives following a restructure in the pcp, and improved performance by joint venture operations. The prior period included $5.7 million of restructuring costs.

EC&M EBIT increased 31.6% to $27.1 million due to continued strong performance on the Gorgon and Wheatstone projects and improved results from the resources related consultancies (QCC Resources and Mineral Technologies), despite the impact of the continued reduced activity in Australia.

Mining EBIT decreased 34.4% to $44.4 million due predominantly to the completion of the contract at Christmas Creek during the period.

Corporate costs decreased by $2.3 million, or 5.7%, to $37.8 million, predominantly due to lower restructuring costs and reduced investment in the IT Transformation Program.

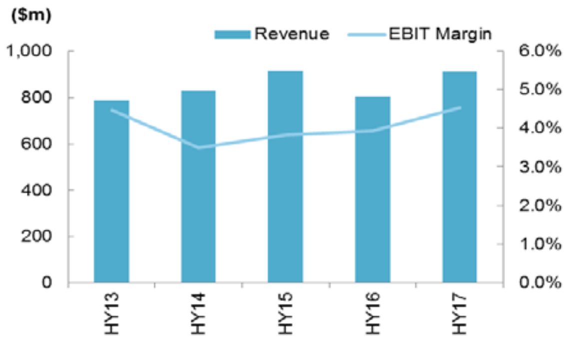
The Group recognised $4.2 million in R&D incentives compared to $5.0 million in the prior period, reflecting a change in legislation that reduced the benefit rate from 10% to 8.5% of the capped eligible spend of $100 million.

Net finance costs decreased by $2.1 million, or 13.3%, to $13.7 million due to a lower average net debt balance during the 2017 half-year, following amortisation of facilities in the normal course, higher cash balances held and the prepayment of two Export Credit Agency (ECA) guaranteed loans during the period.

The effective tax rate of 27.0% is lower than the statutory rate of 30.0% due to non-assessable R&D incentives, non-taxable distributions from joint ventures and lower overseas tax rates.

DIVISIONAL FINANCIAL PERFORMANCE

Transport Services



- Total revenue of $911.2 million, up 13.5%;
- EBIT of $41.4 million, up 31.0%;
- EBIT margin of 4.5%, up 0.6 ppts;
- ROFE of 21.0%, up from 16.1%; and
- Work-in-hand of $5.3 billion.

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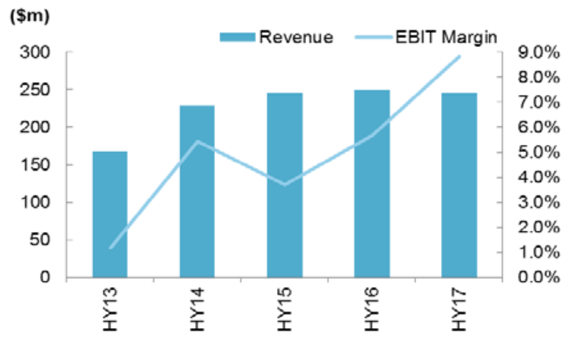
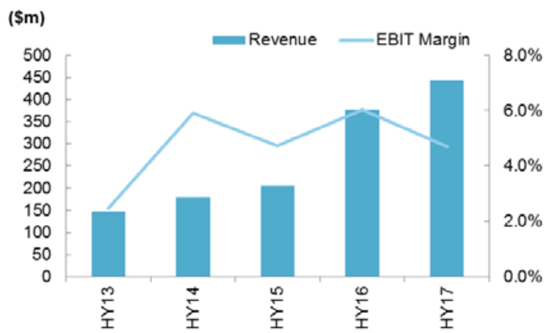
Technology and Communications Services



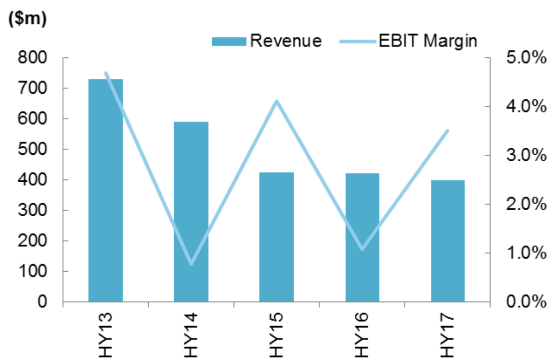
- Total revenue of $245.9 million, down 1.6%;
- EBIT of $21.7 million, up 53.9%;
- EBIT margin of 8.8%, up 3.2 ppts;
- ROFE of 157.3%, up from 58.9%; and
- Work-in-hand of $1.6 billion.

Utilities Services



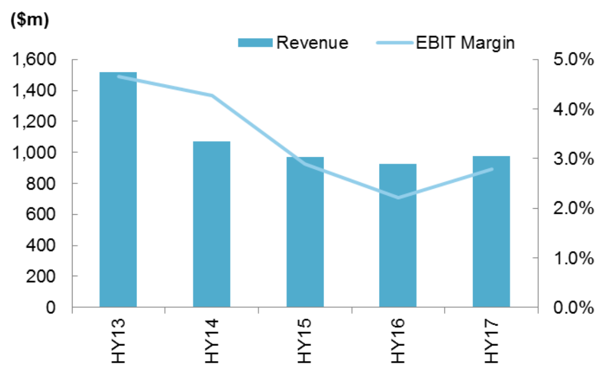
- Total revenue of $442.3 million, up 17.5%;
- EBIT of $20.8 million, down 8.8%;
- EBIT margin of 4.7%, down 1.4 ppts;
- ROFE of 10.8%, down from 13.2%; and
- Work-in-hand of $3.5 billion.

Rail



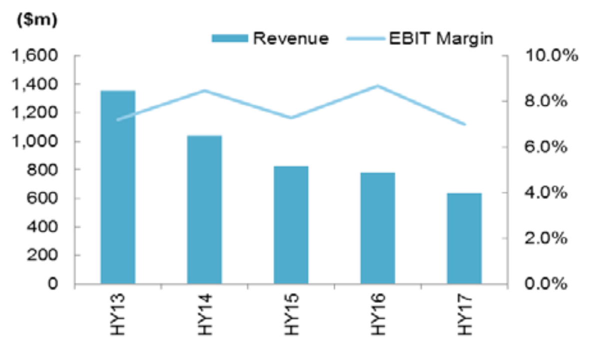
- Total revenue of $399.7 million, down 4.9%;
- EBIT of $14.0 million, up 211.1%;
- EBIT margin of 3.5%, up from 1.1%;
- ROFE of 5.4%, up from 3.6%; and
- Work-in-hand of $7.2 billion.

Engineering, Construction and Maintenance (EC&M)



- Total revenue of $973.4 million, up 4.9%;
- EBIT of $27.1 million, up 31.6%;
- EBIT margin of 2.8%, up 0.6 ppts;
- ROFE of 25.1%, up from 21.2%; and
- Work-in-hand of $1.5 billion.

Mining



- Total revenue of $635.4 million, down 18.7%;
- EBIT of $44.4 million, down 34.4%;
- EBIT margin of 7.0%, down 1.7 ppts;
- ROFE of 16.3%, down from 18.6%; and
- Work-in-hand of $2.0 billion.

GROUP FINANCIAL POSITION

Funding, liquidity and capital are managed at Group level, with Divisions focused on working capital and operating cash flow management. The following financial position commentary relates to the Downer Group.

OPERATING CASH FLOW

Operating cash flow was strong at $243.6 million, up 36.8% on last year due to strong contract performance, advance payments received and higher distributions from equity accounted investees. EBITDA conversion continued to be strong at 102.6%, showing a high correlation between earnings and cash.

