ANNUAL REPORT 2011

This Annual Report includes Downer EDI Limited Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2011.

It should be read in conjunction with Downer EDI Limited's 2011 Annual Review which is available online and provides an overview of key activities for the year ended 30 June 2011.

The Annual Report and Annual Review are both available on the Downer website www.downergroup.com.

Cover image:
James Forest
Downer Mining
at Christmas Creek

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The Directors of Downer EDI Limited submit the Annual Financial Report of the Company for the financial year ended 30 June 2011. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

BOARD OF DIRECTORS

R M Harding (62)

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

Mr Harding is currently 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.

G A Fenn (46)

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

Mr Fenn is an experienced executive with over 20 years in operational management, strategic development and financial management. Mr Fenn was previously a member of the Qantas Airways Limited (Qantas) Executive Committee, Chairman of Star Track Express and a Director of Australian Air Express. Mr Fenn held a number of senior roles at Qantas 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 Australian Institute of Chartered Accountants.

Mr Fenn lives in Sydney.

S A Chaplain (53)

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 ten years as a Director of Seqwater Ltd, including over three years as its Chairman. Ms Chaplain is currently a Director of Coal & Allied Industries Limited, a member of the Board of Taxation and a member of the Australian Youth Orchestra Board, in addition to holding directorships with a number of private companies. She chairs the Council of St Margaret's Anglican Girls School.

A Fellow of the Australian Institute of Company Directors, Ms Chaplain 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 (58)

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 National President of the Australian Industry Group, Chairman of Macquarie Generation and a Director of Australian Rail Track Corporation Limited and Australian Super Limited.

Mr Di Bartolomeo is a qualified civil engineer and has a Masters degree in Engineering Science. He 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.

J S Humphrey (56)

Independent Non-executive Director since April 2001

Mr Humphrey is currently Deputy Chairman of Mallesons Stephen Jaques, based in Brisbane where he specialises in corporate, M&A and infrastructure 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. He is also a member of the Australian Takeovers Panel.

Mr Humphrey holds a Bachelor of Laws from the University of Queensland.

Mr Humphrey lives in Brisbane.

C G Thorne (61)

Independent Non-executive Director since July 2010

Dr Thorne is currently a group executive reporting to Rio Tinto's Chief Executive Officer, but will retire from Rio Tinto on 31 October 2011. He has over 36 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 Director of Queensland Energy Resources Limited, 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. Dr Thorne also holds directorships with a number of private companies.

He holds Bachelor and Doctoral degrees in Metallurgy from the University of Queensland.

Dr Thorne lives on the Sunshine Coast.

FORMER DIRECTORS

C J S Renwick AM Independent Non-executive Director, resigned 9 December 2010.

P E J Jollie AM Chairman and Independent Non-executive Director, resigned 3 November 2010.

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 (direct and indirect) in shares, debentures, and rights or options in 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	Number of Fully Paid Ordinary Shares	Number of Fully Paid Performance Rights	Number of Fully Paid Performance Options
R M Harding	–	–	–
G A Fenn*	346,061	–	–
L Di Bartolomeo	60,903	–	–
S A Chaplain	50,137	–	–
J S Humphrey	67,982	–	–
C G Thorne	13,750	–	–

* Mr Fenn's shareholding comprises 30,769 shares acquired under the Company's accelerated renounceable rights offer and 315,292 shares that have met all vesting conditions being the first tranche of shares in his 2009 grant (64,767 shares) and his sign-on grant that vested on 1 July 2011 (250,525 shares). A further 905,148 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). These shares comprise a grant of 200,000 shares with specific hurdles related to delivery of Waratah Train Sets over the period to 30 September 2011 and are subject to a service period condition. The remaining 705,205 shares are subject to performance and service period conditions over the period 2012 to 2015. Further details regarding the conditions relating to these restricted shares are outlined in sections 5.4 and 8 of the Remuneration Report.

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 about corporate governance and gives practical effect to any decisions made by the Board.

Bruce Crane was Company Secretary until his retirement on 27 July 2011. A Fellow of the Institute of Chartered Secretaries and the Institute of Chartered Accountants, he has qualifications in business and commerce from the University of Technology and corporate governance from Chartered Secretaries Australia.

Peter Tompkins was appointed Company Secretary on 27 July 2011. He has qualifications in law and commerce from Deakin University and is an admitted solicitor in New South Wales. Peter joined Downer in 2008 and was appointed General Counsel in 2010.

Peter Lyons was appointed joint Company Secretary on 27 July 2011. A member of CPA Australia and Chartered Secretaries Australia, he has qualifications in commerce from the University of Western Sydney and corporate governance from Chartered Secretaries Australia. Peter was previously Deputy Company Secretary and has been in financial and secretarial roles in Downer's corporate office for over 10 years.

PRINCIPAL ACTIVITIES

Downer provides comprehensive engineering and infrastructure management services to the public and private Minerals & Metals, Oil & Gas, Power, Transport Infrastructure, Communications, Property and Water sectors across Australia, New Zealand, the Asia Pacific region and the United Kingdom.

REVIEW OF OPERATIONS

Downer performed solidly during the year despite facing numerous challenges, including:

- prolonged and severe wet weather conditions, particularly in Eastern Australia;
- intense competition for Engineering and Works and the cost of maintaining capacity in the business as a consequence of delayed projects;
- lower government expenditure on road and rail infrastructure maintenance in Australia and New Zealand; and
- ongoing tough conditions in New Zealand, compounded by the major earthquakes that struck Christchurch and the Canterbury region in September 2010 and February 2011.

The main features of the result for the 12 months to 30 June 2011 were:

- total revenue[1] of $7.0 billion, up 15.2 per cent
- statutory earnings before interest and tax (EBIT) of $25.7 million
- statutory loss after tax of $27.7 million
- underlying EBIT[2] of $292.2 million, down 8.1 per cent
- underlying net profit after tax (NPAT[2]) of $166.4 million, down 15.7 per cent
- underlying operating cash flow of $324.9 million, 111 per cent of underlying EBIT
- gearing[3] of 25.5 per cent and liquidity of $915.7 million, comprising cash of $288.6 million and undrawn committed facilities of $627.1 million
- investment grade credit rating (BBB-, stable outlook)
- work-in-hand of about $20 billion
- industry-leading safety performance with Lost Time Injury Frequency Rate of 0.93 per million hours worked

The 15.2 per cent growth in total revenue to $7.0 billion was driven by the Mining, Rail and Engineering businesses.

On 27 January 2011, Downer announced an additional pre-tax provision of $250.0 million in respect of the Waratah train project. As a result of this provision and impairments of $7.8 million relating to CPG New Zealand and $8.8 million relating to Works UK, Downer reported a net EBIT of $25.7 million and a net loss after tax of $27.7 million.

Underlying operating cash flow was $324.9 million, which is 111 per cent of underlying EBIT. After $139.3 million of cash outflows relating to the Waratah train project, operating cash flow was $185.6 million.

Downer continued to win new contracts and secure contract renewals across the Group and holds work-in-hand worth about $20 billion.

Downer maintained its industry leading safety performance during the year, with continuing improvement in both its Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR). LTIFR for the year was 0.93 per million hours worked and TRIFR was 11.8 per cent lower at 7.17 per million hours worked.

On 29 March 2011, Downer successfully completed an equity raising of approximately $279.3 million. This capital raising was undertaken to strengthen Downer's balance sheet, support Downer maintaining investment grade credit rating metrics and to provide financial flexibility to pursue attractive growth opportunities.

At 30 June 2011, Downer had gearing of 25.5 per cent and liquidity of $915.7 million, comprising cash of $288.6 million and undrawn committed facilities of $627.1 million.

The Board did not resolve to pay an interim or final dividend for the 2011 financial year. Downer will continue to pay dividends on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

OPERATIONAL HIGHLIGHTS

MINING

- Total revenue of $1.5 billion, up 50.6 per cent
- Underlying EBIT of $119.6 million, up 75.4 per cent
- Underlying EBIT margin of 8.2 per cent, up 1.2 ppts
- ROFE[4] of 19.8 per cent, up 6.8 ppts
- Work-in-hand of $7.5 billion

Downer Mining performed strongly during the year driven by continuing demand for contract mining services and a number of large contract wins and renewals, in particular:

- a six-year contract, awarded in August 2010 and valued at approximately $3 billion, with Fortescue Metals Group Limited (Fortescue) for the provision of mining services at its Christmas Creek operation in the East Pilbara region of Western Australia. The Christmas Creek contract is one of the largest mining services contracts of its type in Australia; and
- five-year extension and expansion contracts, awarded in July 2010, with BHP Billiton Mitsubishi Alliance (BMA) at Goonyella Riverside and Norwich Park Mines in the Bowen Basin in central Queensland. The contracts, jointly valued at approximately $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.

Both of these major projects are making good progress.

In addition, in December 2010, Downer signed a five-year mining service agreement with Idemitsu Australia Resources Pty Ltd (Idemitsu) for the provision of mining services at the Boggabri open-cut coal mine in the Gunnedah Basin in New South Wales.

This extended contract starts in December 2011 and will continue the Company's involvement at Boggabri to over a decade. Services to be provided will include drill and blast, mine planning, and load and haul of both overburden and coal. The value of the contract revenue will depend on the mine's production output, which has yet to be finalised. The base case values revenue at approximately $900 million over the duration of the contract.

RAIL

- Total revenue of $1.1 billion, up 7.9 per cent
- Underlying EBIT of $75.0 million, down 3.7 per cent
- Underlying EBIT margin of 6.6 per cent, down 0.8 ppts
- ROFE of 18.4 per cent, down 6.8 ppts
- Work-in-hand of $5.2 billion

Strong demand for resources, particularly coal and iron ore, is driving demand for Downer Rail's narrow and standard gauge locomotives from customers including QR National, Pacific National, BHP Billiton and Genesee & Wyoming (GWA).

Downer Rail also won a contract during the year to supply and maintain passenger rolling stock for Queensland Rail (QR).

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.

3 Net debt/net debt plus total equity.

4 Return on funds employed equals EBIT divided by average funds employed.

During the year, Downer Rail secured:

- a contract valued at approximately $190 million to expand and upgrade QR's fleet of high speed passenger diesel Tilt Trains that service the Brisbane to Cairns rail corridor. The vehicles will be delivered progressively from April 2013;
- an order for 13 new standard gauge diesel electric locomotives to support Pacific National's coal haulage services in New South Wales. The fleet will be delivered progressively between mid-2011 and mid-2012 and Downer will maintain these locomotives for Pacific National;
- an order for seven new standard gauge diesel electric locomotives for GWA. The locomotives will be delivered in the fourth quarter of 2011 and Downer will maintain these locomotives for GWA; and
- a contract extension for four new narrow gauge diesel electric locomotives to support Pacific National's coal haulage services in Queensland. These locomotives will be delivered in the second quarter of 2012 and be maintained by Downer.

In addition, Downer (through a joint venture with Keolis), was a member of the GoldLinQ Consortium that was the successful proponent for the Gold Coast Rapid Transport Project.

ENGINEERING

- Total revenue of $2.3 billion, up 21.4 per cent
- Underlying EBIT of $72.0 million, down 36.0 per cent
- Underlying EBIT margin of 3.1 per cent, down 2.8 ppts
- ROFE of 18.3 per cent, down 8.1 ppts
- Work-in-hand of $2.2 billion

The increase in total revenue during the year was driven by projects including Collgar Wind Farms (Western Australia), the Mangoola coal project (New South Wales), the Curragh expansion (central Queensland) and construction of transmission lines from Yabulu South to Ingham (north Queensland).

The main reasons for the lower EBIT and EBIT margin performance were very competitive market conditions, high tender costs, the cost of maintaining capacity following delayed projects, and a number of underperforming contracts, particularly Curragh. Action is being taken to address the underperforming projects. In addition, wet weather had a $6.8 million impact on Downer Engineering's EBIT for the year.

Downer Engineering won a number of new projects during the year, including:

- a contract with OneSteel Manufacturing Pty Ltd to construct an iron ore beneficiation plant in Iron Baron, South Australia. The contract, valued at more than $60 million, is for the design, procurement, construction and commissioning of all process equipment as well as site preparation and civil works; and
- a $120 million contract with Karara Mining Limited for the construction of a 180 kilometre, 330kV power transmission line from the Karara Iron Ore Project to Eneabba in Western Australia.

On 3 August 2011, Downer announced it was conducting a review of CPG Asia, CPG Australia and CPG New Zealand, including the potential divestment of these consultancy businesses, as part of its ongoing focus on optimising the Downer Group portfolio. The review does not include Downer's resource-focused consultancy businesses, Snowden, QCC and Mineral Technologies.

WORKS

- Total revenue of $2.1 billion, down 0.5 per cent
- Underlying EBIT of $54.0 million, down 47.5 per cent
- Underlying EBIT margin of 2.6 per cent, down 2.3 ppts
- ROFE of 10.8 per cent, down 5.6 ppts
- Work-in-hand of $5.2 billion

Downer Works' profitability was significantly affected by prolonged and severe wet weather, particularly in Eastern Australia. Wet weather had an estimated adverse impact of $10 million on the Australian and New Zealand Works business during the year.

New Zealand is experiencing ongoing tough economic conditions, with discounting putting pressure on margins. There has been a significant reduction in expenditure by central and local governments.

The severity of the Christchurch earthquake of 22 February 2011 placed further pressure on maintenance and infrastructure expenditure across New Zealand. Government spending was reallocated and customers implemented expenditure freezes as they assessed the impact of the earthquake. The negative impact on EBIT as a consequence of the earthquake was about $10.0 million.

On 3 May 2011, Downer signed an interim alliance agreement with the Christchurch Earthquake Recovery Authority (CERA), New Zealand Transport Agency (NZTA) and Christchurch City Council for the rebuilding of earthquake-damaged infrastructure in Christchurch. The agreement covers the rebuilding of city roads, sewerage, water supply pipes and parks damaged in the earthquakes and is part of an alliance involving several other parties expected to undertake works valued at more than NZ$2 billion over five years.

Despite the severe weather and difficult market conditions, Downer Works maintained its market leading position and secured a number of contract wins during the year, including:

- (with joint venture partner Mouchel) three Integrated Service Agreements (ISAs) with Main Roads Western Australia for the delivery of fence-to-fence road network asset management. Under these three ISAs (Metropolitan, Mid-West and Gascoyne), Downer Mouchel will manage 6,600 road kilometres and the contracts will deliver annualised revenues of approximately $50 million over the next 10 years;
- a five year contract renewal, valued at over $30 million, to deliver routine road maintenance services on Yarra Ranges Council's road network east of Melbourne;
- a contract with Australian Rail Track Corporation (ARTC) to undertake rail upgrade work as part of the Federal Government's Nation Building Rail Investment; and
- an 18 month extension of the V1 Alliance with ARTC for rail track maintenance and infrastructure work in Victoria and southern New South Wales, continuing an alliance relationship spanning more than 10 years.

WARATAH TRAIN PROJECT

The first Waratah train received a certificate of Practical Completion from RailCorp on 30 June 2011, entered passenger service on 1 July 2011 and is performing well. The second Waratah train was presented to RailCorp for Practical Completion on 28 July 2011.

Train Sets 3 to 6 are scheduled for delivery to RailCorp before the end of the 2011 calendar year.

DOWNER AUSTRALIA

Downer announced on 22 February 2011 that its Australian Works, Engineering, Emerging Sectors and CPG Resources businesses would be combined into one division, Downer Australia.

From 1 July 2011, the Downer Group consists of four divisions – Downer Australia, Downer New Zealand, Downer Mining and Downer Rail.

Downer Australia is the Group's largest division, contributing about half of its total revenue. It provides integrated solutions to support the critical infrastructure needs of our customers in the core markets of Minerals & Metals, Oil & Gas, Power, Transport Infrastructure, Water, Communications, Social Infrastructure and Property.

Downer will start reporting its results in line with the new structure in the 2012 financial year.

OUTLOOK

Downer has work-in-hand of around $20 billion, is strongly aligned to the resources and energy sectors and is well placed to capitalise on the pipeline of opportunities driven by those markets. Tendering activity has been very high over the past six months particularly in Downer Australia and Downer Rail.

There is short term risk relating to the timing of projects. It is also unclear at this point whether the broader financial market volatility will have a negative impact on the project pipeline.

Subject to the risks highlighted and general market conditions, Downer expects to deliver EBIT of around $340 million for the 2012 financial year and NPAT of around $180 million.

BOARD RENEWAL

The process of Board renewal continued during the year. Peter Jollie AM did not stand for re-election as Chairman at the Company's Annual General Meeting on 3 November 2010 and Mike Harding was appointed Chairman following the AGM. Mr Harding was previously Deputy Chairman of Downer and has been an independent Non-executive Director of Downer since July 2008.

Dr Grant Thorne was appointed a Non-executive Director of Downer on 1 July 2010 and Chris Renwick retired as a Non-executive Director on 9 December 2010 after serving on the Board for six years.

Downer will continue the process of Board renewal in 2012 as appropriate.

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

There have been no 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 conducting 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 conduct 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. The Company's divisions also adhere to environmental management requirements established by customers in addition to all applicable license and regulatory requirements.

DIVIDENDS

The Board did not resolve to pay an interim or final dividend for the 2011 financial year.

As detailed in the Directors' Report for the 2010 financial year, a final dividend of 16 cents per share (unfranked, 100 per cent Conduit Foreign Income) was paid to the holders of fully paid ordinary shares on 1 October 2010 in respect of the financial year ended 30 June 2010.

EMPLOYEE DISCOUNT SHARE PLAN (ESP)

1,884,000 shares were issued under the terms of the ESP during the 2011 financial year (2010: nil). Further details about the employee discount share plan are disclosed in Note 34 to the financial statements.

