2010

ANNUAL REPORT

Downer

This Annual Report includes Downer EDI Limited's Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2010.

It should be read in conjunction with Downer EDI Limited's 2010 Annual Review which is available online and provides an overview of the key activities for the year ended 30 June 2010.

The 2010 Annual Review includes the Chairman's report, Chief Executive Officer's report, operational highlights and financial highlights. The Annual Report and Annual Review are both available on the Downer website:
www.downergroup.com

Annual General Meeting
Downer EDI Limited's 2010 Annual General Meeting will be held at:
Shangri-La Hotel
176 Cumberland Street
The Rocks
Sydney NSW Australia
on Wednesday 3rd November 2010
commencing at 10.00am

Contents

Directors' Report
for the year ended 30 June 2010

The directors of Downer EDI Limited submit herewith the Annual Financial Report of the company for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the directors of the company during or since the end of the financial year are:

P E J Jollie AM (70)

Chairman since February 2008, Independent Non-executive Director since April 2004.

Mr Jollie is a past President of The Institute of Chartered Accountants in Australia and is a Fellow of that body as well as the Australian Institute of Company Directors. Mr Jollie was previously Chief Executive Officer of P&O Containers and Chairman of the Prospect Water Treatment Consortium and was Chairman of the Defence Housing Authority from 1997 to June 2003. Mr Jollie has had a long involvement in international trade, having been the Australian Chair of Asia Pacific Trade Committees and a member of the Trade Policy Advisory Committees to Ministers for Trade for six years to 2002. Mr Jollie lives in Sydney.

G A Fenn (45)

Managing Director and Chief Executive Officer since July 2010, Finance Director July 2010, Chief Financial Officer from October 2009 to July 2010.

Mr Fenn is an experienced commercial, strategic and financial executive with over 20 years experience in operational management, strategic development and financial management. Mr Fenn was previously a member of the Qantas Executive Committee, Chairman of Star Track Express and director of Australian Air Express. Mr Fenn held a number of senior roles at Qantas Airways Limited including Executive General Manager of Strategy and Investments and Executive General Manager - Associated Businesses, responsible for the Airports, Freight, Flight Catering and Qantas Holidays businesses. Mr Fenn holds a Bachelor of Economics from Macquarie University and is a member of The Institute of Chartered Accountants in Australia. Mr Fenn lives in Sydney.

S A Chaplain (52)

Independent Non-executive Director since July 2008.

Ms Chaplain is a former investment banker with extensive experience in public and private sector debt financing. She also has considerable experience as a director of government-owned corporations which includes 10 years as a director of Seqwater Ltd, with over three years as its Chairman. She is currently a member of the Board of Taxation, in addition to holding directorships with a number of private companies and the Australian Youth Orchestra. A Fellow of the Australian Institute of Company Directors, she holds a Bachelor of Arts degree majoring in Economics and Mandarin, in addition to an MBA from the University of Melbourne. Ms Chaplain lives on the Gold Coast.

L Di Bartolomeo (57)

Independent Non-executive Director since June 2006.

Mr Di Bartolomeo was Managing Director of ADI Limited for four years and prior to this he was Chief Executive of a number of substantial businesses for more than 10 years, including six years as Managing Director of FreightCorp (now Pacific National). Mr Di Bartolomeo is a director of Australian Rail Track Corporation Limited, Australian Super Pty Ltd and Reliance Rail Group and Chairman of Macquarie Generation and Parklands Foundation Limited. Mr Di Bartolomeo is a qualified civil engineer and has a Master's degree in Engineering Science, is a Fellow of the Australian Institute of Management, a Fellow of the Chartered Institute of Transport and a member of the Institution of Engineers Australia. Mr Di Bartolomeo lives in Sydney.

R M Harding (61)

Deputy Chairman since July 2010, Independent Non-executive Director since July 2008.

Mr Harding is currently Chairman of Clough Limited and a non-executive Director of Santos Limited. He has held management positions around the world with British Petroleum ('BP'), including President and General Manager of BP Exploration Australia. Mr Harding holds a Masters in Science, majoring in Mechanical Engineering. Mr Harding lives in Melbourne.

J S Humphrey (55)

Independent Non-executive Director since April 2001.

Mr Humphrey is a partner in Mallesons Stephen Jacques, based in Brisbane where he specialises in corporate and resource project work. Mr Humphrey is currently a director of Horizon Oil Limited and Wide Bay Australia Limited and is a former Chairman of Villa World Limited. He was appointed to the Board of Evans Deakin Industries Limited in 2000 and, subsequently, to the Board of Downer EDI Limited. Mr Humphrey holds a Bachelor of Laws from The University of Queensland. Mr Humphrey lives in Brisbane.

C J S Renwick AM (67)

Independent Non-executive Director since September 2004.

Mr Renwick was Chief Executive Officer, Rio Tinto Iron Ore until December 2004 when he retired. His wide experience in the mining and resources sector spanned 35 years with the Rio Tinto Group and included Chairmanships of Hamersley Iron, the Iron Ore Company of Canada and Robe River Mining, and Managing Director of Comalco Minerals and Alumina. He is the non-executive Chairman of Coal and Allied Industries Limited and a non-executive director of Sims Metal Management Limited. He was a Vice President of the Australia-Japan Business Co-operation Committee, and was an Executive Committee member of the Australia China Business Council, including National President 1997–1999. He is a Fellow of the Australian Institute of Management, a Fellow of the Australian Institute of Export and a Fellow of the Australian Academy of Technological Sciences and Engineering. Mr Renwick was a qualified barrister and solicitor and holds both Bachelor of Laws and Bachelor of Arts from The University of Melbourne. Mr Renwick lives in Melbourne.

C G Thorne (60)

Independent Non-executive Director since July 2010.

Dr Thorne is currently a group executive reporting to Rio Tinto's Chief Executive Officer. He has over 35 years of experience in the mining and extraction industry, specifically in senior operational and executive roles across a broad range of product groups and functional activities in Australia and overseas. His most recent assignments have been as head of Rio Tinto's coal businesses in Indonesia and Australia, and as global head of its technology, innovation and project engineering functions. From 2006 to 2009, he was Group Executive Technology and Innovation and a member of Rio Tinto's Executive and Investment Committees. Dr Thorne is a Fellow and Chartered Professional (Management) of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Academy of Technological Sciences and Engineering. He holds Bachelor and Doctoral degrees in Metallurgy from The University of Queensland. Dr Thorne lives on the Sunshine Coast.

Former directors

P R Coates AO	Independent Non-executive Director, resigned 15 October 2009.
G H Knox	Managing Director and Chief Executive Officer, resigned 30 July 2010.

Directors' shareholdings

The following table sets out each director's relevant interest (either direct or indirect) in shares, debentures, and rights or options over shares or debentures, if any, of the company at the date of this report. No director has any relevant interest in shares, debentures and rights or options in shares or debentures, of a related body corporate as at the date of this report.

Director	No. of Fully Paid Ordinary Shares	No. of Performance Rights	No. of Performance Options
P E J Jollie	189,667	-	-
G A Fenn *	-	-	-
L Di Bartolomeo	47,959	-	-
S A Chaplain	32,109	-	-
R M Harding	-	-	-
J S Humphrey	54,226	-	-
C J S Renwick	30,000	-	-
C G Thorne	11,000	-	-

* 840,235 shares have been purchased as Mr Fenn's long-term incentive and are held by CPU Share Plans Pty Ltd (Trustee of the Downer EDI Limited Deferred Employee Share Plan). The performance hurdle of the first tranche of shares in Mr Fenn's 2009 grant (64,767 shares) was met with these shares remaining subject to a service period condition. The remaining 775,468 shares comprise a sign-on grant of 250,575 shares subject to a service period condition of two years and 524,893 shares subject to performance and service period conditions over the period from 2011 to 2014. Further details regarding the conditions relating to these restricted shares are outlined in sections 5.4 and 7.2 of the remuneration report.

Directors' Report

for the year ended 30 June 2010

Company Secretary

The company secretarial function is responsible for ensuring that the company complies with its statutory duties and maintains proper documentation, registers and records. It also provides advice to directors and officers on corporate governance and gives practical effect to any decisions made by the Board of Directors.

Bruce Crane has been Company Secretary since 2008. He is a Fellow of the Institute of Chartered Secretaries and The Institute of Chartered Accountants in Australia and also has qualifications in business and commerce from the University of Technology Sydney and corporate governance from Chartered Secretaries Australia.

Principal activities

Downer EDI Limited ('Downer' or 'Group') provides comprehensive engineering and infrastructure management services to the public and private transport, energy, infrastructure, communications and resources sectors across Australia, New Zealand, the Asia Pacific region and the United Kingdom.

Review of operations

Downer has delivered a solid underlying result in difficult trading conditions with the following highlights:

- Total revenue [1] of $6.1 billion, up 1.9%;
- Statutory earnings before interest and tax (EBIT) of $53.4 million and net profit after tax (NPAT) of $3.0 million;
- Underlying [2] EBIT of $317.8 million, up 4.3%;
- Underlying NPAT of $197.3 million, up 4.2%;
- Underlying operating cash flow of $377.1 million, 119% of underlying EBIT;
- Liquidity of $818.5 million, comprising cash of $385.1 million and undrawn committed facilities of $433.4 million;
- Strong balance sheet with gearing [3] of 29.9%;
- Investment-grade credit rating (BBB-, stable outlook);
- Final 2010 dividend of 16.0 cents per share declared, taking the full year dividend to 29.1 cents per share;
- Record work-in-hand in excess of $20 billion; and
- Safety performance – LTIFR [4] : 33% reduction to a 13 year low of 0.94 per million hours worked.

Downer announced an underlying EBIT of $317.8 million for the year ended 30 June 2010, an increase of 4.3% on the previous year. Underlying NPAT was $197.3 million, up 4.2%.

The Group continues to win new work and secure contract renewals with long-standing clients. Work-in-hand is now at a record level of over $20 billion.

The $260 million, pre-tax Waratah train provision and asset impairment announced on 1 June 2010 was disappointing; however, the underlying performance for the year demonstrates the strength of Downer's businesses and the hard work and commitment of Downer's people.

Downer's Lost Time Injury Frequency Rate (LTIFR) for the year improved significantly, reducing by 33% to a record low of 0.94. This confirms that Zero Harm is embedded in Downer's culture and fundamental to its future success.

The Group's total revenue was $6.1 billion, up 1.9% on the previous year. This reflected an increase in joint venture and alliance revenue, including Downer's share of the successful KDR Melbourne Yarra Tram joint venture with Keolis.

EBIT margin was 0.1 percentage points ('ppts') higher at 5.2%, reflecting a substantially-improved Mining performance offset by lower margins in the Works business.

[1] Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.

[2] Underlying EBIT and NPAT performance reflect statutory results adjusted for individually significant items and other items that are relevant to a proper understanding of business performance.

[3] Net debt/net debt plus total equity.

[4] Lost Time Injury Frequency Rate.

Operating cash flow, adjusted for the net cash outflow of $172.8 million related to the NSW Waratah train project, was $377.1 million, representing 119% of underlying EBIT.

Downer has maintained a strong balance sheet with gearing [3] of 29.9% and a high level of liquidity, with over $800 million in cash and undrawn facilities as at 30 June 2010.

The directors declared an unfranked final dividend of 16.0 cents per share (2009: 16.0 cents), payable on 1 October 2010 to shareholders on the register at 1 September 2010. The company's Dividend Reinvestment Plan will continue to be applied for the final dividend, with a discount of 2.5%. The total dividend in respect of the year is 29.1 cents per share (2009: 29.0 cents).

Operational highlights

Engineering [5]

- Revenue of $1.9 billion, down $106.7 million or 5.3%
- EBIT of $112.5 million, down $4.1 million or 3.5%
- EBIT margin of 5.9%, up 0.1 ppts
- ROFE [6] of 26.4%, up 2.1 ppts

Downer Engineering continued to win major projects during the year, securing contracts with Wesfarmers Curragh Coal, BHP Billiton Iron Ore, Woodside, TransGrid and Collgar Wind Farms.

However, the engineering market is very competitive with reduced margins. The Engineering division was also affected by delays in both public and private investment as a consequence of the global financial crisis and soft trading conditions for Consulting in Australia and New Zealand.

Downer has a leading market position in electrical engineering services and further boosted its mechanical engineering capabilities during the year with the acquisition of Western Construction Co.

The electrical and mechanical market in Western Australia remains robust and the outlook around resources and energy is strong. The east coast of Australia continues to be competitive, resulting in tighter margins, but the business has the flexibility to mobilise its workforce to take advantage of appropriate opportunities.

Mining

- Revenue of $973.5 million, down $54.5 million or 5.3%
- EBIT of $68.2 million, up $21.6 million or 46.5%
- EBIT margin of 7.0%, up 2.5 ppts
- ROFE of 13.0%, up 2.6 ppts

Downer Mining performed strongly despite weather conditions along the eastern seaboard of Australia affecting operations between January and March this year.

There is strong demand for contract mining services and Downer Mining is benefiting from working closely with its clients to improve productivity and fleet management. Downer's competitive, full-service offering and commitment to Zero Harm continue to be recognised by its clients and this contributed to a number of new wins and contract renewals during the year, including with BHP Billiton Iron Ore, the Cracow Mining JV and Felix Resources.

Since 30 June 2010, Downer has announced a further $5 billion of contract wins and renewals with BHP Billiton Mitsubishi Alliance and Fortescue Metals Group.

These new contracts reflect Mining's focus on developing innovative solutions with our clients that deliver improved performance.

[5] The Engineering result includes the Consulting, Communications, Water and Downer Asia business units.
[6] Return on funds employed = EBIT divided by average funds employed.

Rail

- Revenue of $1,046.8 million, up $157.8 million or 17.8%
- Excluding the Waratah train project, revenue was $774.3 million, up $148.5 million or 23.7%
- EBIT of $77.9 million, up $17.2 million or 28.2%
- EBIT margin of 7.4%, up 0.6 ppts
- Excluding the Waratah train project, EBIT margin of 9.9%, up 0.8 ppts
- ROFE of 25.2%, down 7.6 pts, reflecting increased work-in-progress on the Waratah train project

The Rail division, excluding the impact of the Waratah train provision [7], delivered a strong performance during the year.

Downer Rail continues to be the market leader in whole-of-life rolling stock solutions in Australia, securing more than $400 million in new standard and narrow gauge locomotive orders during the year.

Downer Rail, together with joint venture partner Keolis, successfully commenced its role as the franchisee of Melbourne's Yarra Tram network in December 2009. The contract, valued at approximately $2.8 billion, allows Downer to demonstrate its light-rail management capabilities over an initial period of eight years.

The outlook for the rail market remains strong and Downer is well placed to service its freight clients. Downer's clients recognise that the Group has a very good product for the demanding requirements of the Australian resources sector and its maintenance capability is second to none.

Population growth and the need for greener transport solutions will continue to support demand for passenger and light-rail rolling stock.

NSW Waratah train project

Downer is focused on delivering the NSW Waratah passenger trains as part of its Rolling Stock Design and Manufacture contract with Reliance Rail.

The Group is working very hard with RailCorp to meet the target of delivering the first train set before the end of this calendar year.

In June 2010, Downer achieved practical completion of the Auburn Maintenance Centre, home to the thirty year through-life-support contract for the Waratah train series. The facility is currently the testing hub for the prototype and the first eight-car set of the Waratah train series. During the first week of August 2010, the prototype completed its initial track testing program. The first eight-car set has been testing on the NSW metropolitan network.

The performance of the prototype has exceeded expectations, providing the Group with confidence in the future performance, reliability and safety of the Waratah series.

Works [8]

- Revenue of $2.1 billion, up $37.7 million or 1.8%
- EBIT of $102.9 million, down $31.8 million or 23.6%
- EBIT margin of 4.9%, down 1.7 ppts
- ROFE of 16.4%, down 6.6 ppts

Downer Works maintained its market shares during the year and secured a number of road maintenance contracts with government clients across Australia, New Zealand and the Pacific Islands.

Road maintenance markets were constrained as government agencies looked to rationalise discretionary spending. In addition, private investment, especially land development, was significantly lower than in previous years.

[7] The Waratah train provision of $190.0 million pre-tax is reprted within the Corporate/Unallocated segment results.

[8] Works comprises the Works Australia, Works New Zealand, Engineering New Zealand and Works United Kingdom business units.

The unseasonably wet weather across both New Zealand and the east coast of Australia during the third quarter also affected performance; however, the business benefited from increased spending in the rail-track maintenance market in Australia.

Downer's innovative road surfacing and traffic control solutions led to a number of high-value maintenance contract wins, with key clients including VicRoads.

The UK market continued to be difficult, resulting in further restructuring costs to the business in the fourth quarter.

Downer expects the UK market to remain challenging in the near term. We are focusing on extracting value at the current time and are assessing the Group's options going forward.

Notwithstanding market conditions, Downer's leading market position and integrated service offering leaves the Australasian Works businesses well placed to pursue opportunities across the road, rail maintenance and water sectors.

Board changes

The company continued to strengthen the Board with the appointments of Grant Thorne as a Non-executive Director on 1 July 2010 and Grant Fenn as Finance Director on 1 July 2010 and as Managing Director on 30 July 2010 following the resignation of Geoff Knox.

The Chairman of Downer, Peter Jollie AM, has decided not to nominate for re-election as a director at the next Annual General Meeting ('AGM') on 3 November 2010.

Mr Jollie's decision reflects the Board's recognition that Board renewal is appropriate. Mr Jollie will continue as Chairman until the end of the AGM.

The Board intends to appoint the current Deputy Chairman, Mike Harding, as the new Chairman immediately following the AGM.

Outlook

Downer has strong underlying businesses that are well positioned in their respective markets.

The Group's record work-in-hand of more than $20 billion supports the Group's strategy and provides a solid foundation for future growth. Downer has a strong balance sheet, with gearing of 29.9% and over $800 million in cash and undrawn facilities.

The significant contract renewals for Downer Mining announced since 30 June 2010 are encouraging; however, the outlook across our businesses is variable in both the markets and geographies in which we operate.

Overall for the 2011 financial year, we expect improvement of around 5% in EBIT and, reflecting an expected increase in effective tax rates and interest expense, NPAT in line with the underlying NPAT result in 2010.

Changes in state of affairs

During the financial year, there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

Subsequent events

On 30 July 2010, Grant Fenn was appointed as the Managing Director and Chief Executive Officer, following the resignation of Geoff Knox.

Directors' Report
for the year ended 30 June 2010

There have been no other matters or circumstances other than those referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Downer recognises its obligation to stakeholders - clients, shareholders, employees, contractors and the community - to operate in a way that advances sustainability and mitigates our environmental impact. As a corporate citizen, we respect the places and communities in which we operate. Our values and beliefs are the spirit that underpins everything we do and we are committed to conduct our operations in a manner that is environmentally responsible and sustainable.

The Board oversees the company's environmental performance through regular reports. It has established a sustainability charter and strategy and has allocated internal responsibilities for reducing the impact of our operations and business activities on the environment. In addition, all Downer divisions are subject to regular environmental audits by independent third parties. The international environmental standard, ISO 14001, is used by Downer as a benchmark in assessing, improving and maintaining the environmental integrity of its business management systems. Divisions also adhere to environmental management requirements established by customers in addition to all applicable licence and regulatory requirements.

Dividends

In respect of the financial year ended 30 June 2010, the directors declared the payment of a final ordinary dividend of 16 cents per share (unfranked, 100% conduit foreign income ('CFI')) to the holders of fully paid ordinary shares to be paid on 1 October 2010.

In respect of the financial year ended 30 June 2010, an interim dividend of 13.1 cents per share (unfranked, 100% CFI) was paid to the holders of fully paid ordinary shares on 9 April 2010.

In respect of the financial year ended 30 June 2009, as detailed in the Directors' Report for that financial year, a final dividend of 16 cents per share (unfranked, 100% CFI) was paid to the holders of fully paid ordinary shares on 2 October 2009.

Employee discount share plan ('ESP')

No shares were issued under the terms of the ESP during the year (2009: 834,000). Further details on the ESP are disclosed in Note 35 to the financial statements.

Executive share option scheme ('EOS') - 2006

No options were granted under the EOS during the year (2009: nil). Further details on the EOS are disclosed in the remuneration report.

Share options

No performance rights or performance options were granted to senior executives of the Group under the 2006 long-term incentive plan. Details of unissued shares under rights and options are as follows:

	Issuing entity	Number of shares	Class of shares	Exercise price $	Expiry date
Performance options	Downer EDI Limited	1,081,584	Ordinary	6.72	10 November 2013
Performance rights	Downer EDI Limited	341,221	Ordinary	-	10 November 2013

Subject to the satisfaction of certain performance hurdles as noted in section 8 of the remuneration report, securities vest on 30 June 2010 and will be exercisable at any time up to the seventh anniversary of the 10 November 2006 grant date.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the Company Secretary and all executive officers of the company and of any related body corporate against a liability incurred as a director, secretary or executive officer to the extent permitted by law.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Pursuant to Downer's Constitution, the company indemnifies, to the extent permitted by law, directors and officers of Downer against any liability incurred by them as a director of officer of the company or of any related to body corporate, as approved by the Board.

The company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the company or of any related body corporate against a liability incurred as such an auditor.

Directors' Report

for the year ended 30 June 2010

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the year, 13 Board meetings, five Audit, nine Remuneration Committee meetings, five Risk Committee meetings, three Zero Harm Committee meetings and four Nominations and Corporate Governance Committee meetings were held. In addition, 21 ad-hoc meetings were held in relation to matters including disclosure, tender and contract review and treasury and were attended by various directors.

	Board of Directors		Audit Committee		Remuneration Committee	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
P E J Jollie	13	13	5	5	9	9
G H Knox	13	13	-	-	7	7
S A Chaplain	13	13	5	5	9	9
P R Coates	4	2	-	-	3	2
L Di Bartolomeo	13	13	-	-	9	9
R M Harding	13	12	-	-	-	-
J S Humphrey	13	13	5	5	-	-
C J S Renwick	13	13	5	4	-	-

	Risk Committee		Zero Harm Committee		Nominations and Corporate Governance Committee	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
P E J Jollie	-	-	-	-	4	4
G H Knox	-	-	3	3	-	-
S A Chaplain	5	5	-	-	-	-
P R Coates	1	1	1	-	-	-
L Di Bartolomeo	5	3	-	-	4	3
R M Harding	5	5	3	3	-	-
J S Humphrey	-	-	3	3	4	4
C J S Renwick	-	-	3	3	4	4

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Downer support the principles of good corporate governance. The consolidated entity's performance in relation to corporate governance is contained in the Corporate Governance section of this Annual Report.

Non-audit services

Downer is committed to audit independence. The Audit Committee reviews the independence of the external auditors on an annual basis. This process includes confirmation from the auditors that, in their professional judgement, they are independent of the consolidated entity. To ensure that there is no potential conflict of interest in work undertaken by our external auditors (Deloitte Touche Tohmatsu), they may only provide services that are consistent with the role of the company's auditor.

The Board of Directors has considered the position and, in accordance with the advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed below do not compromise the external auditors' independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in The Institute of Chartered Accountants in Australia and CPA Australia's Code of Conduct APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

A copy of the auditor's independence declaration is set out on page 40.

Details of the fees paid or payable during the year for non-audit services provided by the auditor of the parent entity, its related practices and related audit firms were as follows:

	$
Tax consulting	729,717
Other audit related services	150,529
Total	880,246

Rounding of amounts

The company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the Financial Report have, unless otherwise stated, been rounded off to the nearest thousand dollars.

Remuneration report – audited

The remuneration report provides information about the remuneration arrangements for key management personnel ('KMP'), which includes non-executive directors and the most senior group executives (including the five highest remunerated), for the year to 30 June 2010. Reference to 'executives' in this report means KMP executives.

The report provides the following information:

1 Remuneration policy, principles and practices;
2 Relationship between remuneration policy and company performance;
3 The Board's role in remuneration;
4 Description of non-executive Director remuneration;
5 Description of executive remuneration;
6 Details of director and executive remuneration;
7 Key terms of employment contracts; and
8 Legacy equity-based remuneration.

1. Remuneration policy, principles and practices

1.1 Non-executive Director remuneration policy

Downer's Non-executive Director remuneration policy is to provide fair remuneration that is sufficient to attract and retain Directors with the experience, knowledge, skills and judgement to steward the company's success.

1.2 Executive remuneration policy

Downer's executive remuneration policy was reviewed in detail as a result of shareholder feedback on prior disclosures. Significant amendments to policy are noted in the various sections of this report.

Downer's executive remuneration policy and practices are summarised in the table below.

Policy	Practices aligned with policy
Attract experienced, proven performers	• Provide a total remuneration opportunity sufficient to attract proven and experienced executives from secure positions in other companies.
Retain experienced, proven performers, and those considered to have high potential for succession	• Provide remuneration that is internally equitable and fair, so that there is no distinction in pay between internal and external appointments; and • Defer a substantial part of pay contingent on service and sustained performance.
Focus performance	• Provide a substantial component of pay contingent on performance; and • Focus attention on the most important drivers of value by linking pay to their achievement.
Provide a Zero Harm environment	• Incorporate Zero Harm for our employees, contractors, communities, and the environment as a key component of reward.
Manage risk	• Encourage sustainability by balancing incentives for achieving both short-term results and longer-term results; • Set stretch targets that finely balance returns with reasonable but not excessive risk; • Cap maximum incentive payments to moderate risk taking; • Do not provide significant "cliff" reward vesting that may encourage excessive risk taking as a performance threshold is approached; • Long term performance is assessed using multiple measures, diversifying risk and limiting the prospects of unintended consequences from focussing on just one measure; • Require service beyond performance periods for reward vesting to encourage retention and allow clawback of rewards that are the result of misconduct; • Staggered testing of performance at the end of the financial year (short-term incentives) and calendar year (long-term incentives) encourages performance sustainability and reduce the chance of excessive risk taking to maximise reward at one testing time; and • Restrict trading of vested equity rewards to ensure compliance with company insider trading policy.
Align executive interests with those of shareholders	• Provide that a significant proportion of pay is delivered as shares (so part of executive reward is dividends linked to company profitability) or linked to shareholder value performance; • Maintain a guideline minimum shareholding requirement for the three most senior executives; • Encourage the holding of shares after vesting via a trading restriction for all executives; and • Prohibit hedging of unvested equity and equity subject to a trading lock to ensure alignment with shareholder outcomes.

2. Relationship between remuneration policy and company performance

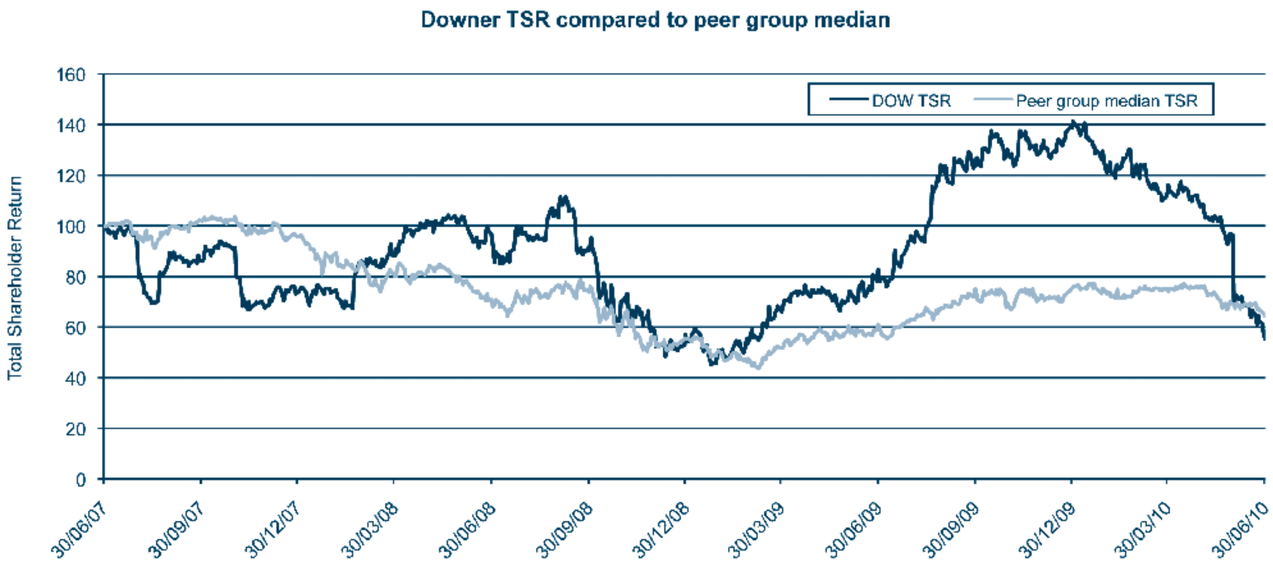
Remuneration is linked to performance by:

- Requiring a significant portion of executive remuneration to vary with short-term and long-term performance;
- Applying challenging financial and non-financial measures to assess performance; and
- Ensuring that these measures focus management on strategic business objectives that create shareholder value.

Downner measures performance on two key corporate measures. Earnings per share ('EPS') growth is a key measure for payment of executive short-term and long-term incentives. Total shareholder return ('TSR') relative to other ASX 100 companies is a key measure for payment of executive long-term incentives.

Remuneration for all executives varies with performance on these key measures.

The following graph shows the company's performance compared to the peer group median performance of the ASX 100 over the three year period to 30 June 2010.