INVESTING CASH

Total investing cash flow was $123.4 million, largely in line with the prior period amount of $123.5 million. Reduced capital investment, predominantly in the Mining business, was offset by the acquisitions of RPQ and AGIS in the current period for a combined total cash consideration of $52.0 million. Excluding acquisitions, investing cash flow decreased by $51.6 million. Payments for intangible assets has decreased by $12.3 million compared to pcp and largely represents the Group's investment in IT systems.

DEBT AND BONDING

The Group's performance bonding facilities totalled $1,629.1 million at 31 December 2016 with $823.6 million undrawn. There is material available capacity to support the ongoing operations of the Group.

As at 31 December 2016, Downer had liquidity of $1.1 billion comprising cash balances of $602.1 million and undrawn committed debt facilities of $485.0 million.

The Group continues to be rated BBB (Outlook Stable) by Fitch Ratings.

BALANCE SHEET

The net assets of Downer increased by 1.4% to $2.1 billion.

Cash and cash equivalents increased by $32.7 million, or 5.7%, to $602.1 million, reflecting strong operating cash flows from operations.

Net debt decreased from $87.4 million at 30 June 2016 to $22.2 million at 31 December 2016. This reflects a strong cash position and a reduction in gross debt following the prepayment of two ECA guaranteed loans during the period. The strong cash and reduced net debt position resulted in 1.0% gearing (net debt to net debt plus equity) at 31 December 2016, down from 4.0% at 30 June 2016. The present value of operating lease commitments for plant and equipment also reduced from $128.5 million to $122.5 million, representing an off balance sheet gearing of 6.4% at 31 December 2016, down from 9.4% at 30 June 2016.

Current trade and other receivables decreased $111.7 million to $1,012.6 million. Trade debtor days (excluding WIP) for the Group decreased by 2.8 days, from 23.6 at 30 June 2016 to 20.8 days. Trade debtor days (including WIP) for the Group decreased by 6.4 days, from 57.7 days at 30 June 2016 to 51.3 days.

Inventories decreased $27.4 million to $299.8 million reflecting a reduction in components and spare parts as a result of project completions and tight inventory management.

Current tax assets decreased by $44.8 million to $1.5 million due to the timing of cash tax payments.

Interest in joint ventures and associates increased by $7.1 million, with $6.8 million of distributions received offset by Downer's share of net profits from joint ventures and associates of $13.9 million.

The net value of Property Plant and Equipment decreased by $0.5 million.

Intangible assets increased by $62.6 million due to $56.6 million of goodwill recognised from the acquisition of RPQ and AGIS and the Group's investment in IT systems.

Trade and other payables decreased by $94.7 million as a result of project completions and timing on payments. Trade creditor days decreased by 5.6 days from 37.2 days at 30 June 2016 to 31.6 days. Trade and other payables represent 46.3% of Downer's total liabilities.

Total drawn borrowings of $622.3 million represent 31.0% of Downer's total liabilities and has decreased by $27.7 million as a result of the repayment of debt during the period.

Other financial liabilities of $32.4 million increased by $16.6 million and represent 1.6% of Downer's total liabilities. The increase reflects the $17.5 million deferred consideration on acquisitions of RPQ and AGIS partially offset by a lower mark to market revaluation on cross-currency and interest rate swaps.

Deferred tax liability decreased by $3.1 million to $54.6 million and is primarily due to temporary differences in WIP and accruals.

Provisions of $366.0 million increased by $1.8 million and represents 18.2% of Downer's total liabilities. Employee provisions (annual leave and long service leave) made up 81.9% of this balance with the remainder covering onerous contracts provisions, property and warranty obligations and return conditions obligations for leased assets.

Shareholder equity increased by $29.9 million as the net profit after tax of $78.2 million was partially offset by $55.3 million of dividend payments made during the period. Net foreign currency gains on translation of foreign jurisdictions, particularly in New Zealand, resulted in a movement in the foreign currency translation reserve by $4.1 million.

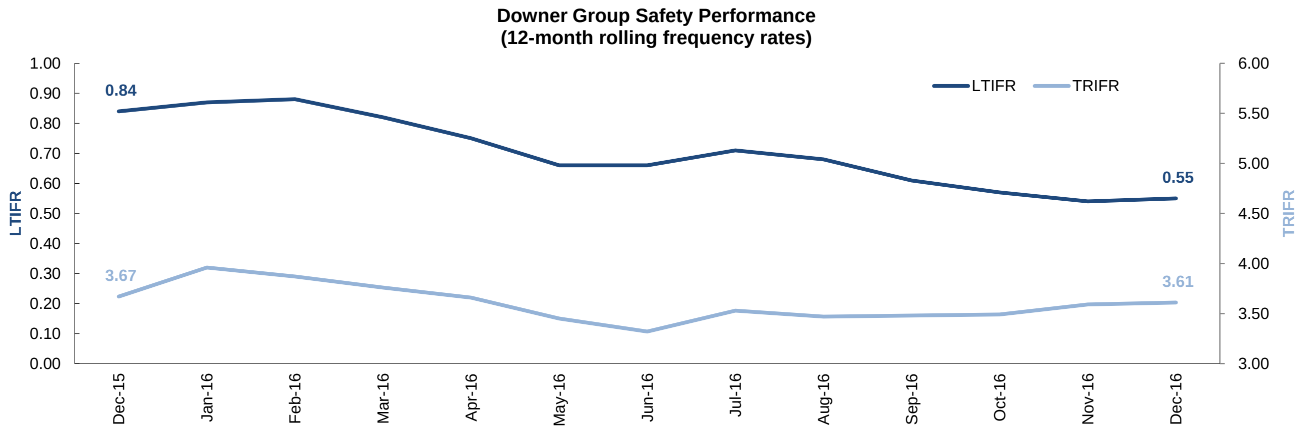
DIVIDENDS

The Downer Board resolved to pay a fully franked interim dividend of 12.0 cents per share (12.0 cents per share in the prior corresponding period), payable on 16 March 2017 to shareholders on the register at 16 February 2017.

The Board also determined to continue to pay a fully imputed dividend on the ROADS security, which having been reset on 15 June 2016 has a yield of 6.29% per annum payable quarterly in arrears, with the next payment due on 15 March 2017. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 4.53% per annum for the next six months.

ZERO HARM

Downer's Lost Time Injury Frequency Rate (LTIFR) reduced from 0.84 to 0.55 and Total Recordable Injury Frequency Rate (TRIFR) reduced from 3.67 to 3.61 per million hours worked.



OUTLOOK

Downer is targeting NPAT of around $175 million for the 2017 financial year.