EXECUTIVE SHARE OPTION SCHEME 2006 (EOS)

No options were granted under the EOS during the 2011 financial year (2010: nil). Further details on the executive share option plan are disclosed in the Remuneration Report.

SHARE OPTIONS

No performance options or rights were granted or exercised during the year ended 30 June 2011. Grants of performance rights and performance options made to executives during the year ended 30 June 2007 were re-tested during the year. All performance rights and performance options lapsed as a result of failing the test.

There are no performance rights or performance options outstanding.

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, 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 the *Corporations Act 2001* (Cth).

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

Under the Downer Constitution, Downer indemnifies, to the extent permitted by law, each Director and Company Secretary of Downer and its subsidiaries against liability incurred as such an officer of Downer. The Directors listed on page 3, the Company Secretaries listed on page 3, individuals who act as a director or company secretary of Downer's subsidiaries and certain individuals who formerly held any of these roles also have the benefit of the indemnity in the Constitution.

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

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of Board Committees) held during the 2011 financial year and the number of meetings attended by each Director (while they were a Director or Board Committee member). During the year, 24 Board meetings, six Audit Committee meetings, six Remuneration Committee meetings, three Risk Committee meetings, three Zero Harm Committee meetings and two Nominations and Corporate Governance Committee meetings were held. In addition, 11 ad hoc meetings (attended by various Directors) were held in relation to various matters including tender review and contract review.

	Board		Audit Committee		Remuneration Committee	
Director	Held*	Attended	Held*	Attended	Held*	Attended
R M Harding	24	24	–	–	3	3
P E J Jollie	11	11	2	2	3	3
G A Fenn	24	24	–	–	–	–
G H Knox	4	3	–	–	–	–
S A Chaplain	24	24	6	6	6	6
L Di Bartolomeo	24	23	–	–	6	6
J S Humphrey	24	21	6	4	–	–
C J S Renwick	14	9	3	2	–	–
C G Thorne	24	23	4	4	–	–

	Risk Committee		Zero Harm Committee		Nominations and Corporate Governance Committee	
Director	Held*	Attended	Held*	Attended	Held*	Attended
R M Harding	2	2	3	3	1	1
P E J Jollie	2	1	–	–	1	1
G A Fenn	–	–	2	2	–	–
G H Knox	–	–	1	1	–	–
S A Chaplain	3	3	–	–	1	1
L Di Bartolomeo	3	3	–	–	2	2
J S Humphrey	–	–	1	–	2	1
C J S Renwick	–	–	2	2	1	1
C G Thorne	1	1	2	2	–	–

* These columns indicate the number of meetings held during the period each person listed was a Director or member of the relevant Board Committee.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles). The consolidated entity's corporate governance statement is set out at page 116 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 judgment, 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 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* (Cth).

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 & 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 33 of this Annual Report.

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

	June 2011 $	June 2010 $
Non-audit services		
Tax Services	**228,372**	729,717
Audit related services	**73,474**	54,529
Due diligence, capital raising and other non-audit services	**810,694**	96,000
	1,112,540	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, for the year to 30 June 2011. Reference to executives in this report means KMPs who are not Non-executive Directors.

The report covers the following matters:

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 plans.

SUMMARY OF CHANGES TO REMUNERATION POLICY

Downer's executive remuneration policy was reviewed during the period. The review considered Company strategy, reward plans based on performance measurement and stakeholder feedback on prior practices. As a result of this continuous improvement process, there have been changes to the policy. These are noted in the various sections of this report and are summarised in the table below.

Feedback	Response
Level of short-term incentive (STI) payments was high	– STI only payable if EBIT of at least 90 per cent of target profit is achieved; – For corporate executives, the hurdle is 90 per cent of the Group budgeted profit target. For business unit executives, the hurdle is 90 per cent of the business unit budgeted profit target. Only two executives named in this report met this criteria and were awarded an STI; and – Zero Harm remains an important feature with a subsequent serious incident gateway for any Zero Harm bonus to be paid.
Peer group for the relative TSR long-term incentive (LTI) tranche is too broad	The ASX100 was retained with the Financials sector excluded as the financial services sector is subject to an additional regulatory regime to other ASX100 companies, impacting their comparability for relative performance assessment. 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 ASX100 companies has become embedded in Company culture, so reinforcing this rather than trying to dislodge it with another focus is considered desirable.
Dividends paid on unvested LTI shares	– Dividends are no longer paid on unvested LTI with the latest grant; and – Dividends accrue on unvested shares and are only paid on shares that vest once all vesting conditions for those shares are met.
Approval of LTI grant to the Managing Director and Chief Executive Officer of Downer (Managing Director) was not sought	Shareholder approval is being sought for the 2012 LTI grant.

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 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; and – Defer a substantial part of pay contingent on service and sustained performance.
Focus performance	– Provide a substantial component of pay contingent on performance; – Focus attention on the most important drivers of value by linking pay to their achievement; and – Require profitability to reach an acceptable level before any bonus payments can be made.
Provide a Zero Harm environment	– Incorporate "Zero Harm" for our employees, contractors, communities and the environment as a significant 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 taking; – 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 focusing on just one measure; – Require service beyond performance periods for reward vesting to encourage retention and allow forfeiture of rewards that are the result of misconduct or material adjustments; – The Board retains discretion to vary incentive payments in the event of excessive risk taking; – Staggered testing of performance at the end of the financial year (STIs) and calendar year (LTIs) encourages performance sustainability and reduces the chance of excessive risk taking to maximise reward at one testing time; and – Restrict trading of vested equity rewards to ensure compliance with the Company's Share 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 linked to shareholder value performance; – Maintain a guideline minimum shareholding requirement for the three most senior executives; – Encourage 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;
– Introducing a profitability gateway to be achieved by the Company before an STI calculation for executives is made;
– 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.

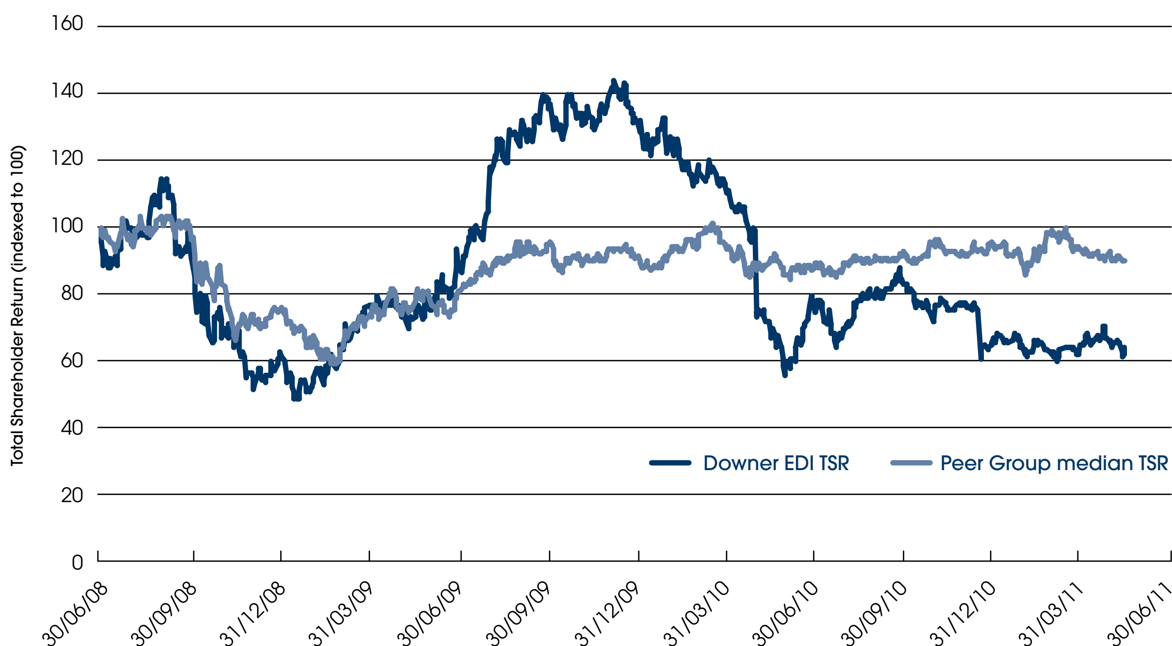
Downer measures performance on the following key corporate measures:

– Earnings per share (EPS) growth;
– Total shareholder return (TSR) relative to other ASX100 companies (excluding ASX "Financials" sector companies);
– Earnings before interest and tax expense (EBIT);
– Operating cash flow;
– Development of our people; and
– "Zero Harm" measures of safety and environmental sustainability.

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

The following graph shows the Company's performance compared to the median performance of the ASX100 over the three year period to 30 June 2011.

Downer EDI TSR compared to peer group median*



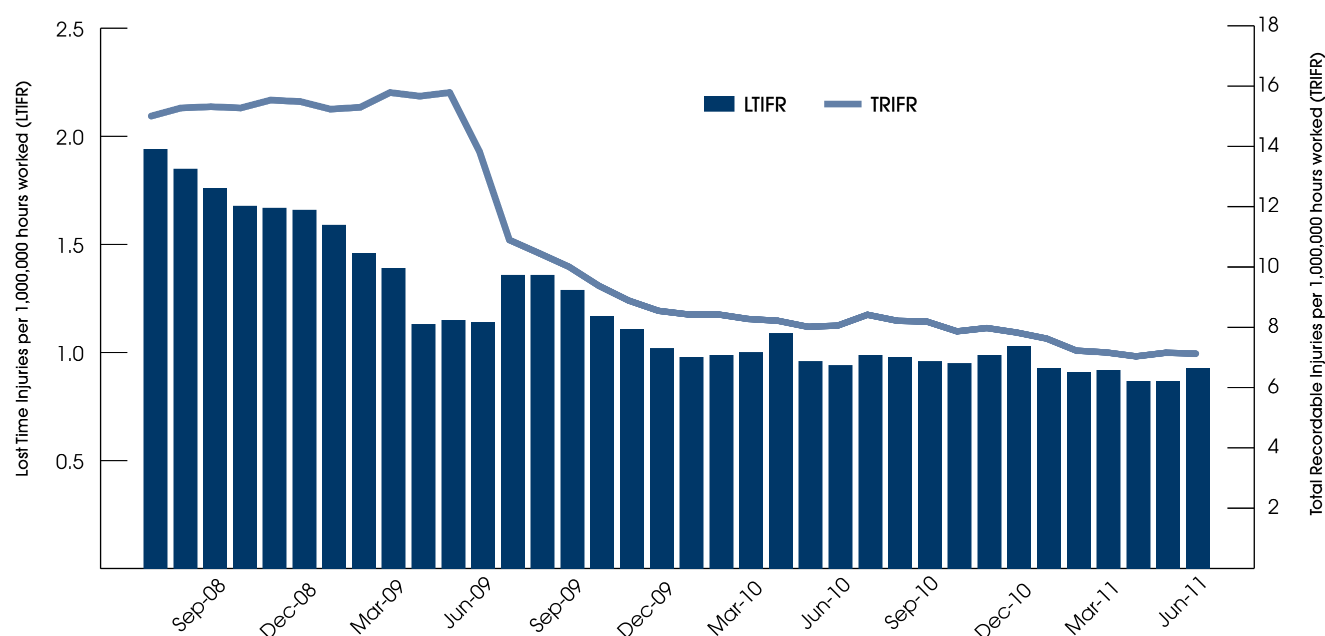
*Peer group is S&P/ASX100 companies as at 30/06/2008

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

	2007 $'000	2008 $'000	2009 $'000	2010 $'000	**2011 $'000**
Revenue including joint ventures and associates and other income	5,422,157	5,587,647	5,941,391	6,055,935	**6,975,104**
Earnings before interest and tax (after significant items)	128,661	281,117	304,799	53,362	**25,663**
Net profit/(loss) after tax (after significant items)	101,498	165,842	189,376	3,052	**(27,700)**
Operating cash flow	106,156	276,031	336,464	204,266	**185,625**
Share price at start of the year*	7.44	7.36	6.87	5.59	**3.48**
Share price at end of the year	7.36	6.87	5.59	3.60	**3.70**
Interim dividend (cents)	13cps	13cps	13cps	13.1cps	**-**
Final dividend (cents)	8cps	12.5cps	16cps	16cps	**-**
Total Shareholder Return	2%	(3%)	(14%)	(30%)	**6%**
Basic earnings/(loss) per share	31.3cps	47.9cps	54.4cps	(2.4cps)	**(10.5cps)**
Earnings per share growth (%)	473%	53%	14%	(104%)	**(338%)**
Earnings growth rate %	507%	63%	14%	(98%)	**(1,008%)**

* The opening value for 2011 has been adjusted to reflect the impact of the accelerated renounceable rights offer during the year.

The chart below illustrates Downer's performance on lost time injuries (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 and practices. The refinement to the Company's STI policy and the treatment of dividends on unvested LTIs in the 2011 year are the result of the Board's engagement with stakeholders to seek feedback on the prior policy after the 2010 Annual General Meeting (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 all key management personnel and senior executives reporting directly to the Managing Director;
- 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.

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 million for Non-executive Director fees at the 2008 AGM. 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 Board 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 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 per annum for Lucio Di Bartolomeo's additional services as a Director of Reliance Rail until his resignation in December 2010.

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 an STI. Payment for performance over a three year period is an LTI.

If Company performance exceeds that of competitors, realised total executive remuneration, including incentive payouts, will be in the top quartile of the market. In order for maximum STIs to be awarded, performance must exceed the planned budget for the period. This enables the Company to attract and retain better performing executives, and ensures pay outcomes are better aligned with shareholder returns.

Target STIs are less than the maximum STI. Target STI is payable on achievement of planned objectives. For KMPs and other named executives, target STI is 75 per cent of the maximum STI. The maximum total remuneration that can be earned by an executive is capped. The maximums are determined as a percentage of fixed remuneration. These maximums are equal to or higher than most market peers. If maximum total remuneration is achieved, the proportions attributable to each incentive component for most executives will be as shown in the following table.

Executive position	Target STI % of fixed pay	Maximum STI % of fixed pay	Maximum LTI % of fixed pay	Maximum total performance based pay as % of fixed pay
Managing Director*	75	100	100	200
Executives appointed prior to 2011	75	100	75	175
Executives appointed during 2011*	50	75	50	125

*Refer to Sections 5.3.4 and 5.4.5 for a description of variances from policy.

Policy regarding the maximum proportions of fixed pay that can be earned as incentive pay was amended in 2011 as a result of market reviews to bring total remuneration opportunity more into line with market standards and reduce the prospect of excessive risk taking.

The proportions of STI to LTI 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, living away from home expenses 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.

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.

Adjustments to executive fixed remuneration in 2011 were to recognise changed responsibilities and accountabilities or significant variations from market levels.

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

5.3 SHORT-TERM INCENTIVE

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 2011.

The basis of the plan has changed from the prior period to better align STI outcomes with financial results. No STI is paid unless a minimum of 90 per cent of the relevant budgeted profit target is met. For corporate executives, the hurdle is 90 per cent of the Group budgeted profit target. For business unit executives, the hurdle is 90 per cent of the business unit budgeted profit target. Profit for this purpose is defined as Earnings Before Interest and Tax expense (EBIT). This minimum must be of a materially sufficient size to justify the payment of STI to an executive.

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. Nevertheless, this aspect of policy remains under review, given emerging market trends to defer part of STI.

5.3.2 HOW STI PAYMENTS ARE ASSESSED

Target STI plan per cent of pay	An individual's target incentive under the STI plan is expressed as a percentage of fixed remuneration. The STI plan percentage is set according to policy tabulated in section 5.1.
Organisational or divisional scorecard result	As a principle, "target" achievement would be represented at budget. Threshold and maximums are also set.
Individual performance modifier (IPM)	At the end of the plan year, eligible employees are provided with an IPM against their key performance indicators and relative performance. Individual key performance indicators are set between the individual and the Managing Director (if reporting to the Managing Director) or the Board (if the Managing Director) at the start of the performance period. IPMs must average to 1.
STI plan incentive calculation	Fixed remuneration x target STI plan per cent x scorecard result x IPM

5.3.3 STI PERFORMANCE REQUIREMENTS

Overall Company performance is assessed on company EBIT, operational cash flow, Zero Harm and a measure of "people empowerment". This was changed from the prior year in order to capture more diverse measures of Company performance across both STI and LTI for valid assessment and better risk management.

EBIT includes joint ventures and associates and adjustments including changes in accounting policy, material asset sales and material acquisitions or divestments.

Operating Cash Flow is defined as net cash from operating activities (i.e. EBIT plus non-cash items in operating profit plus distributions received from joint ventures or associates plus movements in working capital plus movements in operating assets less net interest less tax paid).

Zero Harm reflects Downer's commitment to environmental, social and governance matters. The Zero Harm element includes the following safety measures, underscoring Downer's commitment to customers, employees, regulators and the communities it operates in:

- Total Recordable Injury Frequency Rate (TRIFR) calculated as the number of recordable injuries x 1,000,000/the hours worked in 12 months;
- Lost Time Injury Frequency Rate (LTIFR) is calculated as the number of lost time Injuries x 1,000,000/the hours worked in 12 months.

Where a fatality or serious environmental incident occurs, the Zero Harm portion of the STI is either foregone or significantly reduced.

People measures include the proportion of performance plans and reviews completed.

Weightings applied to the 2011 STI scorecard measures for all senior executives, including the Managing Director, are set out in the table below.

Executive	EBIT	Operational cash flow	Zero Harm	People
Corporate	40%	20%	30%	10%
Business unit	40% (10% Group, 30% business unit)	20% (5% Group, 15% business unit)	30%	10%

The Board, in its discretion, may approve payment that varies by up to + or – 15 per cent from the payment applicable to the level of performance achieved. The Board has resolved to increase its discretion to up to + or – 100 per cent for the 2012 STI period onwards for new employees and where existing contractual arrangements allow.