Directors' Report

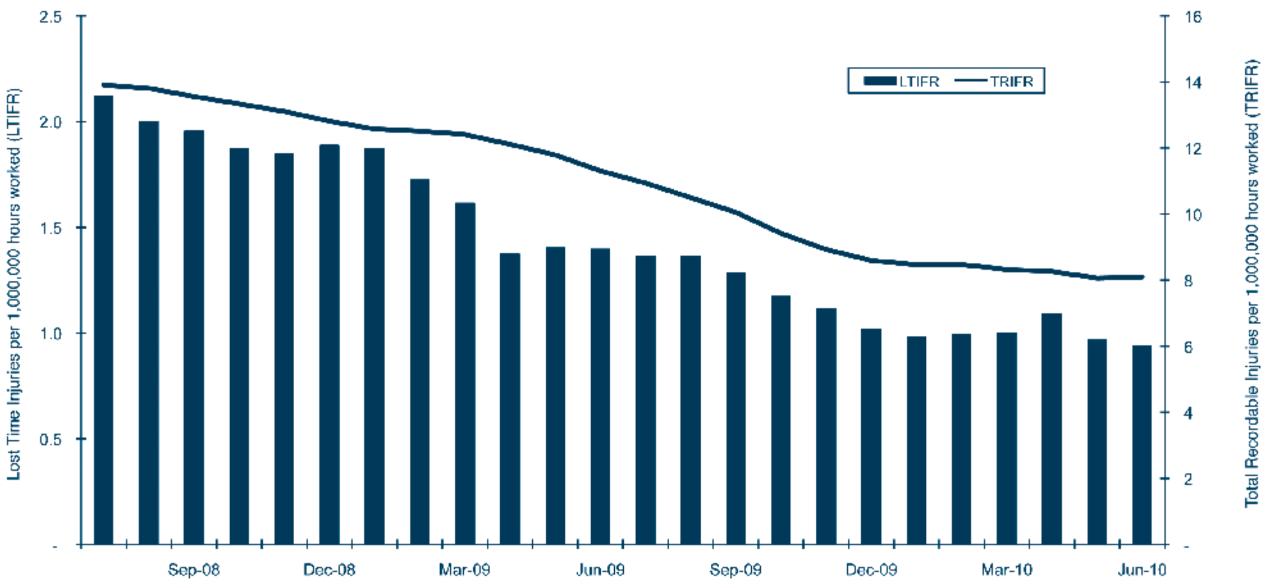
for the year ended 30 June 2010

The table below shows the performance of Downer against key indicators over the last five years.

	2006	2007	2008	2009	2010
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Total revenue	4,633,424	5,329,530	5,462,530	5,861,410	5,814,717
Profit before income tax	(110,906)	72,643	231,946	259,025	2,067
Total profit for the year	(24,929)	101,498	165,842	189,376	3,052

	2006	2007	2008	2009	2010
Share price at start of the year	$5.33	$7.44	$7.36	$6.87	$5.59
Share price at end of the year	$7.44	$7.36	$6.87	$5.59	$3.60
Interim dividend	12cps	13cps	13cps	13cps	13.1cps
Final dividend	8cps	8cps	12.5cps	16cps	16cps
Total shareholder return	45%	2%	(3%)	(14%)	(30%)
Basic earnings per share (excluding ROADS)	(8.4cps)	32.0cps	51.3cps	57.9cps	0.9cps
Earnings per share growth (%)	(123%)	481%	60%	13%	(98%)
Earnings growth rate %	(124%)	507%	63%	14%	(98%)

Downer is committed to a Zero Harm operating environment and considers this a key indicator of company performance. A portion of executive short-term incentive pay is contingent upon achievement of Zero Harm objectives. The chart below illustrates Downer's performance on lost time (LTIFR) and total recordable injuries ('TRIFR') over the last three years.



3. The Board's role in remuneration

The Board engages with shareholders, management and other stakeholders as required, to continuously refine and improve executive and director remuneration polices. Many of the refinements to the company's remuneration polices evident in the 2010 year are the result of the Board's engagement with stakeholders to seek feedback on the prior policy after the 2009 AGM vote on the remuneration report.

Two Board committees deal with remuneration matters. They are the Remuneration Committee and the Nominations and Corporate Governance Committee.

The role of the Remuneration Committee is to review and make recommendations to the Board in relation to senior executives in respect of:

- executive remuneration and incentive policy;
- remuneration of senior executives of the company;
- executive reward and its impact on risk management;
- executive incentive plan;
- equity based incentive plan;
- superannuation arrangements;
- recruitment, retention, performance measurement and termination policies and procedures for the Chief Operating Officer, Chief Financial Officer, Company Secretary and all senior executives reporting directly to the Managing Director or Chief Operating Officer;
- disclosure of remuneration in the company's public materials including ASX filings and the annual report; and
- retirement payments.

The Nominations and Corporate Governance Committee is responsible for recommending and reviewing remuneration arrangements for the executive directors and non-executive directors of the company.

To ensure coordination of remuneration policy, the chairs of the Remuneration Committee and the Nominations and Corporate Governance Committee are members of both committees.

Each committee has the authority to engage external professional advisers without seeking approval of the Board or management. During the reporting period, the Remuneration Committee retained Guerdon Associates as its adviser. Guerdon Associates does not provide services to management and is considered to be independent.

4. Description of non-executive director remuneration

There has been no change to the basis of non-executive director fees since the prior reporting period, other than setting the fee for the Deputy Chairman at 1.25 times the base fee, effective from the appointment of Mike Harding as Deputy Chairman on 1 July 2010.

Fees for non-executive directors are fixed and are not linked to the financial performance of the company. The Board believes this is necessary for non-executive directors to maintain their independence.

Shareholders approved an annual aggregate cap of $2,000,000 for non-executive director fees on 30 October 2008.

The allocation of fees to non-executive directors within this cap has been determined after consideration of a number of factors including the time commitment of directors, the size and scale of the company's operations, the skill sets of Board members, the quantum of fees paid to non-executive directors of comparable companies, and participation in committee work.

The basis of fees and the fee pool are reviewed when new directors are appointed to the Board, when the structure of the Board changes, or at least every three years. Reference is made to individual Non-executive Director fee levels and workload (i.e. number of meetings and the number of Board directors) at comparably sized companies from all industries other than the financial services sector, and the fee pools at these companies. In addition, an assessment is made on the extent of flexibility provided by the fee pool to recruit any additional directors for planned succession after allocation of fees to existing directors.

The Chairman receives a base fee of $375,000 per annum (inclusive of all committee fees) plus superannuation. The other Non-executive Directors each receive a base fee of $150,000 per annum plus superannuation. Additional fees are paid for committee duties: $35,000 for the chair of the Audit Committee; $15,000 for the chair of the Zero Harm Committee, Remuneration Committee and the Risk Committee and $60,000 for Lucio Di Bartolomeo's additional services as a director of Reliance Rail.

Under his original terms of appointment in 2001, John Humphrey is eligible for certain retirement benefits. Consistent with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the right to these retirement benefits has been frozen and has been fully provided for in the financial statements. Other Non-executive Directors are not entitled to retirement benefits. All Non-executive Directors are entitled to payment of statutory superannuation entitlements in addition to directors' fees.

5. Description of executive remuneration

5.1 Executive remuneration structure

Executive remuneration has a fixed component and a component that varies with performance.

The variable component ensures that a proportion of pay varies with performance. Performance is assessed annually for performance periods covering one year and three years. Payment for performance assessed over one year is a short-term incentive ('STI'). Payment for performance over a three year period is a long-term incentive ('LTI').

If company performance exceeds that of competitors, realised total executive remuneration including incentive payouts will be in the top quartile of the market. This enables the company to attract and retain better performing executives, and ensures pay outcomes are better aligned with shareholder returns.

The maximum total remuneration that can be earned by an executive is capped. The maximums are determined as a percentage of fixed remuneration. These performance contingent maximums are equal to or higher than most market peers. If maximum total remuneration is achieved, the proportions attributable to each incentive component will be as shown in the table below.

Executive	Maximum short term incentive % of fixed pay	Maximum long term incentive % of fixed pay	Maximum total performance based pay as % of fixed pay
Geoff Knox	150	100	250
Other executives	100	75	175

The proportions of short-term to long-term incentives took into account:

- Market practice;
- The service period before executives can receive equity rewards;
- The behaviours that the Board sought to encourage through direct key performance indicators; and
- The requirement for the most senior executives to maintain a shareholding as a multiple of pay after equity rewards have vested.

5.2 Fixed remuneration

Fixed remuneration is the sum of salary and the direct cost of providing employee benefits, including superannuation, motor vehicles, car parking, and fringe benefits tax.

The level of remuneration is set to be able to attract proven performers from secure employment elsewhere, while maintaining internal equity to retain proven performers whether sourced externally or internally. This has resulted in fixed remuneration being currently above the market median.

Remuneration is benchmarked against a peer group of direct competitors and a general industry peer group.

While market levels of remuneration are monitored on a regular basis, there is no contractual requirement or expectation that any adjustments will be made.

The only adjustments to executive fixed remuneration in 2010 were to recognise changed accountabilities.

Target and maximum incentive payments are set as a percentage of fixed remuneration.

5.3 Short-term incentive ('STI')

5.3.1 STI overview

The STI plan provides for an annual payment that varies with annual performance. This has been applied to performance measured over the company's financial year to 30 June 2010. The basis of the plan has not been changed from the prior period.

As noted in section 5.1, the maximum STI that can be earned is capped to minimise excessive risk taking.

The STI payment is made in cash after finalisation of the annual audited results. No part of the STI is deferred, as Directors believe risk management is carefully addressed by other remuneration policies described in this report.

5.3.2 STI performance requirements

Executive STI payments are based on an assessment of overall company performance, and individual performance on financial targets, Zero Harm and commercial requirements tailored to each position's accountability.

Overall company performance is assessed on company EPS requirements. This measure requires executives to work as a team to deliver optimal annual corporate financial outcomes. In addition, because EPS is used as a measure in both the STI and LTI, it encourages business strategies that are sustainable and discourages strategies that have more potential for earnings volatility.

Apart from the EPS requirement, specific performance conditions are tailored to each executive's scope of responsibility, but applying consistent measures of earnings before interest and tax ('EBIT'), return on funds employed ('ROFE'), revenue, cash generation and Zero Harm.

Weightings applied to STI measures for senior executives are tabulated below:

Executive	EPS growth	Zero Harm	Divisional and commercial
Geoff Knox	50%	50%	n/a
Other executives	30% to 40%	20% to 33%	30% to 40%

The Board, in its discretion, may approve payment that varies by + or – 15% from the payment applicable to the level of performance achieved. In accord with this policy, the Board exercised its discretion to reduce STI payments for all executives. This negative discretion was exercised to achieve an outcome that better aligned executive STI payments with the year's results.

Specific details of STI performance requirements are in section 6.3.

5.3.3 STI tabular summary

The following table outlines the major features of the 2010 STI plan.

Purpose of STI plan	• Focus performance on drivers of shareholder value over 12 month period; • Improve Zero Harm results; and • Ensure a part of remuneration costs varies with the company's 12 month performance.
Maximum STI that can be earned	• Geoff Knox: 150% of fixed remuneration. • Other executives: 100% of fixed remuneration.
Percentage of STI that can be earned on achieving target expectations	50% of the maximum (although note that some non-operational executives' commercial objectives do not allow a clear-cut target performance level for this purpose). For an executive to receive more will require performance in excess of target expectations.
Discretion to vary payments	The Board, in its discretion, may approve payment that varies by + or – 15% from the payment applicable to the level of performance achieved.
Performance period	1 July 2009 to 30 June 2010.
Performance assessed	August 2010, following release of audited accounts.
Additional service period after performance period for payment to be made	None.
Payment made	September 2010.
Payment vehicle	Cash.
Performance requirements	Financial requirements: • corporate roles – Group revenue, EBIT, cash generation, ROFE and EPS growth; and • operational roles – unit revenue, EBIT, cash generation, ROFE and group EPS growth. Non-financial requirements: • specific measurable targets relevant to area of accountability; and • Zero Harm – safety, environmental and sustainability targets. Where a fatality or serious environmental incident occurs, the Zero Harm portion of the STI is significantly reduced.
New recruits	New executives (either new starts or promoted employees) are eligible to participate in the STI in the year in which they commence in their position with a pro rata entitlement.
Terminating executives	There is no STI entitlement where an executive's employment terminates prior to the end of the financial year.

The Board retains the right to vary from policy in exceptional circumstances. However, any variation from policy and the reasons for it will be disclosed.

There have been no variations from policy during this financial period.

5.4 Long-term incentive ('LTI')

5.4.1 LTI overview

Executives participate in a LTI plan. This is an equity-based plan that provides for a reward that varies with company performance over three year measures of performance. Three year measures of performance are considered to be the maximum reasonable time period that financial projections and detailed business plans can be made.

The payment is in the form of restricted shares. The shares are purchased and held in a trust. This allows the company to align the timing of its tax deduction and impact on cash flow with the required expensing impact on annual profit. Dividends on the shares held in trust are distributed to executives, prior to any vesting of the shares. Directors note that these dividends are proportional to profit, which reinforces the focus on performance and alignment with the interests of shareholders, provided by this form of remuneration.

The 2010 LTI represents an entitlement to ordinary shares subject to satisfaction of both a performance condition and a continued employment condition. Grants are in two equal tranches, with each tranche subject to an independent performance requirement. The performance requirements for both tranches share two common features:

1. once minimum performance conditions are met, the proportion of shares that qualifies for vesting gradually increases pro rata with performance. This approach avoids "cliff" vesting, where a large proportion of reward either vests or does not vest either side of a minimum performance requirement. This approach reduces the incentive for excessive risk taking; and
2. the maximum reward is capped at a 'stretch' performance level that is considered attainable without excessive risk taking.

The 2010 LTI grants were made with effect from 1 January 2010, with performance measured over the three year period to 31 December 2012. The Board is of the view that with STI assessed at the end of the financial year, assessing LTI at the end of the calendar year reduces risk because:

- incentive rewards are contingent on different measurement dates. This reduces the likelihood of excessive risk taking because attempts to maximise reward at one point in the year could adversely affect incentive reward outcomes at the next measurement point; and
- the risk of executive turnover is reduced given that incentives do not all vest at one time in the year.

The proportion of shares that can vest will be calculated in February 2013 but executives must remain in service until 31 December 2013, or but for payment in lieu of notice, would have remained in service until 31 December 2013 before they receive any shares. This additional service requirement is to further enhance company risk management by:

- encouraging retention;
- allowing discovery of any factors that could contribute to financial restatement that may result in clawback of reward;
- allowing for a review of executive behaviours to ensure they have complied with the company's ethical and risk management guidelines and standards of business conduct; and
- maintaining shareholder alignment for a longer period.

After vesting, the shares remain in trust and are subject to a trading restriction that is governed by the Remuneration Committee. The Remuneration Committee considers requests to lift the trading restriction after reviewing executive compliance with insider trading policy guidelines.

All vested and unvested shares held in the trust will be forfeited if the Board determines that an executive has committed an act of fraud, defalcation or gross misconduct or in other circumstances specified by the Board.

5.4.2 Performance requirements

One tranche of restricted shares in the 2010 LTI grant qualifies for vesting subject to performance relative to other companies, while the other tranche of restricted shares qualifies for vesting subject to an absolute performance requirement.

The relative performance requirement is based on total shareholder return ('TSR'). TSR is calculated as the difference in share price over the performance period, plus the value of shares earned from reinvesting dividends received over this period, expressed as a percentage of the share price at the beginning of the performance period. If the TSR for each company in the comparator group is ranked from highest to lowest, the median TSR is the percentage return to shareholders that exceeds the TSR for half of the comparison companies. The 75th percentile TSR is the percentage return required to exceed the TSR for 75% of the comparison companies.

Shares in the tranche to which the relative TSR performance requirement applies vest pro rata between the median and 75th percentile. That is, 0% of the tranche vest at the 50th percentile, 4% at the 51st percentile, 8% at the 52nd percentile and so on until 100% vest at the 75th percentile.

The graduated rate of vesting after meeting the minimum TSR performance requirement (i.e. the median) is more conservative than most companies that have a relative TSR performance requirement. Downer's directors believe that this more graduated vesting provides better risk management because it reduces the tendency for excessive risk taking stemming from executives having very significant difference in reward outcomes either side of a performance "cliff".

Likewise, capping maximum reward outcomes at the 75th percentile relative TSR performance reduces the tendency for excessive risk taking and volatility to achieve higher percentile performance.

The comparator group for the 2010 LTI grant is the companies in the ASX 100 index as at the start of the performance period on 1 January 2010. Consideration was given to using a smaller group of direct competitors for customers; however:

- this was considered not to represent all competitors for capital and executives;
- limiting the comparator group to a small number of direct competitors could result in very volatile outcomes from period to period, which may have unintended behavioural consequences impacting risk; and
- management's strong focus on improving the company's ranking among ASX 100 companies has become embedded in company culture, so reinforcing this rather than trying to dislodge it with another focus is considered desirable.

The absolute performance requirement applicable to the other tranche of shares is based on EPS growth over the three year performance period to 31 December 2012. The EPS measure conforms to AASB 133 Earnings per Share and is externally audited.

The tranche of shares dependent on the EPS performance condition vests pro rata between 6% compound annual EPS growth and 12% compound annual EPS growth.

The minimum EPS growth hurdle was set by reference to the compound average of annual minimum market expectations over the three year period published by all external Downer stock equity analysts, while the maximum reflects the maximum projected in long-term strategic plans approved by the Board.

The graduated rate of vesting from meeting the minimum EPS growth performance requirement is more conservative than most companies that have an EPS growth performance requirement. Downer's directors believe that more graduated vesting provides better risk management because it reduces the tendency for excessive risk taking stemming from executives having very significant difference in reward outcomes either side of a performance "cliff".

Likewise, capping maximum reward outcomes at 12% annual compound EPS growth reduces the tendency for excessive risk taking and volatility that may be encouraged if the annual compound EPS growth bar is set above 12%.

5.4.3 Post-vesting shareholding guideline
The Managing Director, Chief Operating Officer and Chief Financial Officer are required to continue holding shares after they have vested until the shareholding guideline has been attained. This guideline requires that they hold shares equal in value to 100% of their fixed remuneration.

The Remuneration Committee has discretion to allow variations from these guideline requirements in exceptional circumstances.

The guideline requirement policy has been developed to reinforce alignment with shareholder interests.

5.4.4 Changes from prior period
The 2010 LTI plan differs from the 2009 LTI plan by including the EPS growth condition for half of the restricted shares granted. Two measures are considered to provide better risk management because reward is not an outcome from a sole focus on one measure.

The EPS growth requirement reflects a key requirement of the company's long-term strategic plan. Directors want management to focus on creating sustainable shareholder value.

Using EPS growth as a performance measure in the LTI plan, as well as in the STI plan, ensures that the focus on EPS growth outcomes will not be subject only to short-term considerations that could contribute to earnings volatility.

The 2010 LTI plan has been simplified by removing re-testing of performance after the three year performance assessment. Limiting the performance period to three years allows management and the Board to more easily set realistic financial goals in accord with the company's long-term strategy than if a longer performance period is used.

Longer-term alignment with shareholders is maintained with the 12 month continued employment condition after the performance period ends. This means that a total of four years must elapse before shares vest to the executive.

The 2010 LTI plan incorporates a trading lock on vested shares that can only be released by authority of the Remuneration Committee.

The guideline shareholding requirement sourced from vested LTI for the three most senior executives is an additional requirement that was not present in prior years.

5.4.5 LTI tabular summary

The following table outlines the major features of the 2010 LTI plan.

Purpose of LTI plan	• Focus performance on drivers of shareholder value over three year period; • Manage risk by countering any tendency to overemphasise short-term performance to the detriment of longer-term growth and sustainability; and • Ensure a part of remuneration costs varies with the company's longer-term performance.
Maximum value of equity that can be granted	• Managing Director: 100% of fixed remuneration • Other executives: 75% of fixed remuneration.
Performance period	1 January 2010 to 31 December 2012.
Performance assessed	February 2013.
Additional service period after performance period for shares to vest	Shares for which the relevant performance vesting condition is satisfied will not vest unless executives remain employed with the Group on 31 December 2013 or but for any payment in lieu of notice, would have remained employed on 31 December 2013.
Shares vest	1 January 2014.
Payment vehicle	Restricted shares.
Performance conditions	There are two performance conditions. Each applies to half the shares granted to each executive.

Relative TSR

The relative TSR performance condition is based on the company's TSR performance relative to the TSR of companies comprising the ASX 100 index at the start of the performance period, measured over the three years to 31 December 2012.

The performance vesting scale applicable to the shares subject to the relative TSR test are:

Downer's TSR ranking	% of shares subject to TSR condition that qualify for vesting
50th percentile or less	0%
Above 50th and below 75th percentile	Pro rata so that 4% of the restricted shares in the tranche vest for every 1% increase between the 50th percentile and 75th percentile
75th percentile and above	100%

Performance conditions *- continued*	**EPS growth** The EPS growth performance condition is based on the company's compound annual EPS growth over the three years to 31 December 2012. The performance vesting scale applicable to the shares subject to the EPS growth test is:

Downer's EPS compound annual growth	% of shares subject to EPS condition that qualify for vesting
<6%	0%
6% to < 12%	16.67% of the restricted shares in the tranche vest for every 1% increase in EPS growth between 6% and 12%, on a pro rata basis
12% or more	100%

Are shares acquired on market or newly issued?	Shares were acquired on market and placed in trust to: • minimise dilution; and • obtain a tax deduction aligned with the expense being incurred.
Treatment of dividends and voting rights on restricted shares	Dividends are received by the trust. The trust distributes these as trust income each year in proportion to the unvested and vested shares held in trust for executives. As dividends are a function of net profit payout policy determined by the Board, this reinforces executive alignment with shareholder interests during the performance period, and provides a reward directly tied with annual profit.
Restriction on hedging	Hedging of entitlements under the plan is not permitted.
Restriction on trading	Vested shares may only be released from the trust with the approval of the Remuneration Committee. Approval requires that trading comply with the company's securities trading policy.
New recruits	New executives (either new starts or promoted employees) are eligible to participate in the LTI on the first grant date applicable to all executives after they commence in their position, with an additional pro rata entitlement if their employment commenced after the grant date in the prior calendar year.
Terminating executives	All shares in the 2010 LTI grant will be forfeited where an executive's employment terminates prior to 31 December 2013.
Change of control	Providing at least 12 months of the grant's performance period have elapsed, unvested shares pro rated with the elapsed service period are tested for vesting with performance against the relevant relative TSR or EPS growth requirements for that relevant period. Shares that have already been tested, have met performance requirements and are subject to the completion of the service condition, fully vest.

The Board retains the right to vary from policy in exceptional circumstances. However, any variation from policy and the reasons for it will be disclosed.

There have been no variations from policy during this financial period.

6. Details of director and executive remuneration

6.1 Directors and executives

The following persons acted as directors of the company during or since the end of the most recent financial year:

P E J Jollie AM	(Chairman)
G H Knox	(Managing Director and Chief Executive Officer, resigned 30 July 2010)
S A Chaplain	
P R Coates AO	(resigned 15 October 2009)
L Di Bartolomeo	
G A Fenn	(Managing Director and Chief Executive Officer, appointed 30 July 2010, Finance Director and Chief Financial Officer, 1 July 2010 to 29 July 2010, Chief Financial Officer, commenced 6 October 2009)
R M Harding	
J S Humphrey	
C J S Renwick AM	
C G Thorne	(appointed 1 July 2010)

The term "executives" applies to key management personnel ('KMP') who are not Non-executive Directors, named below. These individuals include the five highest paid executives. The named persons held their current position for the whole of the most recent financial year and since the end of the financial year, except as noted:

C Bruyn	(Chief Executive Officer - Downer - New Zealand & United Kingdom)
D Cattell	(Chief Operating Officer - Downer EDI Limited)
S Cinerari	(Chief Executive Officer - Downer Works - Australia)
E Kolatchew	(Chief Executive Officer - Downer Engineering, from 11 January 2010)
W Nolan	(Chief Executive Officer - Downer Engineering, to 30 October 2009)
D O'Reilly	(President - Western Region)
D Overall	(Chief Executive Officer - Downer Mining)
P Reichler	(Chief Financial Officer to 2 October 2009, Chief Executive Officer - Group Ventures from 3 October 2009)
G Wannop	(Chief Executive Officer - Downer Rail, to 1 July 2010)

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6.2 Remuneration of Directors and key management personnel

2010	Short-term employee benefits			Post-employment benefits				
	Salary and fees	Bonus paid or payable in respect of current year	Non-monetary	Superannuation	Termination benefits	Subtotal	Share-based payment transactions [2]	Total
	$	$	$	$	$	$	$	$
Non-executive Directors								
P E J Jollie	375,000	-	-	33,750	-	408,750	-	408,750
S A Chaplain	113,500	-	-	50,000	-	163,500	-	163,500
P R Coates [1]	43,548	-	-	3,919	-	47,467	-	47,467
L Di Bartolomeo [5]	216,250	-	-	19,463	-	235,713	-	235,713
R M Harding [6]	168,750	-	-	15,188	-	183,938	-	183,938
J S Humphrey [7]	185,000	-	-	16,650	-	201,650	-	201,650
C J S Renwick [8]	165,000	-	-	14,850	-	179,850	-	179,850
Executives								
G Knox	1,958,333	1,275,000	56,066	41,667	-	3,331,066	1,797,808	5,128,874
C Bruyn	519,987	249,845	51,588	12,187	-	833,607	105,768	939,375
D Cattell	1,435,000	382,500	40,000	25,000	-	1,882,500	795,929	2,678,429
S Cinerari	573,848	211,663	24,153	25,000	-	834,664	122,766	957,430
G Fenn [1,3]	727,955	255,000	4,259	10,846	-	998,060	733,614	1,731,674
E Kolatchew [1,4]	637,150	203,184	187	27,097	-	867,618	3,718	871,336
W Nolan [1,9]	506,322	-	29,018	19,178	800,000	1,354,518	(694,006)	660,512
D O'Reilly	750,000	224,400	-	50,000	-	1,024,400	491,141	1,515,541
D Overall	705,784	432,289	-	36,551	-	1,174,624	265,018	1,439,642
P Reichler	804,820	305,388	12,881	50,000	-	1,173,089	491,141	1,664,230
G Wannop	666,925	172,610	71,367	33,075	-	943,977	472,171	1,416,148
	10,553,172	**3,711,879**	**289,519**	**484,421**	**800,000**	**15,838,991**	**4,585,068**	**20,424,059**

[1] Amounts represent the payments relating to the period during which the individuals were key management personnel.
[2] Represents the value of vested and unvested equity expensed during the period, in accordance with AASB 2 Share-based Payment, related to grants made to the executive. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in sections 5.4.1 and 5.4.2.
[3] G Fenn (commenced 6 October 2009). Share-based payment transactions include $663,966 in relation to sign-on grants of 250,525 restricted shares.
[4] E Kolatchew (appointed Chief Executive Officer - Downer Engineering on 11 January 2010). Salary and fees includes sign-on payment of $250,000.
[5] L Di Bartolomeo: fees comprise payment of $156,250 for services rendered to Downer ($150,000 Board fee, $6,250 Remuneration Committee chair fee) and $60,000 for services rendered to Reliance Rail Pty Ltd.
[6] R M Harding: comprised of $150,000 Board fee and $18,750 Risk Committee chair fee (being $15,000 in relation to the 2010 financial year and $3,750 in relation to 2009 financial year).
[7] J S Humphrey: comprised of $150,000 Board fee and $35,000 Audit Committee chair fee.
[8] C J S Renwick: comprised of $150,000 Board fee and $15,000 Zero Harm Committee chair fee.
[9] W Nolan (resigned 30 October 2009). Salary and fees include payment for accrued annual leave entitlements of $145,664 and long service leave of $110,702. The termination payment was awarded in accordance with the terms of Mr Nolan's employment contract. Share-based payments includes reversal of expense for forfeited equity incentives.

2009	Short-term employee benefits			Post-employment benefits			Share-based payment transactions [3]		
	Salary and fees	Bonus paid or payable in respect of current year	Non-monetary	Super-annuation	Termination benefits	Subtotal	Options and rights	Restricted shares	Total
	$	$	$	$	$	$	$	$	$
Non-executive Directors									
P E J Jollie	375,000	-	-	33,750	-	408,750	-	-	408,750
S A Chaplain	150,000	-	-	13,500	-	163,500	-	-	163,500
P R Coates [1]	100,822	-	-	9,074	-	109,896	-	-	109,896
L Di Bartolomeo	210,000	-	-	18,900	-	228,900	-	-	228,900
R M Harding	150,000	-	-	13,500	-	163,500	-	-	163,500
J S Humphrey	140,000	-	-	12,600	-	152,600	-	-	152,600
C J S Renwick	165,000	-	-	14,850	-	179,850	-	-	179,850
Executives									
G Knox	2,000,000	2,500,000	-	-	-	4,500,000	-	2,311,633	6,811,633
C Bruyn [1]	384,288	416,273	29,573	11,675	-	841,809	12,782	5,100	859,691
D Cattell	1,335,296	1,129,244	224,765	46,000	-	2,735,305	24,271	1,016,560	3,776,136
S Cinerari [1]	409,035	389,917	34,725	39,809	-	873,486	9,929	5,920	889,335
P Graham [1]	518,931	522,263	4,259	40,703	-	1,086,156	-	395,737	1,481,893
W Nolan	695,398	746,946	37,598	62,586	-	1,542,528	15,342	694,451	2,252,321
D O'Reilly [1]	479,885	266,660	691	53,448	-	800,684	7,879	472,431	1,280,994
D Overall [2]	1,431,265	243,932	5,586	17,773	-	1,698,556	-	118,907	1,817,463
P Reichler	800,000	522,263	6,429	72,000	-	1,400,692	11,196	694,451	2,106,339
P Reidy [1]	302,370	191,662	39,302	27,213	-	560,547	7,703	330,701	898,951
C Setter [1]	218,929	208,750	57,674	18,698	-	504,051	-	48,729	552,780
G Wannop	700,000	651,070	49,829	77,850	-	1,478,749	17,478	689,130	2,185,357
	10,566,219	**7,788,980**	**490,431**	**583,929**	**-**	**19,429,559**	**106,580**	**6,783,750**	**26,319,889**

[1] Amounts represent the payments relating to the period during which the individuals were key management personnel.
[2] D Overall (appointed Chief Executive Officer - Downer Mining on 27 January 2009). Salary and fees includes $1,125,000 sign-on payment. Share-based payment transactions include $53,975 in relation to sign on grant of 50,000 restricted shares.
[3] Represents the value of vested and unvested equity expensed during the period, in accordance with AASB 2 Share-based Payment, related to grants made to the executive. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in sections 5.4.1 and 5.4.2.