GROUP BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

Downer strives to improve business performance through a focus on safety, enhanced customer relationships, business transformation, cost efficiencies and productivity gains in response to changing economic conditions. Downer's strategic objectives, prospects and risks that could adversely impact the achievement of these objectives are outlined in the table below:

Strategic Objective	Prospects	Risk Management
Maintain focus on Zero Harm	Downer is an industry leader but seeks to continually improve its performance to achieve its goal of zero work related injuries and environmental incidents.	Downer's activities can result in harm to people and the environment. Downer has sought to mitigate this risk by assessing, understanding and mitigating the "critical risks" facing Downer and implementing Downer's Cardinal Rules which provide direction and guidance on these critical risks.
Build core markets and capabilities	Downer will continue to improve its existing business and build on its market leading positions, capabilities and Intellectual Property. Downer will pursue initiatives to achieve these objectives, including:	The achievement of these strategic objectives may be affected by macro-economic risks including global economic conditions, volatile commodity prices, reduced capital expenditure in the Australian resources sector, insourcing by key customers (e.g. rolling stock maintenance and mining services), early termination or scope reduction on existing contracts (e.g. contract mining) and increasing overseas competition. Downer will continue to manage its exposure to these risks through:
	▪ developing and growing Asset Management capabilities;	▪ forming strategic partnerships and joint ventures with leading technology and knowledge providers;
	▪ focusing more closely on forward revenue opportunities in public transport (network construction, operations and maintenance), electricity networks (through State Government privatisations), passenger heavy and light rail, outsourcing of road maintenance by State Governments and the nbn roll-out;	▪ forming strategic partnerships and joint ventures with leading technology and knowledge providers and enhancing Downer's Customer Relationship Management (CRM) program;
	▪ expanding into overseas markets selectively through existing customer relationships;	▪ identification, and rigorous review, of overseas opportunities;
	▪ enhancing management capability to improve operational and financial performance;	▪ a succession planning process for all leadership roles and a leadership development program;
	▪ adapting tendering model for large infrastructure projects; and	▪ bid governance processes that ensure i) there is a substantial level of risk assessment to inform Downer's decision on whether to bid, and the terms of the bid, and ii) there is a strong focus on bid costs throughout the tender process; and
	▪ maintaining industry and geographical diversification to achieve greater resilience through economic cycles.	▪ growth and development strategies to diversify revenue sources, including through joint ventures.
Strengthen customer relationships	Continuous improvement of the Company's engagement with customers, including working with them constructively to reduce costs and improve productivity.	Ongoing analysis of markets, customers and competitors to understand potential impacts and determine necessary action.
	Leveraging "cross-selling" opportunities.	Continuing to drive benefits from Downer's broad range of capabilities and CRM tools.
	Engaging more closely with customers to understand their needs and play a more substantial role in their success.	Downer restructured in 2015 to create better alignment with its customer base and is implementing a range of initiatives to develop a more customer-focused organisation.

Drive efficiency and productivity	Downer has two key internal business initiatives: ▪ Fit 4 Business Program: which has achieved over $600 million in cost benefits since its launch in FY11; and ▪ Business Transformation Program: involves investment in core systems and the consolidation of business services. Downer has taken proactive steps to 'right-size' its business in alignment with market conditions.	Failing to take proactive steps to reduce costs in line with forward revenue projections would jeopardise the ability to drive further improvements to business performance. The focus on business improvement, technological advancements and cost management is a fundamental part of Downer's formal planning processes, day-to-day management activities and governance activities.
	Continue to improve tender, contract and project risk management processes.	Rigorous tender, contract and project risk policies and procedures consistently across the Group.
	Continue to focus on asset utilisation and the appropriateness of the carrying value and allocation of non-current assets.	Detailed review of equipment, including age and valuation. Asset specific maintenance plans and continued assessment to ensure equipment is allocated on a best fit-for-purpose basis.
Assess growth opportunities	Downer assesses merger and acquisition opportunities on an ongoing basis, including in new geographies, with a focus on the following key criteria: ▪ strategic fit for Downer; ▪ growth of capability; and ▪ appropriate valuation.	Downer undertakes rigorous analysis of potential opportunities to ensure they meet the key criteria and are structured to mitigate downside risks. The company is also focused on ensuring it remains well within its financing covenant and credit rating metrics.
Capital management	Downer intends to maintain strong balance sheet and financial metrics. It also intends to maintain an investment-grade external credit rating.	The Group maintains ample capacity to support its ongoing operations and continues to be rated BBB (Stable) by Fitch Ratings.

The following table provides an overview of the key prospects relevant to each of Downer's service lines and summarises Downer's intended strategic response across each sector to maximise the Company's performance and realise future opportunities.

Service line	**Prospects**	**Downer's response**
Transport Services	Potential for further outsourcing as Governments seek greater efficiency and smarter solutions.	Downer is a market leader in Australia and New Zealand and is well positioned for future opportunities in both countries. Downer has a vertically integrated road services business with end-to-end service offering, including asphalt production.
Technology and Communications Services	Customers are developing new performance-based contracting models, based on closer collaboration between parties, which are generating longer term construction, operations and maintenance opportunities.	Downer is a market leader in both Australia and New Zealand and works closely with its customers in both countries to adapt to the changing environment and help them achieve success.
Utilities Services	The power, gas and water markets offer long-term operations and maintenance contract opportunities, with potential for growth through increased outsourcing. In addition, there is substantial investment in renewable energy as Australia strives to achieve the Government's Renewable Energy Target.	Downer has market leading positions in both Australia and New Zealand and is well positioned for future opportunities, including those flowing from State Government privatisation of electricity assets.

Rail	Governments are seeking value through: ▪ the procurement of large orders of passenger rolling stock and long-term maintenance contracts; ▪ the franchising of operations and maintenance of heavy rail, light rail and bus transport networks; and ▪ the development of multi-modal transport infrastructure solutions. Freight customers are seeking continual improvements to fleet performance and reliability, with a strong focus on technology and innovation.	Downer's rail asset management model has a strong focus on 'return on investment' – i.e. increasing fleet availability and reliability. Downer maintains strong strategic partnerships with leading global transport solutions providers and, through this model, is pursuing opportunities in rolling stock manufacture and maintenance and transport network operations and maintenance. The Keolis Downer joint venture is a leading Australian multi-modal transport operator, through its light rail and bus operations.
EC&M	EC&M opportunities, particularly in the resources sector, are declining due to the mining downturn. They are being replaced by opportunities at different stages of the investment / asset lifecycle and across adjacent sectors.	Downer is building on its leading, multi-discipline capability, working with customers to provide the best project management delivery mode, and developing its asset management capabilities to become a strategic solutions provider across the complete asset lifecycle. Downer is also focused on optimising its performance on existing LNG projects.
Mining	Depressed commodity prices have led to reduced volumes and lower levels of investment, increasing the industry's focus on cost reduction. However, opportunities exist for mining contractors that can work collaboratively with customers to help drive productivity improvements and reduce production costs.	Downer's Mining division continues to perform strongly by focusing on cost reduction, increased efficiencies and close collaboration with customers. The business continues to examine overseas opportunities.

Auditor's independence declaration

The auditor's independence declaration, as required under Section 307C of the Corporations Act 2001, is set out on page 17.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

R M Harding
Chairman
Sydney, 2 February 2017

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Downer EDI Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

John Teer
Partner

Sydney

2 February 2017

Independent Auditor's Review Report

To the Members of Downer EDI Limited

Conclusion

We have reviewed the accompanying half-year financial report of Downer EDI Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Downer EDI Limited is not in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

ii) complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The half-year financial report comprises:

- the condensed consolidated statement of financial position as at 31 December 2016;
- condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date;
- notes A to D comprising a summary of significant accounting policies and other explanatory information; and
- the Directors' declaration.