Specific details of STI performance requirements are set out in section 6.4.

5.3.4 STI TABULAR SUMMARY

The following table outlines the major features of the 2011 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.
Minimum performance "gateway" before any payments can be made	90 per cent of budgeted EBIT for the business unit applicable to the executive, i.e. the Company EBIT for the Managing Director and corporate executives and business unit EBIT for business unit heads.
Maximum STI that can be earned	– Executives appointed pre 2011: up to 100 per cent of fixed remuneration – Executives appointed in 2011: up to 75 per cent of fixed remuneration
Percentage of STI that can be earned on achieving target expectations	75 per cent of the maximum. For an executive to receive more will require performance in excess of target expectations.
Individual performance modifier	– An IPM may be applied against an executive's individual key performance indicators and relative performance; and – moderate individual performance may result in a an IPM of less than 1 or outstanding performance may result in an IPM greater than 1. The IPM must average 1 across all participants.
Discretion to vary payments	The Board, in its discretion, may approve payment that varies by up to + or – 15 per cent from the payment applicable to the level of performance achieved.
Performance period	1 July 2010 to 30 June 2011.
Performance assessed	August 2011, following release of audited accounts.
Additional service period after performance period for payment to be made	None.
Payment made	September 2011.
Payment vehicle	Cash.
Performance requirements	Group and divisional EBIT, operational cash flow, Zero Harm and people measures.
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 three variations from policy during this financial period:

- Grant Fenn was appointed Managing Director on 30 July 2010. At this time, short-term concerns associated with meeting delivery schedules for the Waratah trains contract were impacting shareholder value. The Board used its discretion to grant 100,000 shares with vesting contingent on meeting contract delivery obligations for the practical completion of the first Waratah train in December 2010. This milestone was not attained, and this share grant lapsed. A further 200,000 shares were granted for completion of delivery milestones for Waratah Train Sets two to six by 30 September 2011, with final vesting after this performance test contingent on an additional 2.25 years service. The current delivery schedule indicates that this hurdle will not be met and accordingly that these shares are unlikely to vest. These shares were granted in lieu of pro rata LTI shares on Mr Fenn's appointment to the position of Managing Director. See section 7 for further detail.
- Kevin Fletcher was appointed Chief Financial Officer on 2 November 2010. In his previous role with the Company, Mr Fletcher was entitled to a maximum STI of 100 per cent and maximum LTI of 75 per cent. The Board used its discretion to maintain these participation levels for Mr Fletcher upon appointment to his new role. External benchmarking confirms that Mr Fletcher's total remuneration package is in line with market levels.
- Peter Borden was appointed Chief Executive Officer of Downer Rail on 3 December 2010. In his previous role with the Company, Mr Borden was entitled to a maximum STI of 100 per cent and maximum LTI of 50 per cent. The Board used its discretion to maintain the STI participation level for Mr Borden upon appointment to his new role. External benchmarking confirms that Mr Borden's total remuneration package is in line with market levels.

Apart from the Chief Executive Officer – Downer Mining, no KMP received an STI payment for 2011 performance as the 90 per cent of EBIT gateway test was not met. The Chief Executive Officer – Downer Asia also received an STI payment having passed the EBIT gateway test.

5.4 LONG-TERM INCENTIVE

5.4.1 LTI OVERVIEW

Executives participate in an 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 for setting incentive targets for earnings per share.

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 with the impact on cash flow. 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. From the 2011 LTI plan onwards, the Board has resolved not to distribute dividends on shares held in trust during the performance measurement and service periods. Accumulated dividends will be distributed to executives after all vesting conditions have been met.

The 2011 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.

Performance for the 2011 LTI grants is measured over the three year period to 31 December 2013. 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 2014, but executives must remain in service until 31 December 2014, (or, but for payment in lieu of notice, would have remained in service until 31 December 2014) 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 forfeiture 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 2011 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 per cent 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 per cent of the tranche vest at the 50th percentile, 4 per cent at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile.

The comparator group for the 2011 LTI grant is the companies, excluding financial services companies, in the ASX100 index as at the start of the performance period on 1 January 2011. 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 ASX100 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 2013. 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 per cent compound annual EPS growth and 12 per cent compound annual EPS growth.

The minimum EPS growth hurdle was set by reference to a higher earnings hurdle that excludes the impact of announced profit write-downs, 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 per cent 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 per cent.

5.4.3 POST-VESTING SHAREHOLDING GUIDELINE

The Managing Director, Chief Executive Officer – Downer Australia 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 vested performance shares equal in value to 100 per cent 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 2011 LTI plan differs from the 2010 LTI plan in two ways:

- dividends accrued on unvested shares are only paid out after all vesting conditions have been met for the shares that vest. Otherwise, excess dividends are returned to the Company or used to acquire additional shares on market for employee equity plans. Directors authorised this change as a result of feedback from stakeholders; and
- financial services companies are excluded from the relative TSR ASX100 comparison group of companies. The Board considered this appropriate given that the financial services sector is subject to an additional regulatory regime to other ASX100 companies, impacting their comparability for relative performance assessment.

5.4.5 LTI TABULAR SUMMARY

The following table outlines the major features of the 2011 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 per cent of fixed remuneration. – Other executives appointed pre-2011: 75 per cent of fixed remuneration. – Other executives appointed in 2011: 50 per cent of fixed remuneration.
Performance period	1 January 2011 to 31 December 2013.
Performance assessed	February 2014.
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 2014.
Shares vest	1 January 2015.
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 total shareholder return (TSR) performance condition is based on the Company's total shareholder return (TSR) performance relative to the TSR of companies comprising the ASX100 index, excluding financial services companies, at the start of the performance period, measured over the three years to 31 December 2013.

Performance conditions *– continued*

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

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

EPS growth
The earnings per share (EPS) growth performance condition is based on the Company's compound annual EPS growth over the three years to 31 December 2013.

The performance vesting scale applicable to the shares subject to the EPS growth test is:

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

Are shares acquired on-market or newly issued?	Shares are normally acquired on-market and placed in trust to: – minimise dilution; and – obtain a tax deduction aligned with the cash flow being incurred. For the 2011 LTI grant, there were sufficient forfeited shares in the scheme to cover the allocation to executives.
Treatment of dividends and voting rights on restricted shares	Dividends are received by the trust. The trust either uses dividends to acquire additional shares or distributes to executives the dividends that accrued during the vesting period on shares that vest, when they vest.
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 2011 LTI grant will be forfeited where an executive's employment terminates prior to 31 December 2014 (unless, but for payment in lieu of notice, the executive would have remained in service until 31 December 2014).
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 three variations from policy during this financial period:

- The Board decided to include approval of the 2012 LTI grant for the Managing Director in the business of the 2011 AGM;
- Kevin Fletcher was appointed Chief Financial Officer on 2 November 2010. In his previous role with the company, Mr Fletcher was entitled to a maximum STI of 100 per cent and maximum LTI of 75 per cent. The Board used its discretion to maintain these participation levels for Mr Fletcher upon his appointment to his new role. External benchmarking confirms that Mr Fletcher's total remuneration package is in line with market levels; and
- Under a fixed term contractual arrangement, David Cattell will not receive grants for 2011 and 2012 under the LTI plan. For further detail see section 7.1.

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:

R M Harding	(Chairman, appointed 3 November 2010, Deputy Chairman, 1 July 2010 to 2 November 2010)
P E J Jollie AM	(Chairman, resigned 3 November 2010)
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)
G H Knox	(Managing Director and Chief Executive Officer, resigned 30 July 2010)

S A Chaplain

L Di Bartolomeo

J S Humphrey

C J S Renwick AM (resigned 9 December 2010)

C G Thorne

The term "executives" applies to key management personnel (KMP) who are not Non-executive Directors.

The named persons held their current position for the whole of the most recent financial year, except as noted:

P Borden	(Chief Executive Officer – Downer Rail, appointed 1 November 2010, Acting Chief Executive Officer – Downer Rail, 1 July 2010 to 31 October 2010)
C Bruyn	(Chief Executive Officer – Downer New Zealand and United Kingdom)
D Cattell	(Chief Executive Officer – Downer Australia, appointed 22 February 2011, Chief Operating Officer 1 July 2010 to 21 February 2011)
S Cinerari	(Chief Executive Officer – Downer Works Australia)
K Fletcher	(Chief Financial Officer, appointed 2 November 2010, Acting Chief Financial Officer, 30 July 2010 to 1 November 2010)
E Kolatchew	(Chief Executive Officer – Downer Engineering, resigned 21 February 2011)
D Overall	(Chief Executive Officer – Downer Mining)

Certain employees have been included in this report as they were among the five highest remunerated employees of the Group or the parent entity. The named persons held their current position for the whole of the most recent financial year, except as noted:

S Dodds	(Chief Executive Officer – Downer Asia)
R Moffat	(Executive General Manager – Investor Relations)
P Reidy	(Chief Strategy & Growth Officer – Downer Australia, appointed 3 March 2011, Chief Executive Officer – Emerging Sectors, 1 July 2010 to 2 March 2011)

6.2 REMUNERATION RECEIVED IN RELATION TO THE 2011 FINANCIAL YEAR

Executives receive a mix of remuneration during the year, comprising fixed remuneration, an STI paid in cash and an LTI in the form of restricted shares that vest four or five years later, subject to meeting performance and continued employment conditions.

The table below lists the remuneration actually received in relation to the 2011 financial year, comprising fixed remuneration, STIs relating to 2011 and the value of LTI grants that vested during the 2011 financial year. This information differs to that provided in the statutory remuneration table at section 6.3 which has been prepared in accordance with accounting standards.

	Fixed remuneration[1] $	Bonus paid or payable in respect of current year $	Termination benefits $	Total cash payments $	Equity that vested during 2011[2] $	Total remuneration received $
Non-executive Directors						
R M Harding	344,883	–	–	344,883	–	344,883
P E J Jollie	139,953	–	–	139,953	–	139,953
S A Chaplain	201,650	–	–	201,650	–	201,650
L Di Bartolomeo	208,284	–	–	208,284	–	208,284
J S Humphrey	163,500	–	–	163,500	–	163,500
C J S Renwick	89,925	–	–	89,925	–	89,925
C G Thorne	183,493	–	–	183,493	–	183,493
KMP executives						
G Fenn	1,741,419	–	–	1,741,419	301,167	2,042,586
G Knox	342,937	–	2,000,000	2,342,937	1,130,010	3,472,947
P Borden	740,465	–	–	740,465	–	740,465
C Bruyn	616,384	–	–	616,384	134,785	751,169
D Cattell	1,651,505	–	–	1,651,505	601,645	2,253,150
S Cinerari	651,056	–	–	651,056	156,445	807,501
K Fletcher	733,599	–	–	733,599	–	733,599
E Kolatchew	872,274	–	865,479	1,737,753	–	1,737,753
D Overall	917,414	702,644	–	1,620,058	398,928	2,018,986
Other named executives						
S Dodds	778,817	523,939	–	1,302,756	144,410	1,447,166
R Moffat	563,746	–	–	563,746	216,853	780,599
P Reidy	833,261	–	–	833,261	239,442	1,072,703
Total	**11,774,565**	**1,226,583**	**2,865,479**	**15,866,627**	**3,323,685**	**19,190,312**

1 Fixed remuneration comprises salary and fees, non-monetary benefits and superannuation payments.

2 Represents the value of restricted shares granted in previous years that vested during the year, calculated as the number of restricted shares that vested multiplied by the closing market price of Downer shares on the vesting date.

6.3 REMUNERATION OF DIRECTORS, KEY MANAGEMENT PERSONNEL AND TOP FIVE PAID EXECUTIVES

2011	Short-term employee benefits			Post-employment benefits				
	Salary and fees $	Bonus paid or payable in respect of current year $	Non-monetary $	Super-annuation $	Termina-tion benefits $	Subtotal $	Share-based payment trans-actions[2] $	Total $
Non-executive Directors								
R M Harding[6]	316,406	–	–	28,477	–	344,883	–	344,883
P E J Jollie[1]	110,897	–	–	29,056	–	139,953	–	139,953
S A Chaplain[3]	159,987	–	–	41,663	–	201,650	–	201,650
L Di Bartolomeo[4]	191,086	–	–	17,198	–	208,284	–	208,284
J S Humphrey	150,000	–	–	13,500	–	163,500	–	163,500
C J S Renwick[1,5]	82,500	–	–	7,425	–	89,925	–	89,925
C G Thorne[7]	168,342	–	–	15,151	–	183,493	–	183,493
KMP executives								
G Fenn	1,563,134	–	163,086	15,199	–	1,741,419	1,308,314	3,049,733
G Knox[9]	342,937	–	–	–	2,000,000	2,342,937	(1,306,996)	1,035,941
P Borden[12]	681,667	–	33,798	25,000	–	740,465	22,986	763,451
C Bruyn	539,321	–	65,588	11,475	–	616,384	125,087	741,471
D Cattell[10]	1,554,232	–	72,273	25,000	550,877	2,202,382	747,983	2,950,365
S Cinerari	561,067	–	52,209	37,780	–	651,056	154,595	805,651
K Fletcher[1]	710,416	–	266	22,917	–	733,599	65,155	798,754
E Kolatchew[1,8]	832,768	–	–	39,506	865,479	1,737,753	20,102	1,757,855
D Overall	887,897	702,644	17,415	12,102	–	1,620,058	255,274	1,875,332
Other named executives[11]								
S Dodds[12]	625,000	523,939	128,817	25,000	–	1,302,756	165,324	1,468,080
R Moffat	525,000	–	13,746	25,000	–	563,746	270,950	834,696
P Reidy[12]	551,666	–	256,595	25,000	–	833,261	279,198	1,112,459
	10,554,323	**1,226,583**	**803,793**	**416,449**	**3,416,356**	**16,417,504**	**2,107,972**	**18,525,476**

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 S A Chaplain: comprised of $150,000 Board fee and $35,000 Audit Committee chair fee. An amount of $25,013 was salary sacrificed into superannuation.

4 L Di Bartolomeo: fees comprise payment of $165,000 for services rendered to Downer ($150,000 Board fee, $15,000 Remuneration Committee chair fee) and $26,086 for services rendered to Reliance Rail.

5 C J S Renwick: comprised of $75,000 Board fee and $7,500 Zero Harm Committee chair fee.

6 R M Harding: comprised of $311,311 Board fee and $5,095 Risk Committee chair fee.

7 C G Thorne: comprised of $150,000 Board fee, $9,905 Risk Committee chair fee and $8,437 Zero Harm Committee chair fee.

8 E Kolatchew (resigned as Chief Executive Officer – Downer Engineering on 21 February 2011). Salary and fees includes payment for accrued annual leave of $45,917 and payment of $250,000 for the final instalment of sign-on payment. The termination payment was awarded in accordance with the terms of Mr Kolatchew's employment contract.

9 G Knox (resigned 30 July 2010). Salary and fees includes payment for accrued annual leave entitlements of $176,270. The termination payment was awarded in accordance with the terms of Mr Knox's employment contract. Share-based payments includes reversal of expense for forfeited equity incentives.

10 D Cattell: includes $104,470 cash-in of annual leave. Termination benefits represents the accrual of cash benefits payable at the end of Mr Cattell's fixed term contract.

11 Disclosure has been made due to the executive being one of the five highest remunerated employees of the consolidated group or parent entity.

12 Due to the nature of the Downer business, non-monetary benefits include living away from home expenses.

2010	Short-term employee benefits			Post-employment benefits				
	Salary and fees $	Bonus paid or payable in respect of current year $	Non-monetary $	Super-annuation $	Termina-tion benefits $	Subtotal $	Share-based payment trans-actions[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 Overall	705,784	432,289	–	36,551	–	1,174,624	265,018	1,439,642
G Wannop	666,925	172,610	71,367	33,075	–	943,977	472,171	1,416,148
Other named executives[10]								
D O'Reilly	750,000	224,400	–	50,000	–	1,024,400	491,141	1,515,541
P Reichler	804,820	305,388	12,881	50,000	–	1,173,089	491,141	1,664,230
	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 includes $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.

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 27 October 2009). Salary and fees includes 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.

10 Disclosure has been made due to the executive being one of the five highest remunerated employees of the consolidated group or parent entity.

6.4 PERFORMANCE RELATED REMUNERATION

The table below lists the proportions of remuneration paid during the year ended 30 June 2011 that are performance and non-performance related.

	Performance Related	Non-Performance Related
KMP executives		
G Fenn[1]	43%	57%
G Knox[1]	(126%)	226%
P Borden[1]	3%	97%
C Bruyn[1]	17%	83%
D Cattell[1]	25%	75%
S Cinerari[1]	19%	81%
K Fletcher	8%	92%
E Kolatchew[1]	1%	99%
D Overall	51%	49%
Other executives		
S Dodds[1]	47%	53%
R Moffat[1]	32%	68%
P Reidy[1]	25%	75%

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

Weightings applied to the 2011 STI scorecard measures for senior executives are set out in the table below.

Executive	EBIT	Operational cash flow	Zero Harm	People
Corporate	40%	20%	30%	10%
Business unit	40% (10% Group, 30% business unit)	20% (5% Group, 15% business unit)	30%	10%

The Zero Harm element of the scorecard comprised measures as follows:

Measure	Target
TRIFR (total recordable injury frequency rate)	Achieve a set reduction in the TRIFR at level of responsibility. Award pro rates linearly from 0-100 per cent.
LTIFR (lost time injury frequency rate)	Achieve a set reduction in the LTIFR at level of responsibility. Award pro rates linearly from 0-100 per cent.
Sustainable development	Development of an environmental sustainability plan.