6.3 Performance related remuneration

The table below lists the proportions of remuneration paid during the year ended 30 June 2010 that are performance and non-performance related:

Executive	Performance Related %	Non-Performance Related %
G Knox	60	40
C Bruyn	38	62
D Cattell	44	56
S Cinerari	35	65
G Fenn	57	43
E Kolatchew	24	76
W Nolan [1]	-105	205
D O'Reilly	47	53
D Overall	48	52
P Reichler	48	52
G Wannop	46	54

[1] Performance related portion includes the reversal of expense for forfeited equity incentives.

Weightings applied to STI measures for senior executives are tabulated below:

Executive	EPS growth	Zero Harm	Financial and commercial
Geoff Knox	50%	50%	n/a
Other executives	30% to 40%	20% to 33%	30% to 40%

EPS growth of negative 98% was achieved against a target of 4-12%.

Zero Harm results were as follows:

Measure	Target	Actual
TRIFR (Total Recordable Injury Frequency Rate)	Achieve a set reduction in the TRIFR at level of responsibility. Award pro rates linearly from 0% to 100%.	100% award achieved at group level and by all operational KMP.
SFR (Severity Frequency Rate)	Achieve a set reduction in the SFR at level of responsibility. Award pro rates linearly from 0% to 100%.	Applied to operational KMP only. 100% achieved for all except S Cinerari (0%)
Environment	Achieve below threshold number of environmental incidents.	100% award achieved at Group level and by all operational KMP except S Cinerari (90%), D Overall (90%) and G Wannop (90%).
Sustainable development	Implementation and compliance with company policy.	100% award achieved at Group level and by all operational KMP.

Specific STI financial and commercial targets at business unit and corporate levels remain commercially sensitive and so have not been reported.

The maximum negative discretion of 15% was applied to all executives in order to achieve an outcome that better aligned executive STI payments with the year's results.

The following table shows the STIs that were earned during the year ended 30 June 2010 due to the achievement of the relevant performance targets.

Executive	STI in respect of 2010 financial year	
	Paid %	Forfeited %
G Knox	42.5	57.5
C Bruyn	43.9	56.1
D Cattell	25.5	74.5
S Cinerari	32.6	67.4
G Fenn	25.5	74.5
E Kolatchew	52.5	47.5
W Nolan	0.0	100.0
D O'Reilly	28.0	72.0
D Overall	57.6	42.4
P Reichler	38.2	61.8
G Wannop	24.7	75.3

The table below summarises LTI performance measures tested and the outcomes for each executive;

Relevant executive	Relevant LTI measure	Performance outcome	% LTI tranche that vested
C Bruyn, D Cattell, S Cinerari, W Nolan, D O'Reilly, P Reichler and G Wannop	Percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a three year period (2006 plan)	44%	0%
C Bruyn, D Cattell, S Cinerari, W Nolan, D O'Reilly, P Reichler and G Wannop	Compound annual EPS growth hurdles, with reference to the average Australian Commonwealth Government three year bond yield, over a three year period (2006 plan)	Vesting range of 8.4% to 10.9% Downer performance of 7.71%	0%
G Knox, D Cattell, D O'Reilly, D Overall, P Reichler and G Wannop	Share price hurdle (2008 plan)	Vesting range (Geoff Knox) of $8 to $10 Vesting range (others) of $7 to $10 Actual share price of $8.82	None vested. The proportion that became provisionally qualified: Geoff Knox - 60.75% Others - 41.13%
G Knox, C Bruyn, D Cattell, S Cinerari, G Fenn, D O'Reilly, D Overall, P Reichler and G Wannop	Percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a one year period (Tranche 1 of 3 in 2009 plan)	78%	None vested. 100% became provisionally qualified.

6.4 Share-based payments
6.4.1 Restricted shares

The table below shows the number and percentage of restricted shares that vested or were forfeited during the year for each grant that affects compensation in this or future reporting periods. No restricted shares lapsed as a result of failed performance tests during the year.

	2008 plan					2009 plan			2010 plan		
Name	Number of shares (EBIT/cash hurdle)[1]	% vested	Number of Shares (share price hurdle)[2]	% vested	% forfeited	Number of shares [3]	% vested	% forfeited	Number of shares [4]	% vested	% forfeited
G Knox [6]	-	-	1,600,000	12.5	-	518,135	-	-	254,427	-	-
C Bruyn	-	-	-	-	-	86,957	-	-	53,430	-	-
D Cattell	62,500	50	387,500	-	-	291,451	-	-	143,115	-	-
S Cinerari	-	-	-	-	-	100,932	-	-	62,017	-	-
G Fenn [7]	-	-	-	-	-	444,825	-	-	95,410	-	-
E Kolatchew	-	-	-	-	-	-	-	-	85,869	-	-
W Nolan	50,000	50	250,000	-	100	155,440	-	100	-	-	-
D O'Reilly	50,000	50	250,000	-	-	155,440	-	-	76,328	-	-
D Overall	50,000	-	270,000	-	-	145,726	-	-	71,558	-	-
P Reichler	50,000	50	250,000	-	-	155,440	-	-	76,328	-	-
G Wannop [5]	50,000	50	250,000	-	-	136,011	-	-	-	-	-

[1] Grant date 29 April 2008.
[2] Grant date 29 April 2008 except for D Overall (27 January 2009).
[3] Grant date 1 April 2009 except for C Bruyn and S Cinerari (12 June 2009) and G Fenn (332,258 on 30 June 2009 on 112,567 27 January 2010).
[4] Grant date 11 June 2010. The fair value of shares granted was $4.46 per share for the EPS tranche and $1.46 per share for the relative TSR tranche.
[5] G Wannop resigned on 1 July 2010. 229,641 shares in the 2008 plan and 90,674 in the 2009 plan were forfeited.
[6] G Knox resigned on 30 July 2010. 956,987 shares in the 2008 plan, 518,135 shares in the 2009 plan and 254,427 in the 2010 plan were forfeited.
[7] G Fenn's Chief Executive Officer grants of 300,000 shares announced on 2 August 2010 have not been included in this table. Details of these incentives are provided at section 7.2. The fair value of grants made on 27 January 2010 was $8.35 per share.

The maximum number of restricted shares that may vest in future years that will be recognised as share-based payments in future years is set out below:

Maximum number of shares for the vesting year:

Name	2010	2011	2012	2013	2014	2015
G Knox	400,000	572,712	572,712	372,711	254,427	-
C Bruyn	-	28,986	28,986	28,985	53,430	-
D Cattell	60,417	176,317	226,316	197,151	193,115	-
S Cinerari	-	33,644	33,644	33,644	62,017	-
G Fenn	-	315,292	64,767	64,766	95,410	-
E Kolatchew	-	-	-	-	85,869	-
D O'Reilly	41,667	101,813	135,145	114,481	109,662	-
D Overall	25,000	103,575	108,575	138,576	131,558	30,000
P Reichler	41,667	101,813	135,145	118,481	109,662	-
G Wannop	41,667	95,337	128,669	112,004	33,334	-

The maximum value of restricted shares that may vest in future years that will be recognised as share-based payments in future years is set out below. The amount reported is the value of share-based payments in future years calculated in accordance with AASB 2 Share-based Payment over the vesting period.

Maximum value of shares that could possibly vest ($):

Name	2010	2011	2012	2013	2014	2015
G Knox	1,797,808	1,272,998	808,696	447,461	162,468	-
C Bruyn	105,768	147,914	126,424	87,552	35,868	-
D Cattell	795,929	710,290	506,284	294,398	107,281	-
S Cinerari	122,766	171,685	146,741	101,621	41,632	-
G Fenn	733,614	1,486,215	350,599	201,868	73,153	-
E Kolatchew	3,718	71,459	71,647	71,320	36,027	-
D O'Reilly	491,141	418,608	294,357	167,061	59,335	-
D Overall	265,018	251,293	192,637	131,805	54,362	1,966
P Reichler	491,141	418,608	294,357	167,061	59,335	-
G Wannop	472,171	339,423	218,191	96,988	25,221	-

6.4.2 Options and rights issued

No performance options or rights were granted or exercised during the year ended 30 June 2010.

7. Key terms of employment contracts

7.1 Notice and termination payments

All executives are on contracts with no fixed end date. The following table captures the notice periods applicable to termination of the employment of KMP:

	Termination notice period by Downer	Termination notice period by employee	Termination payments payable under contract
Geoff Knox	12 months	12 months	12 months
Other executives	12 months	6 months	12 months

Termination payments are calculated based upon total fixed remuneration at the date of termination. No payment is made for termination due to gross misconduct.

7.2 Managing Director and Chief Executive Officer of Downer's employment agreement

There was no change to Mr Knox's contract of employment in the reporting period.

Mr Knox's employment contract had no fixed end date. The company could have terminated his employment with 12 months written notice, or immediately with cause. Mr Knox could also have resigned by providing 12 months written notice.

Mr Knox's remuneration comprised fixed and variable components. Mr Knox's fixed remuneration was $2,000,000 per annum inclusive of compulsory superannuation contributions. The variable component comprised short term incentives and long term incentives.

Mr Knox was entitled to an annual STI in the form of a cash bonus, capped at a maximum of 150% of fixed remuneration (salary plus superannuation plus non-cash benefits) for each year. The assessment of the STI was based upon two factors of equal weighting as outlined below:

- non-financial measures, based upon key business objectives, set by the Board. For 2010, these related to improvements in the Zero Harm performance of the Group; and
- the achievement of EPS growth hurdles as shown in the following table:

EPS growth	Percentage of STI to be paid
< 4%	zero
4% - 8%	pro rated from 0% to 25%
8% - 12%	pro rated from 25% to 50%

The terms of Mr Knox's STI for 2009/10 were:

- 50% related to Zero Harm targets in safety, environment and sustainability; and
- 50% related to Group EPS performance.

Mr Knox was awarded a STI in respect of the completed 2010 financial year of $1,275,000. Mr Knox earned no STI for EPS growth performance and earned the full STI for the Zero Harm targets. This calculated to $1,500,000 and the Directors exercised their discretion to reduce the payment by the maximum 15% as allowed under the scheme rules. This negative discretion was exercised to achieve an outcome that better aligned executive STI payments with the year's results.

Mr Knox participated in the LTI plan. The 2010 LTI conditions are described elsewhere in this report. Mr Knox is eligible for LTI rewards that have met performance requirements that are due to vest during his notice period. This means that 243,013 shares relating to the 2008 LTI scheme that met the performance hurdle at 31 December 2009 will vest on 31 December 2010. Mr Knox forfeited all remaining provisionally qualified or unvested shares in the LTI scheme relating to the 2008, 2009 and 2010 LTI schemes (1,729,549 shares).

Mr Knox resigned on 30 July 2010. Mr Knox's termination payment comprised a payment of $2,000,000, being payment in lieu of the notice period.

Mr Fenn was appointed as the Managing Director and Chief Executive Officer of Downer commencing on 30 July 2010. Mr Fenn's contract will continue until terminated by either party under the terms of the employment agreement as summarised below.

Mr Fenn's remuneration comprises fixed and variable components.

The initial fixed remuneration is $1,800,000 per annum. This amount includes superannuation contributions. It is reviewable annually in accordance with Downer's policies.

Mr Fenn will be eligible to receive an annual STI and the maximum STI opportunity will be 100% of fixed remuneration.

Any entitlement to STI is at the discretion of the Board, having regard to performance measures and targets developed in consultation with Mr Fenn including Downer's financial performance, safety, environmental and sustainability targets and adherence to risk management policies and practices. The Board also retains the right to vary the STI by +/- 15% (up to the 100% maximum) based on its assessment of performance.

There is no STI entitlement where the Chief Executive Officer's employment terminates prior to the end of the financial year, other than in the event of a takeover.

Mr Fenn will also be eligible to receive key milestone incentives on a once-only basis in lieu of a LTI grant pro rated with service as Chief Executive Officer for the remainder of calendar 2010. These milestones are over and above the STI operating and financial objectives, and are considered to be sufficiently critical to shareholder value to warrant special STI treatment on a one-off basis.

As part of these special milestone incentives, an award of 100,000 shares in Downer was made to Mr Fenn. The specific performance hurdle for this award will be the practical completion of the first Waratah train by 31 December 2010. The service period prior to vesting will be a further two years to 31 December 2012.

A further 200,000 shares will be awarded with further specific performance hurdles relating to the delivery of the Waratah train sets. These will be measured over the period to 30 September 2011. The service period prior to vesting will be a further 2.25 years to 31 December 2013.

Mr Fenn was granted 250,525 shares as a sign-on payment with a two year employment condition to 30 June 2011. Mr Fenn participated in the 2009 (194,300 shares) and 2010 LTI grants (95,410 shares) in his position as Chief Financial Officer. From 2011, he will be eligible to participate in Downer's LTI plan on terms determined by the Board, subject to receiving any required or appropriate shareholder approval.

In the event of a change of control, providing at least 12 months of the grant's performance period have elapsed, unvested shares pro rated with the elapsed service period are tested for vesting with performance against the relevant hurdles for that period. The specific milestone performance shares not yet tested will fully vest on a change of control. Shares that have already been tested, have met performance requirements and are subject to the completion of the service condition, fully vest.

The Board retains the right to vary from policy in exceptional circumstances.

Mr Fenn can resign:

(a) by providing six (6) months written notice; or

(b) immediately in circumstances where there is a fundamental change in his role or responsibilities. In these circumstances, Mr Fenn is entitled to a payment in lieu of twelve (12) months notice.

Downer can terminate Mr Fenn's employment:

(a) immediately for misconduct or other circumstances justifying summary dismissal; and

(b) by providing twelve (12) months written notice.

When notice is required, Downer can make a payment in lieu of notice of all or part of any notice period (calculated based on Mr Fenn's fixed annual remuneration).

If Mr Fenn resigns because ill health prevents him from continuing his duties, he will receive a payment in recognition of his past services equivalent to 12 months fixed remuneration. At the discretion of the Board, his shares under the LTI plan will also vest.

If Downer terminates Mr Fenn's employment on account of redundancy, in addition to the notice (or payment in lieu of notice) required to be given by Downer, Mr Fenn will receive a payment in recognition of his past services equivalent to 12 months fixed remuneration.

If Mr Fenn resigns he will be subject to a six month post-employment restraint in any area that the Downer Group operates, where he is restricted from working for certain competitive businesses.

The agreement contains provisions regarding leave entitlements, duties, confidentiality, intellectual property, moral rights and other facilitative and ancillary clauses. It also contains provisions regarding corporate governance and a provision dealing with the Corporations Act 2001 limits on termination benefits to be made to Mr Fenn.

8. Legacy equity-based remuneration plans

Legacy Downer equity based remuneration plans in which executives retained an interest during the reporting period are:

- 2009 executive share plan;
- 2008 executive share plan; and
- Options and rights plan (issued in 2006).

Details of legacy LTI plans are tabulated below:

2009 Executive Share Plan

Type of award - grant of restricted shares delivered in three equal tranches

Performance requirements	Re-test	Service requirements	Vesting schedule
Percentile ranking of Downer's TSR relative to the constituents of the ASX 100 as at the beginning of the performance tests period. Initial performance periods for the 3 tranches are 1, 2 and 3 years respectively.	Shares that do not meet the initial relative TSR test are subject to a single re-test 12 months after the first test. If the performance hurdles are met at the re-test, the awards will vest. Shares that do not meet the re-test are forfeited.	The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December in the final year of the performance period for which the performance condition is satisfied.	The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its TSR peer group, the ASX 100. Shares vest pro rata between the median and 75th percentile. That is, 4% of the shares vest at the 50th percentile, 8% at the 51st percentile and so on until 100% vest at the 75th percentile.

2008 Executive Share Plan

Type of award - grant of restricted shares

Performance requirements	Re-test	Service requirements	Vesting schedule
Two tranches of restricted shares were granted under the plan. The performance conditions for those pools are: Tranche 1: 50% vests on achievement of an EBIT target and 50% vests on achievement of an operating cash flow target for the year ended 30 June 2008; and Tranche 2: a share price hurdle as at 31 December in the relevant year. The share price is calculated as the 10 day volume weighted average price ('VWAP') leading up to 31 December for each cycle.	There is no re-test for awards that vest on satisfaction of an EBIT or operating cash flow target. At the discretion of the Board, tranches of awards subject to a share price hurdle that do not meet the hurdle may be re-tested under the conditions of the following tranche. If the performance hurdle is met at the re-test, the relevant proportion of the tranche will vest.	A service condition that requires the executive to be in continuous employment for a certain period of months after the testing date. After attaining share price hurdles, service conditions apply for shares to vest, with one third of shares that pass the hurdles to vest providing the executive remains in service to 31 December 2012, 2013 and 2014 respectively.	By 31 December 2010, pro rated vesting of 0% to 100% for a share price hurdle from \$10 to \$12.50. By 31 December 2011, pro rated vesting of 0% to 100% for a share price hurdle from \$6 to \$13. The latter re-test hurdle was added at the Board's discretion due to the unforeseen impact of the global financial crisis on the overall share market.

Options and Rights Plan (issued in 2006)

Type of award - each grant under this plan is divided into two tranches with each tranche consisting of an equal value of options and rights.
Each option is a right to purchase one ordinary share in Downer EDI Limited at a specified exercise price.
Each right allows the holder to purchase one ordinary share in Downer EDI Limited at a zero exercise price.

Performance requirements	Re-test	Service requirements	Vesting schedule
Tranche 1 vests based on the percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a three year period. Tranche 2 vests based on meeting compound annual EPS growth hurdles, with reference to the average Australian Commonwealth Government three year bond yield, over a three year period.	A re-test is applied at the end of year 4.	The executive must be in continuous employment up to and including the test date.	Tranche 1: 50% vest at the 50th percentile, with pro rated vesting until 100% vest at the 75th percentile. Tranche 2: 50% vest if EPS growth equals the three year bond yield plus 2.5%, with pro rated vesting until 100% vest if EPS growth equals three year bond yield plus 5%.

Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the directors

P E J Jollie AM
Chairman

Sydney, 27 August 2010

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Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Mr Peter Jollie
Chairman
The Board of Directors
Downer EDI Limited
Triniti Business Campus
39 Delhi Road
NORTH RYDE NSW 2113

27 August 2010

Dear Sir

DOWNER EDI LIMITED

In accordance with section 307C of the Corporations Act 2001, I provide the following declaration of independence to the directors of Downer EDI Limited.

As lead audit partner for the audit of the financial report of Downer EDI Limited for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

AV Griffiths
Partner
Chartered Accountants

Consolidated Income Statement

for the year ended 30 June 2010

FINANCIAL STATEMENTS

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Revenue from ordinary activities	3(a)	**5,814,717**	5,861,410
Other income	3(a)	**30,050**	6,403
Total revenue		**5,844,767**	5,867,813
Employee benefits expense	3(b)	**(1,975,592)**	(2,068,044)
Raw materials and consumables used		**(1,468,167)**	(1,454,525)
Subcontractor costs		**(1,029,545)**	(985,279)
Plant and equipment costs		**(537,868)**	(560,204)
Communication expenses		**(60,401)**	(54,698)
Occupancy costs		**(99,182)**	(96,838)
Professional fees		**(42,868)**	(43,701)
Travel and accommodation expenses		**(59,266)**	(68,498)
Other expenses from ordinary activities		**(95,406)**	(80,369)
Depreciation and amortisation	3(b)	**(160,159)**	(141,768)
Finance costs	3(b)	**(72,268)**	(65,018)
Share of net profit of joint ventures entities and associates	15(b)	**18,022**	10,154
Individually significant items	4	**(260,000)**	-
Profit before income tax		**2,067**	259,025
Income tax benefit/(expense)	5	**985**	(69,649)
Profit after income tax		**3,052**	189,376
Profit for the year that is attributable to:			
Non-controlling interest		**95**	-
Members of the parent entity		**2,957**	189,376
Total profit for the year		**3,052**	189,376
Earnings per share (cents)			
• Basic earnings per share (excluding ROADS)	7	**0.9**	57.9
• Basic (loss)/earnings per share	7	**(2.4)**	54.4
• Diluted (loss)/earnings per share	7	**(2.4)**	52.7

The consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
Profit after income tax		**3,052**	189,376
Other comprehensive income			
• Exchange differences arising on translation of foreign operations		**(3,816)**	16,333
• Net gain/(loss) on available-for-sale investments taken to equity		**333**	(3,053)
• Net (loss)/gain on foreign currency forward contracts taken to equity		**(38,883)**	91,732
• Net gain/(loss) on cross currency interest rate swaps taken to equity		**2,471**	(6,460)
• Loss on share of reserves from associates		**-**	(45,532)
• Amortisation on share of reserves from associates	24	**2,637**	-
• Income tax relating to components of other comprehensive income		**10,939**	(24,801)
Other comprehensive (expense)/income included in equity		**(26,319)**	28,219
Total comprehensive income for the year		**(23,267)**	217,595
Total comprehensive income for the year that is attributable to:			
Non-controlling interest		**95**	-
Members of the parent entity		**(23,362)**	217,595
Total comprehensive income for the year		**(23,267)**	217,595

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

as at 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**385,126**	299,463
Inventories	10	**193,138**	198,396
Trade and other receivables	11	**1,183,878**	1,165,458
Other financial assets	12	**12,708**	12,154
Current tax assets	13	**13,765**	13,920
Other assets	14	**28,787**	32,310
Non-current assets as held for sale	26	**-**	65,587
Total current assets		**1,817,402**	1,787,288
Non-current assets			
Trade and other receivables	11	**-**	14,949
Equity-accounted investments	15(a)	**22,410**	8,437
Property, plant and equipment	16	**862,076**	846,304
Intangible assets	17	**589,414**	609,970
Other financial assets	12	**35,954**	22,446
Deferred tax assets	13(a)	**123,280**	87,450
Other assets	14	**5,464**	6,245
Total non-current assets		**1,638,598**	1,595,801
Total assets		**3,456,000**	3,383,089
LIABILITIES			
Current liabilities			
Trade and other payables	18	**987,266**	946,024
Borrowings	19	**272,167**	215,839
Other financial liabilities	20	**41,513**	47,722
Provisions	21	**199,414**	185,570
Current tax liabilities	22	**5,012**	10,205
Total current liabilities		**1,505,372**	1,405,360
Non-current liabilities			
Trade and other payables	18	**713**	2,192
Borrowings	19	**617,012**	578,658
Other financial liabilities	20	**39,597**	21,136
Provisions	21	**27,162**	27,184
Deferred tax liabilities	22(a)	**23,293**	18,171
Total non-current liabilities		**707,777**	647,341
Total liabilities		**2,213,149**	2,052,701
Net assets		**1,242,851**	1,330,388
EQUITY			
Issued capital	23	**1,118,675**	1,078,791
Reserves	24	**(107,893)**	(85,124)
Retained earnings		**231,974**	336,721
Parent interests		**1,242,756**	1,330,388
Non-controlling interest		**95**	-
Total equity		**1,242,851**	1,330,388

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2010

Consolidated	Issued capital $'000	Available-for-sale investment reserve $'000	Hedge reserve (Note 24) $'000	Foreign currency translation reserve $'000	Employee benefits reserve $'000	Retained earnings $'000	**Attributable to owners of the parent $'000**	Non-controlling interest $'000	**Total $'000**
2010									
Balance at 1 July 2009	**1,078,791**	**(3,053)**	**(61,902)**	**(36,129)**	**15,960**	**336,721**	**1,330,388**	**-**	**1,330,388**
Profit after income tax	-	-	-	-	-	**2,957**	**2,957**	**95**	**3,052**
Exchange differences arising on translation of foreign operations	-	-	-	**(3,816)**	-	-	**(3,816)**	-	**(3,816)**
Gain on available-for-sale investments	-	**333**	-	-	-	-	**333**	-	**333**
Net loss on foreign currency forward contracts	-	-	**(38,883)**	-	-	-	**(38,883)**	-	**(38,883)**
Net gain on cross currency interest rate swaps	-	-	**2,471**	-	-	-	**2,471**	-	**2,471**
Amortisation on share of reserves from associates	-	-	**2,637**	-	-	-	**2,637**	-	**2,637**
Income tax relating to components of other comprehensive income	-	**(96)**	**11,035**	-	-	-	**10,939**	-	**10,939**
Total comprehensive income for the year	-	**237**	**(22,740)**	**(3,816)**	-	**2,957**	**(23,362)**	**95**	**(23,267)**
Contribution of equity (net of transaction costs) [i]	**41,701**	-	-	-	-	-	**41,701**	-	**41,701**
Unvested executive incentive shares transactions	**(4,476)**	-	-	-	-	-	**(4,476)**	-	**(4,476)**
Vested executive incentive shares transactions	**2,659**	-	-	-	**(2,659)**	-	-	-	-
Share-based transactions during the year	-	-	-	-	**6,261**	-	**6,261**	-	**6,261**
Income tax relating to share-based transactions during the year	-	-	-	-	**(52)**	-	**(52)**	-	**(52)**
Payment of dividends [ii]	-	-	-	-	-	**(107,704)**	**(107,704)**	-	**(107,704)**
Balance at 30 June 2010	**1,118,675**	**(2,816)**	**(84,642)**	**(39,945)**	**19,510**	**231,974**	**1,242,756**	**95**	**1,242,851**

[i] Contribution of equity relates to shares issued as a result of Dividend Re-investment Plan.

[ii] Payment of dividends relates to 2010 interim, 2009 final dividend and ROADS dividends paid for the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity - *continued*

Consolidated	Issued capital	Available-for-sale investment reserve	Hedge reserve (Note 24)	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	**Attributable to owners of the parent**	Non-controlling interest	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000	**$'000**	$'000	**$'000**
2009									
Balance at 1 July 2008	1,080,559	-	(76,841)	(52,462)	3,314	241,794	**1,196,364**	-	**1,196,364**
Profit after income tax	-	-	-	-	-	189,376	**189,376**	-	**189,376**
Exchange differences arising on translation of foreign operations	-	-	-	16,333	-	-	**16,333**	-	**16,333**
Loss on available-for-sale investments	-	(3,053)	-	-	-	-	**(3,053)**	-	**(3,053)**
Net gain on foreign currency forward contracts	-	-	91,732	-	-	-	**91,732**	-	**91,732**
Net loss on cross currency interest rate swaps	-	-	(6,460)	-	-	-	**(6,460)**	-	**(6,460)**
Loss on share of reserves from associates	-	-	(45,532)	-	-	-	**(45,532)**	-	**(45,532)**
Income tax relating to components of other comprehensive income	-	-	(24,801)	-	-	-	**(24,801)**	-	**(24,801)**
Total comprehensive income for the year	-	(3,053)	14,939	16,333	-	189,376	**217,595**	-	**217,595**
Contribution of equity (net of transaction costs) [i]	25,512	-	-	-	-	-	**25,512**	-	**25,512**
Unvested executive incentive shares transactions	(27,280)	-	-	-	-	-	**(27,280)**	-	**(27,280)**
Share-based transactions during the year	-	-	-	-	12,646	-	**12,646**	-	**12,646**
Payment of dividends [ii]	-	-	-	-	-	(94,449)	**(94,449)**	-	**(94,449)**
Balance at 30 June 2009	1,078,791	(3,053)	(61,902)	(36,129)	15,960	336,721	**1,330,388**	-	**1,330,388**

[i] Contribution of equity relates to shares issued as a result of Dividend Re-investment Plan and Employee Share Plan.

[ii] Payment of dividends relates to 2009 interim dividend, 2008 final dividend and ROADS dividends paid for the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2010

	Note	Consolidated 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers		**6,206,952**	6,448,412
Distributions from equity-accounted investments	15(b)	**12,708**	9,895
Dividends received from external entities		**359**	1,390
Payments to suppliers and employees		**(5,905,166)**	(6,103,693)
Settlement of operational foreign exchange contracts		**(34,882)**	38,827
Interest received		**18,327**	18,227
Interest and other costs of finance paid		**(69,274)**	(60,220)
Income tax paid		**(24,758)**	(16,374)
Net cash inflow from operating activities	27(c)	**204,266**	336,464
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**74,236**	20,939
Payments for property, plant and equipment		**(207,724)**	(289,219)
Payments for intangible assets		**(3,985)**	(2,526)
Payments for investments		**(29,323)**	(961)
Advances to joint ventures		**(666)**	(1,793)
Proceeds from sale of assets held for sale	26	**89,188**	4,120
Advances to other entities		**(33,786)**	-
Payments for businesses acquired	25(b)	**(32,336)**	(51,576)
Net cash (used) in investing activities		**(144,396)**	(321,016)
Cash flows from financing activities			
Proceeds from borrowings		**855,441**	1,260,517
Repayments of borrowings		**(764,183)**	(1,157,909)
Proceeds from issue of equity securities		**-**	2,495
Dividends paid		**(66,003)**	(72,080)
Net cash inflow from financing activities		**25,255**	33,023
Net increase in cash and cash equivalents		**85,125**	48,471
Cash and cash equivalents at the beginning of the year		**292,223**	239,833
Effect of exchange rate changes		**1,034**	3,919
Cash and cash equivalents at the end of the year	27(a)	**378,382**	292,223

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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Notes to the Financial Statements

for the year ended 30 June 2010

Note 1. Summary of accounting policies

Statement of compliance

These financial statements represent the consolidated results of Downer EDI Limited (ABN 97 003 872 848). The Financial Report is a general purpose Financial Report prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS). The parent entity and other notes also comply with IFRS.

The Financial Report was authorised for issue by the directors on 27 August 2010.

Rounding of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the Financial Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Basis of preparation

The Financial Report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The preparation of the Financial Report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below.

Application of critical judgements and key sources of estimation uncertainty

The following are critical judgements that management has made in the process of applying the Group's accounting policies and which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

Revenue and expense are recognised in net profit by reference to the stage of completion of each identifiable component for construction contracts.

A fundamental condition for being able to estimate profit recognition based on percentage of completion is that project revenues and project costs can be reliably estimated. This reliability is based on such factors as compliance with the Group's system for project control and that project management has the necessary skills. Project control also includes a number of estimates and assessments that depend on the experience and knowledge of project management in respect of project control, industrial relations, risk management, training and the prior management of projects.