The Group comprises Downer EDI Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors for the half-year financial report

The Directors of the Company are responsible for:

- the preparation of the half-year financial report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Downer EDI Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

John Teer
Partner

Sydney

2 February 2017

Cameron Slapp
Partner

Sydney

2 February 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the half-year ended 31 December 2016

	Note	31 Dec 2016 $'m	31 Dec 2015 $'m
Revenue from ordinary activities	B2	**3,333.6**	3,262.0
Other income	B2	**1.0**	2.6
Total revenue and other income		**3,334.6**	3,264.6
Employee benefits expense	B2	**(1,378.9)**	(1,341.2)
Subcontractor costs		**(729.2)**	(628.2)
Raw materials and consumables used		**(567.9)**	(565.4)
Plant and equipment costs		**(253.2)**	(301.3)
Depreciation and amortisation	D1,D2	**(105.0)**	(128.0)
Other expenses from ordinary activities		**(193.5)**	(195.4)
Total expenses		**(3,227.7)**	(3,159.5)
Share of net profit of joint ventures and associates		**13.9**	8.1
Earnings before interest and tax		**120.8**	113.2
Finance income		**4.7**	3.8
Finance costs		**(18.4)**	(19.6)
Net finance costs		**(13.7)**	(15.8)
Profit before income tax		**107.1**	97.4
Income tax expense		**(28.9)**	(25.3)
Profit after income tax		**78.2**	72.1
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
- Exchange differences arising on translation of foreign operations		**4.1**	10.7
- Net gain / (loss) on foreign currency forward contracts taken to equity		**3.8**	(1.2)
- Net loss on cross currency interest rate swaps taken to equity		**(0.3)**	(1.2)
- Income tax relating to components of other comprehensive income		**(1.1)**	0.7
Other comprehensive income for the period (net of tax)		**6.5**	9.0
Total comprehensive income for the period		**84.7**	81.1
Earnings per share (cents)			
- Basic earnings per share	B3	**17.6**	15.8
- Diluted earnings per share	B3	**17.1**	15.1

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 24 to 38.

Condensed Consolidated Statement of Financial Position
as at 31 December 2016

	Note	Dec 2016 $'m	Jun 2016 $'m
ASSETS			
Current assets			
Cash and cash equivalents		**602.1**	569.4
Trade and other receivables		**1,012.6**	1,124.3
Other financial assets		**12.4**	10.1
Inventories		**299.8**	327.2
Current tax assets		**1.5**	46.3
Prepayments and other assets		**30.1**	38.2
Total current assets		**1,958.5**	2,115.5
Non-current assets			
Trade and other receivables		**28.3**	17.3
Interest in joint ventures and associates		**88.7**	81.6
Property, plant and equipment	D1	**987.8**	988.3
Intangible assets	D2	**1,032.5**	969.9
Other financial assets		**24.9**	22.1
Prepayments and other assets		**5.0**	5.6
Total non-current assets		**2,167.2**	2,084.8
Total assets		**4,125.7**	4,200.3
LIABILITIES			
Current liabilities			
Trade and other payables		**916.0**	1,010.9
Borrowings	C1	**34.5**	45.5
Other financial liabilities		**18.0**	15.1
Employee benefits provision		**274.6**	254.2
Provisions		**36.5**	51.6
Current tax liabilities		**3.1**	0.5
Total current liabilities		**1,282.7**	1,377.8
Non-current liabilities			
Trade and other payables		**12.9**	12.7
Borrowings	C1	**587.8**	604.5
Other financial liabilities		**14.4**	0.7
Employee benefits provision		**25.1**	27.6
Provisions		**29.8**	30.8
Deferred tax liabilities		**54.6**	57.7
Total non-current liabilities		**724.6**	734.0
Total liabilities		**2,007.3**	2,111.8
Net assets		**2,118.4**	2,088.5
EQUITY			
Issued capital	C3	**1,428.8**	1,427.8
Reserves		**(2.8)**	(8.8)
Retained earnings		**692.4**	669.5
Total equity		**2,118.4**	2,088.5

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 24 to 38.

Condensed Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2016

Dec 2016 $'m	Issued capital	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Total
Balance at 1 July 2016	**1,427.8**	**(2.6)**	**(18.4)**	**12.2**	**669.5**	**2,088.5**
Profit after income tax	**-**	**-**	**-**	**-**	**78.2**	**78.2**
Other comprehensive income for the period (net of tax)	**-**	**2.4**	**4.1**	**-**	**-**	**6.5**
Total comprehensive income for the period	**-**	**2.4**	**4.1**	**-**	**78.2**	**84.7**
Vested executive incentive shares transactions	**1.0**	**-**	**-**	**(1.0)**	**-**	**-**
Share-based employee benefits expense	**-**	**-**	**-**	**1.2**	**-**	**1.2**
Income tax relating to share-based transactions during the period	**-**	**-**	**-**	**(0.7)**	**-**	**(0.7)**
Payment of dividends[i]	**-**	**-**	**-**	**-**	**(55.3)**	**(55.3)**
Balance at 31 December 2016	**1,428.8**	**(0.2)**	**(14.3)**	**11.7**	**692.4**	**2,118.4**

[i] Payment of dividend relates to the 2016 final dividend and $4.3m ROADS dividends paid during the financial period.

Dec 2015 $'m	Issued capital	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Total
Balance at 1 July 2015	1,449.1	(0.3)	(27.8)	12.3	602.0	**2,035.3**
Profit after income tax	-	-	-	-	72.1	**72.1**
Other comprehensive income for the period (net of tax)	-	(1.7)	10.7	-	-	**9.0**
Total comprehensive income for the period	-	(1.7)	10.7	-	72.1	**81.1**
Group on-market share buy-back	(6.4)	-	-	-	-	**(6.4)**
Vested executive incentive shares transactions	0.9	-	-	-	-	**0.9**
Share-based employee benefits expense	-	-	-	2.4	-	**2.4**
Income tax relating to share-based transactions during the period	-	-	-	(0.1)	-	**(0.1)**
Payment of dividends[i]	-	-	-	-	(56.7)	**(56.7)**
Balance at 31 December 2015	1,443.6	(2.0)	(17.1)	14.6	617.4	**2,056.5**

[i] Payment of dividend relates to the 2015 final dividend and $4.8m ROADS dividends paid during the financial period.

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 24 to 38.

Condensed Consolidated Statement of Cash Flows
for the half-year ended 31 December 2016

	31 Dec 2016 $'m	31 Dec 2015 $'m
Cash flows from operating activities		
Receipts from customers	**3,821.4**	3,690.6
Distributions from equity accounted investees	**6.8**	2.1
Payments to suppliers and employees	**(3,596.5)**	(3,537.6)
Interest received	**4.1**	3.5
Interest and other costs of finance paid	**(17.3)**	(14.7)
Net income tax received	**25.1**	34.2
Net cash inflow from operating activities	**243.6**	178.1
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**17.8**	12.0
Payments for property, plant and equipment	**(72.2)**	(112.0)
Payments for intangible assets	**(16.4)**	(28.7)
Receipt from investments	**-**	0.6
Advances to joint ventures	**-**	(1.5)
Proceeds from sale of businesses	**-**	7.2
Payments for businesses acquired	**(52.6)**	(1.1)
Net cash used in investing activities	**(123.4)**	(123.5)
Cash flows from financing activities		
Group on-market share buy-back	**-**	(6.4)
Proceeds from borrowings	**-**	168.9
Repayments of borrowings	**(32.8)**	(44.8)
Dividends paid	**(55.3)**	(56.7)
Net cash (used in) / inflow from financing activities	**(88.1)**	61.0
Net increase in cash and cash equivalents	**32.1**	115.6
Cash and cash equivalents at the beginning of the period	**569.4**	372.2
Effect of exchange rate changes	**0.6**	1.7
Cash and cash equivalents at the end of the period	**602.1**	489.5

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 24 to 38.

A
About this report

Statement of compliance and basis of preparation

These condensed consolidated half-year Financial Report (Financial Report) represent the consolidated results of Downer EDI Limited (ABN 97 003 872 848). The Financial Report is general purpose financial statements which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth), and with IAS 34 *Interim Financial Reporting* .