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

In order for an STI to be paid, a minimum of 90 per cent of the budgeted profit target must be met. For corporate executives, the hurdle is 90 per cent of the Group budgeted profit target. For business unit executives, the hurdle is 90 per cent of the business unit budgeted profit target. Profit for this purpose is defined as Earnings Before Interest and Tax expense (EBIT).

The corporate and business unit EBIT results were less than 90 per cent of the target EBIT for all but the Mining Division and Asia business units. Therefore no STI payments under the plan were made to KMP except to the Chief Executive Officer – Downer Mining. The Chief Executive Officer – Downer Asia also received an STI payment.

The following table shows the performance achieved by the Chief Executive Officer – Downer Mining and Chief Executive Officer – Downer Asia.

Executive	EBIT	Operational cash flow	Zero Harm	People
Chief Executive Officer – Downer Mining	Business Unit achieved above target, below stretch – 98 per cent awarded. Group target not achieved – 0 per cent awarded.	Business Unit achieved above target, below stretch – 92 per cent awarded. Group target not achieved – 0 per cent awarded.	Safety stretch targets achieved. Environmental target achieved. 87 per cent awarded.	Achieved above target, below stretch – 92 per cent awarded.
Chief Executive Officer – Downer Asia[1]	Business Unit achieved above target, below stretch – 85 per cent awarded. Group target not achieved – 0 per cent awarded.	Business Unit stretch target achieved – 100 per cent awarded. Group target not achieved – 0 per cent awarded.	Stretch targets achieved. 100 per cent award achieved.	Stretch target achieved. 100 per cent award achieved.

1 The Downer Asia business was restructured during the year. Targets were adjusted to reflect the restructured business and these targets were achieved as indicated.

The following table shows the STIs that were earned during the year ended 30 June 2011 due to the achievement of the relevant performance targets.

	Short Term Incentive in respect of 2011 financial year	
	Paid	**Forfeited**
KMP executives		
G Fenn	0%	100%
G Knox	0%	100%
P Borden	0%	100%
C Bruyn	0%	100%
D Cattell	0%	100%
S Cinerari	0%	100%
K Fletcher	0%	100%
E Kolatchew	0%	100%
D Overall	78%	22%
Other executives		
S Dodds	81%	19%
R Moffat	0%	100%
P Reidy	0%	100%

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

Relevant executives	Relevant LTI measure	Performance outcome	% LTI tranche that vested
P Borden, C Bruyn, D Cattell, S Cinerari, S Dodds, R Moffat, P Reidy	2006 Plan Percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a four-year period.	Actual performance ranked at the 30th percentile.	0 per cent.
P Borden, C Bruyn, D Cattell, S Cinerari, S Dodds, R Moffat, P Reidy	2006 Plan Compound annual EPS growth hurdles, with reference to the average Australian Commonwealth Government three-year bond yield, over a three year period.	Vesting range required compound annual EPS growth of 8.0 per cent to 10.5 per cent. Actual performance was (62.8) per cent.	0 per cent.
D Cattell, R Moffat, D Overall, P Reidy	2008 Plan Share price hurdle.	The vesting range was $10 to $12.50. The actual share price was $4.68.	0 per cent. The shares are subject to a final re-test.
G Fenn, C Bruyn, D Cattell, S Cinerari, S Dodds, R Moffat, D Overall, P Reidy	Tranche 2 of 3 in 2009 plan Percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a one year period.	Actual performance ranked at the 10th percentile.	0 per cent became provisionally qualified. The tranche is subject to a single re-test.

6.5 SHARE-BASED PAYMENTS

6.5.1 RESTRICTED SHARES

The table below shows the number of restricted shares granted 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.

	2008 plan			2009 plan			2010 plan		
	Number of Shares (share price hurdle)[1]	% vested	% forfeited	Number of shares[2]	% vested	% forfeited	Number of shares[3]	% vested	% forfeited
KMP executives									
G Fenn	–	–	–	444,825	15%	–	95,410	–	–
G Knox[4]	1,600,000	15%	60%	518,135	–	100%	254,427	–	100%
P Borden	–	–	–	–	–	–	31,803	–	–
C Bruyn	–	–	–	86,957	33%	–	53,430	–	–
D Cattell	387,500	8%	–	291,451	33%	–	143,115	–	–
S Cinerari	–	–	–	100,932	33%	–	62,017	–	–
K Fletcher	–	–	–	–	–	–	77,309	–	–
E Kolatchew	–	–	–	–	–	–	85,869	–	100%
D Overall	270,000	14%	–	145,726	33%	–	71,558	–	–
Other executives									
S Dodds		–	–	93,168	33%	–	62,017	–	–
R Moffat	175,000	8%	–	97,150	33%	–	52,476	–	–
P Reidy	175,000	8%	–	111,724	33%	–	54,861	–	–

1 Grant date 29 April 2008 except for D Overall (27 January 2009). All shares with EBIT and cash flow hurdles have vested in prior years and are not disclosed in the table.

2 Grant date 1 April 2009 except for C Bruyn and S Cinerari (12 June 2009) and G Fenn (332,258 30 June 2009, 112,567 27 January 2010).

3 Grant date 11 June 2010 (except for an additional 27,696 shares granted to Kevin Fletcher on 2 November 2010). The fair value of shares granted was $4.46 per share for the EPS tranche and $1.46 per share for the TSR tranche. The fair value of the additional grants to Kevin Fletcher was $5.17 per share for the EPS tranche and $1.87 for the TSR tranche.

4 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 forfeited.

	2011 Plan			Managing Director 30 July 2011		
	Number of shares[1]	% vested	% forfeited	Number of shares[2]	% vested	% forfeited
KMP executives						
G Fenn	480,205	–	–	300,000	–	33%
P Borden	86,704	–	–			
C Bruyn	130,055	–	–			
D Cattell	–	–	–			
S Cinerari	130,055	–	–			
K Fletcher	160,068	–	–			
D Overall	180,077	–	–			
Other executives						
S Dodds	130,055	–	–			
R Moffat	–	–	–			
P Reidy	115,049	–	–			

1 Grant date 21 June 2011. The fair value of shares granted was $3.72 per share for the EPS tranche and $1.99 per share for the TSR tranche.

2 Grant date 30 July 2010. The fair value of shares granted was $4.97 per share.

In lieu of a pro rata grant of LTI shares on his appointment to the position of Managing Director, Grant Fenn was granted 300,000 restricted shares with performance hurdles linked to milestones for the Waratah train project. The first tranche of 100,000 shares with vesting contingent on meeting contract delivery obligations for the practical completion of the first Waratah train in December 2010 was not attained, and this tranche, representing 33 per cent of the grant, forfeited. None of the shares vested. The fair value of these grants made on 30 July 2010 was $4.97 per share. See section 7 for further detail on these grants.

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 in the table below.

	2011	2012	2013	2014	2015
KMP executives					
G Fenn	**315,292**	64,767	164,766	295,410	480,205
G Knox	**572,712**	572,712	372,711	254,427	–
P Borden	**–**	–	–	31,803	86,704
C Bruyn	**28,986**	28,986	28,985	53,430	130,055
D Cattell	**176,317**	226,316	390,266	–	–
S Cinerari	**33,644**	33,644	33,644	62,017	130,055
K Fletcher	**–**	–	–	77,309	160,068
D Overall	**103,575**	108,575	138,576	131,558	210,077
Other executives					
S Dodds	**31,056**	31,056	31,056	62,017	130,055
R Moffat	**67,383**	90,715	79,051	75,810	–
P Reidy	**72,241**	95,573	83,909	78,195	115,049

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 in the table below. The amount reported is the value of share based payments calculated in accordance with AASB 2 Share-based Payment over the vesting period.

	2011	2012	2013	2014	2015
KMP executives					
G Fenn	**1,496,831**	739,133	589,341	460,626	195,329
G Knox	**1,272,998**	808,696	447,461	162,468	–
P Borden	**28,383**	96,687	96,375	83,304	35,268
C Bruyn	**150,789**	231,651	192,492	140,808	52,901
D Cattell	**784,286**	561,843	242,208	29,916	–
S Cinerari	**174,560**	251,968	206,561	146,572	52,901
K Fletcher	**65,155**	201,780	201,154	165,495	65,109
E Kolatchew	**71,459**	71,647	71,320	36,027	–
D Overall	**255,274**	338,337	277,107	199,664	75,214
Other executives					
S Dodds	**165,324**	244,661	202,707	145,371	52,901
R Moffat	**282,832**	197,766	112,144	39,881	–
P Reidy	**299,110**	302,202	211,965	135,280	46,797

6.5.2 OPTIONS AND RIGHTS

No performance options or rights were granted or exercised during the year ended 30 June 2011. Grants of performance rights and performance options made to executives during the year ended 30 June 2007 were re-tested during the year. All performance rights and performance options lapsed as a result of failing the test.

There are no performance rights or performance options outstanding.

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 KMPs.

	Termination notice period by Downer	Termination notice period by employee	Termination payments payable under contract
Managing Director*	12 months	6 months	12 months
Other executives	12 months	6 months	12 months

* Refers to Grant Fenn. Details for Geoff Knox are provided below.

There has been one variation from policy during this financial period:

– A fixed term contract was entered into on 16 August 2010 with David Cattell to ensure management continuity following the departure of Mr Knox. That contract ends on 1 January 2013. Subject to legislative requirements, Mr Cattell will be entitled to the following benefits at the end of the contract period: statutory leave entitlements, a cash payment equivalent to 12 months fixed remuneration, a pro rata STI payment based on performance and vesting of restricted shares granted to Mr Cattell that have met their performance conditions. As a result of these entitlements, Mr Cattell is not eligible to receive grants under LTI plans for 2011 and 2012.

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

Termination payments in addition to statutory payments made to KMPs during 2011 are set out in the table below.

Name	Position	Date of termination	Payment in lieu of notice
Geoff Knox	Managing Director	30 July 2010	$2,000,000
Eric Kolatchew	Chief Executive Officer – Downer Engineering	21 February 2011	$865,479

7.2 MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER OF DOWNER'S EMPLOYMENT AGREEMENT

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 $1.8 million per annum. This amount includes superannuation contributions and non-cash benefits and excludes Mr Fenn's home telephone rental and call costs, home internet costs and medical health, life and salary continuance insurance. Mr Fenn may also be accompanied by his wife when travelling on business, at the Chairman's discretion. There was no such travel during the year. It is reviewable annually in accordance with Downer's policies.

Mr Fenn was granted 250,525 shares as a sign-on payment with a two year employment condition to 30 June 2011 on his appointment as Chief Financial Officer in 2009. These shares vested on 1 July 2011.

Mr Fenn is eligible to receive an annual STI and the maximum STI opportunity is 100 per cent of fixed remuneration. Any entitlement to an 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 + or – 15 per cent (up to the 100 per cent maximum) based on its assessment of performance.

Mr Fenn's performance requirements have been described in section 5.

There is no STI entitlement where the Managing Director's employment terminates prior to the end of the financial year, other than in the event of a takeover or by mutual agreement.

Mr Fenn was also eligible to receive key milestone incentives on a once-only basis in lieu of an LTI grant pro rated with service as Managing Director for 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, a grant of 100,000 shares in Downer was made to Mr Fenn. The specific performance hurdle for this award was the practical completion of the first Waratah train by 31 December 2010. The service period prior to vesting was a further two years to 31 December 2012. As noted in section 5.3.4, above, this timing was not met and the shares forfeited.

A further grant of 200,000 shares was made with a further specific performance hurdle requiring the achievement of practical completion of the first six Waratah Train Sets by 30 September 2011. The service period prior to vesting is a further 2.25 years to 31 December 2013.

Mr Fenn is eligible to participate in the annual LTI plan and the value of the award is 100 per cent of fixed remuneration calculated using the volume weighted average price after each year's half yearly results announcement.

Mr Fenn's performance requirements have been described in section 5.

In the event of a change of control, providing at least 12 months of a 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 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 months notice.

Downer can terminate Mr Fenn's employment:

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

(b) by providing twelve 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 may 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* (Cth) limits on termination benefits to be made to Mr Fenn.

Mr Geoff Knox was Managing Director and Chief Executive Officer of Downer until 30 July 2010.

There was no change to Mr Knox's contract of employment in the current reporting period from the prior 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 million per annum inclusive of compulsory superannuation contributions. The variable component comprised STIs and LTIs.

Mr Knox was eligible for LTI rewards that have met performance requirements that are due to vest during his notice period. This meant that 243,013 shares relating to the 2008 LTI scheme that met the performance hurdle at 31 December 2009 vested 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's termination payment comprised a payment of $2 million, being payment in lieu of the notice period.

8. LEGACY EQUITY-BASED REMUNERATION PLANS

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

- 2010 executive share plan;
- 2009 executive share plan; and
- 2008 executive share plan.

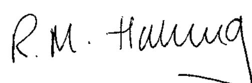
Details of legacy LTI plans are set out in the table below.

Plan name	Type of award	Performance requirements	Re-test	Service requirements	Vesting schedule
2010 executive share plan	Grant of restricted shares delivered in two equal tranches	Tranche 1: Percentile ranking of Downer's TSR relative to the constituents of the ASX100 as at the beginning of the performance tests period. Tranche 2: EPS annual compound growth to be within 6 per cent to 12 per cent. The performance period for both tranches is three years.	There is no re-test	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.	Tranche 1: 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 ASX100. Shares vest pro rata between the median and 75th percentile. That is, 4 per cent of the shares vest at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile. Tranche 2: Pro rata from 6 per cent to 12 per cent EPS growth such that 16.67 per cent of the restricted shares in the tranche vest for every 1 per cent increase in EPS growth between 6 per cent and 12 per cent, on a pro rata basis.

Plan name	Type of award	Performance requirements	Re-test	Service requirements	Vesting schedule
2009 executive share plan	Grant of restricted shares delivered in three equal tranches	Percentile ranking of Downer's TSR relative to the constituents of the ASX100 as at the beginning of the performance test period. Initial performance periods for the three tranches are 1, 2 and 3 years, respectively.	Shares that do not meet the initial relative TSR test are subject to a single retest 12 months after the first test. If the performance hurdles are met at the retest, the awards will vest. Shares that do not meet the retest 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 ASX100. Shares vest pro rata between the median and 75th percentile. That is, 4 per cent of the shares vest at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile.
2008 executive share plan	Grant of restricted shares	Two tranches of restricted shares were granted under the plan. The performance conditions for those pools are: Tranche 1: 50 per cent vests on achievement of an EBIT target and 50 per cent vests on achievement of an operating cash flow target for the year ended 30 June 2008. 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 retest 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 retested under the conditions of the following tranche. If the performance hurdle is met at the retest, the relevant proportion of the tranche will vest.	The service condition 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 a third of shares that pass the hurdles to vest providing the executive remains in service to the 31 December of 2012, 2013 and 2014 respectively.	By 31 December, 2010 pro rated vesting between 0 per cent and 100 per cent for share prices from \$10 to \$12.50. By 31 December 2011 pro rated vesting 0 per cent to 100 per cent for a share price hurdle between \$6 and \$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.

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

On behalf of the Directors



R M Harding
Chairman

Sydney, 24 August 2011

FINANCIAL PERFORMANCE OVERVIEW

FIVE-YEAR RECORD FOR THE YEAR ENDED 30 JUNE 2011

	Five Year Record for the year ended 30 June				
	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Total revenue including other income and joint ventures and associates	**6,975,104**	6,055,935	5,941,391	5,587,647	5,422,157
Earnings before interest and tax (EBIT) (before significant items)	**292,236**	313,362	304,799	281,117	280,894
Earnings before interest and tax (EBIT) (after significant items)	**25,663**	53,362	304,799	281,117	128,661
Interest expense (net)	**(64,309)**	(51,295)	(45,774)	(49,171)	(56,018)
Income tax expense (before significant items)	**(61,540)**	(60,383)	(69,649)	(66,104)	(63,310)
Profit after tax (before significant items net of tax)	**166,387**	201,684	189,376	165,842	161,566
Individually significant items net of tax	**(194,087)**	(198,632)	–	–	(60,068)
(Loss)/profit after tax after significant items	**(27,700)**	3,052	189,376	165,842	101,498
Total equity	**1,442,385**	1,242,851	1,330,388	1,196,364	1,169,907
Net debt	**492,497**	530,697	517,693	406,814	519,175
Total capitalisation (net debt + equity)	**1,934,882**	1,773,548	1,848,081	1,603,178	1,689,082
Net debt to equity	**34.1%**	42.7%	38.9%	34.0%	44.4%
Gearing ratio (net debt/total capitalisation)	**25.5%**	29.9%	28.0%	25.4%	30.7%
Operating cash flow	**185,625**	204,266	336,464	276,031	106,156
Basic (loss)/earnings per share on issue (cents)	**(10.5)**	(2.4)	54.4	47.9	31.3
Diluted (loss)/earnings per share (cents)	**(10.5)**	(2.4)	52.7	47.5	31.3
Closing share price (dollars)	**$3.70**	$3.60	$5.59	$6.87	$7.36
Dividends per ordinary share (cents)	**–**	29.1	29.0	25.5	21.0
Net tangible asset backing per ordinary share (cents)	**198.8**	194.1	217.6	190.0	187.0

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

24 August 2011

Dear Directors

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 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) 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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Revenue from ordinary activities	3(a)	**6,633,185**	5,796,614
Finance income	3(a)	**14,180**	18,103
Other income	3(a)	**8,662**	30,050
Total revenue		**6,656,027**	5,844,767
Employee benefits expense(i)	3(b)	**(2,218,529)**	(1,944,269)
Raw materials and consumables used(i)		**(1,430,507)**	(1,451,145)
Subcontractor costs(i)		**(1,344,403)**	(1,080,641)
Plant and equipment costs(i)		**(763,230)**	(543,370)
Communication expenses		**(56,893)**	(60,401)
Occupancy costs		**(128,737)**	(99,182)
Professional fees		**(38,664)**	(42,868)
Travel and accommodation expenses		**(85,348)**	(59,266)
Other expenses from ordinary activities(i)		**(99,201)**	(90,023)
Depreciation and amortisation	3(b)	**(210,494)**	(160,159)
Finance costs	3(b)	**(78,489)**	(69,398)
Share of net profit of joint venture entities and associates	15(b)	**26,395**	18,022
Individually significant items	4	**(266,573)**	(260,000)
(Loss)/profit before income tax		**(38,646)**	2,067
Income tax benefit	5	**10,946**	985
(Loss)/profit after income tax		**(27,700)**	3,052
(Loss)/profit for the year that is attributable to:			
– Non-controlling interest		**143**	95
– Members of the parent entity		**(27,843)**	2,957
Total (loss)/profit for the year		**(27,700)**	3,052
Earnings per share (cents):			
– Basic (loss) per share	7	**(10.5)**	(2.4)
– Diluted (loss) per share	7	**(10.5)**	(2.4)

(i) The 2010 balance has been restated to better reflect the nature of the costs incurred. There has been no impact on the profit before income tax as a result of these changes.