In determining revenues and expense for construction contracts, management makes key assumptions regarding estimated revenues and expense over the life of the contracts. Where variations are recognised in revenue, assumptions are made regarding the probability that customers will approve variations and the amount of revenue arising from variations. In respect of costs, key assumptions regarding costs to complete contracts may include estimation of labour, technical costs, impact of delays and productivity.

Impairment of assets

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis or whenever there is an indication of impairment. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. The Group uses the higher of fair value less costs to sell, and value in use to determine recoverable amount. An impairment loss of $42.0 million (2009: $nil) was recognised in the current year in respect of goodwill related to the Works

Note 1. Summary of accounting policies - *continued*

UK business and CPG New Zealand consulting business following an assessment of the future performance of those businesses. Key assumption requiring management's judgement include projected cash flows, growth rate estimates, discount rates, gross margin, working capital and capital expenditure. These assumptions are further discussed in Note 17.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences, as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Income taxes
The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Judgement is required in determining the worldwide provision for income taxes. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Assumption about the generation of future taxable profits depend on management's estimate of future cash flows. Change in circumstances will alter expectations, which may impact the amount of deferred tax assets and liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

Significant accounting policies
Accounting policies are selected and applied in a manner which ensures that 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 set out below have been consistently applied in preparing the Financial Report for the year ended 30 June 2010, as well as the comparative information presented in these financial statements.

Principles of consolidation
The Financial Report is prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

The Financial Report includes the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the Financial Report, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

Revenue recognition
Amounts disclosed as revenue are net of trade allowances, duties and taxes paid. Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Rendering of services
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. This is normally determined as services performed up to and including the balance sheet date as a proportion of the total to be performed. Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred. Services rendered include international mine consulting and contracting services, maintenance and construction of roads, highways and rail infrastructure, infrastructure maintenance services, engineering and consultancy services and facilities management.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 1. Summary of accounting policies - *continued*

Rendering of services - continued

Services contracts are reported in trade receivables and trade payables, as gross amounts due from/to customers. If cumulative work done to date (contract costs plus contract net profit) of contracts in progress exceeds progress payments received, the difference is recognised as an asset and included in amounts due from customers for contract work. If the net amount after deduction of progress payments received is negative, the difference is recognised as a liability and included in amounts due to customers for contract work.

Mining services contracts

Revenue from a contract to provide mining services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined by reference to the services performed up to and including the balance sheet date as a proportion of the total service to be performed.

Construction contracts

(i) Construction contracts

Construction contracts are contracts specifically negotiated for the construction of an asset or combination of assets.

Revenues and expenses from construction contracts are recognised in net profit by reference to the stage of completion of the contract as at the reporting date. The stage of completion is determined by reference to physical estimates, surveys of the work performed or costs incurred and is usually measured as the ratio of contract costs incurred for work performed to date against total contract costs. Any expected loss is recognised as an expense immediately.

Contract revenue is measured at the fair value of the consideration received or receivable. In the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. That is, no margin is recognised until the outcome of the contract can be reliably estimated. Profit recognition for lump sum fixed price contracts does not commence until cost to complete can be reliably measured.

Contract price and cost estimates are reviewed periodically as the work progresses and reflect adjustments proportionate to the percentage of completion in the income statement in the period when those estimates are revised. Where considered material, provisions are made for all known or anticipated losses. Variations from estimated contract performance could result in a material adjustment to operating results for any financial period. Claims are included for extra work or changes in scope of work to the extent of costs incurred in contract revenues when collection is probable.

Where claims on customers result in dispute and the amount in dispute is significant, and it is expected that the matters in dispute will not be resolved within 12 months from the company's semi annual reporting date, the provision will be based on the company's assessment of the risk associated with construction contracts at the reporting date.

Construction contracts are reported in trade receivables and trade payables, as gross amounts due from/to customers. If cumulative work done to date (contract costs plus contract net profit) of contracts in progress exceeds progress payments received, the difference is recognised as an asset and included in amounts due from customers for contract work. If the net amount after deduction of progress payments received is negative, the difference is recognised as a liability and included in amounts due to customers for contract work.

(ii) Construction contract - Public Private Partnership (PPP)

Revenue and expenses from the PPP construction contract are recognised in net profit by reference to the stage of completion of each separately identifiable component of the contract for the design and manufacture of rolling stock and construction of a maintenance facility, to the extent of costs incurred plus margin. Margin is recognised based on the relative risk assessment of each component and costs incurred to achieve operational milestones. Any expected loss is recognised as an expense immediately. The rolling stock manufacturing contract comprises detailed engineering design, prototype development and full scale manufacture. These identifiable separate components have been determined based on:

- each component being subject to separate customer acceptance procedures; and
- the costs and revenues of each component having been identified.

Based on the projected revenues and costs to complete the PPP construction contract determined during the year, a provision of $190.0 million was made for the expected loss on this contract including the reversal of $8.6 million of net profit recognised in the income statement in previous years (Note 4).

Note 1. Summary of accounting policies - *continued*

Sale of goods
Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Other revenue
(i) Royalties
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(ii) Dividend and interest revenue
Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(iii) Fee-based revenue
Fee-based revenue generated by Corporate office is recognised on an accrual basis as derived.

Goods and services tax
Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- where the amount of GST incurred is not recoverable from the taxation authorities, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authorities is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authorities is classified as operating cash flows.

Income tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except when the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 1. Summary of accounting policies - *continued*

Deferred tax - continued

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or when it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or the excess.

Tax consolidation

Downer EDI Limited and its wholly-owned Australian controlled entities are part of a tax-consolidated group under Australian taxation law. Downer EDI Limited is the head entity in the tax-consolidated group. Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Downer EDI Limited and each of the entities in the tax-consolidated group has agreed to pay (or recieve) a tax equivalent payment to (or from) the head entity, based on the current tax liability or current tax asset of the entity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories on hand by the method most appropriate to each particular class of inventories, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the parent entity financial statements.

Investment in associates

Investments in entities over which the consolidated entity has the ability to exercise significant influence but not control are accounted for using equity-accounting principles and are carried at cost plus post-acquisition changes in the consolidated entity's share of net assets of associates, less any impairment in value.

Losses of an associate in excess of the Group's interest in an associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the consolidated entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Available-for-sale financial assets

Available-for-sale financial assets are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the profit or loss for the year.

Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost using the effective interest rate method, less impairment.

Fair value through profit and loss investments

Fair value through profit and loss investments are valued at fair value at each reporting date based on the current bid price. Movements in fair value are taken to the income statement.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when

Note 1. Summary of accounting policies - *continued*

the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

Joint ventures

Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

Jointly controlled entities

Interests in jointly controlled entities are accounted for under the equity method in the consolidated financial statements.

Property, plant and equipment

Land is measured at cost. Buildings, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write down the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The expected useful lives of property, plant and equipment are generally:

• Buildings	20 - 30 years
• Plant and equipment	3 - 25 years
• Equipment under finance lease	5 - 15 years.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at an amount equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Finance leases

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Finance leased assets are depreciated on a straight line basis over the estimated useful life of each asset.

Operating leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Intangible assets

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Intellectual property

Patents, trademarks and licences are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives having considered contractual terms, which is not greater than 40 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

Note 1. Summary of accounting policies - *continued*

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The consolidated entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities, or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. Amounts deferred in equity are included in the profit or loss in the same periods the hedged item is recognised in the profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts. This only occurs when the host contracts are not measured at fair value.

Employee benefits

Liabilities are made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, redundancy and sick leave when it is probable that settlement will be required and they are capable of being measured

Note 1. Summary of accounting policies - *continued*

reliably. Liabilities incurred in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities incurred in respect of employee benefits which are not expected to be settled within 12 months, are measured at the present value of the estimated future cash outflows to be paid by the consolidated entity in respect of services provided by employees up to reporting date. Contributions to defined contribution superannuation plans are expensed when incurred.

Provisions
Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Decommissioning and restoration
Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on estimated future costs. The provision is discounted using a current market based pre-tax discount rate.

The provision is the best estimate of the present value of the expenditure required to settle rectification obligations at the reporting date, based on current legal requirements and technology. Future rectification costs are reviewed annually and any changes are reflected in the present value of the rectification provision at the end of the reporting period.

Warranty
Provision is made for the estimated liability on products under warranty at balance date. This provision is estimated having regard to service warranty experience. Other warranty costs are accrued for as and when the liability arises.

Onerous contract
A provision for an onerous contract is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under that contract, and only after impairment losses to assets dedicated to that contract have been recognised. The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date of national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payment where the effect of discounting is material.

Foreign currency
Foreign currency transactions
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at reporting date exchange rates are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Foreign operations
On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve and recognised in the income statement on disposal of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 1. Summary of accounting policies - *continued*

Financial instruments

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, before or at the end of the financial year but not distributed at balance date.

Share-based transactions

Equity-settled share-based transactions are measured at fair value at the date of grant.

The Group makes share-based awards to certain employees. The fair value is determined at the date of grant, taking into account any market related performance conditions. For equity-settled awards, the fair value is charged to the income statement and credited to equity.

The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate of the term of the option.

The fair value of any options granted excludes the impact of any non-market vesting conditions (e.g. profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. The employee benefits expense recognised in each year takes into account the most recent estimate.

Accounting for financial guarantee contracts

Financial guarantee contracts are measured initially at their fair values and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies.

Earnings per share (EPS)

Basic EPS (excluding ROADS) is calculated as net profit attributable to members of the parent entity, divided by the weighted average number of ordinary shares. Basic EPS is calculated as net profit attributable to members of the parent entity, adjusted for the cost of servicing equity (other than ordinary shares), divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit attributable to members of the parent entity divided by the total of the weighted average number of ordinary shares on issue during the year and the number of dilutive potential ordinary shares.

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

New accounting standards and interpretations

At the date of authorisation of the Financial Report, the standards and interpretations listed below were in issue but not yet effective. They will be applied in the Group's Financial Report related to the first annual reporting period commencing after the effective date.

Initial application of the following standards will not affect any of the amounts recognised in the Financial Report, but will change the disclosures presently made in relation to the Group's Financial Report:

- AASB 2009-12 'Amendments to Australian Accounting

Note 1. Summary of accounting policies - *continued*

Standards arising from AASB 124'- effective for annual reporting periods beginning on or after 1 January 2011; and

- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'- effective for annual reporting periods beginning on or after 1 January 2011.

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They have not been applied in preparing this Financial Report. The Group has not yet determined the potential effect of these standards on the Group's future Financial Reports.

- AASB 9 'Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9' - effective for annual reporting periods beginning on or after 1 January 2013;
- AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' - effective for annual reporting periods beginning on or after 1 January 2010;
- AASB 2009-8 'Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions' - effective for annual reporting periods beginning on or after 1 January 2010; and
- AASB Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' - effective for annual reporting periods beginning on or after 1 July 2010.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 2. Segment information

Identification of reportable segments

Downer EDI has adopted AASB 8 'Operating Segments' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 8' with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 'Segment Reporting') required an entity to identify two sets of segments (business and geographical) using a risks and rewards approach.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the Board of Directors on a recurring basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the services provided, as these are the sources of the Group's major risks and have the greatest effect on the rates of return. The operating segments identified within the Group are outlined below:

Engineering and Consulting Services: provides engineering and consultancy services, design, project management, facilities management, construct and maintain, specialising in telecommunications, power, process engineering, mine consulting including mine planning and optimisation management;

Mining: provides blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration;

Rail: provides rolling stock and associated maintenance services including the design, manufacture, refurbish, overhaul and maintenance of diesel electric locomotives, electric and diesel multiple units, rail wagons, traction motors and rolling stock; and

Works: provides maintenance and construction of roads and highways; construction and maintenance of rail infrastructure including tracks, signals and overhead electrification; maintenance of telecommunication networks including design, build and installation services and infrastructure maintenance services including utilities, water supply, sewage and waste water treatment, refuse disposal, street cleaning and the tending of parks and gardens.

Information regarding these segments is presented on the following page. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8.

Note 2. Segment information - *continued*

Accounting policies and inter-segment transactions
The accounting policies used by the Group in reporting segments internally are the same as the Group accounting policies contained in Note 1.

Inter-entity sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods.

The following items and the associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

(a) Impairment of assets are not included in the measurement of segment profit or loss where they are not expected to recur. In the current year, the Group recognised a $190.0 million pre-tax provision on the NSW Waratah Rolling Stock Manufacture project and a $70.0 million pre-tax asset impairment charge. The provision and impairment charges are not included in the measure of segment profit or loss as they are not expected to recur. The details of the provision and impairment charges are separately disclosed as "individually significant items" in the consolidated income statement and discussed in Note 4;
(b) Interest income and finance cost;
(c) Corporate charges comprise non-segmental expenses such as head office expenses; and
(d) Income tax expense.

Information about major customers
The Group has no single external customer that provided more than 10% of the Group's revenue. Revenue by operating segment is shown below:

	Total revenue [i]		Share of sales revenue in joint venture entities		Total revenue including joint ventures	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By business segment						
Engineering and Consulting Services	**1,868,782**	1,985,275	**24,857**	15,022	**1,893,639**	2,000,297
Mining	**913,224**	973,890	**60,249**	54,069	**973,473**	1,027,959
Rail	**943,759**	888,925	**102,998**	-	**1,046,757**	888,925
Works	**2,058,278**	2,039,109	**23,064**	4,487	**2,081,342**	2,043,596
Inter-segment sales	**(12,647)**	(27,462)	**-**	-	**(12,647)**	(27,462)
Subtotal	**5,771,396**	5,859,737	**211,168**	73,578	**5,982,564**	5,933,315
Unallocated	**73,371**	8,076	**-**	-	**73,371**	8,076
Total	**5,844,767**	5,867,813	**211,168**	73,578	**6,055,935**	5,941,391

[i] Total revenue includes other income and inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 2. Segment information - *continued*

	Note	Segment results 2010 $'000	Segment results 2009 $'000
By business segment			
Engineering and Consulting Services		**112,519**	116,602
Mining		**68,191**	46,547
Rail		**77,926**	60,765
Works		**102,901**	134,745
		361,537	358,659
Unallocated		**(308,175)**	(53,860)
Interest revenue	3(a)	**18,103**	18,156
Interest expense	3(b)	**(69,398)**	(63,930)
Net interest expense		**(51,295)**	(45,774)
Total profit before income tax		**2,067**	259,025
Income tax benefit/(expense)		**985**	(69,649)
Total net profit after income tax		**3,052**	189,376

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

	Note	2010 $'000	2009 $'000
Segment net operating profit		**361,537**	358,659
Unallocated:			
Provision for Waratah train contract	4	**(190,000)**	-
Impairment of goodwill	4	**(42,000)**	-
Provision for legacy customer contracts	4	**(18,000)**	-
Provision for MB Century investment	4	**(10,000)**	-
Total individually significant items		**(260,000)**	-
Impairment of MB Century		**(15,871)**	(4,968)
Gain on property sales [i]		**27,823**	-
Ramu arbitration award [ii]		**31,000**	-
Gain on disposal of MB Century classified as asset held for sale	3(a)	**2,350**	-
Settlement/provision for customer contracts		**(32,914)**	-
Restructuring costs		**(5,300)**	-
Corporate costs		**(55,263)**	(48,892)
Total unallocated		**(308,175)**	(53,860)
Interest revenue		**18,103**	18,156
Interest expense		**(69,398)**	(63,930)
Total profit before income tax		**2,067**	259,025
Income tax benefit/(expense)		**985**	(69,649)
Total net profit after tax		**3,052**	189,376

[i] During the year, a number of properties in Australia and New Zealand have been sold and/or subject to sale and leaseback for gross proceeds of $66.1 million, net proceeds of $62.0 million and profit of $27.8 million.

[ii] Included within revenue is a net recovery of $31.0 million referable to an international arbitral award (Kina 86.4 million) awarded in the Group's favour in relation to the construction of the Ramu Highway in Papua New Guinea. The amount comprises the award less a provision against a GST receivable and expected costs to recover from the Papua New Guinea Government. Interest which accrues at a rate of 13.95% (daily rate of AUD 13,700) has not been recognised as interest on the loan will be offset by the impacts of discounting future expected cash flows as required by accounting standards.

Note 2. Segment information - *continued*

	Segment assets		Segment liabilities		Depreciation and amortisation	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By business segment						
Engineering and Consulting Services	**823,576**	873,169	**452,976**	543,206	**22,961**	24,944
Mining	**693,969**	659,100	**257,223**	215,771	**71,057**	53,298
Rail	**790,101**	578,178	**364,888**	262,267	**6,746**	7,108
Works	**1,048,084**	1,053,237	**465,723**	376,595	**56,541**	55,409
Total	**3,355,730**	3,163,684	**1,540,810**	1,397,839	**157,305**	140,759
Unallocated	**100,270**	219,405	**672,339**	654,862	**2,854**	1,009
Total	**3,456,000**	3,383,089	**2,213,149**	2,052,701	**160,159**	141,768

	Carrying value of equity-accounted investments		Share of net profit of equity-accounted investments		Acquisition of segment assets	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By business segment						
Engineering and Consulting Services	**4,784**	4,556	**191**	1,398	**53,572**	49,675
Mining	**11**	-	**9,965**	7,773	**130,900**	207,026
Rail	**13,089**	-	**5,740**	-	**22,996**	31,096
Works	**4,526**	3,881	**2,126**	983	**35,066**	109,386
Total	**22,410**	8,437	**18,022**	10,154	**242,534**	397,183
Unallocated	**-**	-	**-**	-	**7,935**	1,164
Total	**22,410**	8,437	**18,022**	10,154	**250,469**	398,347

The consolidated entity operated in five principal geographical areas - Australia, Pacific (New Zealand, Papua New Guinea and Fiji), North East Asia (Hong Kong and China), South East Asia (Singapore, Malaysia, Thailand, Vietnam, Indonesia and the Philippines) and Other (United Kingdom, Canada, South Africa and Brazil).

	Total revenue (i)		Segment assets		Acquisition of segment assets	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By geographic location						
Australia	**4,529,942**	4,381,913	**2,729,457**	2,585,009	**226,134**	333,784
Pacific	**918,707**	981,300	**459,276**	466,139	**19,691**	52,090
North East Asia	**19,754**	44,700	**13,699**	37,100	**-**	1,200
South East Asia	**264,974**	321,500	**199,552**	198,941	**3,461**	4,200
Other	**111,390**	138,400	**54,016**	95,900	**1,183**	7,073
Total	**5,844,767**	5,867,813	**3,456,000**	3,383,089	**250,469**	398,347

(i) Total revenue includes other income and inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 3. Profit from ordinary activities - continuing operations

	Note	Consolidated 2010 $'000	2009 $'000
a) Revenue			
Sales revenue			
Rendering of services		**3,899,035**	3,933,630
Mining services		**890,091**	942,442
Construction contracts		**892,971**	855,853
Sale of goods		**97,487**	102,743
Interest revenue			
Other loans and receivables	2	**18,103**	18,156
Other revenue			
Other revenue		**15,727**	5,814
Rental income		**944**	1,382
Dividends			
Other entities		**359**	1,390
		5,814,717	5,861,410
Other income			
Net gain on disposal of property, plant and equipment		**27,700**	1,480
Gain on disposal of MB Century classified as asset held for sale	2	**2,350**	-
Net gain on disposal of assets held for sale		**-**	777
Net foreign exchange gains		**-**	4,146
Total other income		**30,050**	6,403
Total revenue and other income		**5,844,767**	5,867,813
Share of sales revenue from joint venture entities		**211,168**	73,578
Total revenue including joint ventures		**6,055,935**	5,941,391

Note 3. Profit from ordinary activities - continuing operations - *continued*

		Consolidated	
		2010	2009
b) Operating expenses	**Note**	**$'000**	$'000
Cost of goods sold		**69,616**	76,090
Finance costs on liabilities carried at amortised cost:			
Interest expense		**65,291**	62,269
Finance lease expense		**4,107**	1,661
Total interest and finance lease expense	2	**69,398**	63,930
Other finance costs		**2,870**	1,088
Total finance costs		**72,268**	65,018
Net foreign exchange losses		**527**	-
Depreciation and amortisation of non-current assets:			
Plant and equipment	16	**146,622**	130,471
Buildings	16	**2,931**	3,446
Amortisation of leased assets	16	**6,882**	2,430
Total depreciation		**156,435**	136,347
Amortisation of intellectual property/software	17	**3,724**	5,421
Total depreciation and amortisation		**160,159**	141,768
Doubtful debts		**1,770**	1,209
Operating lease expenses		**172,171**	157,461
Employee benefits expense:			
Defined contribution plans		**116,898**	115,975
Share-based transactions		**6,075**	8,677
Employee benefits		**1,852,619**	1,943,392
Total employee benefits expense		**1,975,592**	2,068,044
(Gain) arising on derivatives in a designated fair value hedge accounting relationship		**(1,487)**	(2,859)
Loss arising on adjustment to hedged item in a designated fair value hedge accounting relationship		**1,315**	2,993
		(172)	134

Note 4. Individually significant items

	Note	Consolidated 2010 $'000	2009 $'000
The following material items are relevant to an understanding of the Group's financial performance:			
(a) Provision for Waratah train contract	11 and 30	**190,000**	-
(b) Impairment of goodwill	17	**42,000**	-
(c) Provision for legacy customer contracts		**18,000**	-
(d) Provision for MB Century investment	26	**10,000**	-
		260,000	-

(a) Provision for Waratah train contract
On 1 June 2010, the Group announced a $190.0 million pre-tax provision on the Waratah Rolling Stock Manufacture (RSM) project following a full review of the contract. The review undertaken revealed that the tendered estimates do not sufficiently provide for the full extent of the design development and approval, material supply and time related project overhead costs being incurred during the procurement and manufacturing phases of the contract. The provision represents the best professional estimate of the forward forecast cost to complete for a project of this size and complexity at this stage of completion and in the opinion of the directors, remains appropriate.

(b) Impairment of goodwill
As required by accounting standards, the Group undertook an assessment of the carrying value of assets, having had regard to the current and future operating performance of a number of businesses, where in the context of the operating environments within which they operate, there was an indication of impairment. Management identified impairments relating to goodwill in the Works UK business and in CPG New Zealand (Consulting arm of the Engineering division business) totalling $42.0 million.

The Works UK business was acquired in 2006. The weak UK economy has seen the business underperform and as a result an impairment of $20.0 million has been recognised.

Similarly, the CPG business in New Zealand has under performed as a result of weak market sentiment, resulting in an impairment of $22.0 million.

(c) Provision for legacy customer contracts
The Group is managing the settlement of a number of significant claims and disputes related to historic customer contracts, mainly in the Engineering division. An additional provision of $18.0 million was established to cover expected settlement outcomes in respect of these claims and disputes. Further information on claims and disputes is covered under contingent liabilities at Note 29.

(d) Provision for MB Century investment
A provision of $10.0 million was made on 1 June 2010 to reduce the carrying value of the asset held for sale in respect of MB Century, to its realisable value. The additional provision was required primarily as a result of adverse movements in foreign exchange rates and expected further operational losses recorded by MB Century.

Note 5. Income tax

	Consolidated	
	2010	2009
	$'000	$'000
a) Income tax recognised in the income statement		
Tax expense/(benefit) comprises:		
Current tax expense	**48,875**	66,572
Deferred tax (benefit)/expense relating to the origination and reversal of temporary differences	**(49,860)**	3,077
Total tax (benefit)/expense	**(985)**	69,649

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax (benefit)/expense in the financial statements as follows:

Profit before income tax	**2,067**	259,025
Income tax expense calculated at 30% of operating profit	**620**	77,708
• Amortisation of intangible assets	**148**	-
• Non-taxable gains	**(5,934)**	786
• Exempt income	**(823)**	(143)
• Non-deductible expenses	**477**	464
• Share of net profit of associates and joint ventures	**(307)**	(257)
• Effect of different rates of tax on overseas income/losses	**(5,473)**	(4,276)
• Research and development	**(4,300)**	(2,883)
• Benefits arising from previously unrecognised temporary differences	**(418)**	-
• Impairment of goodwill	**12,600**	-
• Other items	**3,017**	1,325
	(393)	72,724
Overprovision of income tax in previous year	**(592)**	(3,075)
Income tax (benefit)/expense attributable to profit	**(985)**	69,649

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous year.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 5. Income tax - *continued*

	Consolidated	
	2010	2009
	$'000	$'000
b) Income tax recognised directly in equity		
The following current and deferred amounts were charged directly to equity during the year:		
Current tax		
• unvested executive incentive shares	**1,547**	11,121
Deferred tax		
Revaluations of financial instruments treated as:		
• cash flow hedges	**11,993**	(38,489)
• shared-based costs	**(2,653)**	(7,416)
Total deferred tax charged to equity	**9,340**	(45,905)
Total charged/(credited) directly to equity	**10,887**	(34,784)

Note 6. Auditors' remuneration

	Consolidated	
	2010	2009
	$	$
Deloitte Touche Tohmatsu earned the following remuneration from Downer EDI during the year:		
Audit and review of financial reports	**2,800,016**	2,986,615
Taxation services	**156,842**	42,264
Other services [i]	**150,529**	379,654
	3,107,387	3,408,533
Other auditors:		
Audit and review of financial reports	**833,348**	787,053
Taxation services	**572,875**	721,644
Other services	**-**	98,716
	1,406,223	1,607,413
Total auditors' remuneration	**4,513,610**	5,015,946

[i] Other services relate to agreed-upon procedures, accounting advice and corporate restructuring services.

Note 7. Earnings per share

	2010	2009
	Cents per share	Cents per share
Earnings per share (EPS) from continuing operations:		
Basic EPS (excluding ROADS)	**0.9**	57.9
Basic EPS	**(2.4)**	54.4
Diluted EPS	**(2.4)**	52.7

2010	**Basic EPS (excluding ROADS)**	**Basic EPS**	**Diluted EPS**
Profit attributable to members of the parent entity ($'000)	**2,957**	**2,957**	**2,957**
Profit adjustment to reflect ROADS dividends paid ($'000)	**-**	**(11,020)**	**-**
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**2,957**	**(8,063)**	**2,957**
Weighted average number of ordinary shares (WANOS) on issue (No. (000's))	**333,663**	**333,663**	**333,663**
WANOS adjustment to reflect potential dilution for ROADS (No. (000's)) [i]	**-**	**-**	**23,877**
WANOS used in the calculation of EPS (No. (000's))	**333,663**	**333,663**	**357,540**
Earnings per share from continuing operations (cents per share)	**0.9**	**(2.4)**	**(2.4)[ii]**

[i] The WANOS adjustment is calculated based on the issued value of ROADS ($178,603,000) divided by the average market price ($7.48) of the company's ordinary shares for the financial year ended 30 June 2010. The average market price was used in the calculation as it produces a more representative price by taking into consideration the fluctuating share price during the financial year.

[ii] At 30 June 2010, the ROADS are deemed anti-dilutive; hence, diluted EPS remained at (2.4) cents per share.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 7. Earnings per share - *continued*

2009	Basic EPS (excluding ROADS)	Basic EPS	Diluted EPS
Profit attributable to members of the parent entity ($'000)	189,376	189,376	189,376
Profit adjustment to reflect ROADS dividends paid ($'000)	-	(11,331)	-
Profit attributable to members of the parent entity used in calculating EPS ($'000)	189,376	178,045	189,376
Weighted average number of ordinary shares (WANOS) on issue (No. (000's))	327,066	327,066	327,066
WANOS adjustment to reflect potential dilution for ROADS (No. (000's)) [i]	-	-	31,951
WANOS used in the calculation of EPS (No. (000's))	327,066	327,066	359,017
Earnings per share from continuing operations (cents per share)	57.9	54.4	52.7

[i] The WANOS adjustment is calculated based on the issued value of ROADS ($178,603,000) divided by the closing market price ($5.59) of the company's ordinary shares at 30 June 2009.

Note 8. Dividends

	Final 2010	Final 2009	Interim 2010	Interim 2009
a) Ordinary shares				
Dividend per share (in Australian cents)	**16.0**	16.0	**13.1**	13.0
Franking percentage	**unfranked**	unfranked	**unfranked**	unfranked
Cost (in $'000)	**53,853**	52,972	**43,712**	42,483
Payment date	**1/10/2010**	2/10/2009	**9/04/2010**	14/04/2009
Dividend record date	**1/09/2010**	1/09/2009	**9/03/2010**	11/03/2009

The final 2010 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)	Quarter 4 2010	Quarter 3 2010	Quarter 2 2010	Quarter 1 2010	Total 2010
Dividend per ROADS (in Australian cents)	**1.39**	**1.33**	**1.38**	**1.41**	**5.51**
New Zealand imputation credit percentage per ROADS	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'000)	**2,787**	**2,658**	**2,762**	**2,813**	**11,020**
Payment date	**15/06/2010**	**15/03/2010**	**15/12/2009**	**15/09/2009**	

	Quarter 4 2009	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009	Total 2009
Dividend per ROADS (in Australian cents)	1.37	1.42	1.43	1.43	5.65
New Zealand imputation credit percentage per ROADS	100%	100%	100%	100%	100%
Cost (in A$'000)	2,746	2,839	2,868	2,878	11,331
Payment date	15/06/2009	16/03/2009	15/12/2008	15/09/2008	

	Company	
	2010	2009
Franking credits	**$'000**	$'000
Franking account balance	**-**	-

Note 9. Cash and cash equivalents

	Note	Consolidated 2010 $'000	2009 $'000
Cash at bank and in hand		**381,776**	288,715
Short-term deposits		**3,350**	10,748
	36	**385,126**	299,463

Note 10. Inventories

Current			
Raw materials - at cost		**116,081**	115,348
Work in progress - at cost		**2,520**	6,542
Finished goods - at cost		**16,686**	19,862
Components and spare parts - at cost		**57,851**	56,644
		193,138	198,396

Note 11. Trade and other receivables

Current			
Trade receivables		**504,739**	569,809
Allowance for doubtful debts	11(b)	**(4,606)**	(8,198)
		500,133	561,611
Amounts due from customers			
under contracts and rendering of services [i]		**803,525**	556,282
Provision for Waratah train project	4	**(190,000)**	-
	30	**613,525**	556,282
Other receivables		**70,220**	47,565
		1,183,878	1,165,458

[i] 2009 figure includes $173,530 thousand of unbilled revenue from customers for service and construction contracts that was previously disclosed under trade receivables.