The Financial Report does not include all the information required for an annual financial report and should be read in conjunction with the 2016 Annual Report.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The accounting policies and methods of computation applied in the Financial Report are consistent with those adopted and disclosed in the 2016 Annual Report. Amounts in the Financial Report are presented in Australian dollars unless otherwise noted and has been prepared on a historical cost basis, except for revaluation of certain financial instruments.

The Financial Report was authorised for issue by the Directors on 2 February 2017.

Rounding of amounts

Downer is a company of the kind referred to in *ASIC Corporations (Rounding in Financial / Directors' reports) Instrument 2016/191* , relating to the "rounding off" of amounts in the Directors' Report and consolidated financial statements. Unless otherwise expressly stated, amounts have been rounded off to the nearest whole number of millions of dollars and one place of decimals representing hundreds of thousands of dollars in accordance with that Instrument. Amounts shown as $- represent amounts less than $50,000 which have been rounded down.

Accounting estimates and judgements

Significant judgement, estimates and assumptions about future events are made by management when applying accounting policies and preparing the Financial Report which are consistent with those described in the 2016 Annual Report.

B
Business performance

B1. Segment information

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses. The operating segments have been identified based on the nature of the service provided and the internal reports that are reviewed regularly by the Group CEO in assessing performance and in determining the allocation of resources.

The reportable segments identified within the Group are outlined below:

- Transport Services
- Technology and Communication Services (Tech & Comms Services)
- Utilities Services
- Rail
- Engineering, Construction and Maintenance (EC&M)
- Mining

There have been no changes to the composition of the Group's reportable segments since last reported in the 2016 Annual Report.

Notes to the condensed consolidated financial report - *continued*
for the half-year ended 31 December 2016

B1. Segment information - *continued*

31 Dec 2016 $'m	Transport Services	Tech & Comms Services	Utilities Services	Rail	EC&M	Mining	Un-allocated	Total
Revenue	**885.5**	**245.9**	**442.3**	**202.0**	**951.6**	**612.2**	**5.2**	**3,344.7**
Inter-segment sales	**-**	**-**	**-**	**-**	**-**	**-**	**(10.1)**	**(10.1)**
Total segment revenue	**885.5**	**245.9**	**442.3**	**202.0**	**951.6**	**612.2**	**(4.9)**	**3,334.6**
Share of sales revenue from joint ventures and associates[i]	**25.7**	**-**	**-**	**197.7**	**21.8**	**23.2**	**-**	**268.4**
Total revenue including joint ventures and other income[i]	**911.2**	**245.9**	**442.3**	**399.7**	**973.4**	**635.4**	**(4.9)**	**3,603.0**
Total reported segment results (EBIT)	**41.4**	**21.7**	**20.8**	**14.0**	**27.1**	**44.4**	**(48.6)**	**120.8**

31 Dec 2015 $'m	Transport Services	Tech & Comms Services	Utilities Services	Rail	EC&M	Mining	Un-allocated	Total
Revenue	771.8	249.9	376.5	211.5	912.1	758.2	9.7	3,289.7
Inter-segment sales	-	-	-	-	-	-	(25.1)	(25.1)
Total segment revenue	771.8	249.9	376.5	211.5	912.1	758.2	(15.4)	3,264.6
Share of sales revenue from joint ventures and associates[i]	31.1	-	-	208.6	15.7	23.4	-	278.8
Total revenue including joint ventures and other income[i]	802.9	249.9	376.5	420.1	927.8	781.6	(15.4)	3,543.4
Total reported segment results (EBIT)	31.6	14.1	22.8	4.5	20.6	67.7	(48.1)	113.2

[i] This is a non-statutory disclosure as it relates to Downer's share of revenue from equity accounted joint ventures and associates.

Reconciliation of segment net operating profit to net profit after tax:

	Segment results 31 Dec 2016 $'m	Segment results 31 Dec 2015 $'m
Segment net operating profit	**169.4**	161.3
Unallocated:		
Research and development incentives	**4.2**	5.0
Bid costs referable to New Intercity Fleet rail project[i]	**(10.0)**	-
Bid costs referable to Canberra light rail project[ii]	**-**	(13.0)
Settlement of contractual claims	**(5.0)**	-
Corporate costs	**(37.8)**	(40.1)
Total unallocated	**(48.6)**	(48.1)
Earnings before interest and tax	**120.8**	113.2
Net finance costs	**(13.7)**	(15.8)
Profit before income tax	**107.1**	97.4
Income tax expense	**(28.9)**	(25.3)
Profit after income tax	**78.2**	72.1

[i] Downer was a member of the Constellation Rail consortium. On 18 August 2016, the consortium was advised that it had not been successful in its bid to deliver and maintain the New Intercity Fleet (NIF) for Transport for NSW. Accordingly, an amount of $10.0 million, referable to Downer's share of pre-tax bid costs, has been expensed.

[ii] Downer was a member of the ACTivate consortium. On 1 February 2016, the consortium was advised that it had not been successful in its bid to build, operate and maintain Canberra's new light rail project ("Capital Metro"). Accordingly, an amount of $13.0 million, referable to Downer's share of pre-tax bid costs, has been expensed.

B2. Profit from ordinary activities

a) Revenue and other income

	31 Dec 2016 $'m	31 Dec 2015 $'m
Sales revenue		
Rendering of services	**2,137.3**	1,955.9
Mining services	**598.0**	739.4
Construction contracts	**482.1**	449.0
Sale of goods	**104.8**	98.1
Other revenue	**11.4**	19.6
Total revenue from ordinary activities	**3,333.6**	3,262.0
Other income	**1.0**	2.6
Total revenue and other income	**3,334.6**	3,264.6
Share of sales revenue from joint ventures and associates(i)	**268.4**	278.8
Total revenue including joint ventures and associates and other income(i)	**3,603.0**	3,543.4

(i) This is a non-statutory disclosure as it relates to Downer's share of revenue from equity accounted joint ventures and associates.

b) Operating expenses

	31 Dec 2016 $'m	31 Dec 2015 $'m
Employee benefits expense:		
- Defined contribution plans	**73.9**	69.6
- Share-based employee benefits expense	**1.2**	2.4
- Employee benefits	**1,303.8**	1,269.2
Total employee benefits expense	**1,378.9**	1,341.2
Operating lease expenses relating to land and building	**33.6**	34.2
Operating lease expenses relating to plant and equipment	**45.5**	49.4
Total operating lease expenses	**79.1**	83.6
Net loss on disposal of business	**-**	2.3

c) Individually significant items

	31 Dec 2016 $'m	31 Dec 2015 $'m
The following material items are relevant to an understanding of the Group's financial performance:		
- Bid costs referable to New Intercity Fleet rail project(i)	**10.0**	-
- Bid costs referable to Canberra light rail project(ii)	**-**	13.0

(i) Downer was a member of the Constellation Rail consortium. On 18 August 2016, the consortium was advised that it had not been successful in its bid to deliver and maintain the New Intercity Fleet (NIF) for Transport for NSW. Accordingly, an amount of $10.0 million, referable to Downer's share of pre-tax bid costs, has been expensed.

(ii) Downer was a member of the ACTivate consortium. On 1 February 2016, the consortium was advised that it had not been successful in its bid to build, operate and maintain Canberra's new light rail project ("Capital Metro"). Accordingly, an amount of $13.0 million, referable to Downer's share of pre-tax bid costs, has been expensed.

Notes to the condensed consolidated financial report - *continued*
for the half-year ended 31 December 2016

B3. Earnings per share

Basic earnings per share

The calculation of basic earnings per share (EPS) is based on the profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding.