The consolidated income statement should be read in conjunction with the accompanying notes on pages 40 to 111.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 $'000	2010 $'000
(Loss)/profit after income tax		**(27,700)**	3,052
Other comprehensive expense			
– Exchange differences arising on translation of foreign operations		**(18,738)**	(3,816)
– Net gain on available-for-sale investments taken to equity		**3,433**	333
– Net gain/(loss) on foreign currency forward contracts taken to equity[(i)]		**10,055**	(38,883)
– Net (loss)/gain on cross currency interest rate swaps taken to equity		**(4,215)**	2,471
– Amortisation of share of reserves from associates	24	**2,801**	2,637
– Income tax relating to components of other comprehensive income		**(2,289)**	10,939
Other comprehensive expense included in equity		**(8,953)**	(26,319)
Total comprehensive expense for the year		**(36,653)**	(23,267)
Total comprehensive expense for the year that is attributable to:			
Non-controlling interest		**143**	95
Members of the parent entity		**(36,796)**	(23,362)
Total comprehensive expense for the year		**(36,653)**	(23,267)

(i) The June 2011 balance includes $65.0 million reclassification adjustment from other comprehensive income into the profit and loss in accordance with *AASB 139 Financial Instruments: Recognition and Measurement*.

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 40 to 111.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Note	2011 $'000	2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**288,575**	385,126
Inventories	10	**192,568**	193,138
Trade and other receivables	11	**1,312,998**	1,183,878
Other financial assets	12	**6,078**	12,708
Current tax assets	13	**14,312**	13,765
Other assets	14	**40,961**	28,787
Total current assets		**1,855,492**	1,817,402
Non-current assets			
Equity-accounted investments	15(b)	**37,354**	22,410
Property, plant and equipment	16	**1,055,015**	862,076
Intangible assets	17	**589,195**	589,414
Other financial assets	12	**30,977**	35,954
Deferred tax assets	13(a)	**137,949**	123,280
Other assets	14	**4,684**	5,464
Total non-current assets		**1,855,174**	1,638,598
Total assets		**3,710,666**	3,456,000
LIABILITIES			
Current liabilities			
Trade and other payables	18	**1,117,726**	987,266
Borrowings	19	**165,121**	272,167
Other financial liabilities	20	**74,629**	41,513
Provisions	21	**239,659**	199,414
Current tax liabilities	22	**3,866**	5,012
Total current liabilities		**1,601,001**	1,505,372
Non-current liabilities			
Trade and other payables	18	**2,812**	713
Borrowings	19	**567,665**	617,012
Other financial liabilities	20	**71,715**	39,597
Provisions	21	**18,809**	27,162
Deferred tax liabilities	22(a)	**6,279**	23,293
Total non-current liabilities		**667,280**	707,777
Total liabilities		**2,268,281**	2,213,149
Net assets		**1,442,385**	1,242,851
EQUITY			
Issued capital	23	**1,423,897**	1,118,675
Reserves	24	**(121,581)**	(107,893)
Retained earnings		**139,969**	231,974
Parent interests		**1,442,285**	1,242,756
Non-controlling interest		**100**	95
Total equity		**1,442,385**	1,242,851

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 40 to 111.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

2011

$'000	Issued capital	Available-for-sale investment reserve	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2010	1,118,675	(2,816)	(84,642)	(39,945)	19,510	231,974	1,242,756	95	1,242,851
(Loss)/Profit after income tax	–	–	–	–	–	(27,843)	(27,843)	143	(27,700)
Exchange differences arising on translation of foreign operations	–	–	–	(18,738)	–	–	(18,738)	–	(18,738)
Net gain on available-for-sale investments	–	3,433	–	–	–	–	3,433	–	3,433
Net gain on foreign currency forward contracts(i)	–	–	10,055	–	–	–	10,055	–	10,055
Net loss on cross currency interest rate swaps	–	–	(4,215)	–	–	–	(4,215)	–	(4,215)
Amortisation on share of reserves from associates	–	–	2,801	–	–	–	2,801	–	2,801
Income tax relating to components of other comprehensive income	–	(617)	(1,672)	–	–	–	(2,289)	–	(2,289)
Total comprehensive (expense)/income for the year	–	2,816	6,969	(18,738)	–	(27,843)	(36,796)	143	(36,653)
Contributions of equity (net of transaction costs)(ii)	296,474	–	–	–	–	–	296,474	–	296,474
Income tax relating to capital raising transactions costs	3,130	–	–	–	–	–	3,130	–	3,130
Vested executive incentive shares transactions	5,618	–	–	–	(5,618)	–	–	–	–
Share-based transactions during the year	–	–	–	–	(2,483)	–	(2,483)	–	(2,483)
Income tax relating to share-based transactions during the year	–	–	–	–	3,366	–	3,366	–	3,366
Payment of dividends(iii)	–	–	–	–	–	(64,162)	(64,162)	(138)	(64,300)
Balance at 30 June 2011	1,423,897	–	(77,673)	(58,683)	14,775	139,969	1,442,285	100	1,442,385

(i) The June 2011 balance includes $65.0 million reclassification adjustment from other comprehensive income into the profit and loss in accordance with *AASB 139 Financial Instruments: Recognition and Measurement*.

(ii) Contributions of equity relate to shares issued as a result of Capital Raising, Employee Share Plan and Dividend Re-investment Plan operable for the 2010 final dividend.

(iii) Payment of dividends relates to 2010 final dividend, ROADS dividends and minority interests dividends paid during the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 40 to 111.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CONTINUED

FOR THE YEAR ENDED 30 JUNE 2011

2010

$'000	Issued capital	Available-for-sale investment reserve	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
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)
Loss 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 (expense)/income for the year	–	237	(22,740)	(3,816)	–	2,957	(23,362)	95	(23,267)
Contributions 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) Contributions of equity relate 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 on pages 40 to 111.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers		**7,275,150**	6,206,952
Distributions from equity-accounted investments	15(b)	**12,667**	12,708
Dividends received from external entities		**701**	359
Payments to suppliers and employees		**(7,025,409)**	(5,940,048)
Interest received		**14,275**	18,327
Interest and other costs of finance paid		**(73,399)**	(69,274)
Income tax paid		**(18,360)**	(24,758)
Net cash inflow from operating activities	26(c)	**185,625**	204,266
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**44,154**	74,236
Payments for property, plant and equipment		**(446,010)**	(207,724)
Proceeds from sale and leaseback of plant and equipment		**82,891**	–
Payments for intangible assets		**(1,421)**	(3,985)
Payments for investments		**(3,948)**	(29,323)
Proceeds from the sale of investments		**7,962**	–
Advances to joint ventures		**(3,201)**	(666)
Proceeds from sale of assets held for sale		**–**	89,188
Advances to other entities		**–**	(33,786)
Payments for businesses acquired	25(b)	**–**	(32,336)
Net cash (used) in investing activities		**(319,573)**	(144,396)
Cash flows from financing activities			
Proceeds from borrowings		**972,576**	855,441
Repayments of borrowings		**(1,148,133)**	(764,183)
Net proceeds from issue of equity securities		**270,185**	–
Dividends paid		**(44,135)**	(66,003)
Dividend paid to non-controlling interest		**(138)**	–
Net cash inflow from financing activities		**50,355**	25,255
Net (decrease)/increase in cash and cash equivalents		**(83,593)**	85,125
Cash and cash equivalents at the beginning of the year		**378,382**	292,223
Effect of exchange rate changes		**(12,557)**	1,034
Cash and cash equivalents at the end of the year	26(a)	**282,232**	378,382

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 40 to 111.

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 Financial Report was authorised for issue by the Directors on 24 August 2011.

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 similar 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. Changes in these estimation methods could have a material impact on the financial statements of Downer.

CAPITALISATION OF TENDER/BID COSTS

Tender/Bid costs are expensed until the Group has reached preferred bidder status and there is a reasonable expectation that the cost will be recovered. At this stage costs are capitalised. Tender/Bid costs are then expensed over the life of the contract. Where a tender/bid is subsequently unsuccessful the previously capitalised costs are immediately expensed. Tender/Bid costs that have been expensed cannot be recapitalised in a subsequent reporting period.

Judgement is exercised in determining whether it is probable that the contract will be obtained. An error in judgement would result in capitalised tender costs being recognised in the income statement in the following reporting period.

KEY CONTRACTS AND SUPPLIERS

A number of contracts that Downer enters into are long-term contracts with recurring revenues but are terminable on short notice for convenience. There is a risk that key contracts may not be renewed, may be renewed on less favourable terms or may be cancelled. Similarly, where Downer is reliant on one or a small set of key suppliers to provide goods and services, the performance of these suppliers will impact Downer's ability to complete projects and earn profits. In addition, there are particular suppliers with whom Downer has a long-term relationship which support Downer's business activities. A change in relationship with these suppliers could negatively impact Downer's future financial performance. Downer also has a large capital equipment fleet which is subject to availability of major spares such as tyres for mining equipment. New contracts often require the acquisition of new equipment and the timing of purchase is dependent upon availability from suppliers in a world market. Management judgement is therefore required to estimate the impact of the loss of key contracts and suppliers on future earnings supporting existing goodwill and intangible assets.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

WARATAH TRAIN PROJECT

Based on a full Forecast-Cost-At-Completion (FCAC) review of the Rolling Stock Manufacturing (RSM Contract) element the Waratah Train Project (WTP) undertaken during January-February 2011, an additional provision of $250.0 million was raised during the period against the project. In determining this provision, Management continues to be required to estimate future events and make a number of key assumptions in relation to the revised program. The provision reflects the revised program which now provides for production of trains in four distinct phases:

1. Train Sets 1 to 10, which required or require significant additional work on the interior fit-out and related areas due to design related production issues, inadequate methods and processes in assembly. These Train Sets were all delivered to Australia by 30 June 2011;
2. Train Sets 11 to 15 are being built by Changchun Railway Vehicles Company (CRC or China) to a first configuration freeze (Configuration Freeze 1) using new methods and processes to aid production of the bodyshell and interior fit-out. Whilst implementation of these new methods and processes has caused a delay to the program announced in February 2011 of two to eight weeks, this has meant that the interior fit-out scope that was planned to be transferred to Cardiff from Train Set 16 will no longer be required, releasing the provision of $17 million in the FCAC to contingency to fund:
    (i) other program improvement initiatives or otherwise de-risk the project; and
    (ii) eight shopfloor mentors/coaches from Downer's Cardiff assembly plant who have been based in CRC to assist in the installation of the more difficult aspects of the interior design;
3. Train Sets 16 to 25 are intended to be built using a flow-line process that is being implemented in the interior fit-out shop in CRC. Process improvements in the bodyshell shop will see bodyshells built to tighter tolerances that will further aid interior installation; and
4. Train Sets 26 to 78 are intended to be built completely in CRC based on a second configuration freeze (Configuration Freeze 2) following implementation of further design improvements for ease of assembly and higher quality. Increased output from the flow-lines in CRC will be required by Train Set 38 to match the targeted delivery program with planning currently underway with CRC to ensure this is achieved. Provisional cost estimates for the increased output are within the FCAC allowances.

The manufacturing program is targeting the following delivery milestones, which remain broadly within the "bands" outlined in February 2011:

- Train Set 1 was presented to RailCorp for Practical Completion (PC) on 19 April 2011 and received PC on 30 June 2011;
- Train Sets 2 to 6 are being progressively delivered to RailCorp for PC between August 2011 and December 2011;
- Train Set 7 to be entering passenger service in mid January 2012 following the achievement of reliability performance targets by Train Sets 1 to 6; and
- Train Set 78 being delivered to RailCorp and entering passenger service in the first half of calendar 2014.

Key assumptions underpinning the manufacturing program include:

- ongoing commitment to the resolution of minor defects on Train Sets to enable presentation to RailCorp for PC;
- the "quick win" initiatives introduced for Train Sets 11 to 25 result in the estimated improvement in production rate and quality in China and reduce levels of re-work in Cardiff;
- the re-design of certain components and assemblies to achieve the estimated production rates and required quality levels in the bodyshell and interior fit-out shops in China for Train Sets 26 onwards;
- CRC deploy the requisite number of resources to the interior fitout shop in Changchun with the appropriate skill and experience to achieve the required productivity and quality in Train Sets;
- achieving the reliability performance targets for Train Sets 1 to 6 to allow Train Set 7 to be delivered by mid-January 2012 (the performance of Train Set 1 in service is to date achieving its targeted reliability);
- the trains must meet certain performance thresholds while in passenger service (failure of the trains to meet the required thresholds is likely to result in additional costs being incurred by Downer);
- all parties continue to honour their contractual obligations;
- that RailCorp continues to adopt a reasonable industry approach to the acceptance of the Waratah trains for passenger service through the manufacture phase of the project (including supporting documentation) and the required track access will be made available to allow the project to achieve reliability and growth targets;
- that monies held in the Manufacturing Delay Account (MDA) are paid to Downer upon achievement of contracted milestones, and that interest that accrues on the MDA is to be paid when Train Set 78 is delivered to Reliance Rail, together with the balance of MDA. MDA interest receivable in the FCAC assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature; and
- an accelerated eight business day delivery cadence from Train Set 30, which has not yet been approved by RailCorp.

The FCAC provides for liquidated damages in line with the revised delivery program with no specific contingency for Liquidated Damages (LDs). Any additional liability for LDs as a result of slippage in the revised delivery program will be required to be funded from the general contingency. The general contingency held within the FCAC totals ~$90 million, reflecting the initial general contingency of $73 million and the balance of the transferred interior fit-out scope in Cardiff of $17 million that is no longer expected to be required.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

WARATAH TRAIN PROJECT – CONTINUED

The FCAC is summarised below by major cost category.

Cost Category	Feb Estimate $m	Change $m	June Estimate $m
Materials and Sub-Contracted Components	1,019	15	1,034
Labour	324	(24)	300
Engineering Services	131	17	148
Transport, Logistics and Procurement	175	(3)	172
Project Management	143	(17)	126
Insurance, Bonding and Finance	95	(3)	92
Forecast Liquidated Damages (LDs)	155	(5)	150
Manufacturing Delay Account (MDA) interest receivable	(111)	(6)	(117)
Other Costs	78	9	87
General Contingency	73	17	90
Total FCAC	**2,082**	**–**	**2,082**

MATERIALS AND SUB-CONTRACTED COMPONENT

This cost category represents approximately 50 per cent of the total FCAC and has been contracted and committed. The materials forecast reflects current yield and scrappage experience contained within the existing bill of material (BOM). For example, the BOM assumes a 20 per cent loss on stainless steel whilst cutting due to scrappage. No specific allowance has been made for variation to these yield assumptions, obsolete parts or materials associated for future engineering changes or potential improvements to the yield associated with value engineering proposed to be undertaken.

Stainless steel required by the project is contracted, however, subject to market price escalation. The FCAC assumes that future stainless steel orders will be priced at the average price of recent shipments.

The FCAC assumes that all current suppliers remain solvent over the three year build time frame and that there are no latent defects or quality issues in any parts or designs provided. Should any latent defects manifest through the build or testing phase, it is assumed that they will be rectified at the supplier's cost with no significant delays to the manufacturing schedule.

The FCAC has allowed for the additional storage costs associated with the revised delivery program where suppliers could not be contractually slowed down (without significant penalties) to match the revised manufacturing schedule. This is reflected within the logistics provision.

Whilst Downer currently has a potential right of recovery of liquidated damages from materials suppliers, the FCAC does not assume recovery of these amounts at this stage. Similarly, the FCAC does not assume any potential increases in materials costs associated with suppliers in the future attempting to claim liquidated damages from Downer due to the manufacturing delays.

LABOUR

Labour includes manpower costs sub-contracted with CRC in China and those incurred directly by Downer at Cardiff. It is assumed that CRC will increase the labour undertaking the interior fitout to allow them to meet their contracted cadence and will continue to satisfy their obligations.

Included within the Cardiff labour in the FCAC is allowance for the significant rework of Train Sets 1 to 10 at Cardiff and minor levels of rework thereafter to Train Set 78. In making the estimates for rework, the experience of the trains built to date has been taken into consideration, as well as a process of Cardiff personnel signing-off rework requirements before trains depart Changchun for Australia. In addition, the expected productivity benefits derived from an assumed learning curve (derived from the learning curve experienced on past passenger train builds) have been applied. Similar learning curve assumptions have been factored into the labour productivity assumptions for the original Cardiff scope of work.