Non-current			
Other receivables		**-**	14,949
Total trade and other receivables		**1,183,878**	1,180,407

Note 11. Trade and other receivables - *continued*

a) Of the total $504,739 thousand (2009: $569,809 thousand) of trade receivables, $359,144 thousand (2009: $359,269 thousand) are current (i.e. within 30 days). Management considers that there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Of the total receivables of $504,739 thousand (2009: $569,809 thousand):

- $74 thousand (2009: $nil) are renegotiated receivables and management has assessed that these are all recoverable and no impairment has been taken;
- $140,915 thousand (2009: $202,342 thousand) are past due but not impaired with an average of more than 76 days. These relate to a number of customers for whom there is no recent history of default and other indicators of impairment. Management considers that no provision is required on these balances. The consolidated entity does not hold any collateral over these balances; and
- $4,606 thousand (2009: $8,198 thousand) are impaired and have been provided for. An allowance account has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience.

b) Movement in the allowance for doubtful debts	Consolidated	
	2010	2009
	$'000	$'000
Balance at the beginning of the financial year	**(8,198)**	(6,989)
Additional provisions	**(5,355)**	(5,927)
Amounts used	**5,178**	1,493
Amounts reversed	**3,585**	3,094
Foreign currency exchange differences	**184**	131
Balance at the end of the financial year	**(4,606)**	(8,198)

The consolidated entity has used the following basis to assess the allowance loss for trade receivables:

i) a specific provision based on historical bad debt experience;
ii) the general economic conditions in specific geographical regions;
iii) an individual account-by-account specific risk assessment based on past credit history; and
iv) any prior knowledge of debtor insolvency or other credit risk.

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for the year ended 30 June 2010

Note 12. Other financial assets

	Consolidated	
	2010	2009
Current	**$'000**	$'000
Available-for-sale investments	**2,149**	2,891
Foreign currency forward contracts	**6,894**	1,405
Cross currency and interest rate swaps	**303**	2,432
Fair value through profit and loss investments	**2,607**	3,197
Advances to joint venture entities	**-**	1,090
Other financial assets	**755**	1,139
	12,708	12,154
Non-current		
Available-for-sale investments	**15,236**	15,527
Foreign currency forward contracts	**2,125**	1,970
Cross currency and interest rate swaps	**4,210**	3,703
Fair value through profit and loss investments	**3,723**	-
Deferred consideration receivable	**860**	1,226
Other financial assets	**9,800**	20
	35,954	22,446
Total other financial assets	**48,662**	34,600

Note 13. Tax assets

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Current			
Current tax assets		**13,765**	13,920
Non-current			
a) Deferred tax assets		**123,280**	87,450
b) Movement in deferred tax assets for the financial year			
Balance at the beginning of the financial year		**180,620**	277,414
Charged to income statement as deferred income tax benefit/(expense)	13(d)	**34,380**	(11,369)
Charged to equity		**13,334**	(40,852)
Acquisition of businesses	25(c)	**660**	427
Net foreign currency exchange differences		**(1,459)**	119
Transfers/utilisation of losses		**(33,194)**	(44,717)
Disposal of entities and operations		**-**	(74)
Other		**(1,776)**	(328)
Balance at the end of the financial year (gross)	13(c)	**192,565**	180,620
Set-off of deferred tax liabilities within the same tax jurisdiction	22(b)	**(69,285)**	(93,170)
Net deferred tax assets at the end of the financial year		**123,280**	87,450
c) Deferred tax assets at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to			
Trade and other receivables		**59,168**	24,605
Inventories		**3,996**	4,678
Property, plant and equipment		**7,827**	7,803
Equity-accounted investments		**877**	617
Trade and other payables		**18,749**	23,421
Provisions		**61,605**	52,810
Borrowings		**872**	892
Income tax losses		**25,855**	59,296
Hedges and foreign exchange movements		**12,307**	4,603
Other		**1,309**	1,895
Total deferred tax assets (gross)		**192,565**	180,620

Note 13. Tax assets - *continued*

	Consolidated	
	2010	2009
	$'000	$'000
d) Amounts charged to income statement as deferred income tax (expense)/benefit		
Trade and other receivables	**28,341**	(2,422)
Inventories	**(673)**	1,170
Property, plant and equipment	**1,177**	9,380
Equity-accounted investments	**636**	282
Trade and other payables	**(1,771)**	(3,383)
Provisions	**8,102**	(20,621)
Borrowings	**(20)**	724
Income tax losses	**2,524**	7,102
Hedges and foreign exchange movements	**(18)**	12,289
Other	**616**	(136)
Deferred tax assets in relation to prior years	**(4,534)**	(15,754)
Charged to income statement as deferred income tax benefit/(expense)	**34,380**	(11,369)

Note 14. Other assets

Current		
Prepayments	**21,887**	20,842
Other deposits	**3,072**	4,119
Other current assets	**3,828**	7,349
	28,787	32,310
Non-current		
Prepayments	**5,464**	6,245
Total other assets	**34,251**	38,555

Note 15. Equity-accounted investments

		Consolidated	
		2010	2009
	Note	**$'000**	$'000
Equity-accounted investments	15(b)	**22,410**	8,437

a) The consolidated entity has interests in the following joint venture operations which are proportionately consolidated for:

Name of entity	Principal activity	Country of incorporation	Ownership Interest	
			2010	2009
			%	%
Airfield Works Joint Venture [i]	Airfield works	Hong Kong	**-**	49
BPL Downer Joint Venture	Building construction	Singapore	**50**	50
CHDE Joint Venture [i]	Pumping station refurbishment	Australia	**-**	50
Clough Downer Joint Venture [i]	Construction of port facilities	Australia	**-**	50
Cortex Downer Joint Venture [i]	Shared conveyers and shiploader	Australia	**-**	50
Downer CSS Joint Venture	Telecommunications	Thailand	**60**	60
Downer Electrical GHD JV	Traffic control infrastructure	Australia	**90**	-
Downer Zublin Joint Venture [i]	Tsing Yi Tunnel / East Lantau Tunnel	Hong Kong	**-**	50
Leighton Works	Road construction	New Zealand	**50**	50
Lantau Expressway Joint Venture	North Lantau expressway	Hong Kong	**27**	27
Playford Power Station Joint Venture	Refurbishment of power station	Australia	**50**	50
Project Westernport	Construction of bitumen storage facility	Australia	**50**	50
St Ives Gold Project Joint Venture [i]	Design and construction of mining treatment plant	Australia	**-**	50
Tenix Downer Joint Venture	Power transmission and distribution	Australia	**50**	50

[i] These joint ventures were dissolved during the financial year ended 30 June 2010.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 15. Equity-accounted investments - *continued*

b) The consolidated entity has interests in the following joint venture and associates entities which are equity accounted for:

Name of entity	Principal activity	Country of incorporation	Ownership interest	
			2010	2009
			%	%
Joint ventures				
Alex Fraser Asphalt Production [(i)]	Asphalt production and sales	Australia	**-**	50
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco	Emulsion plant	New Zealand	**50**	50
John Holland EDI Joint Venture	Research reactor	Australia	**40**	40
MPE Facilities Management Sdn Bhd	Facilities management consultancy service	Malaysia	**50**	50
Pavement Salvage (SA) Pty Ltd [(ii)]	Pavement repair	Australia	**-**	50
Roche Thiess Linfox Joint Venture	Contract mining; civil works and plant hire	Australia	**44**	44
SIP Jiacheng Property Development Co Ltd	Property development	China	**50**	50
Western Lee Joint Venture [(ii)]	Maintenance - Alcoa	Australia	**-**	50
Thiess Downer EDI Works	Construction of coast to coast railway	Australia	**25**	-
Downer Mouchel	Road maintenance	Australia	**50**	-
Associates				
Aromatrix Technologies Pte Ltd	Environmental engineering and consultancy services	Singapore	**33**	33
Clyde Babcock Hitachi (Australia) Pty Ltd	Design, construction and maintenance of boilers	Australia	**27**	27
CPG-KCPT Pte Ltd [(ii)]	Security design consultancy services	Singapore	**-**	30
D'Axis Planners & Consultants Co. Ltd	Master planning and consulting service	China	**40**	-
Reliance Rail Pty Ltd	Rail manufacturing and maintenance	Australia	**49**	49
KDR Victoria Pty Ltd	Operation of Yarra Trams and Melbourne tram network	Australia	**49**	-

[(i)] This joint venture has been sold off during the financial year ended 30 June 2010.
[(ii)] These joint ventures and associate have been disposed or closed off during the financial year ended 30 June 2010.

Note 15. Equity-accounted investments - *continued*

	Consolidated 2010 $'000	Consolidated 2009 $'000
Equity-accounted investments		
Equity-accounted amount of investment at the beginning of the financial year	**8,437**	7,146
• Share of net profit	**18,022**	10,154
• Share of distributions	**(12,708)**	(9,895)
• Additional interest in joint venture entities	**10,584**	961
• Disposal of interest in joint venture entities	**(1,902)**	-
• Foreign currency exchange differences	**(23)**	71
Equity-accounted investment at the end of the financial year	**22,410**	8,437
Share of results of joint venture entities and associates		
Revenue	**211,168**	73,578
Expenses	**(189,992)**	(63,167)
	21,176	10,411
Summarised financial information of the consolidated entity's share of the above joint venture entities and associates:		
Current assets	**102,352**	20,015
Non-current assets	**38,393**	38,433
Total assets	**140,745**	58,448
Current liabilities	**101,071**	34,885
Non-current liabilities	**17,758**	10,042
Total liabilities	**118,829**	44,927
Net assets	**21,916**	13,521

Note 15. Equity-accounted investments - *continued*

Investments in associates

Reliance Rail Pty Ltd (Reliance Rail)

The Group has a 49% investment in Reliance Rail. The investment initially totalled $67.0 million and comprised $66.3 million A1 notes included as part of 'Other Financial Assets' and $0.7 million included as part of 'Equity-Accounted Investments'. The Group equity accounts for its share of profit and loss and hedge reserve movements in accordance with AASB 128 - Investments in Associates.

Up to 30 June 2008, the Group had equity accounted its share of Reliance Rail's net profit and movements in equity (resulting from changes in the fair value of derivative financial instruments accounted for as hedges) such that its carrying value at that date was $31.0 million and the hedge reserve recognised was $48.0 million. During the period ended 31 December 2008, unfavourable fair value movements in derivative financial instruments held by Reliance Rail were greater than the Group's carrying value of its investment in Reliance Rail. Under the accounting elections made by the Group, this had the effect of reducing the carrying value of the investment to $nil and increasing the hedge reserve balance to $79.1 million. With effect from May 2009, Reliance Rail ceased hedge accounting for its financial derivative instruments. The hedge reserve is being amortised over the life of the Waratah Public Private Partnership Through-Life Support contract as explained in Note 24.

The Group has continued to equity account its share of Reliance Rail's net profit in each reporting period. At 30 June 2009, the carrying value of the investment in Reliance Rail was $59.0 million, mainly due to favourable fair value movements in derivative financial instruments held by Reliance Rail. Due to the uncertainties associated with the investment in Reliance Rail, the Group raised a provision for impairment of $59.0 million in the prior year to continue to recognise the net investment in Reliance Rail at $nil.

The Group's share of loss in Reliance Rail for the year ended 30 June 2010 was $67.3 million. As the carrying value of the investment was $59.0 million, this value has been reduced to $nil and the provision for impairment raised in the prior year has been reversed. There has been no net impact on the income statement in the current or prior years as a result of the equity accounting for Reliance Rail.

Note 15. Equity-accounted investments - *continued*

	Consolidated	
	2010	2009
	$'000	$'000
Movement in 49% investment in Reliance Rail		
Equity-accounted amount of investment at the beginning of the financial year	**-**	31,132
Share of reserve movements	**2,637**	(31,132)
Share of (loss)/profits recognised for the period [(i)]	**(61,670)**	59,033
Allowance against investment	**59,033**	(59,033)
Equity-accounted amount of investment at the end of the financial year	**-**	-

[(i)] The Group's share of losses in the current year was $67.3 million (based on unaudited accounts). The loss was mainly due to unfavourable fair value movements in derivative financial instruments held by Reliance Rail. Downer has recognised its share of losses in Reliance Rail up to the carrying value of the investment ($59.0 million). Downer has recognised only $61.7 million of its share of losses which reduces the carrying value of its investment in Reliance Rail to $nil.

Unaudited summarised financial position of Reliance Rail		
Current assets	**1,023,335**	612,325
Non-current assets	**1,047,586**	1,453,580
Total assets	**2,070,921**	2,065,905
Current liabilities	**70,862**	48,418
Non-current liabilities	**2,010,183**	1,895,552
Total liabilities	**2,081,045**	1,943,970
Net (liabilities)/assets	**(10,124)**	121,935
Group's share of associate's net (liabilities)/assets	**(4,961)**	59,748

KDR Victoria Pty Ltd
The Group has a 49% investment in KDR Victoria with Keolis to operate the trams in Melbourne, Victoria. The initial investment totalled $17.2 million and comprised $9.8 million subordinated loan included as part of 'Other Financial Assets' and $7.4 million included as part of 'Equity-Accounted Investments'. The Group equity accounts for its share of profit and loss in accordance with AASB 128 - Investments in Associates.

c) Contingent liabilities and capital commitments

The consolidated entity's share of the contingent liabilities and expenditure commitments of joint venture entities are included in Note 29.

Note 16. Property, plant and equipment

	Consolidated				
2010	**Freehold Land $'000**	**Buildings $'000**	**Plant and Equipment $'000**	**Equipment under Finance Lease $'000**	**Total $'000**
At 1 July 2009					
Cost	26,170	65,246	1,383,265	55,708	1,530,389
Accumulated depreciation	-	(17,707)	(663,077)	(3,301)	(684,085)
Net book value	26,170	47,539	720,188	52,407	846,304
Year ended 30 June 2010					
Additions	1,887	10,327	211,790	489	224,493
Disposals at net book value	(16,626)	(15,764)	(27,051)	(168)	(59,609)
Acquisition of businesses (Note 25(c))	-	-	10,564	1,309	11,873
Depreciation expense (Note 3(b))	-	(2,931)	(146,622)	(6,882)	(156,435)
Impairment	-	-	(4,417)	-	(4,417)
Reclassifications at net book value	(118)	(957)	(5,368)	6,443	-
Net foreign currency exchange differences at net book value	75	(468)	291	(31)	(133)
Closing net book value	11,388	37,746	759,375	53,567	862,076
At 30 June 2010					
Cost	11,388	54,029	1,499,571	64,271	1,629,259
Accumulated depreciation	-	(16,283)	(740,196)	(10,704)	(767,183)
Closing net book value	11,388	37,746	759,375	53,567	862,076

Note 16. Property, plant and equipment - *continued*

	Consolidated				
2009	**Freehold Land $'000**	**Buildings $'000**	**Plant and Equipment $'000**	**Equipment under Finance Lease $'000**	**Total $'000**
At 1 July 2008					
Cost	22,135	63,014	1,179,754	13,099	1,278,002
Accumulated depreciation	-	(14,395)	(599,115)	(2,304)	(615,814)
Net book value	22,135	48,619	580,639	10,795	662,188
Year ended 30 June 2009					
Additions	249	3,613	286,776	49,875	340,513
Disposals at net book value	(69)	(398)	(42,663)	-	(43,130)
Acquisition of businesses	1,093	1,290	20,083	253	22,719
Disposal of business at net book value	-	-	(34)	-	(34)
Depreciation expense (Note 3(b))	-	(3,446)	(130,471)	(2,430)	(136,347)
Reclassifications at net book value	2,678	(2,249)	5,707	(6,136)	-
Net foreign currency exchange differences at net book value	84	110	151	50	395
Closing net book value	26,170	47,539	720,188	52,407	846,304
At 30 June 2009					
Cost	26,170	65,246	1,383,265	55,708	1,530,389
Accumulated depreciation	-	(17,707)	(663,077)	(3,301)	(684,085)
Closing net book value	26,170	47,539	720,188	52,407	846,304

Notes to the Financial Statements

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Note 17. Intangible assets

	Consolidated		
	Goodwill	Intellectual Property/ Software	Total
2010	**$'000**	**$'000**	**$'000**
At 1 July 2009			
Cost	**604,412**	**24,514**	**628,926**
Accumulated amortisation	**-**	**(18,956)**	**(18,956)**
Net book value	**604,412**	**5,558**	**609,970**
Year ended 30 June 2010			
Purchases	**-**	**3,985**	**3,985**
Acquisition of businesses (Note 25(a))	**25,440**	**-**	**25,440**
Amortisation expense (Note 3(b))	**-**	**(3,724)**	**(3,724)**
Impairment (Note 4)	**(42,000)**	**-**	**(42,000)**
Net foreign currency exchange differences at net book value	**(4,236)**	**(21)**	**(4,257)**
Closing net book value	**583,616**	**5,798**	**589,414**
At 30 June 2010			
Cost	**625,616**	**28,523**	**654,139**
Accumulated amortisation and impairment	**(42,000)**	**(22,725)**	**(64,725)**
Closing net book value	**583,616**	**5,798**	**589,414**
2009			
At 1 July 2008			
Cost	573,800	15,677	589,477
Accumulated amortisation	-	(10,752)	(10,752)
Net book value	573,800	4,925	578,725
Year ended 30 June 2009			
Purchases	-	1,824	1,824
Acquisition of businesses (Note 25(a))	31,221	722	31,943
Reclassifications at net book value	(1,193)	1,193	-
Amortisation expense (Note 3(b))	-	(5,421)	(5,421)
Net foreign currency exchange differences at net book value	584	2,315	2,899
Closing net book value	604,412	5,558	609,970
At 30 June 2009			
Cost	604,412	24,514	628,926
Accumulated amortisation	-	(18,956)	(18,956)
Closing net book value	604,412	5,558	609,970

Note 17. Intangible assets - *continued*

Allocation of goodwill to cash-generating units (CGUs)

In the current year, following a restructure, management has revised the CGUs to reflect the way in which the Group now operates and the units that independently generate cash flows.

Goodwill has been allocated for impairment testing purposes to individual CGUs, taking into consideration geographical spread, resource allocation, how operations are monitored and where independent cash inflows are identifiable. Thirteen independent CGUs have been identified across the Group against which impairment testing has been undertaken:

	Consolidated	
	2010	2009
	$'000	$'000
CPG Australia	**14,953**	14,582
CPG Singapore	**34,462**	35,181
CPG New Zealand	**8,120**	29,938
CPG Resources	**20,921**	21,014
Downer Asia	**10,620**	12,812
Engineering Contracting	**111,130**	88,491
Engineering Projects	**25,492**	25,492
Engineering Power Systems	**3,870**	3,870
Works Australia	**169,679**	166,879
Works New Zealand	**46,900**	46,609
Works United Kingdom	**2,346**	24,413
Mining	**65,545**	65,545
Rail	**69,578**	69,586
	583,616	604,412

Recoverable amount testing

The carrying amount of goodwill is tested for impairment annually at 30 June and whenever there is an indicator that the asset may be impaired. The Group believed that there was an indication of impairment within the Works UK business and CPG New Zealand (Consulting arm of the Engineering division) and therefore tested for impairment immediately prior to 1 June 2010 as well as at 30 June 2010. Where an asset is deemed impaired, it is written down to its recoverable amount.

In its impairment assessment, the Group assumes the recoverable amount based on a value in use calculation, using cash flow projections based on the Group's budget and financial forecasts, and including a terminal value. Key assumptions used for impairment testing include:

Projected cash flows

Cash flow projections are based on the Board approved 2010/11 (FY11) budget for the 12 months to 30 June 2011. The FY11 cash flows have been extended for the subsequent financial years ending 30 June 2012 to 30 June 2015 by applying division specific growth estimates and assuming a 2.5% terminal growth rate to allow for organic growth on the existing asset base. Cash flows are then determined utilising the calculated Earnings Before Interest, Tax and Amortisation (EBITA) less tax, capital maintenance spending and working capital changes to provide a 'free cash flow' estimate.

Growth rate estimates

The future annual growth rates are consistent with internal forecasts and expected performance of each CGU being tested for impairment.

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for the year end 30 June 2010

Note 17. Intangible assets - *continued*

Discount rates
Discount rates of between 10.9% and 12.3% (2009: between 10.8% and 12.1%) reflect management's estimate of the time value of money and risks specific to each CGU. In determining the appropriate discount rate for each CGU, regard has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for country and business risk specific to that CGU.

Gross margin
This has been based on historical margins achieved, with changes where appropriate for expected efficiency improvements.

Working capital
Working capital has been maintained to support the underlying business plus allowances for growth of each business unit.

Capital expenditure
Capital expenditure included in the calculation is for maintenance capital used for existing plant and replacement of plant as it is retired from service. The resulting expenditure has been compared against the annual depreciation charge to ensure that it is reasonable.

Sensitivities
Sensitivity analysis has been undertaken for each CGU by varying terminal growth and discount rates. Assuming no material variation in these assumptions compared to those used in the analysis, the carrying value of the CGUs exceeds their recoverable amount.

Note 18. Trade and other payables

		Consolidated	
		2010	2009
	Note	**$'000**	$'000
Current			
Trade payables		**351,753**	292,646
Amounts due to customers under contracts and rendering of services	30	**230,665**	263,189
Accruals		**300,720**	276,321
Goods and services tax payable		**25,097**	37,327
Other		**79,031**	76,541
		987,266	946,024
Non-current			
Other		**713**	2,192
Total trade and other payables		**987,979**	948,216

Note 19. Borrowings

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Current			
Secured:			
Finance lease liabilities	28(c)	**8,328**	8,006
Hire purchase liabilities	28(d)	**1,337**	1,576
Bank loans		**5,000**	-
		14,665	9,582
Unsecured:			
Bank loans		**240,197**	14,819
Bank overdrafts	27(a)	**6,744**	7,240
AUD medium term notes (Series I)		**-**	81,256
AUD medium term notes (Series II)		**13,283**	6,641
USD notes		**-**	97,792
Deferred finance charges		**(2,722)**	(1,491)
		257,502	206,257
Total current borrowings	36	**272,167**	215,839
Non-current			
Secured:			
Finance lease liabilities	28(c)	**39,450**	45,914
Hire purchase liabilities	28(d)	**4,413**	3,894
Bank loans		**-**	10,000
		43,863	59,808
Unsecured:			
Bank loans		**116,384**	317,644
USD notes		**92,701**	97,912
Works Bonds		**121,872**	-
AUD medium term notes (Series II)		**93,025**	106,309
AUD medium term notes (Series III)		**152,571**	-
Deferred finance charges		**(3,404)**	(3,015)
		573,149	518,850
Total non-current borrowings	36	**617,012**	578,658
Total borrowings		**889,179**	794,497

Note 19. Borrowings - *continued*

Financing facilities

At 30 June 2010, the consolidated entity had the following facilities that were not utilised at balance date:

	2010	2009
	$'000	$'000
Syndicated bank loan facilities	235,624	200,393
Bilateral bank loan facilities	197,723	257,695
Total unutilised loan facilities	433,347	458,088
Syndicated bank bonding facilities	42,374	26,874
Bilateral bank and insurance company bonding facilities	351,720	192,716
Total unutilised bonding facilities	394,094	219,590
Total facilities that were not utilised at balance date	827,441	677,678

Bank loans

Syndicated loan facilities

Syndicated bank loans while unsecured, are subject to certain Group guarantee arrangements, incur interest at floating rates and have varying maturity dates, from June 2011 to May 2012.

Bilateral bank loans and overdrafts

Bilateral bank loans and overdrafts while unsecured, are subject to certain Group guarantee arrangements, incur interest at floating rates and have varying maturity dates of up to two years.

USD notes

USD unsecured notes are on issue for a total amount of USD 79.0 million and are subject to certain Group guarantee arrangements. The notes mature in various tranches in 2011, 2014 and 2019. The USD principal and interest have been fully hedged to Australian dollars. Interest is payable to note holders on a semi annual fixed rate basis. The fair value of the USD notes is disclosed in Note 36.

AUD medium term notes ('MTNs') - Series I

During 2005/06 and 2006/07, unsecured MTNs were issued for a total amount of $80.0 million. The MTNs were subject to certain Group guarantee arrangements. Interest was payable on a semi annual fixed rate basis. The notes matured in December 2009.

AUD medium term notes ('MTNs') - Series II

During 2008/09, unsecured MTNs were issued for a total amount of $113.0 million. The MTNs are subject to certain Group guarantee arrangements. Interest is payable on a semi annual floating rate basis. The note issue amortises through even semi annual instalments, until the final maturity date in April 2018.

AUD medium term notes ('MTNs') - Series III

During 2009/10, unsecured MTNs were issued for a total amount of $150.0 million. The MTNs are subject to certain group guarantee arrangements. Interest is payable on a semi annual fixed rate basis. The notes mature in October 2013.

Works New Zealand Bonds

During 2009/10, unsecured bonds were issued for a total amount of NZD150.0 million. The bonds are subject to certain Group guarantee arrangements. Interest is payable on a quarterly fixed rate basis. The bonds mature in September 2012.

Hire purchase and lease facilities

Hire purchase and finance lease facilities are secured by the specific assets financed.

Covenants on financing facilities

The Group's financing facilities contain covenants requiring the Group to meet certain financial ratios and reporting requirements, as well as minimum levels of subsidiaries that are guarantors of obligations under those facilities. Testing of covenant compliance takes place twice yearly for the rolling 12 month periods to 30 June and 31 December. The Group was in compliance with its covenants as at 30 June 2010.

Note 20. Other financial liabilities

	Consolidated	
	2010	2009
	$'000	$'000
Current		
Foreign currency forward contracts	**24,243**	26,205
Cross currency and interest rate swaps	**1,260**	4,841
Advances from joint venture entities	**16,010**	16,676
	41,513	47,722
Non-current		
Foreign currency forward contracts	**27,333**	8,568
Cross currency and interest rate swaps	**12,264**	12,568
	39,597	21,136
Total other financial liabilities	**81,110**	68,858

Notes to the Financial Statements

for the year ended 30 June 2010

Note 21. Provisions

	Consolidated				
	Employee benefits	Decommissioning	Contract claims/ warranties	Other	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2009					
Current	139,990	8,798	29,834	6,948	185,570
Non-current	18,715	7,056	1,413	-	27,184
Total	158,705	15,854	31,247	6,948	212,754
At 1 July 2009	158,705	15,854	31,247	6,948	212,754
Additional provisions recognised	184,753	175	21,931	22,607	229,466
Unused provision reversed	(7,679)	(1,463)	(2,471)	(98)	(11,711)
Utilisation of provision	(178,417)	(1,323)	(23,041)	(2,502)	(205,283)
Acquisition of businesses (Note 25(c))	1,779	-	-	-	1,779
Net foreign currency exchange differences	51	(3)	(6)	(471)	(429)
At 30 June 2010	159,192	13,240	27,660	26,484	226,576
Current	139,196	6,403	27,660	26,155	199,414
Non-current	19,996	6,837	-	329	27,162
Total	159,192	13,240	27,660	26,484	226,576

Note 22. Tax liabilities

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Current			
Current tax overseas entities		**5,012**	10,205
Non-current			
a) Deferred tax liability		**23,293**	18,171
b) Movement in deferred tax liability for the financial year			
Balance at the beginning of the financial year		**111,341**	113,159
Charged to income statement as deferred income (benefit)	22(d)	**(15,480)**	(8,292)
Charged to equity		**3,994**	5,053
Acquisition of businesses		**-**	568
Net foreign currency exchange differences		**5**	(473)
Disposal of entities and operations		**-**	(74)
Transfer/other		**(7,282)**	1,400
Balance at the end of the financial year (gross)	22(c)	**92,578**	111,341
Set-off of deferred tax assets within the same tax jurisdiction	13(b)	**(69,285)**	(93,170)
Net deferred tax liability		**23,293**	18,171
c) Deferred tax liabilities at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to			
Property, plant and equipment		**9,014**	2,337
Inventories		**(2,159)**	2,512
Intangible assets		**(156)**	83
Trade and other receivables		**63,462**	64,610
Other current assets		**2,551**	6,906
Equity-accounted investments		**1,722**	-
Trade and other payables		**3,599**	9,328
Provisions		**138**	2,901
Borrowings		**199**	121
Hedges and foreign exchange movements		**9,568**	17,136
Other		**4,640**	5,407
Total deferred tax liabilities (gross)		**92,578**	111,341

Note 22. Tax liabilities - *continued*

	Consolidated 2010 $'000	Consolidated 2009 $'000
d) Amounts charged to income statement as deferred income tax expense/(benefit):		
Property, plant and equipment	**5,750**	(353)
Inventories	**(7,379)**	(4,917)
Intangible assets	**(241)**	(120)
Trade and other receivables	**(2,133)**	5,050
Other assets	**(3,135)**	2,852
Trade and other payables	**(6,588)**	5,588
Borrowings	**60**	117
Provisions	**(2,524)**	3,485
Equity-accounted investments	**1,722**	-
Hedges and foreign exchange movements	**(2,251)**	(3,439)
Deferred tax liabilities in relation to prior years	**1,239**	(16,555)
Charged to income statement as deferred income tax (benefit)	**(15,480)**	(8,292)

Note 23. Issued capital

	Consolidated 2010 $'000	Consolidated 2009 $'000
Ordinary shares -		
336,582,351 ordinary shares (2009: 331,077,655)	**978,960**	937,259
Unvested executive incentive shares -		
7,891,599 ordinary shares (2009: 7,725,588)	**(38,888)**	(37,071)
200,000,000 Redeemable Optionally Adjustable		
Distributing Securities (ROADS) (2009: 200,000,000)	**178,603**	178,603
	1,118,675	1,078,791

Fully paid ordinary share capital

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

	Consolidated 2010		Consolidated 2009	
Fully paid ordinary share capital	**000's**	**$'000**	000's	$'000
Balance at the beginning of the financial year	**331,077**	**937,259**	325,084	911,747
Issue of shares through Dividend Reinvestment Plan elections	**5,505**	**41,701**	5,160	22,370
Issue of shares under terms of Employee Share Plan [i]	**-**	**-**	833	3,142
Balance at the end of the financial year	**336,582**	**978,960**	331,077	937,259

[i] Under the terms of the offer, a $1,000 discount was provided in recognition of each employee's contribution to the company's performance. Under A-IFRS, the value of the discount is recognised as an expense with a corresponding increase in share capital of $3,142,295.