	31 Dec 2016	31 Dec 2015
Profit attributable to members of the parent entity ($'m)	**78.2**	72.1
Adjustment to reflect ROADS dividends paid ($'m)	**(4.3)**	(4.8)
Profit attributable to members of the parent entity used in calculating EPS ($'m)	**73.9**	67.3
Weighted average number of ordinary shares (WANOS) on issue (m's)[(i)]	**420.5**	427.1
Basic earnings per share (cents per share)	**17.6**	15.8

Diluted earnings per share

The calculation of diluted EPS is based on the profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares.

	31 Dec 2016	31 Dec 2015
Profit attributable to members of the parent entity ($'m)	**78.2**	72.1
Weighted average number of ordinary shares - diluted		
Weighted average number of ordinary shares (WANOS) on issue (m's)[(i)(ii)]	**420.5**	427.8
WANOS adjustment to reflect potential dilution for ROADS (m's)[(iii)]	**37.7**	50.9
WANOS used in the calculation of diluted EPS (m's)	**458.2**	478.7
Diluted earnings per share (cents per share)	**17.1**	15.1

(i) The WANOS on issue has been adjusted by the weighted average effect of on-market share buy-back and the unvested executive incentive shares.

(ii) For diluted earnings per share, the WANOS has been further adjusted by the potential vesting of executive incentive shares.

(iii) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the reporting date. It is calculated based on the issued value of ROADS in New Zealand dollars converted to Australian dollars at the spot rate prevailing at the reporting date, which was $192.4 million (Dec 2015: $187.5 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2016 to 31 December 2016 discounted by 2.5% according to the ROADS contract terms, which was $5.10 (Dec 2015: $3.68).

B4. Subsequent events

At the date of this report there is no matter or circumstance that has arisen since the end of the period, that has significantly affected, or may significantly affect:

a) The Group's operations in future financial years;
b) The results of those operations in future financial years; or
c) The Group's state of affairs in future financial years.

C
Capital structure and financing

C1. Borrowings

	Dec 2016 $'m	Jun 2016 $'m
Current		
Secured:		
- Finance lease liabilities	**17.5**	13.1
- Hire purchase liabilities	**0.5**	0.5
- Supplier finance	**-**	5.8
	18.0	19.4
Unsecured:		
- Bank loans	**5.5**	15.1
- AUD medium term notes (series 2009-1)	**13.3**	13.3
- Deferred finance charges	**(2.3)**	(2.3)
	16.5	26.1
Total current borrowings	**34.5**	45.5
Non-current		
Secured:		
- Finance lease liabilities	**3.0**	13.9
- Hire purchase liabilities	**0.3**	0.6
	3.3	14.5
Unsecured:		
- Bank loans	**4.8**	8.6
- USD notes	**147.9**	144.1
- AUD notes	**30.0**	30.0
- AUD medium term notes (series 2009-1)	**6.7**	13.3
- AUD medium term notes (series 2013-1)	**150.0**	150.0
- AUD medium term notes (series 2015-1)	**250.0**	250.0
- Deferred finance charges	**(4.9)**	(6.0)
	584.5	590.0
Total non-current borrowings	**587.8**	604.5
Total borrowings	**622.3**	650.0

C2. Financing facilities

Financing facilities

At 31 December 2016, the Group had the following facilities that were not utilised:

	Dec 2016 $'m	Jun 2016 $'m
Syndicated bank loan facility	**400.0**	400.0
Bilateral bank loan facilities	**85.0**	125.0
Total unutilised bank loan facilities	**485.0**	525.0
Syndicated bank bonding facility	**210.0**	-
Bilateral bank and insurance company bonding facilities	**613.6**	614.5
Total unutilised bonding facilities	**823.6**	614.5

Bank loans

Syndicated loan facility

The syndicated loan facility, totalling $400.0 million, is unsecured and is split into two tranches:
- $200.0 million maturing in April 2019; and
- $200.0 million maturing in April 2021.

Bilateral bank loans

These facilities are unsecured and due for renewal in multiple tranches in calendar years 2017 and 2018 apart from $10.3 million loan which is supported by an Export Credit Agency (ECA) guarantee, which amortises through even semi-annual instalments with a final maturity date of July 2018.

USD notes

USD unsecured private placement notes are on issue for a total amount of US$107.0 million. US$7.0 million notes mature in September 2019 and US$100.0 million in July 2025. The USD denominated principal and interest amounts have been fully hedged against the Australian dollar.

AUD notes

AUD unsecured private placement notes are on issue for a total amount of $30.0 million with a maturity date of July 2025.

AUD Medium Term Notes (MTNs)

The Group has the following MTNs on issue:
- Series 2009-1 amortises through even semi-annual instalments, until the final maturity date of April 2018 and has a balance of $20.0 million;
- Series 2013-1 for $150.0 million, which matures in November 2018; and
- Series 2015-1 for $250.0 million, which matures in March 2022.

The above facilities and notes are subject to certain Group guarantees.

Finance lease / Hire purchase / Supplier finance facilities

The Group has certain secured facilities of these types which are for an aggregate amount of $21.3 million and which amortise over different periods of up to three years.

C2. Financing facilities - *continued*

Covenants on financing facilities

Certain of the Group's financing facilities contain undertakings to comply at all times with financial covenants. This requires the Group to operate within certain financial ratios as well as ensuring that subsidiaries that contribute certain minimum threshold amounts of Group EBIT and Group Total Tangible Assets are guarantors under various facilities.

The main financial covenants which the Group is subject to are Net Worth, Interest Service Coverage (calculated as rolling 12 month EBIT to Net Interest Expense) and Leverage (calculated as Net Debt to Total Capitalisation).

Financial covenant testing is undertaken and reported to the Board on a monthly basis. Reporting of financial covenants to financiers occurs semi-annually for the rolling 12 month periods to 30 June and 31 December. The Group was in compliance with all its financial covenants as at 31 December 2016.

Bonding

The Group has $1,629.1 million of unsecured bank guarantee and insurance bond facilities to support its contracting activities. $768.0 million of these facilities are provided to the Group on a committed basis and $861.1 million on an uncommitted basis. These facilities are subject to certain Group guarantees.

$805.5 million (refer to Note D5) of these facilities were utilised as at 31 December 2016 with $823.6 million unutilised. $613.6 million of these facilities have varying maturity dates between calendar years 2017 and 2018. The remaining $210.0 million relates to a syndicated bonding facility referable to the Sydney Growth Trains project with a maturity date of December 2019.

The underlying risk being assumed by the relevant financier under all bonds is Downer corporate credit risk, rather than project specific risk.

The Group has the flexibility in respect of certain committed facility amounts (shown as part of the unutilised bilateral bank loan facilities) which can, at the election of the Group, be utilised for bonding purposes.

Refinancing requirements

Where existing facilities approach maturity, the Group will negotiate with existing and new financiers to extend the maturity date of these facilities. The Group’s financial metrics and credit rating as well as conditions in financial markets and other factors may influence the outcome of these negotiations.

Credit ratings

The Group currently has an Investment Grade credit rating of BBB (Outlook Stable) from Fitch Ratings. Where the credit rating is reduced or placed on negative outlook, customers and suppliers may be less willing to contract with the Group. Furthermore, banks and other lending institutions may demand more stringent terms (including increased pricing, reduced tenors and lower facility limits) on debt and bonding facilities to reflect the deteriorating credit risk profile.