The FCAC assumes that suitable skilled tradesmen are available to perform this transferred scope of work and that they will be paid ordinary rates pursuant to the Enterprise Bargaining Agreements that are in force. No provision has been made in the FCAC for the potential future redundancy costs associated with making Cardiff staff redundant at the completion of this project on the assumption that all staff will be redeployed.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

WARATAH TRAIN PROJECT – CONTINUED

ENGINEERING SERVICES

This category includes the cost of the initial train design, testing and commissioning throughout the program and the proposed manufacturability assessment and redesign outlined above to improve vehicle components and assembly. The FCAC assumes approximately 170,000 hours of Engineering and 60,000 hours of Drafting will be applied to the project at a fully burdened labour rate including proportionate overhead recovery for the Granville site and incremental direct overheads after allowance for future CPI price escalation through to the end of the program. The FCAC assumes that the Engineering resource reduces during the program as the trains reach a steady state of production and delivery. The FCAC does not provide for any significant delays in the program due to failures in service that require substantial engineering redesign. In addition to these labour costs, the Engineering Services FCAC includes a $7.5 million provision for an estimated weight penalty.

TRANSPORT, LOGISTICS AND PROCUREMENT

This includes transport, warehousing, demurrage, logistics and procurement management and import and customs duty.

The FCAC provides the transport of all Sets from China to Australia with allowances for single or double shipments where currently expected. All Train Sets and warehoused materials are insured for direct loss but not for any consequential loss. The FCAC provides for the customs duty expected to be incurred on importation of dutiable materials into Australia at a rate of 5 per cent.

PROJECT MANAGEMENT

Project Management includes all support activities to complete the program including allowance for a senior management team with the requisite high-volume, assembly-line build and project management expertise, as well as a team of experts to support the revised production approach in China. The FCAC provides for all the travel, housing and expatriate benefits related to this team. The FCAC assumes that the project management resource tapers off during the program as Train Sets reach a steady state of production and delivery. The FCAC has provided for the expected future cost of international travel to China, consultants, external accounting services and legal costs associated with the normal operation of the program. These costs have been determined by reference to historical experience, as well as stage of the project and have been indexed for expected inflation.

INSURANCE, BONDING AND FINANCE

This includes the actual costs incurred to insure property, liability and people for the full duration of the program. This insurance cost was fully contracted at inception of the program. The cost of bonding reflected in the FCAC assumes a market rate being applied to the outstanding bond value through to completion of the project and that existing committed bonding facilities will be rolled on substantially similar terms to those in place at 30 June 2011. Financing costs also includes the cost of hedging the foreign exchange risk associated foreign denominated costs included within the FCAC. It is noted that approximately 85 per cent of the foreign currency costs were hedged at inception of the Rolling Stock Manufacture (RSM) contract. Unhedged costs denominated in foreign currencies are included in the FCAC at the long-term average rates.

FORECAST LIQUIDATED DAMAGES (LDs)

Forecast LDs are based on a formula that broadly approximates to $200,000 per train per month the train is not in service. While 78 Trains Sets are being manufactured under the project, only 72 Trains Sets are required to be in passenger service so LDs are only payable against 72 Train Sets. The projected LDs of $150 million represent an approximate delay of 13 months for every Train Set to be delivered which is consistent with the entry into passenger service of Train Set 1 in June 2011, compared to the original contract delivery date of Train Set 1 of April 2010 (after allowing for the three month grace period). Forecast LDs assume an accelerated eight business day delivery cadence from Train Set 30 which has not yet been approved by RailCorp. Using a contractual delivery cadence of 10 business days would result in increased liquidated damages of $50.2 million. Any additional liability for LDs as a result of slippage in the revised delivery program will be required to be funded from the general contingency.

MANUFACTURING DELAY ACCOUNT (MDA)

This MDA reflects the contractual arrangement between Downer, the RSM and Reliance Rail under which milestone payments are paid to Downer in accordance with the actual delivery schedule achieved. To the extent that monies are not paid to Downer due to late delivery and/or missed performance milestones, monies are held by Reliance Rail in the MDA. Monies held in the MDA are paid to Downer upon achievement of contract milestones. Interest, which accrues on the MDA is to be paid to Downer when Train Set 78 is delivered to Reliance Rail, together with the balance of the MDA. MDA interest receivable has been shown as a cost offset in the FCAC. This estimate assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature. Any additional liability for LDs as a result of slippage in the revised delivery program will be required to be funded from the general contingency.

GENERAL CONTINGENCY

The FCAC no longer includes a specific contingency for liquidated damages. Any additional liability for LDs as a result of slippage in the revised delivery program will be required to be funded from the general contingency. A general contingency of $90 million is now included in the FCAC to cover unforeseen events or cost variations that may arise over the life of the program. This could include, for example, a minor delay in delivery of Train Sets in the early stages of the program or additional costs to achieve a faster delivery rate of trains from CRC as required from Train Set 40 onwards to achieve the revised program.

A program of this size and duration would normally have unidentified cost savings or tasking built into the FCAC based on historical experience and Management's judgement. At this stage only $6.5 million of future costs savings are currently built into the FCAC.

The FCAC discussed above does not rely on any recovery from claims submitted or other commercial actions which may be available to Downer. If, however, the revised Waratah project for example experiences incremental delays beyond June 2015, the cost of which could not be abated, further provision would be required.

No specific allowance has been made for potential future legal claims against Downer in relation to this project.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

RELIANCE RAIL

Reliance Rail Pty Ltd (Reliance Rail) is an unlisted, special purpose vehicle established to execute the New South Wales (NSW) Public Private Partnership (PPP) Waratah Train Project. Under the Project Contract with RailCorp, Reliance Rail is to:

- Design and build 78 eight-car double-deck Train Sets, which it has subcontracted under a Rolling Stock Manufacturing contract (RSM Contract);
- Construct a maintenance facility at Auburn (the Maintenance Facility Contract), NSW for the purpose of maintaining the sets over their effective life which it has subcontracted to Downer; and
- Maintain the 78 Train Sets and make available 72 of these Train Sets to Railcorp for 30 years under the Project Contract, which maintenance obligations Reliance Rail has subcontracted to Downer under a Through Life Support (TLS Contract).

These contracts are collectively known as the Waratah Train Project (WTP). The RSM contract has been subcontracted to an unincorporated joint venture between Downer EDI Rail Pty Ltd and Hitachi Limited (the RSM Joint Venture).

The total funding raised by Reliance Rail to deliver the WTP is $2.4 billion. The majority of this funding ($2.1 billion) was raised via equity coupled with senior and junior ranking bonds in December 2006. The bonds are guaranteed by two specialist financial guarantors, FGIC (UK) Ltd and Syncora Guarantee Inc (monoline insurers). These funds were placed on deposit and are being progressively released to meet ongoing project costs and expenses as milestones under the contracts are achieved.

As part of the funding, a $357 million senior, secured committed bank debt facility (Bank Facility) was raised in December 2006 with scheduled drawdowns to commence in February 2012. This facility remained undrawn at 30 June 2011. Reliance Rail's funding arrangements are on a non-recourse basis to Downer and Downer is not obliged to provide further equity to Reliance Rail.

The $357 million Bank Facility may be cancelled under certain circumstances prior to the scheduled drawdown date commencing in February 2012. The facility contains a termination provision that in the event of the insolvency of both monoline insurers, the banks have a right to terminate any undrawn commitments. Since 2009, the monoline insurers have been adversely affected by the global financial crisis (GFC) and the financial position of both monoline insurers remains uncertain, although they are still operating. If both monoline insurers are in default at the same time, or become insolvent, the undrawn component of the Bank Facility could be cancelled by the banking syndicate.

On 16 August 2011, Reliance Rail received a "reservation of rights" notice from its monoline insurers claiming events of default under Reliance Rail's debt financing documents. Reliance Rail has advised its financial guarantors and other financial stakeholders that there are no events of default and that it categorically rejects the unsubstantiated allegations. Based on legal advice received, Downer does not expect the "reservation of rights" notice to adversely affect the delivery of the Waratah Rolling Stock Manufacture contract. This advice is based on the assumption that no events of default exist or are continuing as stated by Reliance Rail.

The Auditor's Report in respect of Reliance Rail's financial statements for the year ended 30 June 2010 included an "Emphasis of Matter" which outlined the uncertainties relating to Reliance Rail's ability to refinance its borrowings when they fall due, the first of which is between September 2016 - 2018. The opinion considered it appropriate for the financial statements to be prepared as a "Going Concern" basis at that date.

Prior to the first utilisation of the $357 million Bank Facility in February 2012 the Directors of Reliance Rail, in issuing the relevant loan draw-down notice, will be required to form a view that Reliance Rail is able to pay its debts as and when they become due and payable.

Reliance Rail's bond facilities contain options (exercisable by Reliance Rail) to extend their final maturities. Should these options be exercised, the first debt maturity of $400 million of senior secured bonds can be extended from September 2016 to September 2018.

It is the current view of Downer that Reliance Rail will continue as the operating entity, based on public comments made by the NSW Government as to the importance of the WTP to the State and people of NSW.

Notwithstanding this view, Management has considered the possibility that the WTP is terminated and has estimated, based on commercial judgement, legal interpretation of the contractual terms between Downer and other parties, including sub-contractors, suppliers and Reliance Rail, the financial consequences for Downer as:

- A pre-tax accounting loss of between $400-$450 million, which includes the write-off of the $73.8 million currently reflected in Hedge Reserves; and
- A negative cash impact of between $300-350 million, which would be payable over several years as sub-contractor claims are resolved.

In assessing the potential financial consequences of the WTP being terminated, significant judgement and estimation has been necessary, particularly in relation to commitments that have been made by sub-contractors and suppliers to Downer under orders placed with them, and the extent to which they are able to mitigate their potential losses.

The key underlying assumptions used by Management in relation to this analysis are:

- The RSM Contract is terminated and no further delivery of trains is required;
- Downer ceases to manufacture trains and ceases testing and commissioning activities;
- Approximately 40 per cent of all currently committed purchase orders could be mitigated by suppliers;
- All current Work In Progress (WIP) and future payments to suppliers (approximately 60 per cent of current committed purchase orders) will be written off assuming no recoveries;
- No provision has been made for redundancy costs on the assumption that all permanent staff will be redeployed;
- All foreign exchange contracts are closed out at current market rates;
- All performance bonds issued to Reliance Rail are returned to Downer;

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

RELIANCE RAIL – CONTINUED

- No additional contract "break costs" are incurred as key suppliers are assumed to take all reasonable steps to mitigate their losses; and
- Other project termination costs are in accordance with normal business practices.

The estimated profit and cash flow impacts on Downer of a termination of the WTP could result in Downer's debt facilities becoming repayable on demand.

In this circumstance Downer would be required to engage with its key financiers to obtain a covenant breach waiver, and any such waiver is likely to be conditional upon Downer undertaking a number of capital management initiatives including asset sales, business divestments or an equity capital raising.

In the event of the WTP being terminated and if the Group's financiers were to require the Group's debt facilities to be immediately repaid or substantially reduced, then, in the opinion of the Directors, material uncertainty would exist regarding the ability of the Group to continue as a going concern and pay its debts as and when they become due.

The financial report has been prepared on the basis that the Group is a going concern, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. No adjustments have been made to the financial report relating to the recoverability and classification of assets or liabilities that might be necessary as a result of a failure of Reliance Rail to continue as the Operating Entity under the WTP.

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 $16.6 million (2010: $42.0 million) was recognised in the current year in respect of assets related to the Works UK business and CPG New Zealand consulting business following an assessment of the future performance of those businesses. Key assumptions requiring Management's judgement include projected cash flows, growth rate estimates, discount rates, gross margin, working capital and capital expenditure.

ANNUAL LEAVE AND LONG SERVICE LEAVE

The provision is calculated using expected future increases in wages and salary rates including on-costs and expected settlement dates based on staff turnover history and is discounted using the rates attaching to Australian Government bonds at balance date which most closely match the terms of maturity of the related liabilities.

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. Assumptions about the generation of future taxable profits depend on Management's estimate of future cash flows. Changes 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.

ENVIRONMENTAL RISK AND REGULATION

Downer and the industries in which it operates are subject to a broad range of environmental laws, regulations and standards (including certain licensing requirements). This could expose Downer to legal liabilities or place limitations on the development of its operations. In addition there is a risk that property utilised by Downer from time to time may be contaminated by materials harmful to human health (such as asbestos and other hazardous materials). In these situations Downer may be required to undertake remedial works on contaminated sites and may be exposed to third party compensation claims and other environmental liabilities. Management judgement is therefore required to estimate the impact of such factors on future earnings supporting existing goodwill and intangible assets.

CARBON TAX

On 10 July 2011 the Government announced the start-up price and architecture for the proposed carbon price mechanism:

- A fixed price of $23/tCO_2e$ as of the start of the scheme on 1 July 2012, increasing to $24.15/tCO_2e$ and $25.40/tCO_2e$ for 2012-13 and 2013-14, respectively;
- From 1 July 2015, the scheme will transition to a cap and trade emissions trading scheme with the carbon price to be determined by the market;
- Organisations with operational control over facilities that generate greater than 25 $ktCO_2e$ will be required to purchase permits to cover emissions from these "threshold" facilities;
- The scheme covers emissions generated from stationary energy, industrial processes, fugitive emissions (other than from decommissioned coal mines), emission from non-legacy waste, transport fuels used only used for domestic aviation, domestic shipping, rail transport and off-road transport of liquid and gaseous fuels.

A potential direct liability under the announced scheme for the Group is currently believed to be confined to one Mining facility. The mine site generates greenhouse gas emissions of around 73 $KtCO_2e$ per year (as of FY2009-10), equating to a total liability of $1.7 million. However, contractual mechanisms have been enacted to ensure that any costs associated with a direct liability arising from the impost of the carbon pricing mechanism can be transferred to the mine owner.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

CARBON TAX – CONTINUED

Other potential impacts from the carbon pricing mechanism on the Group will include operating costs both direct and indirect from increased commodity costs (electricity and natural gas). The level of increase is still uncertain, but some initial modelling suggests that increases in electricity and gas costs are unlikely to be material.

Management is currently assessing the potential financial impact of the pass-through costs from the impost of a price on carbon from suppliers and third parties within the Group supply chain. As part of this assessment contractual agreements will be reviewed to determine the extent of this "pass-through" and consideration will be given to the treatment of the carbon price in new agreements negotiated in the future.

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 2011, 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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and the statement of financial position respectively. The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the statement of comprehensive income. Purchases from minority interests result in goodwill; being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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.

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 a cost 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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

CONSTRUCTION CONTRACTS – CONTINUED

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 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.

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

Other revenue is recognised and measured at fair value of the consideration received or, for revenue that is receivable, to the extent that it is probable that the economic benefits will flow to the Group and it can be reliably measured.

(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.

(iv) Gain or Loss on Non-current Asset Disposal
The gain or loss on disposal of non-current assets is included as other income or expense at the date control passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

FINANCE AND BORROWING COSTS

Finance costs comprise interest expense on borrowings, impairment losses recognised on financial assets, losses on ineffective hedging instruments that are recognised in profit and loss and finance lease charges.

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs, including the cost to establish financing facilities, are expensed over the term of the facility.

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 flow 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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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.

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 other comprehensive income, 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 have agreed to pay (or receive) 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.

RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently, less provision for doubtful debts. Trade receivables are normally due for settlement no more than 30 days from the date of recognition.

Prepayments represent the future economic benefits receivable in respect of economic sacrifices made in the current or prior reporting period.

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 time frame 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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

INVESTMENT IN ASSOCIATES – CONTINUED

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 equal 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

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 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.

The cost of self-constructed and acquired assets includes the initial estimate, at the time of installation, of the costs of dismantling and removing the item and restoring the site on which it is located. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a basis so as to write down the net cost of each asset over its expected useful life to its estimated residual value. The basis of depreciation is determined after assessing the nature of the productive capacity of the asset and may include straight line, diminishing value and units of production (including hours of use) methodologies. 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

The cost of improvements to or on leasehold properties is amortised over the shorter of the unexpired period of the lease, the expected period of lease renewal or the estimated useful life of the improvements to the consolidated entity.

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 lesser of the estimated useful life of each asset or the lease term.

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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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

Purchased 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.

SOFTWARE

Software acquired by the Group is stated at cost less accumulated amortisation and impairment losses. Internally developed software is capitalised once the project is assessed to be feasible. Costs incurred in determining project feasibility are expensed as incurred. The costs capitalised include consulting, licensing and direct labour costs.

AMORTISATION

Amortisation is charged to the income statement on a straight line basis over the useful lives of intangible assets unless such life is indefinite. Software and other intangible assets are amortised from the date they are available for use. The estimated useful lives are generally:

- Software 5 – 6 years;
- Intangible assets (other than indefinite useful life intangible assets) 20 years; and
- Goodwill has indefinite useful life.

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 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 through profit and loss.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

EMPLOYEE BENEFITS

Liabilities are incurred 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 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.

BONUS PLANS

A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; and
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

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.

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-tradeable 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.

SHARE CAPITAL

ORDINARY SHARES

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are accounted for as a deduction from equity, net of any tax effects.

TREASURY SHARES

When treasury shares subsequently vest to employees under the Downer employee share plans, the carrying value of the vested shares is transferred to the employee equity benefits reserve.

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 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.

Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an anti-dilutive effect on earnings per share.

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 disclosure presently made in relation to the Group's Financial Report:

– *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; and
– *AASB 2010-5 Amendments to Australian Accounting Standards* effective for annual reporting periods beginning on or after 1 January 2011.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS – CONTINUED

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 2009-11 Amendments to Australian Accounting Standards arising from AASB 9* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2013;
- *AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2013;
- *AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* effective for annual periods beginning on or after 1 July 2011; and
- *AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* effective for annual periods beginning on or after 1 January 2012.