Note 23. Issued capital - *continued*

	Consolidated			
	2010		2009	
Unvested executive incentive shares	**000's**	**$'000**	000's	$'000
Balance at the beginning of the financial year	**7,726**	**(37,071)**	1,600	(9,791)
Unvested executive incentive shares transactions	**557**	**(4,476)**	6,126	(27,280)
Vested executive incentive shares transactions	**(391)**	**2,659**	-	-
Balance at the end of the financial year	**7,892**	**(38,888)**	7,726	(37,071)

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust under the Long Term Incentive Plan. Dividends from the unvested executive incentive shares accrue to the benefit of executives from the time they are purchased up until when vesting occurs or until the shares are forfeited.

	Consolidated			
	2010		**2009**	
	000's	**$'000**	**000's**	**$'000**
Redeemable Optionally Adjustable Distributing Securities (ROADS)				
Balance at the beginning of the financial year	**200,000**	**178,603**	200,000	178,603
ROADS issued during the year	**-**	**-**	-	-
Balance at the end of the financial year	**200,000**	**178,603**	200,000	178,603

ROADS are perpetual, redeemable, exchangeable preference shares.

During the year ended 30 June 2007, Works Infrastructure Finance (NZ) Limited (a wholly-owned subsidiary of Downer EDI Limited) issued 200 million ROADS, each having a face value of NZ$1 for a total of NZ$200 million.

Each ROADS entitles holders to a non-cumulative fully imputed dividend which is in preference to any dividends paid on ordinary shares. ROADS rank in priority to ordinary shares for payment of dividends and for a return of capital on winding up.

The ROADS dividend may be increased or decreased on reset dates, the first of which occurs on 15 June 2012. On that date, the ROADS will be either reset for a further period or at the election of the issuer will be either redeemed or exchanged into ordinary shares of Downer EDI Limited at a 2.5% discount to the weighted average sale price of ordinary shares traded on the ASX during the 20 business days immediately preceding the date of exchange.

The non-cumulative dividend is paid quarterly on the ROADS. Payment of dividends is at the discretion of directors and is subject to the directors declaring or otherwise resolving to pay a dividend and there being no impediment under the Corporations Act 2001 to the payment.

Share options and performance rights

During the financial year, no performance rights (2009: nil) or performance options (2009: nil) were granted to senior executives of the Group under the Long Term Incentive Plan. Further details of the key management personnel Long Term Incentive Plan are contained in the remuneration report.

Note 24. Reserves

	Consolidated 2010 $'000	Consolidated 2009 $'000
Available-for-sale investment reserve	**(2,816)**	(3,053)
Hedge reserve	**(84,642)**	(61,902)
Foreign currency translation reserve	**(39,945)**	(36,129)
Employee benefits reserve	**19,510**	15,960
Total reserves	**(107,893)**	(85,124)

Hedge reserve

The hedge reserve included a balance of $76.5 million representing the equity-accounted share of the historical movements of Reliance Rail's hedge reserve. The hedge reserve is being amortised on a straight line basis over 30 years, being the contracted term of the Waratah Public Private Partnership (PPP) Through-Life Support contract. In the current year, $2.6 million has been amortised and reflected as an expense in the income statement.

Note 25. Acquisition of businesses

a) Summary of acquisitions

2010

Name of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition $'000
Businesses:				
Western Construction Co.	Mechanical, construction and maintenance business	10 September 2009	-	34,258
Berry Pipelines Pty Ltd	Water main renewals	15 January 2010	-	4,507
				38,765

Note 25. Acquisition of businesses - *continued*

2009

Name of businesses acquired	**Principal activity**	**Date of acquisition**	**Proportion of shares acquired %**	**Cost of acquisition $'000**
Controlled entities:				
AC Consulting Ltd	Engineering consulting	1 July 2008	100	1,812
Advanced Separation Engineering	Mineral separation technology	10 July 2008	100	317
HRS Ltd	Rail maintenance	17 July 2008	100	4,610
Lowan Management Pty Ltd	Acquisition of patents	26 February 2009	100	13
Businesses:				
APMS	Asphalt manufacturing	1 December 2008	-	8,645
Excell Corporation	Open space management	30 September 2008	-	21,958
Corke Instrumentation Engineering	Instrumentation	1 May 2009	-	9,531
Downer Universal Communication Group	Telephony maintenance	30 January 2009	-	665
				47,551

	Note	**Consolidated 2010 $'000**	**Consolidated 2009 $'000**
Purchase consideration			
Cash paid		**32,675**	49,422
Purchase price adjustment		**6,090**	(1,711)
Total purchase consideration		**38,765**	47,711
Fair value of net identifiable assets acquired	25(c)	**13,325**	16,490
Goodwill	17	**25,440**	31,221

The acquisitions for the year have been provisionally accounted for at 30 June 2010. Goodwill has arisen on acquisitions because the cost of the combination includes amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 25. Acquisition of businesses - *continued*

	Note	Consolidated 2010 $'000	2009 $'000
b) Purchase consideration			
Outflow of cash to acquire businesses, net of cash acquired			
Cash consideration		**32,675**	49,422
Net cash and cash equivalents acquired		**-**	(279)
Cash (received)/paid post-acquisition settlement		**(339)**	2,433
Outflow of cash		**32,336**	51,576

c) Assets and liabilities acquired

The assets and liabilities arising from the acquisitions are as follows:

	Note	Book Value $'000	Fair Value $'000
Current assets			
Inventories		**180**	**180**
Trade and other receivables		**5,728**	**5,728**
Other assets		**53**	**53**
Total current assets		**5,961**	**5,961**
Non-current assets			
Property, plant and equipment	16	**11,873**	**11,873**
Deferred tax assets	13(b)	**660**	**660**
Total non-current assets		**12,533**	**12,533**
Current liabilities			
Trade and other payables		**2,191**	**2,191**
Borrowings		**289**	**289**
Provisions	21	**1,779**	**1,779**
Total current liabilities		**4,259**	**4,259**
Non-current liabilities			
Borrowings		**910**	**910**
Total non-current liabilities		**910**	**910**
Net identifiable assets acquired		**13,325**	**13,325**

Note 26. Disposal of asset held for sale

On 30 June 2010, the Group completed the sale of the remaining 49% of MB Century Drilling, an oil, gas and geothermal drilling business, to Mohamed Al Barwani Holding Company LLC (MB Holding).

The sale of MB Century Drilling reflected the disposal of the Group's remaining 49% investment on 30 June 2010, repayment of shareholder's loans and settlement of the EBIT loss guarantee amounts provided on the initial sale of the Group's 51% interest, net of retention monies held. The sale and the settlement of the related transactions resulted in a cash inflow of $89.2 million and a pre-tax gain of $5.2 million.

During the financial year, the carrying value of the investment in MB Century Drilling was impaired by a total of $25.8 million (which includes the $10.0 million provision made on 1 June 2010 as explained in Note 4). The $5.2 million pre-tax gain on sale reflected the net asset position immediately prior to sale on 30 June 2010.

Note 27. Statement of cash flows - additional information

		Consolidated	
		2010	2009
	Note	**$'000**	$'000
a) Reconciliation of cash and cash equivalents			
For the purpose of the statement of cash flows, cash and cash equivalent comprise:			
Cash		**381,776**	288,715
Short-term deposits		**3,350**	10,748
	36	**385,126**	299,463
Bank overdrafts	19	**(6,744)**	(7,240)
		378,382	292,223

b) Non-cash financing and investing activities

During the current financial year, $41,701,000 (2009: $25,512,000) in equity was issued in respect of:

i) Dividend Reinvestment Plan elections $41,701,000 (2009: $22,370,000); and
ii) Issue of shares under the terms of Employee Share Plan $nil (2009: $3,142,000).

During the financial year, the Group acquired $489,000 (2009: $49,730,000) of equipment under finance leases. This acquisition will be reflected in the statement of cash flows over the term of the finance lease via lease repayments.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 27. Statement of cash flows - additional information - *continued*

c) Reconciliation of profit after tax to net cash flows from operating activities

	Consolidated	
	2010	2009
	$'000	$'000
Profit after tax for the year	**3,052**	189,376
Adjustments for:		
Share of joint ventures and associates' profit net of distributions	**(5,314)**	(259)
Depreciation and amortisation of non-current assets	**160,159**	141,768
Impairment of assets held for sale	**25,871**	-
Amortisation of deferred costs	**2,870**	1,088
Net gain on sale of property, plant and equipment	**(27,700)**	(1,480)
Profit on disposal of businesses and investments	**(2,350)**	(777)
Foreign exchange loss/(gain)	**527**	(4,146)
Decrease in income tax payable	**(4,641)**	(6,635)
Movement in deferred tax balances	**(20,668)**	94,995
Equity-settled share-based transactions	**6,261**	8,677
Payments for unvested executive incentive shares	**(4,476)**	(27,280)
Settlement of operational foreign exchange contracts	**(34,882)**	38,827
Impairment of goodwill	**42,000**	-
Other	**1,838**	1,880
	139,495	246,658
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
decrease/(increase) in assets:		
Current trade and other receivables	**2,000**	(8,250)
Current inventories	**5,048**	7,992
Other current assets	**3,211**	9,714
Other financial assets	**(83)**	1,883
Non-current financial assets	**-**	669
Other non-current assets	**781**	346
Increase/(decrease) in liabilities:		
Current trade and other payables	**55,663**	(60,589)
Current provisions	**(3,065)**	(47,161)
Non-current trade and other payables	**(1,796)**	906
Non-current provisions	**(40)**	(5,080)
	61,719	(99,570)
Net cash generated by operating activities	**204,266**	336,464

Note 28. Commitments

a) Capital expenditure commitments

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000
Plant and equipment:			
Within one year		**226,967**	2,704
		226,967	2,704

b) Operating lease commitments

Non-cancellable operating leases relate to premises and plant and equipment with lease terms of between 1 to 15 year(s):

	Note	2010 $'000	2009 $'000
Within one year		**122,880**	106,894
Between one and five year(s)		**233,843**	210,365
Greater than five years		**103,628**	37,795
		460,351	355,054

c) Finance lease commitments

Finance leases relate to plant and equipment with lease terms of between 1 to 5 year(s):

	Note	2010 $'000	2009 $'000
Within one year		**12,367**	11,971
Between one and five year(s)		**44,953**	55,436
Minimum finance lease payments		**57,320**	67,407
Future finance charges		**(9,542)**	(13,487)
Finance lease liabilities		**47,778**	53,920
Included in the financial statements as:			
Current borrowings	19	**8,328**	8,006
Non-current borrowings	19	**39,450**	45,914
		47,778	53,920

d) Other expenditure commitments

	Note	2010 $'000	2009 $'000
Hire purchase liabilities			
Within one year		**1,344**	1,608
Between one and five year(s)		**4,469**	3,929
Greater than five years		**54**	57
Minimum hire purchase payments		**5,867**	5,594
Future finance charges		**(117)**	(124)
Hire purchase liabilities		**5,750**	5,470
Included in the financial statements as:			
Current borrowings	19	**1,337**	1,576
Non-current borrowings	19	**4,413**	3,894
		5,750	5,470

Note 29. Contingent liabilities

	Consolidated	
	2010	2009
	$'000	$'000
The consolidated entity has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for wholly-owned controlled entities	**834,798**	780,678

In the ordinary course of business:

i) the company and certain controlled entities are called upon to give guarantees and indemnities in respect of the performance by counterparties, including controlled entities and related parties, of their contractual and financial obligations. Other than as noted above, these guarantees and indemnities are indeterminable in amount;

ii) some entities in the Group are subject to normal 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;

iii) controlled entities have entered into various partnerships and joint ventures under which the controlled entity could ultimately be jointly and severally liable for the obligations of the partnership or joint venture; and

iv) Group companies have the normal contractor's liability in relation to services and construction contracts. This liability may include claims, disputes and/or litigation 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/disputes in relation to contracts, the most significant of which are:
- a claim by SP PowerAssets Ltd in relation to the construction of an electrical services tunnel in Singapore;
- a claim by Siemens Ltd in relation to remediation works on the exhaust system of the Laverton Power Station, Victoria; and
- in December 2009, Patrick Stevedore Operations Pty Limited has adjoined Emoleum Road Services Pty Limited and Emoleum Roads Group Pty Limited (acquired by Downer on 28 February 2006) as fifth and sixth defendants in a matter related to its Port Botany Terminal, Sydney.

In relation to the SP PowerAssets Ltd and Siemens Ltd claims, the directors are of the opinion that adequate provisions have been established. Insufficient information currently exists to reliably assess any potential claim that may arise as a consequence of Patrick Stevedore Operations Pty Limited's actions. The directors are of the opinion that disclosure of any further information related to these or other claims would be prejudicial to the interests of the Group.

Note 30. Rendering of services and construction contracts

	Note	Consolidated 2010 $'000	2009 $'000
Cummulative contracts in progress as at reporting date:			
Cummulative costs incurred plus recognised profits less recognised losses to date		**7,294,091**	7,737,504
Less: progress billings		**(6,721,231)**	(7,444,411)
Less: provision for Waratah train project	4	**(190,000)**	-
Net amount		**382,860**	293,093
Recognised and included in the financial statements as amounts due:			
From customers under contracts - current	11	**613,525**	556,282
To customers under contracts - current	18	**(230,665)**	(263,189)
Net amount		**382,860**	293,093

Note 31. Subsequent events

- On 28 July 2010, the Group's Mining division signed contracts with BHP Billiton Mitsubishi Alliance (BMA) to June 2015 at Goonyella Riverside and Norwich Park Mines in the Bowen Basin, Central Queensland. The contracts, jointly valued at approximately A$2 billion, are for load and haul of prestrip material and drill and blast services at Goonyella Riverside Mine, and for load and haul of prestrip material at Norwich Park Mine.
- On 5 August 2010, the Group's Mining division signed a six year contract, valued at approximately A$3 billion, with Fortescue Metals Group Limited for the provision of mining services at its Christmas Creek operation in the East Pilbara region of Western Australia.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 32. Controlled entities

Name of controlled entity	Country of incorporation	Ownership interest	
		2010	2009
		%	%
Advanced Separation Engineering Australia Pty Ltd	Australia	**100**	100
Beckbell Pty Ltd	Australia	**-**	100
CA Facilities Pte Ltd	Singapore	**51**	51
Capital City Hire Ltd [(iii)]	New Zealand	**-**	100
CBP New Zealand Ltd [(iii)]	New Zealand	**-**	100
Cendrill Supply Pty Limited	Australia	**-**	100
Century Administration Pty Ltd	Australia	**100**	100
Chan Lian Construction Pte Ltd	Singapore	**100**	100
Chang Chun Ao Da Technical Consulting Co Ltd	China	**100**	100
Choad Pty Ltd	Australia	**100**	100
Construction Professionals Pte Ltd	Singapore	**100**	100
Coomes AC Consulting Pty Ltd	Australia	**100**	100
Coomes Consulting Group Unit Trust	Australia	**100**	100
Corke Instrument Engineering (Australia) Pty Ltd	Australia	**100**	100
CPG Advisory (Shanghai) Co. Ltd	China	**100**	100
CPG Australia Pty Limited	Australia	**100**	100
CPG Consultants (India) Pvt Ltd	India	**100**	100
CPG Consultants (Macau) Pte Ltd	Singapore	**100**	100
CPG Consultants Pte Ltd	Singapore	**100**	100
CPG Consultants Qatar W.L.L	Qatar	**100**	100
CPG Corp Philippines Inc	Philippines	**100**	100
CPG Corporation Pte Ltd	Singapore	**100**	100
CPG Environmental Engineering Co. Ltd	China	**75**	75
CPG Facilities Management (Xiamen) Co. Ltd	China	**-**	100
CPG Facilities Management Pte Ltd	Singapore	**100**	100
CP Green Pte Ltd	Singapore	**100**	100
CPG Holdings Pte Ltd	Singapore	**100**	100
CPG Hubin (Suzhou) Pte Ltd	Singapore	**100**	100
CPG Investments Pte Ltd	Singapore	**100**	100
CPG Laboratories Pte Ltd	Singapore	**100**	100
CPG New Zealand Ltd	New Zealand	**100**	100
CPG Resources Pty Ltd	Australia	**100**	100
CPG Traffic Pty Ltd	Australia	**100**	100

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest 2010 %	2009 %
CPG Vietnam Co Ltd	Vietnam	**100**	100
D'Axis Planners & Consultants Co. Ltd (i)	China	**-**	60
DCE Limited	New Zealand	**100**	100
Dean Adams Consulting Pty Ltd	Australia	**100**	100
DGL Investments Ltd	New Zealand	**100**	100
DJC & Associates Limited	New Zealand	**52**	52
DMQA Technical Services (UK) Ltd	United Kingdom	**100**	100
DMQA Training Limited	United Kingdom	**100**	100
Downer Australia Pty Ltd	Australia	**100**	100
Downer Bitumen Surfacing Limited	New Zealand	**100**	100
Downer Construction (Fiji) Limited	Fiji	**100**	100
Downer Construction (Hong Kong) Limited	Hong Kong	**100**	100
Downer Construction (New Zealand) Ltd	New Zealand	**100**	100
Downer Construction Tonga Ltd	Tonga	**-**	100
Downer Construction (PNG) Ltd	PNG	**100**	100
Downer EDI Consulting Pty Ltd	Australia	**100**	100
Downer EDI Engineering - QCC Pty Ltd	Australia	**100**	100
Downer EDI Engineering Communications Limited	New Zealand	**100**	100
Downer EDI Engineering Company Pty Limited	Australia	**100**	100
Downer EDI Engineering Construction (Australia) Pty Ltd	Australia	**100**	100
Downer EDI Engineering CWH Pty Limited	Australia	**100**	100
Downer EDI Engineering Electrical Pty Ltd	Australia	**100**	100
Downer EDI Engineering Group (Malaysia) Sdn Bhd	Malaysia	**-**	100
Downer EDI Engineering Group Limited	New Zealand	**100**	100
Downer EDI Engineering Group Pty Limited	Australia	**100**	100
Downer EDI Engineering Holdings Pty Ltd	Australia	**100**	100
Downer EDI Engineering Holdings (Thailand) Limited	Thailand	**100**	100
Downer EDI Engineering Limited	New Zealand	**100**	100
Downer EDI Engineering (M) Sdn Bhd	Malaysia	**100**	100
Downer EDI Engineering Power Limited	New Zealand	**100**	100
Downer EDI Engineering Power Pty Ltd	Australia	**100**	100
Downer EDI Engineering Pty Limited	Australia	**100**	100

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for the year ended 30 June 2010

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest	
		2010	2009
		%	%
Downer EDI Engineering-Projects Pty Ltd	Australia	**100**	100
Downer EDI Engineering (S) Pte Ltd	Singapore	**100**	100
Downer EDI Engineering Telco Services Sdn Bhd	Malaysia	**-**	100
Downer EDI Engineering Thailand Limited	Thailand	**100**	100
Downer EDI Engineering Transmission Pty Ltd	Australia	**100**	100
Downer EDI Finance (NZ) Ltd	New Zealand	**100**	100
Downer EDI Finance Pty Ltd	Australia	**-**	100
Downer EDI Group Finance (NZ) Limited	New Zealand	**100**	100
Downer EDI Limited	United Kingdom	**100**	100
Downer EDI Mining-Mineral Technology SA (Proprietary) Ltd	South Africa	**100**	100
Downer EDI Mining-Mineral Technology (USA) Inc	USA	**100**	100
Downer EDI Mining NZ Limited	New Zealand	**100**	-
Downer EDI Mining Pty Ltd	Australia	**100**	100
Downer EDI Mining Services (Proprietary) Ltd	South Africa	**70**	70
Downer EDI Mining-Blasting Services Pty Ltd	Australia	**100**	100
Downer EDI Mining-Mineral Technologies Pty Ltd	Australia	**100**	100
Downer EDI Mining-Minerals Exploration Pty Ltd	Australia	**100**	100
Downer EDI Rail (Hong Kong) Ltd	Hong Kong	**100**	100
Downer EDI Rail Pty Ltd	Australia	**100**	100
Downer EDI Rail V/Line Maintenance Pty Ltd	Australia	**100**	100
Downer EDI Rail (USA) Inc	USA	**100**	-
Downer EDI Rail (USA) LLC	USA	**100**	-
Downer EDI (UK) Limited	United Kingdom	**100**	100
Downer EDI (USA) Pty Ltd	Australia	**100**	-
Downer EDI Properties Limited	New Zealand	**100**	-
Downer EDI Resource Holdings Limited	Australia	**100**	100
Downer EDI Services Pty Ltd	Australia	**100**	100
Downer EDI Works (Hong Kong) Limited	Hong Kong	**100**	100
Downer EDI Works Limited [(ii) (iii)]	New Zealand	**100**	100
Downer EDI Works Pte Ltd	Singapore	**100**	100
Downer EDI Works Pty Ltd	Australia	**100**	100
Downer EDI Works Vanuatu Limited	Vanuatu	**100**	100
Downer Energy Systems Pty Limited	Australia	**100**	100
Downer Group Finance International Pty Ltd	Australia	**100**	100

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest	
		2010	2009
		%	%
Downer Group Finance Pty Limited	Australia	**100**	100
Downer Holdings Pty Ltd	Australia	**100**	100
Downer MBL Limited	New Zealand	**100**	100
Downer MBL Pty Limited	Australia	**100**	100
Downer NZ Finance Pty Ltd	Australia	**100**	100
Downer PPP Investments Pty Ltd	Australia	**100**	100
Downer Signs Limited	New Zealand	**50**	-
Duffill Watts Pte Limited	Singapore	**100**	100
Duffill Watts Vietnam Ltd	Vietnam	**100**	100
EDI Rail (Maryborough) Pty Ltd	Australia	**100**	100
EDI Rail Investments Pty Ltd	Australia	**100**	100
EDI Rail PPP Maintenance Pty Ltd	Australia	**100**	100
EDICO Pty Ltd	Australia	**100**	100
Emoleum Road Services Pty Limited	Australia	**100**	100
Emoleum Roads Group Pty Limited	Australia	**100**	100
Emoleum Services Pty Limited	Australia	**100**	100
Evans Deakin Industries Pty Ltd	Australia	**100**	100
Faxgroove Pty Ltd	Australia	**100**	100
Gaden Drilling Pty Limited	Australia	**100**	100
H.R.S. New Zealand Ltd (ii)	New Zealand	**100**	100
Indeco Consortium Pte Ltd	Singapore	**100**	100
Killbeen Pty Ltd	Australia	**-**	100
Locomotive Demand Power Pty Ltd	Australia	**100**	100
Lowan (Management) Pty Ltd	Australia	**100**	100
MPE Facilities Management Sdn Bhd	Malaysia	**50**	50
New Zealand Vegetation Control Ltd (iii)	New Zealand	**-**	100
On Track Services New Zealand Ltd (iii)	New Zealand	**-**	100
Otraco Brasil Gerenciamento de Pneus Ltda	Brazil	**100**	100
Otraco Canada Inc	Canada	**100**	100
Otraco Chile SA	Chile	**100**	100
Otraco International Pty Limited	Australia	**100**	100
Otracom Pty Ltd	Australia	**100**	100
Pavement Technology Proprietary Ltd	Australia	**-**	100

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for the year ended 30 June 2010

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest	
		2010	2009
		%	%
Peridian Asia Pte Ltd	Singapore	**100**	100
Peridian India Pvt Ltd	India	**100**	100
PM Link Pte Ltd	Singapore	**100**	100
Primary Producers Improvers Pty Ltd	Australia	**100**	100
PT Duffill Watts Indonesia	Indonesia	**100**	100
PT Otraco Indonesia	Indonesia	**100**	100
PT QDC Technologies	Indonesia	**50**	50
Rail Services Victoria Pty Ltd	Australia	**100**	100
Rayfall Pty Ltd	Australia	**-**	100
Rayjune Pty Ltd	Australia	**-**	100
REJV Services Pty Ltd	Australia	**100**	100
Reussi Pty Limited	Australia	**100**	100
Richter Drilling Indonesia Pty Limited	Australia	**-**	100
Richter Drilling International Pty Ltd	Australia	**-**	100
Richter Drilling (PNG) Limited	PNG	**100**	100
RIMTEC Pty Ltd	Australia	**100**	100
Rimtec USA Inc	USA	**100**	100
Roche Bros (Hong Kong) Ltd	Hong Kong	**100**	100
Roche Bros. Superannuation Pty Ltd	Australia	**100**	100
Roche Castings Pty Ltd	Australia	**100**	100
Roche Contractors Pty Limited	Australia	**100**	100
Roche Highwall Mining Pty Limited	Australia	**100**	100
Roche Mining (MT) Brasil Ltda	Brazil	**100**	100
Roche Mining (MT) Holdings Pty Ltd	Australia	**100**	100
Roche Mining (MT) India Pvt Ltd	India	**100**	100
Roche Mining (PNG) Ltd	PNG	**100**	100
Roche Services Pty Ltd	Australia	**100**	100
RPC IT Pty Ltd	Australia	**100**	100
RPC Roads Pty Ltd	Australia	**100**	100
Sach Infrastructure Pty Ltd	Australia	**100**	100
Scanbright Pty Ltd	Australia	**-**	100
Shanghai CPG Architectural and Design Co. Ltd	China	**100**	100
Sillars (B&CE) Ltd	United Kingdom	**100**	100
Sillars (FRC) Ltd	United Kingdom	**100**	100

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest	
		2010	2009
		%	%
Sillars (TMWC) Ltd	United Kingdom	**100**	100
Sillars (TMWD) Ltd	United Kingdom	**100**	100
Sillars Holdings Limited	United Kingdom	**100**	100
Sillars Road Construction Ltd	United Kingdom	**100**	100
Singleton Bahen Stansfield Pty Ltd	Australia	**100**	100
SIP-CPG Facilities Management Co. Ltd	China	**100**	100
Snowden Consultoria do Brasil Limitada	Brazil	**100**	100
Snowden Mining Industry Consultants Inc.	Canada	**100**	100
Snowden Mining Industry Consultants Limited	United Kingdom	**100**	100
Snowden Mining Industry Consultants Pty Ltd	Australia	**100**	100
Snowden Mining Industry Consultants (Pty) Ltd	South Africa	**100**	100
Snowden Mining Technologies Limited	British Virgin Island	**100**	100
Snowden Technologies Pty Ltd	Australia	**100**	100
Snowden Training (Pty) Ltd	South Africa	**100**	100
Southern Asphalters Pty Ltd	Australia	**100**	100
Starblake Pty Ltd	Australia	**100**	100
Suzhou PM Link Co Ltd	China	**60**	60
TSE Wall Arlidge Ltd	New Zealand	**100**	100
TSG Architects Pte Ltd	Singapore	**100**	100
Undergrounds Locators Ltd	New Zealand	**100**	100
Waste Solutions Limited	New Zealand	**100**	100
Works Infrastructure (Holdings) Limited	United Kingdom	**100**	100
Works Infrastructure (UK) Limited	United Kingdom	**100**	100
Works Finance (NZ) Limited	New Zealand	**100**	100
Works Infrastructure Ltd - Fiji Branch	Fiji	**100**	100

(i) The Group's investment in the controlled entity was reduced to 40% during the financial year and consequently, this entity was reflected and accounted for as an associate.

(ii) H.R.S. New Zealand Limited and Downer EDI Works Limited amalgamated to become Downer EDI Works Limited with effect from 31 August 2009.

(iii) Capital City Hire Ltd, CBP New Zealand Ltd, New Zealand Vegetation Control Ltd, On Track Services New Zealand Ltd and Downer EDI Works Limited amalgamated to become Downer EDI Works Limited with effect from 30 August 2009.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 33. Related party information and key management personnel disclosures

a) Key management personnel

Directors

P E J Jollie AM	Chairman
G A Fenn	Managing Director and Chief Executive Officer, appointed 30 July 2010, Finance Director and Chief Financial Officer, 1 July 2010 to 29 July 2010, Chief Financial Officer, commenced 6 October 2009.
G H Knox	Managing Director and Chief Executive Officer, to 30 July 2010
S A Chaplain	Non Executive Director
P R Coates AO	Non Executive Director, resigned 15 October 2009
L Di Bartolomeo	Non Executive Director
R M Harding	Non Executive Director
J S Humphrey	Non Executive Director
C J S Renwick AM	Non Executive Director
C G Thorne	Non Executive Director, appointed 1 July 2010

Key Management Executives

C Bruyn	Chief Executive Officer - Downer New Zealand & United Kingdom
D Cattell	Chief Operating Officer - Downer EDI Limited
S Cinerari	Chief Executive Officer - Downer Works - Australia
E Kolatchew	Chief Executive Officer - Downer Engineering, from 11 January 2010
W Nolan	Chief Executive Officer - Downer Engineering, to 30 October 2009
D O'Reilly	President - Western Region
D Overall	Chief Executive Officer - Downer Mining
P Reichler	Chief Financial Officer, to 2 October 2009, Chief Executive Officer - Group Ventures, from 3 October 2009
G Wannop	Chief Executive Officer - Downer Rail, to 1 July 2010

b) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 34.

c) Other transactions with directors

A director of the company, J S Humphrey, has an interest as a partner in the firm Mallesons Stephen Jaques, solicitors. This firm renders legal advice to the consolidated entity in the ordinary course of business under normal commercial terms and conditions. The amount of fees paid and recognised was $737,818 (2009: $233,334).

d) Transactions with other related parties

Transactions with other related parties are made on normal commercial terms and conditions. The following transactions with other related parties, where a director of the company has also a directorship, occurred during the financial year ended 30 June 2010:

		Transaction type		
		Sponsorship	Sales of goods and services	Purchase of goods
Director	**Entity**	**$'000**	**$'000**	**$'000**
R M Harding	Clough Ltd	**-**	**367**	**-**
R M Harding	Santos Ltd	**-**	**-**	**1**
C J S Renwick	Coal & Allied Industries Pty Ltd	**-**	**3,596**	**-**
L Di Bartolomeo	Australian Rail Track Corporation Limited	**-**	**133,752**	**389**
S A Chaplain	Australian Youth Orchestra	**50**	**-**	**-**

Note 33. Related party information and key management personnel disclosures - *continued*

e) Transactions within the wholly-owned group

Details of dividend and interest revenue derived by the parent entity from wholly-owned subsidiaries are disclosed in Note 3. Aggregate amounts receivable from and payable to wholly-owned subsidiaries are included within total assets and liabilities balances as disclosed in Note 37. Amounts contributed to the defined contribution plan are disclosed in Note 3. Other transactions occurred during the financial year between entities in the wholly-owned group on normal commercial terms.

f) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 32.