C3. Issued capital

	Dec 2016 $'m	Jun 2016 $'m
Ordinary shares		
424,785,204 ordinary shares (Jun 2016: 424,785,204)	**1,270.2**	1,270.2
Unvested executive incentive shares		
4,257,373 ordinary shares (Jun 2016: 4,453,456)	**(20.0)**	(21.0)
Redeemable Optionally Adjustable Distributing Securities (ROADS)		
200,000,000 ROADS (Jun 2016: 200,000,000)	**178.6**	178.6
	1,428.8	1,427.8

Fully paid ordinary share capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Dec 2016		Jun 2016	
	m's	**$'m**	m's	$'m
Fully paid ordinary share capital				
Balance at the beginning of the financial period / year	**424.8**	**1,270.2**	432.7	1,296.7
Group on-market share buy-back	**-**	**-**	(7.9)	(26.5)
Balance at the end of the financial period / year	**424.8**	**1,270.2**	424.8	1,270.2
Unvested executive incentive shares				
Balance at the beginning of the financial period / year	**4.5**	**(21.0)**	5.3	(26.2)
Vested executive incentive shares transactions[i]	**(0.2)**	**1.0**	(0.8)	5.2
Balance at the end of the financial period / year	**4.3**	**(20.0)**	4.5	(21.0)

[i] Represents 196,083 vested shares for a value of $955,174, referable to the second deferred component of the 2014 STI award and first deferred component of the 2015 STI. June 2016 figures referable to the first deferred component of the 2014 STI award totalling 842,537 vested shares for a value of $5,155,989.

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust under the Long Term Incentive (LTI) plan. From the 2011 LTI plan onwards, no dividends will be distributed on shares held in trust during the performance measurement and service periods. Accumulated dividends will be paid out to executives after all vesting conditions have been met. Otherwise, excess net dividends are retained in the trust to be used by the Company to acquire additional shares on the market for employee equity plans.

Redeemable Optionally Adjustable Distributing Securities (ROADS)	**Dec 2016**		Jun 2016	
	m's	**$'m**	m's	$'m
Balance at the beginning and at the end of the financial period / year	**200.0**	**178.6**	200.0	178.6

C4. Dividends

a) Ordinary shares

	2017 Interim	2016 Final	2016 Interim
Dividend per share (in Australian cents)	**12.0**	12.0	12.0
Franking percentage	**100%**	100%	100%
Cost (in $'m)	**51.0**	51.0	51.7
Dividend record date	**16/02/2017**	18/08/2016	18/02/2016
Payment date	**16/03/2017**	15/09/2016	17/03/2016

The 2017 interim dividend has not been declared at the reporting date and therefore is not reflected in the financial statements.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

2017	**Quarter 1**	**Quarter 2**			**Total**
Dividend per ROADS (in Australian cents)	**1.08**	**1.09**			**2.17**
New Zealand imputation credit percentage	**100%**	**100%**			**100%**
Cost (in A$'m)	**2.1**	**2.2**			**4.3**
Payment date	**15/09/2016**	**15/12/2016**			

2016	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	1.18	1.22	1.17	1.24	4.81
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'m)	2.4	2.4	2.3	2.5	9.6
Payment date	15/09/2015	15/12/2015	15/03/2016	15/06/2016	

D
Other disclosures

- **D1. Property, plant and equipment**
- **D2. Intangible assets**
- **D3. Joint arrangements and associate entities**
- **D4. Acquisition and disposal of businesses**
- **D5. Contingent liabilities**

D1. Property, plant and equipment

Dec 2016 **$'m**	**Freehold Land and Buildings**	**Plant and Equipment**	**Equipment under Finance Lease**	**Total**
Carrying amount as at 1 July 2016	**68.5**	**859.9**	**59.9**	**988.3**
Additions	**-**	**86.3**	**4.3**	**90.6**
Disposals at net book value	**-**	**(14.2)**	**(0.8)**	**(15.0)**
Acquisition of businesses	**-**	**16.3**	**-**	**16.3**
Depreciation expense	**(2.4)**	**(82.0)**	**(6.9)**	**(91.3)**
Reclassifications at net book value	**0.6**	**2.7**	**(3.3)**	**-**
Reclassified as intangible assets[(i)]	**-**	**(3.0)**	**-**	**(3.0)**
Net foreign currency exchange differences at net book value	**0.1**	**2.1**	**(0.3)**	**1.9**
Closing net book value as at 31 December 2016	**66.8**	**868.1**	**52.9**	**987.8**
Cost	**96.2**	**2,121.4**	**105.1**	**2,322.7**
Accumulated depreciation	**(29.4)**	**(1,253.3)**	**(52.2)**	**(1,334.9)**
Jun 2016				
Carrying amount as at 1 July 2015	59.1	895.1	82.9	1,037.1
Additions	13.6	168.8	14.0	196.4
Disposals at net book value	-	(16.8)	(0.5)	(17.3)
Acquisition of business	-	1.7	-	1.7
Disposals of business at net book value	-	(0.6)	-	(0.6)
Depreciation expense	(4.7)	(217.7)	(12.1)	(234.5)
Reclassifications at net book value	-	24.4	(24.4)	-
Reclassified as intangible assets[(i)]	-	(1.2)	-	(1.2)
Net foreign currency exchange differences at net book value	0.5	6.2	-	6.7
Closing net book value as at 30 June 2016	68.5	859.9	59.9	988.3
Cost	95.5	2,143.3	109.8	2,348.6
Accumulated depreciation	(27.0)	(1,283.4)	(49.9)	(1,360.3)

[(i)] Refers to the reclassification of software from Capital Work In Progress to Intangible Assets.

D2. Intangible assets

Dec 2016 **$'m**	**Goodwill**	**Customer contracts and relationships**	**Intellectual property, software and system development**	**Total**
Carrying amount as at 1 July 2016	**805.3**	**37.1**	**127.5**	**969.9**
Additions	**-**	**-**	**16.4**	**16.4**
Acquisition of businesses	**56.6**	**-**	**-**	**56.6**
Reclassifications at net book value[(i)]	**-**	**-**	**3.0**	**3.0**
Amortisation expense	**-**	**(3.4)**	**(10.3)**	**(13.7)**
Net foreign currency exchange differences at net book value	**0.3**	**-**	**-**	**0.3**
Closing net book value as at 31 December 2016	**862.2**	**33.7**	**136.6**	**1,032.5**
Cost	**938.2**	**50.1**	**271.5**	**1,259.8**
Accumulated amortisation and impairment	**(76.0)**	**(16.4)**	**(134.9)**	**(227.3)**

Jun 2016				
Carrying amount as at 1 July 2015	781.7	43.5	93.8	919.0
Additions	-	-	49.1	49.1
Acquisition of business	20.5	-	-	20.5
Reclassifications at net book value[(i)]	-	-	1.2	1.2
Amortisation expense	-	(6.4)	(17.8)	(24.2)
Net foreign currency exchange differences at net book value	3.1	-	1.2	4.3
Closing net book value as at 30 June 2016	805.3	37.1	127.5	969.9
Cost	881.3	50.1	255.3	1,186.7
Accumulated amortisation and impairment	(76.0)	(13.0)	(127.8)	(216.8)

[(i)] Refers to the reclassification of software from Capital Work In Progress to Intangible Assets.