The following pronouncements approved by the IASB/IFRIC, where an equivalent pronouncement has not yet been issued by the AASB, 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.

- *IFRS 10 Consolidated Financial Statements* effective 1 January 2013;
- *IFRS 11 Joint Arrangements* effective 1 January 2013;
- *IFRS 12 Disclosure of Involvement with Other Entities* effective 1 January 2013;
- *IFRS 13 Fair Value Measurement* effective for annual reporting periods beginning on or after 1 January 2013;
- *IAS 19 Employee Benefits* effective 1 January 2013;
- *IAS 27 Consolidate and Separate Financial Statements* effective for annual reporting periods beginning on or after 1 January 2013; and
- *IAS 28 Investments in Associates and Joint Ventures* effective 1 January 2013.

NOTE 2. SEGMENT INFORMATION

IDENTIFICATION OF REPORTABLE SEGMENTS

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 during the year are outlined below:

Engineering includes Consulting, Emerging Sectors and Asia: Provides engineering, procurement, construction management services, electrical and instrumentation construction and services. Design, installation and management of power systems including transmission lines and renewable energy facilities. Structural, mechanical and piping construction and services. Project management, feasibility studies, master planning, architecture and urban design. Engineering design and specialist consulting services to public and private sectors. Mining consulting services and design and construction for materials handling and minerals processing.

Mining: Provides contract mining services including open-cut and underground operations, whole-of-lifecycle mine planning, tyre management, explosives and exploration, drilling and blasting.

Rail: Provides design, build, fit-out and maintenance of passenger rolling stock; design, build and maintenance of freight rolling stock including locomotives and rail wagons, and importing and commissioning of completed locomotives units for use in the resources sector.

Works: Provides essential services for the development, management and maintenance of road and rail assets in the public and private sectors, providing utility services such as groundworks for power, gas and telecommunications and maintenance of water supply and wastewater treatment.

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) In the current year, the Group recognised $250.0 million pre-tax provision on the Waratah train project. This provision together with a $16.6 million pre-tax impairment of assets charge is not included in the measurement of segment profit and loss. The details of the provision charge and impairment of assets are separately disclosed as "Individually significant items" in the consolidated income statement and as discussed in Note 4;

(b) Interest income and finance cost;

(c) Corporate charges comprising non-segmental expenses such as head office expenses; and

(d) Income tax expense.

NOTE 2. SEGMENT INFORMATION – CONTINUED

INFORMATION ABOUT MAJOR CUSTOMERS

The Group has no single external customer that provided more than 10 per cent of the Group's revenue. Revenue by operating segment is shown below:

	Total revenue[i]		Share of sales revenue in joint venture entities and associates		Total revenue including joint ventures and associates	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
By business segment						
Engineering and Consulting	**2,268,608**	1,868,782	**30,453**	24,857	**2,299,061**	1,893,639
Mining	**1,391,723**	913,224	**74,154**	60,249	**1,465,877**	973,473
Rail	**947,036**	943,759	**181,989**	102,998	**1,129,025**	1,046,757
Works	**2,037,453**	2,058,278	**32,481**	23,064	**2,069,934**	2,081,342
Inter-segment sales	**(9,885)**	(12,647)	**–**	–	**(9,885)**	(12,647)
Subtotal	**6,634,935**	5,771,396	**319,077**	211,168	**6,954,012**	5,982,564
Unallocated	**21,092**	73,371	**–**	–	**21,092**	73,371
Total	**6,656,027**	5,844,767	**319,077**	211,168	**6,975,104**	6,055,935

(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.

NOTE 2. SEGMENT INFORMATION – CONTINUED

	Note	Segment results 2011 $'000	Segment results 2010 $'000
By business segment			
Engineering and Consulting		**72,015**	112,519
Mining		**119,578**	68,191
Rail		**75,034**	77,926
Works		**53,977**	102,901
Total reported segment income		**320,604**	361,537
Unallocated		**(294,941)**	(308,175)
Interest revenue	3(a)	**14,180**	18,103
Interest expense	3(b)	**(78,489)**	(69,398)
Net interest expense		**(64,309)**	(51,295)
Total (loss)/profit before income tax		**(38,646)**	2,067
Income tax benefit		**10,946**	985
Total net (loss)/profit after income tax		**(27,700)**	3,052

Reconciliation of segment net operating profit to net profit after tax:	Note	2011 $'000	2010 $'000
Segment net operating profit		**320,604**	361,537
Unallocated:			
Provision for Waratah train project	4	**(250,000)**	(190,000)
Impairment of goodwill	4	**(9,770)**	(42,000)
Impairment of assets	4	**(6,803)**	–
Provision for legacy customer contracts	4	**–**	(18,000)
Provision for MB Century investment	4	**–**	(10,000)
Total individually significant items		**(266,573)**	(260,000)
Impairment of MB Century		**–**	(15,871)
Gain on property sales [(i)]		**4,050**	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		**13,166**	(32,914)
Restructuring costs		**(6,894)**	(5,300)
Corporate costs		**(38,690)**	(55,263)
Total unallocated		**(294,941)**	(308,175)
Interest revenue		**14,180**	18,103
Interest expense		**(78,489)**	(69,398)
Total (loss)/profit before income tax		**(38,646)**	2,067
Income tax benefit		**10,946**	985
Total net (loss)/profit after tax		**(27,700)**	3,052

(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 $12.8 million, net proceeds of $12.2 million and profit of $4.1 million.

(ii) Included within prior year 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. Following the Court proceeding in February 2011, consent orders were issued and Downer has received the full recovery amount in June 2011.

NOTE 2. SEGMENT INFORMATION – CONTINUED

	Segment assets		Segment liabilities		Depreciation and amortisation	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
By business segment						
Engineering and Consulting	**875,024**	823,576	**442,131**	452,976	**24,202**	22,961
Mining	**1,013,383**	693,969	**427,753**	257,223	**123,239**	71,057
Rail	**786,784**	790,101	**404,309**	364,888	**5,393**	6,746
Works	**950,986**	1,048,084	**481,855**	465,723	**52,061**	56,541
Total	**3,626,177**	3,355,730	**1,756,048**	1,540,810	**204,895**	157,305
Unallocated	**84,489**	100,270	**512,233**	672,339	**5,599**	2,854
Total	**3,710,666**	3,456,000	**2,268,281**	2,213,149	**210,494**	160,159

	Carrying value of equity-accounted investments		Share of net profit of equity-accounted investments		Acquisition of segment assets	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
By business segment						
Engineering and Consulting	**10,615**	4,784	**6,500**	191	**34,231**	53,572
Mining	**11**	11	**9,948**	9,965	**410,726**	130,900
Rail	**20,649**	13,089	**8,337**	5,740	**18,049**	22,996
Works	**6,079**	4,526	**1,610**	2,126	**47,408**	35,066
Total	**37,354**	22,410	**26,395**	18,022	**510,414**	242,534
Unallocated	**–**	–	**–**	–	**2,381**	7,935
Total	**37,354**	22,410	**26,395**	18,022	**512,795**	250,469

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
By geographic location						
Australia	**5,443,237**	4,529,942	**3,063,976**	2,729,457	**495,558**	226,134
Pacific	**878,484**	918,707	**434,461**	459,276	**12,928**	19,691
North East Asia	**9,476**	19,754	**11,286**	13,699	**–**	–
South East Asia	**244,938**	264,974	**160,319**	199,552	**1,832**	3,461
Other	**79,892**	111,390	**40,624**	54,016	**2,477**	1,183
Total	**6,656,027**	5,844,767	**3,710,666**	3,456,000	**512,795**	250,469

(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.

NOTE 3. PROFIT FROM ORDINARY ACTIVITIES – CONTINUING OPERATIONS

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
a) Revenue			
Sales revenue			
Rendering of services		**4,100,861**	3,821,611
Mining services		**1,364,048**	890,091
Construction contracts		**934,317**	892,971
Sale of goods		**214,324**	174,911
Other revenue			
Other revenue		**17,390**	15,727
Rental income		**1,544**	944
Dividends			
Other entities		**701**	359
		6,633,185	5,796,614
Interest revenue			
Other loans and receivables	2	**14,180**	18,103
Other income			
Net gain on disposal of property, plant and equipment		**8,490**	27,700
Gain on disposal of MB Century classified as asset held for sale	2	**–**	2,350
Net foreign exchange gains		**172**	–
Total other income		**8,662**	30,050
Total revenue and other income		**6,656,027**	5,844,767
Share of sales revenue from joint venture entities and associates	2	**319,077**	211,168
Total revenue and other income including joint ventures and associates		**6,975,104**	6,055,935

NOTE 3. PROFIT FROM ORDINARY ACTIVITIES – CONTINUING OPERATIONS – CONTINUED

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
b) Operating expenses			
Cost of goods sold		**165,451**	135,426
Finance costs on liabilities carried at amortised cost:			
Interest expense		**73,712**	65,291
Finance lease expense		**4,777**	4,107
Total interest and finance lease expense	2	**78,489**	69,398
Net foreign exchange losses		**–**	527
Net loss on disposal of business		**441**	–
Depreciation and amortisation of non-current assets:			
Plant and equipment	16	**196,826**	146,622
Buildings	16	**2,425**	2,931
Amortisation of leased assets	16	**8,795**	6,882
Total depreciation		**208,046**	156,435
Amortisation of intellectual property/software	17	**2,448**	3,724
Total depreciation and amortisation		**210,494**	160,159
Doubtful debts		**2,499**	1,770
Operating lease expenses related to land and buildings		**69,852**	61,971
Operating lease expenses relating to plant and equipment		**164,753**	110,200
Total operating lease expenses		**234,605**	172,171
Employee benefits expense:			
Defined contribution plans		**111,599**	100,603
Share-based transactions		**4,870**	6,075
Employee benefits		**2,102,060**	1,837,591
Total employee benefits expense		**2,218,529**	1,944,269
(Gain) arising on derivatives in a designated fair value hedge accounting relationship		**(732)**	(1,487)
Loss arising on adjustment to hedged item in a designated fair value hedge accounting relationship		**508**	1,315
		(224)	(172)

NOTE 4. INDIVIDUALLY SIGNIFICANT ITEMS

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
The following material items are relevant to an understanding of the Group's financial performance:			
– Provision for Waratah train project (Note 1)		**250,000**	190,000
– Impairment of goodwill	17	**9,770**	42,000
– Impairment of assets		**6,803**	–
– Provision for legacy customer contracts		**–**	18,000
– Provision for MB Century investment		**–**	10,000
		266,573	260,000

PROVISION FOR WARATAH TRAIN CONTRACT

On 27 January 2011, the Group announced a $250.0 million pre-tax provision on the Waratah Rolling Stock Manufacture (RSM) train project following a full review of the project. The review undertaken revealed that the tendered estimates did 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.

IMPAIRMENT OF GOODWILL AND ASSETS

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. As a result of this assessment, management identified impairments of goodwill and assets relating to CPG New Zealand (Consulting arm of the Engineering Division) and Works UK totalling $16.6 million.

CONSULTING – CPG NZ

The CPG business in New Zealand has underperformed as a result of challenging economic conditions in NZ. Management decided to impair goodwill amounting to $7.8 million (2010: $22.0 million).

WORKS UK

The Works UK business was acquired in 2006. The weak UK economy has seen the business underperform and as a result a goodwill impairment of $2.0 million (2010: $20.0 million) has been recognised in the current year.

Management has completed a review of assets held and recognised impairment for a total value of $6.8 million to reduce the carrying value of the assets to their expected realisable value.

NOTE 5. INCOME TAX

	Consolidated	
	2011 $'000	2010 $'000
a) Income tax recognised in the income statement		
Tax benefit comprises:		
Current tax (benefit)/expense	**(25,212)**	48,875
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences	**14,266**	(49,860)
Total tax benefit	**(10,946)**	(985)

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

	2011 $'000	2010 $'000
(Loss)/profit before income tax	**(38,646)**	2,067
Group income tax (benefit)/expense calculated at 30 per cent of operating (loss)/profit	**(11,594)**	620
– Amortisation of intangible assets	**73**	148
– Non-taxable gains	**(862)**	(5,934)
– Exempt income	**(832)**	(823)
– Non-deductible expenses	**343**	477
– Share of net profit of associates and joint ventures	**–**	(307)
– Effect of different rates of tax on overseas income	**(5,899)**	(5,473)
– Research and development	**(2,130)**	(4,300)
– Effect of unrecognised temporary differences	**3,407**	(418)
– Impairment of goodwill	**2,930**	12,600
– Other items	**4,484**	3,017
	(10,080)	(393)
Over provision of income tax in previous year	**(866)**	(592)
Income tax benefit attributable to profit	**(10,946)**	(985)

The tax rate used in the above reconciliation is the corporate tax rate of 30 per cent 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.

NOTE 5. INCOME TAX – CONTINUED

	Consolidated	
	2011 $'000	**2010 $'000**
b) Income tax recognised directly in other comprehensive income		
The following current and deferred amounts were charged directly to equity during the year:		
Current tax		
– unvested executive incentive shares	**–**	1,547
Deferred tax		
– capital raising transaction costs	**3,130**	–
– share-based costs	**3,366**	(2,653)
Revaluations of financial instruments treated as:		
– cash flow hedges	**(1,672)**	11,993
– available for sale reserve	**(617)**	–
Total deferred tax charged to equity	**4,207**	9,340
Total charged directly to equity	**4,207**	10,887

NOTE 6. REMUNERATION OF AUDITORS

	Consolidated	
	2011 $	**2010 $**
Audit or review of financial reports:		
Auditor of the parent entity	**2,780,516**	2,800,016
Related practice of the parent entity auditor	**733,824**	833,348
	3,514,340	3,633,364
Non-audit services:		
Tax services	**228,372**	729,717
Audit related services	**73,474**	54,529
Due diligence and other non-audit services (i)	**810,694**	96,000
	1,112,540	880,246

The auditor of the Group is Deloitte Touche Tohmatsu.

(i) Other services relate to agreed-upon procedures, accounting advice and capital raising advisory services.

NOTE 7. EARNINGS PER SHARE

	2011 Cents per share	2010 Cents per share
Earnings per share (EPS) from continuing operations:		
– Basic EPS	**(10.5)**	(2.4)
– Diluted EPS	**(10.5)**	(2.4)

2011	Basic EPS	Diluted EPS
Loss attributable to members of the parent entity ($'000)	**(27,843)**	**(27,843)**
Adjustment to reflect ROADS dividends paid ($'000)	**(10,392)**	**–**
Loss attributable to members of the parent entity used in calculating EPS ($'000)	**(38,235)**	**(27,843)**
Weighted average number of ordinary shares (WANOS) on issue (No. (000's))	**365,448**	**365,448**
WANOS adjustment to reflect potential dilution for ROADS (No. (000's))(i)	**–**	**43,281**
WANOS used in the calculation of EPS (No. (000's))	**365,448**	**408,729**
Earnings per share from continuing operations (cents per share)(ii)	**(10.5)**	**(10.5)**

(i) The WANOS adjustment is calculated based on the issued value of ROADS divided by the average market price of the Company's ordinary shares for the period 1 July 2010 to 30 June 2011 ($4.13). 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 2011, the ROADS are deemed anti-dilutive; hence, diluted EPS remained at (10.5) cents per share.

NOTE 7. EARNINGS PER SHARE – CONTINUED

2010	Basic EPS	Diluted EPS
Profit attributable to members of the parent entity ($'000)	2,957	2,957
Profit adjustment to reflect ROADS dividends paid ($'000)	(11,020)	–
Profit attributable to members of the parent entity used in calculating EPS ($'000)	(8,063)	2,957
Weighted average number of ordinary shares (WANOS) on issue (No. (000's))	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	357,540
Earnings per share from continuing operations (cents per share)(ii)	(2.4)	(2.4)

(i) The WANOS adjustment is calculated based on the issued value of ROADS 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.

NOTE 8. DIVIDENDS

No interim dividend was paid in relation to the financial year ended 30 June 2011.

No final dividend will be paid in relation to the financial year ended 30 June 2011.

	Final 2010	Interim 2010
a) Ordinary shares		
Dividend per share (in Australian cents)	16.0	13.1
Franking percentage	unfranked	unfranked
Cost (in $'000)	54,155	43,712
Payment date	1/10/2010	9/04/2010
Dividend record date	1/09/2010	9/03/2010

The final dividend paid for 2010 includes an additional 1,884,000 shares issued under the employee share plan on 31 August 2010.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

	Quarter 1 2011	Quarter 2 2011	Quarter 3 2011	Quarter 4 2011	Total 2011
Dividend per ROADS (in Australian cents)	**1.35**	**1.30**	**1.26**	**1.33**	**5.24**
New Zealand imputation credit percentage per ROADS	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'000)	**2,611**	**2,601**	**2,526**	**2,654**	**10,392**
Payment date	**15/09/2010**	**15/12/2010**	**15/03/2011**	**15/06/2011**	

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

	Parent Entity	
Franking credits	**2011 $'000**	**2010 $'000**
Franking account balance	**–**	–

NOTE 9. CASH AND CASH EQUIVALENTS

		Consolidated	
	Note	2011 $'000	2010 $'000
Cash at bank and in hand		**286,395**	381,776
Short-term deposits		**2,180**	3,350
	35(a)	**288,575**	385,126

NOTE 10. INVENTORIES

Current			
Raw materials – at cost		**144,959**	116,081
Work in progress – at cost		**1,748**	2,520
Finished goods – at cost		**32,348**	16,686
Components and spare parts – at cost		**13,513**	57,851
		192,568	193,138

NOTE 11. TRADE AND OTHER RECEIVABLES

Current			
Trade receivables	11(a)	**564,057**	504,739
Allowance for doubtful debts	11(b)	**(5,573)**	(4,606)
		558,484	500,133
Amounts due from customers under contracts and rendering of services		**957,491**	803,525
Provision for Waratah train project(i)	29	**(254,598)**	(190,000)
	29	**702,893**	613,525
Other receivables		**51,621**	70,220
Total trade and other receivables		**1,312,998**	1,183,878

(i) Provision for Waratah train project includes $185.4 million of provision utilisation during the financial year ended 30 June 2011.