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in Note 15.

g) Controlling entity

The parent entity of the Group is Downer EDI Limited.

h) Key management personnel equity holdings

Key management personnel equity holdings in fully paid ordinary shares issued by Downer EDI Limited are as follows:

2010	Balance at 1 July 2009 No.	Net change No.	Balance at 30 June 2010 No.
P E J Jollie	**86,333**	**103,334**	**189,667**
L Di Bartolomeo	**47,206**	**753**	**47,959**
S A Chaplain	**13,000**	**6,609**	**19,609**
R M Harding	**-**	**-**	**-**
J S Humphrey	**54,069**	**157**	**54,226**
C J S Renwick	**30,000**	**-**	**30,000**
C G Thorne	**-**	**-**	**-**
G A Fenn	**-**	**-**	**-**
G H Knox	**600,000**	**200,000**	**800,000**
C Bruyn	**500**	**-**	**500**
D Cattell	**57,809**	**(48,750)**	**9,059**
S Cinerari	**1,843**	**-**	**1,843**
E Kolatchew	**-**	**-**	**-**
D Overall	**-**	**-**	**-**
D O'Reilly	**25,500**	**25,000**	**50,500**
P Reichler	**200,256**	**(66,602)**	**133,654**
G Wannop	**47,064**	**(14,458)**	**32,606**
	1,163,580	**206,043**	**1,369,623**

Note 33. Related party information and key management personnel disclosures - *continued*

2009	Balance at 1 July 2008 No.	Net change No.	Balance at 30 June 2009 No.
P E J Jollie	82,029	4,304	86,333
L Di Bartolomeo	26,233	20,973	47,206
J S Humphrey	53,786	283	54,069
C J S Renwick	30,000	-	30,000
S A Chaplain	-	13,000	13,000
G H Knox	400,000	200,000	600,000
C Bruyn	10,000	(9,500)	500
D Cattell	525,136	(467,327)	57,809
W Nolan	500	25,500	26,000
S Cinerari	6,793	(4,950)	1,843
D O'Reilly	-	25,500	25,500
P Reichler	167,456	32,800	200,256
P Reidy	2,095	18,094	20,189
G Wannop	55,147	(8,083)	47,064
	1,359,175	(149,406)	1,209,769

S A Chaplain and R M Harding appointed 1 July 2008. P R Coates appointed 30 October 2008.

Key management personnel equity holdings in performance options issued by Downer EDI Limited are as follows:

2010	Balance at 1 July 2009 No.	Net change No.	Balance at 30 June 2010 No.
D Cattell	**34,863**	**-**	**34,863**
C Bruyn	**24,481**	**-**	**24,481**
S Cinerari	**19,016**	**-**	**19,016**
D O'Reilly	**19,401**	**-**	**19,401**
P Reichler	**16,082**	**-**	**16,082**
G Wannop	**25,106**	**-**	**25,106**
	138,949	**-**	**138,949**

Note 33. Related party information and key management personnel disclosures - *continued*

2009	Balance at 1 July 2008 No.	Net change No.	Balance at 30 June 2009 No.
D Cattell	34,863	-	34,863
W Nolan	22,038	-	22,038
C Bruyn	24,481	-	24,481
S Cinerari	19,016	-	19,016
D O'Reilly	19,401	-	19,401
P Reichler	16,082	-	16,082
P Reidy	18,957	-	18,957
G Wannop	25,106	-	25,106
	179,944	-	179,944

Key management personnel equity holdings in performance rights issued by Downer EDI Limited are as follows:

2010	Balance at 1 July 2009 No.	Net change No.	Balance at 30 June 2010 No.
D Cattell	**11,000**	**-**	**11,000**
C Bruyn	**7,724**	**-**	**7,724**
S Cinerari	**6,000**	**-**	**6,000**
D O'Reilly	**6,121**	**-**	**6,121**
P Reichler	**5,074**	**-**	**5,074**
G Wannop	**7,921**	**-**	**7,921**
	43,840	**-**	**43,840**

Note 33. Related party information and key management personnel disclosures - *continued*

2009	Balance at 1 July 2008 No.	Net change No.	Balance at 30 June 2009 No.
D Cattell	11,000	-	11,000
C Bruyn	7,724	-	7,724
W Nolan	6,953	-	6,953
S Cinerari	6,000	-	6,000
P Reichler	5,074	-	5,074
D O'Reilly	6,121	-	6,121
P Reidy	5,988	-	5,988
G Wannop	7,921	-	7,921
	56,781	-	56,781

Note 34. Key management personnel compensation

Key management personnel compensation	Consolidated	
	2010	2009
	$	$
Short-term employee benefits	**14,554,570**	18,845,630
Post-employment benefits	**1,284,421**	583,929
Share-based payments	**4,585,068**	6,890,330
	20,424,059	26,319,889

Note 35. Employee Share Plan

An employee discount share plan was instituted in June 2005. In accordance with the provisions of the plan, as approved by shareholders at the 1998 Annual General Meeting, permanent full and part time employees of Downer EDI Limited and its subsidiary companies who have completed six months service may be invited to participate.

Note 36. Financial instruments

(a) Capital risk management

The capital structure of the consolidated entity consists of debt and equity. The consolidated entity may vary its capital structure by adjusting the amount of dividends, returning capital to shareholders, issuing new shares or increasing or reducing debt.

The consolidated entity's objectives when managing capital are to safeguard its ability to operate as a going concern so that it can continue to meet all its financial obligations when they fall due, to provide adequate returns to shareholders and maintain an appropriate capital structure to optimise its cost of capital. The consolidated entity's capital management strategy remains unchanged from 2009.

The consolidated entity monitors its gearing ratio determined as the ratio of net debt to total capitalisation. During the years ended 30 June 2010 and 30 June 2009, the gearing ratios were as follows:

		Consolidated	
		2010	2009
	Note	**$'000**	$'000
Current borrowings	19	**272,167**	215,839
Non-current borrowings	19	**617,012**	578,658
Gross debt [i]		**889,179**	794,497
Adjustment for cross currency swap hedges and deferred finance charges		**26,644**	22,659
Adjusted gross debt		**915,823**	817,156
Less: cash and cash equivalents	9	**(385,126)**	(299,463)
Net debt		**530,697**	517,693
Equity [ii]		**1,242,851**	1,330,388
Total capitalisation (Net debt + Equity)		**1,773,548**	1,848,081
Gearing ratio [iii]		**29.9%**	28.0%

[i] Gross debt is defined as all borrowings.
[ii] Equity consists all capital and reserves.
[iii] Net debt/Total capitalisation.

(b) Financial risk management objectives

The consolidated entity's Group Treasury function provides treasury services to the business, co-ordinates access to domestic and international financial markets and manages the financial risks relating to the operations of the consolidated entity. These financial risks include market risk, credit risk and liquidity risk.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity may enter into a variety of derivative financial instruments to manage its exposure to foreign exchange rate and interest rate risk, including:

i) forward foreign exchange contracts (outright forwards and options) to hedge the exchange rate risk arising from cross border trade flows, foreign income and debt service obligations;
ii) cross currency interest rate swaps to manage the foreign currency risk associated with foreign currency denominated borrowings; and
iii) interest rate swaps to mitigate the risk of rising interest rates.

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Note 36. Financial instruments - *continued*

(b) Financial risk management objectives - *continued*

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's Treasury Policies, which provide written principles on the use of financial derivatives.

(c) Accounting policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

(d) Foreign currency risk management

The consolidated entity undertakes certain transactions denominated in foreign currencies; hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts, options and cross currency swap agreements.

The carrying amounts of the consolidated entity's significant foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

	Financial assets (ii)		Financial liabilities (ii)	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Consolidated				
US dollar (USD) (i)	**62,906**	38,214	**41,831**	32,610
New Zealand dollar (NZD)	**16,802**	1,499	**26,104**	149
Great British pound (GBP)	**1,800**	198	**479**	51
Euro (EUR)	**23,794**	1,787	**998**	5,529
Chinese yuan (CNY)	**3,689**	-	**100**	1,689
	108,991	41,698	**69,512**	40,028

(i) The above table excludes foreign currency financial assets and liabilities which have been hedged back into Australian dollars.

(ii) The above table shows foreign currency financial assets and liabilities in Australian dollar equivalent.

Note 36. Financial instruments - *continued*

Foreign currency forward contracts

The following table summarises by currency the Australian dollar (AUD) value (unless otherwise stated) of major forward exchange contracts outstanding as at reporting date:

Outstanding contracts	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
			FC'000	FC'000	**$'000**	$'000	**$'000**	$'000
Buy USD/Sell AUD								
Less than 3 months	**0.8171**	0.7259	**79,818**	12,202	**97,689**	16,809	**(2,997)**	(1,681)
3 to 6 months	**0.7746**	0.7243	**24,617**	149,086	**31,778**	205,835	**(2,176)**	(19,380)
Later than 6 months	**0.7726**	0.7359	**239,966**	171,735	**310,592**	233,367	**(8,451)**	(8,374)
			344,401	333,023	**440,059**	456,011	**(13,624)**	(29,435)
Buy AUD/Sell USD								
Less than 3 months	**0.8807**	0.6992	**1,873**	207	**2,127**	296	**(105)**	39
3 to 6 months	**0.8949**	0.7059	**4,005**	1,403	**4,475**	1,988	**(331)**	240
Later than 6 months	**0.8570**	0.7345	**13,422**	1,401	**15,660**	1,907	**(1,103)**	133
			19,300	3,011	**22,262**	4,191	**(1,539)**	412
Buy EUR/Sell AUD								
Less than 3 months	**0.6115**	0.5538	**14,180**	3,302	**23,191**	5,962	**(2,545)**	(199)
3 to 6 months	**0.6097**	0.5448	**14,715**	5,941	**24,135**	10,905	**(2,479)**	(469)
Later than 6 months	**0.5414**	0.5331	**64,657**	52,091	**119,428**	97,714	**(18,298)**	(2,594)
			93,552	61,334	**166,754**	114,581	**(23,322)**	(3,262)
Buy CNY/Sell USD								
Less than 3 months	**6.7325**	-	**101,957**	-	**15,144**	-	**(138)**	-
3 to 6 months	**6.6849**	6.7843	**134,861**	1,628,239	**20,174**	240,001	**(286)**	(1,689)
Later than 6 months	**6.3703**	-	**1,032,385**	-	**162,062**	-	**(5,681)**	-
			1,269,203	1,628,239	**197,380**	240,001	**(6,105)**	(1,689)
Buy KRW/Sell USD								
3 to 6 months	**1,373.5**	1,379.0	**6,265,000**	5,963,000	**4,561**	4,324	**645**	463
Later than 6 months	**1,376.4**	1,376.0	**19,588,000**	31,965,000	**14,232**	23,230	**2,017**	2,452
			25,853,000	37,928,000	**18,793**	27,554	**2,662**	2,915
Buy GBP/Sell AUD								
Less than 3 months	**0.5439**	-	**918**	-	**1,689**	-	**(56)**	-
3 to 6 months	**0.5379**	-	**765**	-	**1,423**	-	**(47)**	-
Later than 6 months	**0.5129**	-	**8,043**	-	**15,681**	-	**(471)**	-
			9,726	-	**18,793**	-	**(574)**	-

Notes to the Financial Statements

for the year ended 30 June 2010

Note 36. Financial instruments - *continued*

Foreign currency forward contracts - *continued*

Outstanding contracts	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
			FC'000	FC'000	**$'000**	$'000	**$'000**	$'000
Buy AUD/Sell ZAR								
Less than 3 months	**6.5970**	7.5462	**1,115**	10,934	**169**	1,453	**(3)**	(290)
3 to 6 months	**6.6240**	7.3152	**988**	4,136	**149**	570	**(3)**	(84)
Later than 6 months	**-**	6.6859	**-**	1,528	**-**	229	**-**	(10)
			2,103	16,598	**318**	2,252	**(6)**	(384)
Buy SGD/Sell USD								
Less than 3 months	**1.3943**	-	**1,700**	-	**2,370**	-	**(5)**	-
3 to 6 months	**1.3971**	-	**2,550**	-	**3,563**	-	**-**	-
Later than 6 months	**1.3806**	-	**3,350**	-	**4,625**	-	**(44)**	-
			7,600	-	**10,558**	-	**(49)**	-

Cross currency interest rate swaps

Under cross currency interest rate swap contracts, the consolidated entity has agreed to exchange certain foreign currency loan principal and interest amounts at agreed future dates at fixed exchange rates. Such contracts enable the consolidated entity to eliminate the risk of adverse movements in foreign exchange rates related to foreign currency denominated borrowings.

The following table details the Australian dollar equivalents of cross currency interest rate swaps outstanding as at reporting date:

Outstanding contracts	Weighted average interest rate		Weighted average exchange rate		Contract value		Fair value	
	2010	2009			**2010**	2009	**2010**	2009
	%	%	**2010**	2009	**$'000**	$'000	**$'000**	$'000
Buy USD/Sell AUD								
Less than 1 year	**6.8**	7.6	**0.7217**	0.6867	**2,771**	32,764	**(325)**	(4,984)
2 to 5 years	**8.0**	6.8	**0.6787**	0.7218	**103,141**	2,771	**(11,611)**	(176)
5 years or more	**6.8**	8.1	**0.7220**	0.6828	**9,695**	112,836	**393**	(8,552)
					115,607	148,371	**(11,543)**	(13,712)
Buy SGD/Sell AUD								
1 to 2 years	**8.7**	-	**1.1845**	-	**50,654**	-	**(312)**	-
2 to 5 years	**-**	7.0	**-**	1.1845	**-**	50,654	**-**	59
					50,654	50,654	**(312)**	59

The above cross currency interest rate swap contracts are designated and effective as cash flow hedges.

Note 36. Financial instruments - *continued*

Cross currency interest rate swaps - *continued*

Outstanding contracts	Weighted average interest rate		Weighted average exchange rate		Contract value		Fair value	
	2010	2009			**2010**	2009	**2010**	2009
	%	%	**2010**	2009	**$'000**	$'000	**$'000**	$'000
Buy USD/Sell NZD								
Less than 1 year [(i)]	**-**	3.6	**-**	0.6530	**-**	67,430	**-**	666
					-	67,430	**-**	666

[(i)] This amount was translated into AUD which impacted the change in value.

Outstanding contracts	Weighted average interest rate 2010 %	2009 %	Weighted average exchange rate 2010	2009	Contract value 2010 $'000	2009 $'000	Fair value 2010 $'000	2009 $'000
Buy NZD/Sell AUD								
2 to 5 years	**9.7**	-	**1.2384**	-	**28,887**	-	**484**	-
					28,887	-	**484**	-

The above cross currency interest rate swap contracts are designated and effective as fair value hedges.

Foreign currency sensitivity analysis

The Group is mainly exposed to the following foreign currencies: Australian dollar (AUD), United States dollar (USD), Euro (EUR), Chinese yuan (CNY), New Zealand dollar (NZD) and Great British pound (GBP).

The following table details the Group's sensitivity to a 10% movement in the Australian dollar against relevant foreign currencies. The percentages disclosed below represent management's assessment of the possible changes in spot foreign exchange rates (i.e. forward exchange points and discount factors have been kept constant). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a given percentage change in foreign currency rates.

The use of percentage changes in rates (10%) for FY2010, rather than absolute rate changes used in FY2009, better reflects management's view of potential volatility in foreign currency rates.

A positive number indicates a before-tax increase in profit and equity and a negative number indicates a before-tax decrease in profit and equity.

Note 36. Financial instruments - *continued*

Foreign currency sensitivity analysis - *continued*

	Profit/(loss) [i]		Equity [ii]	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Consolidated				
USD impact				
0.60 against AUD	**-**	11,939	**-**	143,275
0.98 against AUD	**-**	(6,119)	**-**	(73,428)
- 10% rate change	**7,871**	-	**38,759**	-
+ 10% rate change	**(6,440)**	-	**(31,712)**	-
EUR impact				
0.48 against AUD	**-**	(95)	**-**	20,666
0.62 against AUD	**-**	35	**-**	(7,638)
- 10% rate change	**2,533**	-	**13,434**	-
+ 10% rate change	**(2,072)**	-	**(13,434)**	-
CNY impact				
- 10% rate change	**399**	-	**25,659**	32,846
+ 10% rate change	**(326)**	-	**(20,880)**	(26,868)
NZD impact				
1.10 against AUD	**-**	183	**-**	-
1.29 against AUD	**-**	(43)	**-**	-
- 10% rate change	**(1,034)**	-	**-**	-
+ 10% rate change	**846**	-	**-**	-
GBP impact				
- 10% rate change	**147**	-	**(1,700)**	-
+ 10% rate change	**(120)**	-	**1,700**	-

[i] This is mainly a result of the changes in the value of forward foreign exchange contracts not designated in a hedge relationship, and foreign currency investments, receivables and payables at year end in the consolidated entity.

[ii] This is a result of the changes in the value of forward foreign exchange contracts designated as cash flow hedges.

In the above sensitivity analysis, changes have been made to the spot foreign exchange rate only (i.e. forward exchange points and discount factors have been kept constant).

In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year end exposure does not necessarily reflect the exposure during the course for the year.

Note 36. Financial instruments - *continued*

(e) Interest rate risk management

The consolidated entity is exposed to interest rate risk as entities borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and hedging is undertaken through interest rate swap contracts or the issue of fixed rate MTNs or bonds.

The consolidated entity's exposure to interest rates on financial assets and financial liabilities are detailed in the table below:

	Weighted average effective interest rate		Consolidated	
	2010	2009	**2010**	2009
	%	%	**$'000**	$'000
Floating interest rates - cash flow exposure				
Bank overdrafts (i)	**3.6**	4.8	**6,435**	7,240
Bank loans				
AUD (ii)	**8.4**	5.6	**71,832**	102,457
GBP	**2.2**	-	**31,296**	-
SGD	**3.4**	4.7	**11,735**	8,558
USD	**1.6**	-	**22,882**	-
USD notes	**-**	3.6	**-**	69,906
AUD medium term notes				
Series I	**-**	4.0	**-**	81,256
Series II	**-**	5.0	**-**	6,641
Series III (iii)	**8.4**	-	**100,000**	-
Cash and cash equivalents	**3.7**	4.6	**(385,126)**	(299,463)
Cash flow exposure - total			**(140,946)**	(23,405)
Fixed interest rates - fair value exposure				
Bank loans				
AUD	**6.3**	6.3	**211,933**	210,056
SGD (iv)	**5.0**	3.6	**12,573**	21,392
USD notes	**7.8**	7.8	**115,608**	143,951
AUD medium term notes				
Series II	**7.2**	7.2	**106,308**	106,309
Series III (iii)	**9.8**	-	**50,000**	-
NZD Bonds (v)				
NZD (v)	**9.7**	-	**92,806**	-
AUD	**10.0**	-	**28,887**	-
Finance lease and hire purchase liabilities	**8.2**	8.2	**53,528**	59,390
Fair value exposure - total			**671,643**	541,098

All interest rates in the above table reflect rates in the currency of the relevant loan.

(i) Bank overdrafts held in the UK (GBP denominated).
(ii) Includes a bank loan amount that has been swapped from floating rate SGD to floating rate AUD.
(iii) AUD150 million MTN Series III fixed rate note; AUD100 million swapped from fixed rate to floating rate.
(iv) Part of SGD bank loan swapped from floating rate to fixed rate.
(v) NZD Bonds 150 million fixed rate; partial amount swapped from fixed rate NZD to fixed rate AUD.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 36. Financial instruments - *continued*

Interest rate swap contracts

The consolidated entity uses interest rate swap contracts to manage interest rate exposures. Under the interest rate swap contracts, the consolidated entity agrees to exchange the differences between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date.

The following tables detail the interest rate swap contracts and related notional principal amounts as at reporting date:

Outstanding floating for fixed contracts	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2010	2009	**2010**	2009	**2010**	2009
	%	%	**$'000**	$'000	**$'000**	$'000
AUD interest rate swaps						
Less than 1 year	**5.2**	6.6	**180,000**	20,859	**(598)**	(90)
1 to 2 year(s)	**-**	5.2	**-**	180,000	**-**	(3,579)
2 to 5 years	**5.1**	5.1	**138,242**	133,747	**496**	3,570
			318,242	334,606	**(102)**	(99)
SGD interest rate swaps						
Less than 1 year	**1.8**	2.1	**4,191**	17,114	**(33)**	25
1 to 2 year(s)	**2.2**	1.8	**8,382**	4,279	**(176)**	12
2 to 5 years	**-**	2.2	**-**	8,557	**-**	25
			12,573	29,950	**(209)**	62
USD interest rate swaps						
Less than 1 year	**-**	1.4	**-**	18,591	**-**	121
			-	18,591	**-**	121

The above interest rate swap contracts exchanging floating rate interest for fixed rate interest are designated as effective cash flow hedges.

Note 36. Financial instruments - *continued*

Interest rate swap contracts - *continued*

Outstanding fixed for floating contracts	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2010	2009	**2010**	2009	**2010**	2009
	%	%	**$'000**	$'000	**$'000**	$'000
AUD interest rate swaps						
Less than 1 year	**-**	3.9	**-**	80,000	**-**	1,185
2 to 5 years	**8.4**	-	**100,000**	-	**2,672**	-
			100,000	80,000	**2,672**	1,185
NZD interest rate swaps						
Less than 1 year	**-**	1.3	**-**	67,430	**-**	444
			-	67,430	**-**	444

The above interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated as effective fair value hedges.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and assuming that the rate change occurs at the beginning of the financial year and is then held constant throughout the reporting year.

The selected percentage increase or decrease represents management's assessment of the possible change in interest rates. A positive number indicates a before-tax increase in profit and equity and a negative number indicates a before-tax decrease in profit and equity.

	Consolidated	
	2010 (iv)	2009 (iii)
	$'000	$'000
Increase in rate		
Profit or loss (i)	**1,707**	1,278
Equity (ii)	**6,672**	6,541
Decrease in rate		
Profit or loss	**(1,834)**	(320)
Equity	**(6,824)**	(1,667)

(i) This is mainly attributable to the consolidated entity's exposure to interest rates on its unhedged variable rate borrowings.
(ii) This is mainly attributable to changes in valuation of the interest rate swaps and cross currency interest rate swaps held by the consolidated entity and designated as cash flow hedges.
(iii) 2009 sensitivities have been based on an increase in interest rates by 1.0% per annum and a decrease by 0.25% per annum across the yield curve.
(iv) 2010 sensitivities have been based on an increase in interest rates by 1.0% per annum and a decrease 1.0% per annum across the yield curve.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 36. Financial instruments - *continued*

(f) Equity price risk management
The consolidated entity is exposed to equity price risks arising from equity investments. Equity investments are held for trading purposes and are categorised as fair value through profit and loss investments.

Equity price risk sensitivity
The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

A 5.0% increase or decrease in the equity index is used and represents management's assessment of the possible change in equity prices. A positive number indicates an increase in profit and equity and a negative number indicates a decrease in profit and equity.

	Consolidated	
	2010	2009
	$'000	$'000
Profit or loss impact		
Fair value through profit or loss investments	**156**	52

(g) Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with highly rated counterparties. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored and transactions are spread among approved counterparties.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivable counterparties and where appropriate insurance cover is obtained. Refer to Note 11 for details on credit risk arising from trade and other receivables.

The credit risk on derivative financial instruments is limited to counterparties that have minimum long term credit ratings of no less than single A (or equivalent) other than one counterparty that is rated BBB+.

Credit risk arising from cash balances held with banks and financial institutions is managed by Group Treasury in accordance with Board Policy. Investments of surplus funds are made only with approved counterparties (with credit ratings of no less than AA-) and within credit limits assigned to each counterparty.

Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated during the year as required. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty default. No material exposure is considered to exist by virtue of the non-performance of any financial counterparty.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk.

Note 36. Financial instruments - *continued*

(h) Liquidity risk management

Liquidity risk arises from the possibility that the consolidated entity is unable to settle a transaction on the due date. The ultimate liquidity risk management rests with the Board of Directors, which has built an appropriate risk management framework for the consolidated entity's short, medium and long-term funding and liquidity management requirements.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and committed undrawn debt facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities. Included in Note 19 is a listing of committed undrawn debt facilities.

In June 2010, the Company's external credit rating was downgraded by Fitch Ratings from BBB to BBB- (stable). This rating level is designated as investment grade.

Liquidity risk tables

The following tables detail the consolidated entity's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturities. The tables include both interest and principal cash flows.

	Less than 1 year $'000	1 to 2 years $'000	2 to 3 years $'000	3 to 4 years $'000	4 to 5 years $'000	More than 5 years $'000
Consolidated						
2010						
Financial liabilities						
Trade payables	351,753	-	-	-	-	-
Bank overdrafts	6,744	-	-	-	-	-
Bank loans	268,069	97,609	5,761	5,509	5,256	9,755
USD notes	7,815	10,513	7,656	7,656	101,376	12,570
AUD medium term notes (Series II)	20,257	19,532	18,682	18,118	17,152	45,499
AUD medium term notes (Series III)	14,625	14,625	14,625	157,313	-	-
NZD Bonds	11,761	130,692	-	-	-	-
Total borrowings including interest	329,271	272,971	46,724	188,596	123,784	67,824
Finance lease and hire purchase liabilities	14,761	12,837	12,039	11,601	11,895	54
Derivative instruments [i]						
Cross currency interest rate swaps						
Receive leg	(11,428)	(64,570)	(36,355)	(6,524)	(86,392)	(10,712)
Pay leg	16,313	69,518	38,519	8,865	107,201	12,666
Interest rate swaps	88	(658)	(859)	(634)	(378)	(687)
Foreign currency forward contracts	17,773	19,663	7,384	-	-	-
Total	718,531	309,761	67,452	201,904	156,110	69,145

[i] Includes assets and liabilities.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 36. Financial instruments - *continued*

Liquity risk tables - *continued*

	Less than 1 year $'000	1 to 2 years $'000	2 to 3 years $'000	3 to 4 years $'000	4 to 5 years $'000	More than 5 years $'000
Consolidated						
2009						
Financial liabilities						
Trade payables	292,646	-	-	-	-	-
Bank overdrafts	7,240	-	-	-	-	-
Bank loans	33,642	240,879	90,488	5,373	5,199	14,555
USD notes	103,723	6,973	9,381	6,832	6,832	101,678
AUD medium term notes (Series I)	82,854	-	-	-	-	-
AUD medium term notes (Series II)	10,507	18,533	17,841	17,149	16,457	58,953
Total borrowings including interest	237,966	266,385	117,710	29,354	28,488	175,186
Finance lease and hire purchase liabilities	14,166	12,598	12,250	11,225	22,762	-
Derivative instruments [i]						
Cross currency interest rate swaps						
Receive leg	(106,041)	(9,511)	(63,575)	(6,832)	(6,832)	(101,678)
Pay leg	114,284	13,411	67,207	8,885	8,885	119,867
Interest rate swaps	297	(227)	1,378	1,716	1,320	1,848
Foreign currency forward contracts	25,050	4,549	2,263	300	-	-
Total	578,368	287,205	137,233	44,648	54,623	195,223

[i] Includes assets and liabilities.

Note 36. Financial instruments - *continued*

(i) Fair value of financial instruments

The financial liability disclosed below, is recorded in the financial statements at its carrying amount. Its fair value is shown in the table below:

	Carrying amount		Fair value	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Total borrowings [(i)]	**835,651**	735,107	**859,693**	700,798

[(i)] Total borrowings exclude finance leases and include IFRS adjustments and capital market instruments valued at their carrying amount.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

iii) the fair values of derivative instruments included in hedging assets and liabilities are calculated using quoted prices. Where such prices are not available, the fair values are calculated using discounted cash flow analysis and based on the applicable yield curve for the duration of the term of the instruments.

Transaction costs are included in the determination of net fair value.

(ii) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements

for the year ended 30 June 2010

Note 36. Financial instruments - *continued*

(ii) Fair value measurements recognised in the statement of financial position - *continued*

2010	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial assets in designated hedge accounting relationships				
Foreign currency forward contracts	-	9,019	-	9,019
Cross currency and interest rate swaps	-	4,513	-	4,513
Financial assets at fair value through profit and loss				
Unquoted equity investments	-	-	6,291	6,291
Listed equity investment	39	-	-	39
Available-for-sale financial assets				
Listed equity investment	2,149	-	-	2,149
Unquoted equity investments	-	-	15,236	15,236
	2,188	13,532	21,527	37,247
Financial liabilities in designated hedge accounting relationships				
Foreign currency forward contracts	-	50,224	-	50,224
Cross currency and interest rate swaps	-	13,524	-	13,524
Financial liabilities at fair value through profit and loss				
Foreign currency forward contracts	-	1,352	-	1,352
	-	65,100	-	65,100

There were no transfers between Level 1 and Level 2 during the year.

Note 36. Financial instruments - *continued*

(ii) Fair value measurements recognised in the statement of financial position - *continued*

Reconciliation of Level 3 fair value measurements of financial assets

	Fair value through profit or loss	Available-for-sale	Total
	Unquoted equity investments	Unquoted equity investments	
2010	**$'000**	**$'000**	**$'000**
Opening balance	3,147	15,527	18,674
Total gains or losses:			
- in profit or loss	109	-	109
- in other comprehensive income	-	(319)	(319)
Purchases	3,035	28	3,063
Closing balance	6,291	15,236	21,527

The table above only includes financial assets. There are no financial liabilities measured at fair value which are classified as Level 3.

Fair value of financial assets and liabilities

Unquoted equity investments
The fair value of the unquoted equity investments were determined based on the consolidated entity's interest in the net assets of the unquoted entities.