D3. Joint arrangements and associate entities

The Group has interests in the following joint ventures and associates which are equity accounted:

Name of arrangement	Principal activity	Country of operation	Ownership interest 31 Dec 2016 %	31 Dec 2015 %
Joint ventures				
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
Bitumen Importers Australia Joint Venture	Construction of bitumen storage facility	Australia	**50**	50
Bitumen Importers Australia Pty Ltd	Bitumen importer	Australia	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco Limited	Emulsion plant	New Zealand	**50**	50
Isaac Asphalt Limited	Manufacture and supply of asphalt	New Zealand	**50**	50
RTL Mining and Earthworks Pty Ltd	Contract mining; civil works and plant hire	Australia	**44**	44
VEC Shaw Joint Venture	Road construction	Australia	**50**	50
Associates				
MHPS Plant Services Pty Ltd	Refurbishment, construction and maintenance of boilers	Australia	**27**	27
Keolis Downer Pty Ltd	Operation and maintenance of Gold Coast light rail, Melbourne tram network and bus operation	Australia	**49**	49
Reliance Rail Pty Ltd [(i)]	Rail manufacturing and maintenance	Australia	**49**	49

(i) Downer previously wrote down its investment in Reliance Rail Pty Ltd to nil. The New South Wales Government has the right in February 2018 to acquire Downer's ownership of Reliance Rail Pty Ltd for nil consideration. As a consequence, Downer does not include Reliance Rail Pty Ltd in its equity accounted disclosure.

There are no material commitments held by joint ventures or associates.

All joint ventures and associates have a statutory reporting date of 30 June, with the exception of MHPS Plant Services Pty Ltd which has a statutory reporting date of 31 March.

D4. Acquisition and disposal of businesses

Acquisitions
Dec 2016
RPQ Group

On 1 October 2016, the Group acquired 100% of RPQ Group (RPQ) for a gross consideration of $55.0 million which includes cash consideration of $47.5 million and $7.5 million deferred consideration. The principal activities of RPQ include the supply of asphalt, bitumen spray sealing, road milling and profiling, road maintenance, foam bitumen stabilisation, mobile asphalt production, mobile crushing and equipment hire. The RPQ acquisition increases the Group's capabilities in the Roading business.

The goodwill resulting from this acquisition represents future market development, expected revenue growth opportunities, technical talent and expertise, and the benefit of expected synergies. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The Group has reported provisional purchase price allocation for the RPQ acquisition. The final determination of the fair value of acquired identifiable assets and liabilities is expected to be completed by 30 June 2017.

AGIS

On 1 July 2016, the Group acquired 100% of AGIS Group Pty Limited (AGIS) and its subsidiaries. AGIS provides project management, systems engineering and integration, and capability development advice to a range of government agencies including the Department of Defence, Australian Defence Force and Department of Foreign Affairs and Trade.

Total cash outflow for this acquisition was $6.0 million, which comprises a consideration of $17.3 million, net of $1.3 million cash balances acquired and $10.0 million deferred consideration. The goodwill resulting from this acquisition represents future market development, expected revenue growth, technical talent and expertise and the benefit of expected synergies. These benefits are not recognised separately from goodwill because they do not meet the criteria for identifiable intangible assets. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The Group has reported provisional purchase price allocation for the AGIS acquisition. The final determination of the fair value of acquired identifiable assets and liabilities is expected to be completed by 30 June 2017.

Dec 2015

On 18 December 2015, the Group acquired 100% of Green Vision Recycling Limited for $0.9 million. Green Vision is a New Zealand company specialised in recycling horizontal infrastructure (roads, footpath, kerbs and soil).

D4. Acquisition and disposal of businesses - *continued*

Disposals

Dec 2016

The Group did not dispose any business during the period ended 31 December 2016.

Dec 2015

On 31 August 2015, the Group sold the Rimtec business to Rimex Wheel Pty Ltd for a total consideration of $7.2 million. The Group has incurred $2.3 million loss as a result of this transaction.

D5. Contingent liabilities

	Dec 2016 $'m	Jun 2016 $'m
Bonding		
The Group has bank guarantees and insurance bonds on issue in respect of contract performance in the normal course of business	**805.5**	722.0

The Group is required under certain contracts to provide guarantees and indemnities to counterparties relating to contract performance for varying amounts, some of which are indeterminable.

Other contingent liabilities

i) The Group is subject to design liability in relation to completed design and construction projects. The Directors are of the opinion that there is adequate insurance to cover this area and accordingly, no amounts are recognised in the financial statements.

ii) The Group is subject to product liability claims. Provision is made for the potential costs of carrying out rectification works based on known claims and previous claims history. However, as the ultimate outcome of these claims cannot be reliably determined at the date of this report, contingent liability may exist for any amounts that ultimately becomes payable in excess of current provisioning levels.

iii) Controlled entities have entered into various joint arrangements under which the controlled entity is jointly and severally liable for the obligations of the relevant joint arrangements.

iv) The Group carries the normal contractor's and consultant's liability in relation to services, supply and construction contracts (for example, liability relating to professional advice, design, completion, workmanship, and damage), as well as liability for personal injury/property damage during the course of a project. Potential liability may arise from claims, disputes and/or litigation/arbitration by or against Group companies and/or joint venture arrangements in which the Group has an interest. The Group is currently managing a number of claims, arbitration and litigation processes in relation to services, supply and construction contracts as well as in relation to personal injury and property damage claims arising from project delivery.

v) Several New Zealand entities in the Group have been named as co-defendants in four "leaky building" claims. The leaky building claims where Group entities are co-defendants generally relate to water damage arising from design and construction methodologies (and certification) for residential and other buildings that were common in New Zealand during the early-mid 2000s. The Directors are of the opinion that disclosure of any further information relating to the leaky building claims would be prejudicial to the interests of the Group.

D5. Contingent Liabilities - *continued*

vi) Ground subsidence at the Waratah Train Maintenance Centre located on Manchester Road, Auburn ('AMC') has been identified. The design and construction of the AMC formed part of the Waratah Train Project, with Reliance Rail contracting Downer to design and build the AMC. In turn, Downer subcontracted this work to John Holland Pty Ltd. The design and construction of the areas in which subsidence has been observed formed part of the subcontractor's design and construct obligations. Investigations into the causes of the subsidence continue with an estimated remediation cost in the order of $70 million. While it is too early to reliably estimate the total cost of the remediation, in the opinion of the Directors there is no material exposure to either Downer EDI Rail Pty Limited or Downer EDI PPP Maintenance Pty Limited arising from the subsidence, based on the fact that there are a range of recovery options being pursued.

vii) The Group is defending a claim brought by Port Waratah Coal Services Limited and a cross claim by another defendant, Menard Bachy Pty Ltd in respect of alleged non-conforming excavation and civil work performed at Kooragang Island Coal Terminal by Downer and its joint venture partner, Daracon Contractors Pty Ltd. The value of the claim against all defendants (Downer is one of five defendants) is $39 million. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

viii) On 16 September 2015, the Group announced that it had terminated a contract with Tecnicas Reunidas S.A. ("TR") following TR's failure to remedy a substantial breach of the contract and that the Group would be pursuing a claim against TR in the order of $65 million. Downer has since demobilised from the site and has commenced a claim that will be determined via an arbitration process, with a hearing date scheduled for June 2018. TR has initiated a counter-claim. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

ix) Under the terms of the agreement reached between the New South Wales Government and Reliance Rail, the Group has a contingent commitment to pay Reliance Rail $12.5 million in 2018 should it be required to refinance Reliance Rail's senior debt.

Directors' Declaration
for the half-year ended 31 December 2016

In the opinion of the Directors' of Downer EDI Limited:

(a) the condensed consolidated half-year Financial Report and notes set out on pages 20 to 38, are in accordance with the *Corporations Act 2001* (Cth), including:
   (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the six month period ended on that date; and
   (ii) complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001* ; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

On behalf of the Directors

R M Harding
Chairman

Sydney, 2 February 2017