Notes to the Financial Statements

for the year ended 30 June 2010

Note 37. Parent entity disclosures

a) Financial position

	Company	
	2010	2009
	$'000	$'000
Assets		
Current assets	**470,464**	437,410
Non-current assets	**912,230**	901,101
Total assets	**1,382,694**	1,338,511
Liabilities		
Current liabilities	**16,327**	16,489
Non-current liabilities	**358,745**	350,773
Total liabilities	**375,072**	367,262
Net assets	**1,007,622**	971,249
Equity		
Issued capital	**940,072**	900,188
Retained earnings	**48,040**	55,101
Reserves		
Employee benefit reserve	**19,510**	15,960
Total equity	**1,007,622**	971,249

(b) Financial performance

Profit for the year	**89,625**	134,642
Other comprehensive income	**-**	-
Total comprehensive income	**89,625**	134,642

(c) Guarantees entered into by the parent entity in relation to debts of its subsidiaries

The parent entity has in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year.

(d) Contingent liabilities of the parent entity

The parent entity has no contingent liablities as at 30 June 2010.

(e) Commitments for the acquisition of property, plant and equipment by the parent entity

The parent entity does not have any commitments for acquisition of property, plant and equipment as at 30 June 2010.

Directors' Declaration

for the year ended 30 June 2010

In the opinion of the directors of Downer EDI Limited:

(a) the financial statements and notes set out on pages 41 to 126 are in accordance with the Australian Corporations Act 2001, including:
   (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   (ii) the financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;

(b) there are reasonable grounds to believe that Downer EDI will be able to pay its debts as and when they become due and payable;

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001; and

(d) the attached financial statements are in compliance with International Financial Reporting Standards, as noted in Note 1 to the financial statements.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

P E J Jollie AM
Chairman

Sydney, 27 August 2010

Independent Auditor's Report

for the year ended 30 June 2010

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent Auditor's Report to the Members of Downer EDI Limited

Report on the Financial Report

We have audited the accompanying financial report of Downer EDI Limited, which comprises the statement of financial position as at 30 June 2010, and the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year end or from time to time during the financial year as set out on pages 41 to 127.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Deloitte.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

(a) the financial report of Downer EDI Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 38 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

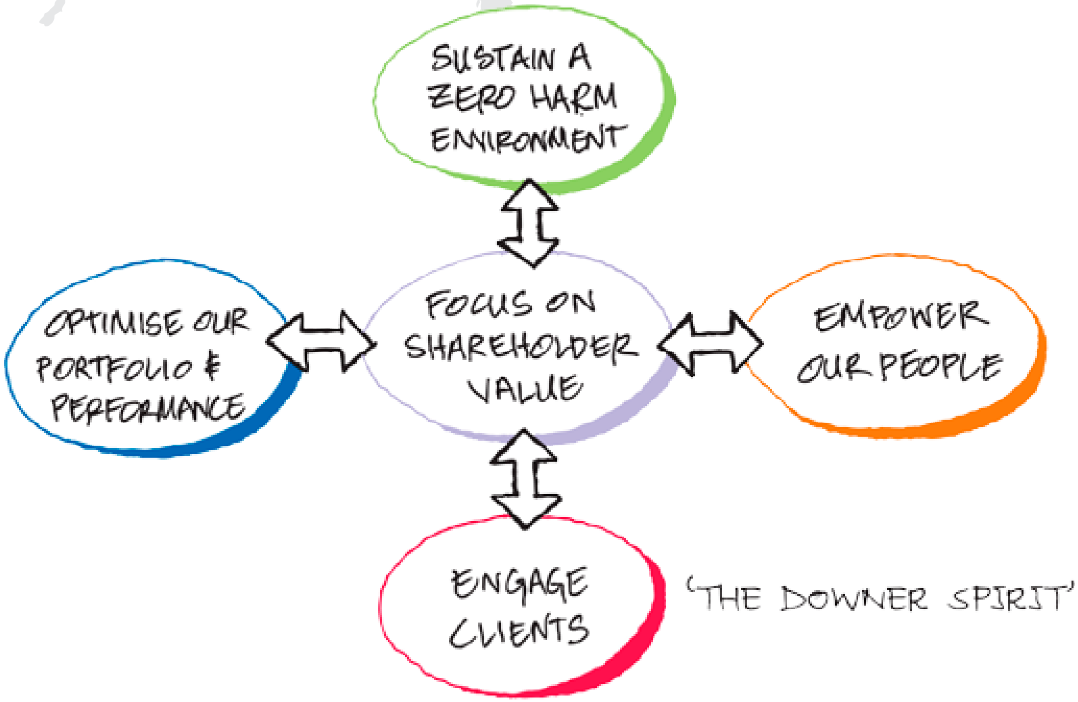
AV Griffiths
Partner
Chartered Accountants

Sydney, 27 August 2010

Sustainability Performance Summary 2009/2010

For Downer, sustainability means being a valued contributor to the communities in which we operate, demonstrating sound environmental performance, being a responsible employer, and rewarding our shareholders.

Our Back-to-Basics program provides our framework for sustainable development by ensuring that shareholder value is delivered through a balanced focus on:

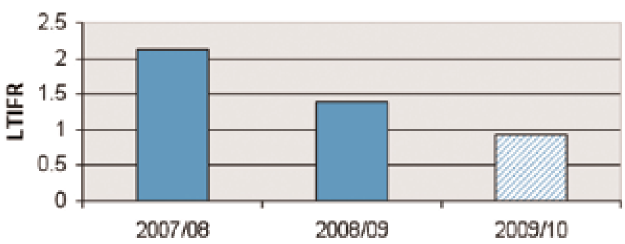


Sustain a Zero Harm environment

We are committed to ensuring the health and safety of our people, minimising the impact of our business on the environment, and building strong relationships with the community, governments and our supply chain.

Our Lost Time Injury Frequency Rate (LTIFR) of 0.94 is a record performance and a 33% reduction on the previous year.

Lost Time Injury Frequency Rate [1]
(per million hours worked)



Note: 2009/2010 data is provisional and subject to external verification.

[1] Lost Time injuries are defined as work related occurrences that result in a fatality, permanent disability or loss of time of one day/shift or more. Lost Time Injury Frequency Rate is the number of Lost Time Injuries per million hours worked.

We remain committed to participating in climate change solutions by developing processes and technology to reduce our emissions and overall energy consumption.

Empower our people
Our goal is to empower, support and develop our people, to enable them to deliver value to our clients and shareholders and to themselves. We are developing effective employee engagement and retention strategies and employing ethical labour practices.

Engage our clients
We strive to deliver solutions which assist our clients to improve their business and have a positive impact on our social and natural environments.

Optimise our portfolio and performance
We are implementing strong risk management and governance frameworks to address current and emerging financial and non-financial risks.

We are committed to tracking and disclosing our sustainability challenges, opportunities and performance. A detailed summary of our sustainability performance is included in our annual Sustainability Report available at www.downergroup.com.

Corporate Governance

for the year ended 30 June 2010

Corporate Governance at Downer

Downer's corporate governance framework provides the platform from which:

- the Board is accountable to shareholders for the operations, performance and growth of the company;
- Downer management is accountable to the Board;
- the risks of Downer's business are identified and managed; and
- Downer effectively communicates with its shareholders and the investment community.

To assist Downer to maintain an effective system of corporate governance, the Board (under the oversight of the Nominations and Corporate Governance Committee) commissioned an extensive review of the company's corporate governance structure and systems in FY2009.

We are pleased to report that following on from the review, the company has enhanced its corporate governance framework, and is continuing to update ancillary frameworks to ensure we continue to promote leading corporate governance practices.

ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*

It is the Board's opinion that throughout the year ended 30 June 2010, Downer complied with the recommendations contained in the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* ('ASX Principles').

Our corporate governance statement sets out details of compliance with the ASX Principles, and is arranged in order of the ASX Principles.

Principle 1: Lay solid foundations for management and oversight

Role and responsibilities of the Board and management

In 2010, Downer adopted a revised *Board Charter*, which sets out the functions and responsibilities of the Board and describes the functions delegated to management. The *Board Charter* is available on the Downer website at www.downergroup.com.

Under the *Board Charter*, the role of the Board is to provide strategic guidance for the company and to effectively oversee management of the company. Among other things, the Board is responsible for:

- overseeing the company, including its control and accountability systems;
- appointing and removing the Chief Executive Officer and Managing Director and senior executives, and monitoring performance of the Chief Executive Officer and Managing Director and senior executives; and
- reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The primary goal set for management by the Board is to focus on enhancing shareholder value.

Evaluation of senior executives

The Board has adopted an improved induction process for directors and senior executives. The induction process provides new directors and senior executives with information and materials to allow them to participate fully and actively in their roles with the company.

The performance of Downer's senior executives is regularly reviewed against appropriate measures, including individual performance targets linked to the business plan and overall corporate objectives. Downer's senior executives participate in periodic performance evaluations pursuant to which they receive feedback on progress against these targets.

Principle 2: Structure the board to add value

Board composition

During the 2010 financial year, the Board comprised the Chairman (Peter Jollie, an independent, non-executive director), five independent, non-executive directors and one executive director (the Chief Executive Officer and Managing Director, Geoff Knox). Details of the members of the Board, including their skills, experience, status and their term of office are set out in the Directors' Report and are available on the Downer website at www.downergroup.com.

The Chairman is an independent, non-executive director. He is appointed by the Board to provide leadership to the Board and to ensure that a high standard of values, processes and constructive interaction is maintained. The Chairman represents the views of the Board to our shareholders and conducts the Annual General Meeting.

The composition of the Board is assessed by the Nominations and Corporate Governance Committee to ensure the requisite balance of skills for the business is represented on the Board.

Board independence

Each director has an overriding duty to act in the best interests of the company, to avoid situations of conflict of interest and not use their position for personal benefit.

Each director is required to promptly disclose actual and possible conflicts of interest, any interests in contracts, other directorships or offices held, related party transactions and any dealing in the company's securities.

The ASX Principles recommend that the Board comprise a majority of independent directors. Under the *Directors' Independence Policy*, the Board is responsible for determining whether a director is independent. The *Directors' Independence Policy* sets out the criteria to which the Board has regard when determining the independent status of a director. The *Directors' Independence Policy* reflects the ASX Principles.

Period of office

Each director is required to retire by rotation, with one third of the Board retiring at each Annual General Meeting. No non-executive director can serve more than three years without offering themselves for re-election.

Board meetings

The Board meets regularly for scheduled meetings and on other occasions to deal with specific matters that require attention between meetings. In addition to attending Board and Committee meetings, non-executive directors allocate time for strategy and budget sessions, preparation for meetings and inspection of operations.

The agenda for meetings is prepared in conjunction with the Chairman and the Chief Executive Officer and Managing Director. The regular business of the Board includes review of business performance and plans, Zero Harm (including safety, environment and sustainability issues), shareholder value (including financial performance), people and culture matters, client engagement issues, major strategic issues and investments, governance and compliance matters and regular presentations by operational management.

Corporate Governance

for the year ended 30 June 2010

Committees of the Board

The Board has established a number of committees to assist the Board to effectively and efficiently execute its responsibilities. The Board Committees review matters on behalf of the Board and make recommendations for consideration by the full Board.

As part of its commitment to leading corporate governance practice, a review of the Board Committee charters was undertaken. Following on from the review, in early 2010, the Board adopted enhanced charters for each of the Board Committees.

A list of the main Board Committees and their membership is set out below:

Board Committee	Chairman	Members
Audit Committee	Annabelle Chaplain	John Humphrey Peter Jollie Chris Renwick
Zero Harm Committee	Chris Renwick	Mike Harding John Humphrey Grant Fenn Grant Thorne
Nomination and Corporate Governance Committee	Peter Jollie	Lucio Di Bartolomeo John Humphrey Chris Renwick
Remuneration Committee	Lucio Di Bartolomeo	Annabelle Chaplain Peter Jollie
Risk Committee	Mike Harding	Lucio Di Bartolomeo Annabelle Chaplain
Disclosure Committee	John Humphrey	Peter Jollie Grant Fenn
Listed Company Transactions Committee	John Humphrey	Peter Jollie Grant Fenn
Tender Review Committee	As appointed by the Board from time to time	As appointed by the Board from time to time

The number of meetings and the attendances by each of the members of the various Board Committees to which they have been appointed is set out in the Directors' Report.

Nominations and Corporate Governance Committee

The Nominations and Corporate Governance Committee's primary purpose is to support and advise the Board on fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and leading corporate governance practice. The Committee's responsibilities include:

- assessing the skills and competencies required on the Board;
- from time to time, assessing the extent to which the required skills are represented on the Board;
- establishing processes for the review of the performance of individual directors and the Board as a whole;
- establishing processes for the identification of suitable candidates for appointment to the Board;
- recommending the appointment and appropriateness of directors; and
- reviewing the company's corporate governance policies and procedures.

The Nominations and Corporate Governance Committee is comprised of a minimum of three independent, non-executive directors.

Board performance evaluation

As part of its commitment to leading corporate governance practice, the Board undertakes improvement programs which include periodic reviews of its performance in consultation with an external consultant. The most recent external review was conducted in 2009.

Facilitation of Board performance

Downer's senior management team provides detailed papers and attends Board meetings to give presentations and answer any questions the directors may have. Divisional chief executive officers present the divisional business plans to the Board as part of the annual business planning cycle and when larger or complex tenders relating to their respective divisions are being considered.

Directors are encouraged to continually build on their exposure to the company's business and a formal program of director site visits has been implemented during the year. Further, Board meetings are scheduled at various locations, a practice which permits a more detailed view of operations. Since the last Annual Report, three Board meetings have been held at divisional operations.

New directors

All new directors are given a formal letter of appointment which sets out their roles, responsibilities and various other corporate information. The purpose of this practice is to assist each director to successfully carry out his or her duties with the company. Directors are also given an induction presentation by the Company Secretary and an induction pack containing information about the company and its business, Board and Committee charters and company policies. New directors also meet with key senior executives to gain an insight into the company's business operations and the Downer group structure.

Directors' continuing education

Directors are encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge.

During the year, a continuing education program was formally adopted by the Board. The Company Secretary, various senior executives and external advisers have presented a number of information sessions to the Board during the year.

Access to information and independent professional advice

Pursuant to the *Board Charter*, directors are entitled to full access to information required to discharge their responsibilities. With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the company's expense in connection with his or her position as a director. The directors also have access to the Company Secretary for all Board and governance related issues.

Principle 3: Promote ethical and responsible decision making

Downer strives to attain the highest standards of behaviour and business ethics when engaging in corporate activity. The company currently has a *Directors' Code of Conduct* and a *Corporate Code of Conduct*, both of which set out the company's expected standards of conduct.

The *Directors' Code of Conduct* requires directors to act honestly, in good faith and observe the duties and exercise the powers vested in them with due care and diligence, whilst the *Corporate Code of Conduct* sets out the standards of behaviour required from all Downer employees. The *Corporate Code of Conduct* also sets out the responsibility and accountability of individuals for reporting and investigating reports of conduct which is contrary to the standards expected at Downer. A summary of the *Directors' Code of Conduct* and main provisions of the *Corporate Code of Conduct* are available on the Downer website at www.downergroup.com.

The company is currently reviewing these Codes, and aims to finalise its review and implement the new code of conduct in the upcoming financial year.

Securities trading policy
The company has recently reviewed its *Securities Trading Policy* which is in line with leading practice. The *Securities Trading Policy* stipulates 'trading windows' for designated employees and formalises a process which all employees are required to adhere to when dealing in securities. A copy of the *Securities Trading Policy* is available on the Downner website at www.downergroup.com.

Current shareholdings of directors and key management personnel of the company are shown in Note 33 (page 106) of the Financial Statements.

Principle 4: Safeguard integrity in financial reporting

The company has in place a structure of review and authorisation which independently verifies and safeguards the integrity of its financial reporting.

Audit Committee
The Downer Audit Committee assists the Board to fulfil its responsibility relating to the quality and integrity of the accounting, auditing and reporting practices of the company.

The Audit Committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders.

The Audit Committee and the Board are responsible for the appointment, compensation and oversight of the external auditors engaged to prepare an audit report on the financial statements of the company as well as the appointment and oversight of the internal audit function.

The Audit Committee comprises four directors with relevant financial, commercial, legal and risk management experience. In keeping with leading international practice, the chair and each member of the Audit Committee are independent directors. The Audit Committee reports to the Board about the matters for which it is responsible.

The *Audit Committee Charter* sets out the responsibilities of the Audit Committee and clearly delineates its role in reviewing the integrity of the company's financial reporting and oversight of the independence of the external auditors. A copy of the *Audit Committee Charter* is available on the Downer website at www.downergroup.com.

Downer strengthened its internal audit function during the year, following on from the various practices and processes introduced in FY2009.

Principle 5: Make timely and balanced disclosure

As part of its commitment to providing timely, full and accurate disclosure to the market, shareholders and investors, the company adopted a new *Disclosure Policy* during the year. The *Disclosure Policy* sets out processes which assist the company to ensure that all investors have equal and timely access to material information about the company and that company announcements are factual and presented in a clear and balanced way. A copy of the *Disclosure Policy* is available on the Downer website at www.downergroup.com.

The *Disclosure Policy* also sets out the procedures for identifying and disclosing material and price-sensitive information in accordance with the Corporations Act 2001 (Cth) and the ASX Listing Rules.

Disclosure Committee
The company has formally established a Disclosure Committee consisting of two independent, non-executive directors (one of whom is the Chairman) and the Chief Executive Officer and Managing Director. The Disclosure Committee oversees disclosure of information by the company to the market and the general investment community, pursuant to its mandate in the *Disclosure Committee Charter*.

The Disclosure Committee meets on an informal basis as required throughout the year, including for the purpose of receiving and approving the company's results announcements.

Principle 6: Respect the rights of shareholders

Communications

The Board has updated and enhanced its guidelines for shareholder communications to assist in facilitating the rights of the company's shareholders. The Downer *Communications Policy* is available on the Downer website at www.downergroup.com.

The company publishes corporate information on the Downer website at www.downergroup.com, including half yearly and annual reports, ASX announcements and media releases.

Downer also encourages shareholder participation at Annual General Meetings through its use of electronic communication, including audio casting of Annual General Meetings and investor presentations.

Attendance of external auditor at Annual General Meetings

As standard procedure, Downer's external auditor attends the company's Annual General Meeting and is available to answer any questions which shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

Principle 7: Recognise and manage risk

Risk Committee

Downer has established a Risk Committee to assist the Board in its oversight of Downer's risk profile and risk policies, the effectiveness of the systems of internal control and framework for risk management and Downer's compliance with applicable legal and regulatory requirements.

The *Risk Committee Charter* is available on the Downer website at www.downergroup.com.

As part of its mandate, the Risk Committee seeks to identify and minimise potential risks and exposure of Downer, both internally and externally, to ensure that appropriate management focus is given to risk identification, measurement and reporting and that strategies are in place for mitigation of risk.

Risk management

To mitigate the risks that arise through its activities, Downer has risk management policies and guidelines in place that cover interest rate management, foreign exchange risk management, credit risk management and operational and decision-making risk management.

Downer has an established corporate compliance team to monitor risk management and uses external consultants to assist with the ongoing review of risk management across the Downer group. Downer has also established principles for the company to follow to ensure that contract formation and contract management processes are maintained and improved.

Management reports regularly to the Board on the effectiveness of Downer's management of its material business risks.

Internal controls

Downer has controls at the Board, executive and business unit levels that are designed to safeguard Downer's interests and ensure the integrity of reporting (including accounting, financial reporting, environment, occupational health and safety, and other internal control policies and procedures). These controls are designed to ensure that Downer complies with regulatory requirements and community standards.

Sign-off by the Chief Executive Officer and Managing Director and the Chief Financial Officer

The integrity of the company's financial reporting depends upon the existence of a sound system of risk oversight and management and internal controls. The Board has received assurances from the Chief Executive Officer and Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 (Cth), is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

The Nominations and Corporate Governance Committee and the Remuneration Committee are together responsible for recommending and reviewing remuneration arrangements for the Chief Executive Officer and Managing Director, executive directors, non-executive directors and senior executives of the company.

Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board in respect of various matters relating to:

- executive remuneration and incentive policy;
- the remuneration of the Company Secretary, all senior executives reporting directly to the Chief Executive Officer and Managing Director and all employees of the company whose base remuneration exceeds (currently) $500,000 per annum;
- executive incentive plans;
- equity-based incentive plans;
- superannuation arrangements;
- recruitment, retention, performance measurement and termination policies and procedures for the Chief Financial Officer, the Company Secretary and all senior executives reporting directly to the Chief Executive Officer and Managing Director; and
- retirement payments.

The *Remuneration Committee Charter* requires that the Committee will comprise at least three members, consisting of a majority of independent non-executive directors.

The remuneration of the Chief Executive Officer and Managing Director, executive directors and the non-executive directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Structure of remuneration

The maximum aggregate fee approved by shareholders that can be paid to non-executive directors is $2,000,000 per annum. This cap was approved by shareholders on 30 October 2008. The Directors' Report shows the amount of remuneration paid to executive directors and non-executive directors. The total amount of remuneration paid to non-executive directors during the 2010 financial year was $1,420,868.

The company's Constitution currently allows for retiring non-executive directors to receive a retiring allowance, subject to the limitations under the Corporations Act 2001 (Cth). Consistent with the ASX Principles, the right to retirement benefits, where applicable, was frozen in 2005. However, because remuneration arrangements for some non-executive directors were in place prior to 2005, where such retirement benefits have been paid, information about the payments has been fully provided in the financial statements. Directors entitled to a retirement benefit were paid a reduced fee. Once a director's accumulated reduction in base fees has reached the value of the retirement benefit, the applicable base fee reverts to the general fee level. This has been applied to Mr Humphrey from 1 July 2009. The retirement benefit has not been offered to non-executive directors appointed subsequently.

Non-executive directors do not participate in any equity incentive schemes.

The remuneration structure for executive directors and senior executives is designed to achieve a balance between fixed and variable remuneration, taking into account the performance of the individual and the performance of the company. Executive directors receive payment of equity-based remuneration as short and long-term incentives.

Further details about remuneration of executive directors and senior executives are set out in the remuneration report.

Key features of the current Downer employee share plans and details of Downer shares beneficially owned by directors are provided in the Directors' Report.

Information for Investors

for the year ended 30 June 2010

Downner shareholders

Downer had 24,440 ordinary shareholders as at 20 August 2010.

The largest shareholder, HSBC Custody Nominees (Australia) Limited, held 20.38% of the 336,582,351 fully paid ordinary shares issued at that date. Downer has 22,579 shareholders with registered addresses in Australia.

Securities exchange listing

Downer is listed on the Australian Securities Exchange under the 'Downer' market call code 3965, with ASX code DOW, and is secondary listed on the New Zealand Exchange with the ticker code DOW NZ.

Company information

The company's website www.downergroup.com offers comprehensive information about Downer and its services. The site also contains news releases and announcements to the ASX, financial presentations, half yearly and annual reports and company newsletters. Downer printed communications for shareholders include the half yearly and annual reports. These are available on request.

Dividends

Dividends are determined by the Board, having regard to a range of circumstances within the business operations of Downer including operating profit and capital requirements. The level of franking on dividends is dependent on the level of taxes paid in future years to the Australian Taxation Office.

International shareholders can use Computershare Investor Services Pty Ltd's ('Computershare') Global Payments System to receive dividend payments in the currency of their choice at a nominal cost to the shareholder.

Dividend reinvestment plan

Downer's Dividend Reinvestment Plan is a mechanism to allow shareholders to increase their shareholding in the company without the usual costs associated with share acquisitions, such as brokerage. Details of the Dividend Reinvestment Plan are available from the company's website or the Easy Update website at www.computershare.com.au/easyupdate/dow.

Share registry

Shareholders and investors seeking information about Downer shareholdings or dividends should contact the company's share registrar:

Computershare Investor Services Pty Ltd
Level 5
115 Grenfell Street
Adelaide SA 5000

Tel: 1300 556 161 (within Australia) +61 3 9415 4000 (outside Australia)
Fax: 1300 534 987 (within Australia) +61 3 9473 2408 (outside Australia)

www.computershare.com

Shareholders must give their holder number (SRN/HIN) when making enquiries. This number is recorded on issuer sponsored and CHESS statements.

Update your shareholder details

Shareholders can update their details (bank accounts, dividend reinvestment plan elections, tax file number and email addresses) online at www.computershare.com.au/easyupdate/dow.

Shareholders will require their holder number (SRN/HIN) and postcode to access this site.

Information for Investors

for the year ended 30 June 2010

Tax file number information

Providing your tax file number to Downer is not compulsory. However, for shareholders who have not supplied their tax file number, Downer is required to deduct tax at the top marginal rate plus Medicare levy from unfranked dividends paid to investors residing in Australia. For more information please contact the company's Share Registrar.

Lost issuer sponsored statement

You are advised to contact Computershare immediately, in writing, if your issuer sponsored statement has been lost or stolen.

Annual report mailing list

Shareholders must choose to receive Downer half yearly and annual reports by writing to Computershare at the address provided. Alternatively, shareholders may choose to receive these publications electronically.

Change of address

So that we can keep you informed, and protect your interests in Downer, it is important that you inform Computershare of any change of your registered address.

Auditor

Deloitte Touche Tohmatsu
Level 3
225 George Street
Sydney NSW 2000

Registered office and principal administration office

Downer EDI Limited
Level 2, Triniti III
Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113
Tel: +61 2 9468 9700
Fax: +61 2 9813 8915

Australian Securities Exchange information as at 20 August 2010

Number of holders of equity securities:

Ordinary share capital

336,582,351 fully paid listed ordinary shares were held by 24,440 shareholders. All issued ordinary shares carry one vote per share.

Substantial shareholders

Ordinary shareholders	Number of shares (fully paid)	%
Schroder Investment Management Australia Limited	29,985,467	8.91
The Capital Group Companies, Inc.	17,061,210	5.07

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 20 August 2010

Range of holdings	Number of shareholders	Shareholders %	Units	Shares %
1 - 1,000	11,245	46.0	5,974,279	1.8
1,001 - 5,000	10,464	42.8	24,569,915	7.3
5,001 - 10,000	1,680	6.9	12,209,925	3.6
10,001 - 100,000	979	4.0	21,828,128	6.5
100,001 and over	72	0.3	272,000,104	80.8
Total	**24,440**	**100.0%**	**336,582,351**	**100.0%**
Holding less than a marketable parcel of shares	1,053		42,717	

Downer EDI Limited's 20 largest shareholders: ordinary and fully paid

Name	Number	%
HSBC Custody Nominees (Australia) Limited	68,594,861	20.38
J P Morgan Nominees Australia Limited	61,097,963	18.15
National Nominees Limited	50,645,132	15.05
Citicorp Nominees Pty Ltd	14,878,212	4.42
ANZ Nominees Limited - Cash Income Account	13,277,849	3.94
Cogent Nominees Pty Limited	11,779,905	3.50
Computershare Plan Co Pty Ltd	8,534,633	2.54
HSBC Custody Nominees (Australia) Limited - Account 3	6,106,862	1.81
Tasman Asset Management Ltd - Tyndall Australian Share Wholesale Portfolio Account	4,200,501	1.25
Cogent Nominees Pty Limited - SMP Accounts	4,144,652	1.23
AMP Life Ltd	3,947,143	1.17
Australian Reward Investment Alliance	3,517,142	1.04
ANZ Nominees Limited - Income Reinvest Plan Account	3,441,079	1.02
Argo Investments Ltd	1,655,771	0.49
Bond Street Custodians Limited - Macquarie Alpha Opport Account	1,290,691	0.38
Queensland Investment Corporation	1,131,283	0.34
UBS Wealth Management Australia Nominees Pty Ltd	1,054,606	0.31
Mr Barry Sydney Patterson & Mrs Glenice Margaret Patterson	891,642	0.26
Bond Street Custodians Limited - Macq High Conv Fund Account	533,975	0.16
Tarrow Pty Ltd	522,792	0.16
Total for top 20 shareholders	**261,246,694**	**77.62%**

On-market buy-back

There is no current on-market buy-back.

DOWNER EDI LIMITED

AUSTRALIA
Level 2, Triniti III
Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113
Australia
T +61 2 9468 9700
F +61 2 9813 8915
ABN 97 003 872 848

NEW ZEALAND
14 Amelia Earhart Avenue
Airport Oaks
Auckland 2022
T +64 9 256 9810
F +64 9 256 9811

ASIA
11 Lorong 3 Toa Payoh
Block B, 03-16
Jackson Square
Singapore
T +65 6517 0757
F +65 6355 0626

DOWNER CONSULTING

AUSTRALIA
Level 2, Triniti III
Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113
Australia
T +61 2 9468 9700
F +61 2 9813 8915

CPG CORPORATION
238B Thomson Road #18-00
Tower B, Novena Square
Singapore 307685
T +65 6357 4888
F +65 6357 4188

CPG AUSTRALIA
24 Albert Road
South Melbourne VIC 3205
Australia
T +61 3 9993 7888
F +61 3 9993 7999

CPG NEW ZEALAND
23 Taranaki Street
Wellington 6141
New Zealand
T +64 4 894 7800
F +64 4 894 7881

SNOWDEN
87 Colin Street
West Perth WA 6005
Australia
T +61 8 9213 9213
F +61 8 9322 2576

DOWNER ENGINEERING

Level 2, Triniti III
Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113
Australia
T +61 2 9468 9700
F +61 2 9813 8915

DOWNER MINING

Level 7, 104 Melbourne Street
South Brisbane QLD 4101
Australia
T +61 7 3026 6666
F +61 7 3026 6060

DOWNER RAIL

2B Factory Street
Granville NSW 2142
Australia
T +61 2 9637 8288
F +61 2 9897 2305

DOWNER WORKS

AUSTRALIA
Level 2, 650 Lorimer Street
Port Melbourne VIC 3207
Australia
T +61 3 8645 0800
F +61 3 8645 0840

UNITED KINGDOM
Icon Building 4100 Park
Approach
Thorpe Park
Leeds LS15 8GB
T +44 0113 397 0890
F +44 0113 397 0469

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