(a) Of the total $564.1 million (2010: $504.7 million) of trade receivables, $383.1 million (2010: $359.1 million) 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 $564.1 million (2010: $504.7 million):

- $nil (2010: $0.1 million) are renegotiated receivables and Management has assessed that these are all recoverable and no impairment has been taken;
- $175.4 million (2010: $140.9 million) are past due but not impaired with an average of more than 67 days. These relate to a number of customers for whom there is no recent history of default, nor 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
- $5.6 million (2010: $4.6 million) 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.

NOTE 11. TRADE AND OTHER RECEIVABLES – CONTINUED

(b) Movement in the allowance for doubtful debts

	Consolidated	
	2011 $'000	**2010 $'000**
Balance at the beginning of financial year	**(4,606)**	(8,198)
Additional provisions	**(3,133)**	(5,355)
Amounts used	**1,424**	5,178
Amounts reversed	**634**	3,585
Foreign currency exchange differences	**108**	184
Balance at the end of financial year	**(5,573)**	(4,606)

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.

NOTE 12. OTHER FINANCIAL ASSETS

	2011 $'000	2010 $'000
Current		
Available-for-sale investments	**–**	2,149
Foreign currency forward contracts	**5,179**	6,894
Cross currency and interest rate swaps	**–**	303
Fair value through profit and loss investments	**150**	2,607
Other financial assets	**749**	755
	6,078	12,708
Non-current		
Available-for-sale investments	**13,750**	15,236
Foreign currency forward contracts	**607**	2,125
Cross currency and interest rate swaps	**1,122**	4,210
Fair value through profit and loss investments	**5,223**	3,723
Deferred consideration receivable	**475**	860
Other financial assets	**9,800**	9,800
	30,977	35,954
Total other financial assets	**37,055**	48,662

NOTE 13. TAX ASSETS

		Consolidated	
	Note	2011 $'000	2010 $'000
Current			
Current tax assets		**14,312**	13,765
Non-current			
a) Deferred tax assets		**137,949**	123,280
b) Movement in deferred tax assets for the financial year			
Balance at the beginning of the financial year		**192,565**	180,620
Charged to income statement as deferred income tax benefit	13(d)	**18,119**	34,380
Charged to equity		**(1,336)**	13,334
Acquisition of businesses		**–**	660
Net foreign currency exchange differences		**(2,279)**	(1,459)
Tax losses recognised/(transfers or utilisation of losses)		**51,172**	(33,194)
Disposal of entities and operations		**(126)**	–
Other		**(5,044)**	(1,776)
Balance at the end of the financial year (gross)	13(c)	**253,071**	192,565
Set-off of deferred tax liabilities within the same tax jurisdiction	22(b)	**(115,122)**	(69,285)
Net deferred tax assets		**137,949**	123,280
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		**43,566**	59,168
Inventories		**4,275**	3,996
Property, plant and equipment		**8,649**	7,827
Equity-accounted investments		**95**	877
Trade and other payables		**18,151**	18,749
Provisions		**78,139**	61,605
Borrowings		**661**	872
Income tax losses		**62,976**	25,855
Hedges and foreign exchange movements		**32,395**	12,307
Capital raising transaction costs		**3,130**	–
Other		**1,034**	1,309
Total deferred tax assets (gross)		**253,071**	192,565
d) Amounts charged to income statement as deferred income tax benefit:			
Trade and other receivables		**10,113**	28,341
Inventories		**279**	(673)
Property, plant and equipment		**5,681**	1,177
Equity-accounted investments		**(637)**	636
Trade and other payables		**(2,512)**	(1,771)
Provisions		**14,417**	8,102
Borrowings		**(227)**	(20)
Income tax losses		**(6,676)**	2,524
Hedges and foreign exchange movements		**2,893**	(18)
Other		**(381)**	616
Deferred tax assets in relation to prior years		**(4,831)**	(4,534)
Charged to income statement as deferred income tax benefit		**18,119**	34,380

NOTE 14. OTHER ASSETS

	Consolidated	
	2011 $'000	2010 $'000
Current		
Prepayments	**35,540**	21,887
Other deposits	**4,134**	3,072
Other current assets	**1,287**	3,828
	40,961	28,787
Non-current		
Prepayments	**4,684**	5,464
Total other assets	**45,645**	34,251

NOTE 15. EQUITY-ACCOUNTED INVESTMENTS

	Note	2011 $'000	2010 $'000
Equity-accounted investments	15(b)	**37,354**	22,410

a) The consolidated entity has interests in the following joint venture operations:

Name of joint venture	Principal activity	Country of operation	Ownership interest	
			2011 %	2010 %
BPL Downer Joint Venture	Building construction	Singapore	**50**	50
Downer CSS Joint Venture[i]	Telecommunications	Thailand	**60**	60
Downer Electrical GHD JV[i]	Traffic control infrastructure	Australia	**90**	90
Leighton Works	Road construction	New Zealand	**50**	50
Yokogawa Downer Joint Venture	Refurbishment of power station	Australia	**50**	50
Tenix Downer Joint Venture[ii]	Power transmission and distribution	Australia	**–**	50
Downer Mouchel[iii]	Road maintenance	Australia	**50**	50
Thiess Downer EDI Works	Construction of coast to coast railway	Australia	**25**	25
Roche Thiess Linfox Joint Venture [iv]	Contract mining; civil works and plant hire	Australia	**44**	44
Synergy Joint Venture	Road and pavement construction	Australia	**33**	–
Dampier Highway Joint Venture	Highway construction and design	Australia	**50**	–

(i) Contractual arrangement prevents control despite ownership of more than 50 per cent of these joint ventures.

(ii) These joint ventures were dissolved during the financial year ended 30 June 2011.

(iii) Downer Mouchel is an unincorporated joint venture. The joint venture agreement specifies 50 per cent ownership, except where an Integrated Service Arrangement obligation is in place, whereby Downer EDI owns 60 per cent of the joint venture.

(iv) Roche Thiess Linfox is an unincorporated joint venture at 30 June 2011.

NOTE 15. EQUITY-ACCOUNTED INVESTMENTS – CONTINUED

b) The consolidated entity and its controlled entities have interests in the following joint venture and associates entities:

Name of entity	Principal activity	Country of incorporation	Ownership interest	
			2011 %	2010 %
Joint ventures				
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
Bitumen Importers Australia Joint Venture	Construction of bitumen storage facility	Australia	**50**	50
Bitumen Importers Australia Pty Ltd	Bitumen importer	Australia	**50**	50
EDI Rail-Bombardier Transportation (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 Limited	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
SIP Jiacheng Property Development Co Ltd	Property development	China	**50**	50
Green Vision Recycling Limited	Recycling	New Zealand	**33**	–
Stockton Alliance Limited	Mine operations	New Zealand	**50**	50
Associates				
Clyde Babcock Hitachi (Australia) Pty Ltd	Design, construction and maintenance of boilers	Australia	**27**	27
D'axis Planners & Consultants Co. Ltd	Master planning and consulting service	China	**40**	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**	49
KDR Gold Coast Pty Ltd	Operations and maintenance for Gold Coast Rapid Transit Project	Australia	**49**	–
Aromatrix Technologies Pte Ltd (i)	Environmental engineering and consultancy services	Singapore	**–**	33

(i) This associate was sold during the financial year ended 30 June 2011.

NOTE 15. EQUITY-ACCOUNTED INVESTMENTS – CONTINUED

	Note	Consolidated 2011 $'000	2010 $'000
Equity-accounted investments			
Equity accounted amount of investment at the beginning of the financial year		**22,410**	8,437
– Share of net profit		**26,395**	18,022
– Share of distributions		**(12,667)**	(12,708)
– Additional interest in joint venture entities		**2,448**	10,584
– Disposal of interest in joint venture entities		**(791)**	(1,902)
– Foreign currency exchange differences		**(441)**	(23)
Equity-accounted investment at the end of the financial year		**37,354**	22,410
Share of results of joint venture entities and associates			
Revenue	3(a)	**319,077**	211,168
Expenses		**(288,876)**	(189,992)
		30,201	21,176
Summarised financial information of the consolidated entity's share of the above joint venture entities and associates:			
Current assets		**121,022**	102,352
Non-current assets		**30,237**	38,393
Total assets		**151,259**	140,745
Current liabilities		**105,621**	101,071
Non-current liabilities		**17,812**	17,758
Total liabilities		**123,433**	118,829
Net assets		**27,826**	21,916

Investment in associates

Reliance Rail Pty Ltd

The Group has a 49 per cent 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*.

With effect from May 2009, Reliance Rail ceased hedge accounting for its financial derivative instruments. Downer adopted a consistent accounting treatment. The hedge reserve of $79.1 million at that date 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. Should Reliance Rail cease to be a going concern, the Group may be required to write-off the unamortised balance.

NOTE 15. EQUITY-ACCOUNTED INVESTMENTS – CONTINUED

	Consolidated	
	2011 $'000	2010 $'000
Movement in 49% investment in Reliance Rail		
Equity-accounted amount of investment at the beginning of the financial year	–	–
Share of loss recognised for the year [(i)]	–	(59,033)
Release of allowance against investment	–	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 $18.6 million (based on unaudited accounts). As the carrying value of the investment was already fully written-down at the beginning of the financial year, the Group has not equity accounted its share of Reliance Rail's net loss for the year.

Unaudited summarised financial position of Reliance Rail		
Current assets	**1,085,427**	1,023,335
Non-current assets	**995,924**	1,047,586
Total assets	**2,081,351**	2,070,921
Current liabilities	**116,153**	70,862
Non-current liabilities	**2,007,549**	2,010,183
Total liabilities	**2,123,702**	2,081,045
Net liabilities	**42,351**	10,124
Group's share of associate's net liabilities	**20,752**	4,961

c) Contingent liabilities

The consolidated entity's share of the contingent liabilities of joint venture entities are included in Note 28.

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

2011	Consolidated				
$'000	Freehold Land	Buildings	Plant and Equipment	Equipment under Finance Lease	Total
At 1 July 2010					
Cost	11,388	54,029	1,499,571	64,271	1,629,259
Accumulated depreciation	–	(16,283)	(740,196)	(10,704)	(767,183)
Net book value	11,388	37,746	759,375	53,567	862,076
Year ended 30 June 2011					
Additions	8,349	4,383	438,292	60,003	511,027
Disposals at net book value	(823)	(2,468)	(103,293)	(445)	(107,029)
Disposals of business at net book value	–	(3)	(714)	–	(717)
Depreciation expense (Note 3(b))	–	(2,425)	(196,826)	(8,795)	(208,046)
Impairment (Note 17)	–	(426)	(894)	–	(1,320)
Transfers/reclassifications at net book value	–	(1,479)	3,595	5,564	7,680
Net foreign currency exchange differences at net book value	(42)	(541)	(8,039)	(34)	(8,656)
Closing net book value	18,872	34,787	891,496	109,860	1,055,015
At 30 June 2011					
Cost	18,872	49,203	1,688,721	130,826	1,887,622
Accumulated depreciation	–	(14,416)	(797,225)	(20,966)	(832,607)
Closing net book value	18,872	34,787	891,496	109,860	1,055,015

NOTE 16. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

2010	Consolidated				
$'000	Freehold Land	Buildings	Plant and Equipment	Equipment under Finance Lease	Total
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	–	–	10,564	1,309	11,873
Depreciation expense (Note 3(b))	–	(2,931)	(146,622)	(6,882)	(156,435)
Impairment (Note 17)	–	–	(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 17. INTANGIBLE ASSETS

2011	Consolidated		
$'000	Goodwill	Intellectual Property/ software	Total
At 1 July 2010			
Cost	625,616	28,523	654,139
Accumulated amortisation	(42,000)	(22,725)	(64,725)
Net book value	583,616	5,798	589,414
Year ended 30 June 2011			
Purchases	–	1,768	1,768
Reclassifications at net book value	–	17,894	17,894
Disposal of businesses at net book value	(1,990)	(214)	(2,204)
Amortisation expense (Note 3(b))	–	(2,448)	(2,448)
Impairment (Note 4)	(9,770)	–	(9,770)
Net foreign currency exchange differences at net book value	(5,573)	114	(5,459)
Closing net book value	566,283	22,912	589,195
At 30 June 2011			
Cost	618,053	85,166	703,219
Accumulated amortisation and impairment	(51,770)	(62,254)	(114,024)
Closing net book value	566,283	22,912	589,195

2010	Consolidated		
$'000	Goodwill	Intellectual Property/ software	Total
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	(42,000)	(22,725)	(64,725)
Closing net book value	583,616	5,798	589,414

NOTE 17. INTANGIBLE ASSETS – CONTINUED

Allocation of goodwill to cash-generating units (CGUs)

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	
	2011 $'000	2010 $'000
– CPG Australia	**14,953**	14,953
– CPG Singapore	**31,073**	34,462
– CPG New Zealand[(i)]	**–**	8,120
– CPG Resources	**20,921**	20,921
– Downer Asia	**9,271**	10,620
– Engineering Contracting	**110,489**	111,130
– Engineering Projects	**25,492**	25,492
– Engineering Power Systems	**3,870**	3,870
– Works Australia	**165,815**	169,679
– Works New Zealand	**49,395**	46,900
– Works United Kingdom[(i)]	**–**	2,346
– Mining	**65,545**	65,545
– Rail	**69,459**	69,578
	566,283	583,616

(i) Impaired at 30 June 2011 following impairment testing performed by Management.

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. Where an asset is deemed impaired, it is written down to its recoverable amount.

Management identified $9.8 million impairment relating to goodwill in Works UK business and CPG New Zealand (Consulting arm of the Engineering division). The weak UK economy has seen the business underperform and, as a result, a goodwill impairment of $2.0 million has been recognised in the current year. Similarly, the CPG business in New Zealand has underperformed as a result of challenging economic conditions in NZ which led Management to recognise a goodwill impairment of $7.8 million.

Impairment testing is typically undertaken one of two ways:

– a comparison of asset book values against fair value less costs to sell, or
– a comparison of the asset book values to the "value in use" of the assets.

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

Projected cash flows
Cash flow projections are based on the Board approved 2011/12 (FY2012) budget for the year ending 30 June 2012 and the business plan for the subsequent financial years ending 30 June 2013 to 30 June 2016 by applying division specific growth estimates and assuming a 2.5 per cent 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. This calculated cash flow is then compared against the free cash flow in the business plan to ensure the two are consistent.

Growth rate estimates
The future annual growth rates for FY2013 onwards are based on expected market and expected business performance rates for each CGU being tested for impairment.

NOTE 17. INTANGIBLE ASSETS – CONTINUED

RECOVERABLE AMOUNT TESTING – CONTINUED

Discount rates
Discount rates of between 11.2 per cent and 12.6 per cent (2010: between 10.9 per cent and 12.3 per cent) 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, consideration 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 terminal year 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, Management is satisfied that the carrying value of the CGUs not impaired (refer above) exceeds their recoverable amount.

NOTE 18. TRADE AND OTHER PAYABLES

		Consolidated	
	Note	2011 $'000	2010 $'000
Current			
Trade payables		**434,047**	351,753
Amounts due to customers under contracts and rendering of services	29	**280,076**	270,038
Accruals		**321,477**	300,720
Goods and services tax payable		**34,155**	25,097
Other		**47,971**	39,658
		1,117,726	987,266
Non-current			
Other		**2,812**	713
Total trade and other payables		**1,120,538**	987,979

NOTE 19. BORROWINGS

	Note	Consolidated 2011 $'000	2010 $'000
Current			
Secured – at amortised cost:			
– Finance lease liabilities	27(c)	**16,995**	8,328
– Hire purchase liabilities	27(d)	**2,206**	1,337
– Bank loans		**–**	5,000
– Supplier finance		**5,127**	–
		24,328	14,665
Unsecured – at amortised cost:			
– Bank loans		**112,374**	240,197
– Bank overdraft	26(a)	**6,343**	6,744
– AUD medium term notes (2009-1)		**13,283**	13,283
– AUD medium term notes (2010-1)		**12,600**	–
– USD notes		**1,862**	–
– Deferred finance charges		**(5,669)**	(2,722)
		140,793	257,502
Total current borrowings	35(a)	**165,121**	272,167
Non-current			
Secured – at amortised cost:			
– Finance lease liabilities	27(c)	**79,242**	39,450
– Hire purchase liabilities	27(d)	**4,889**	4,413
		84,131	43,863
Unsecured – at amortised cost:			
– Bank loans		**22,809**	116,384
– USD notes		**71,688**	92,701
– Works NZ Bonds		**116,081**	121,872
– AUD medium term notes (2009-1)		**79,743**	93,025
– AUD medium term notes (2009-2)		**152,063**	152,571
– AUD medium term notes (2010-1)		**44,100**	–
– Deferred finance charges		**(2,950)**	(3,404)
		483,534	573,149
Total non-current borrowings	35(a)	**567,665**	617,012
Total borrowings		**732,786**	889,179

NOTE 19. BORROWINGS – CONTINUED

FINANCING FACILITIES

At 30 June 2011, the consolidated entity had the following facilities that were not utilised at balance date:

	2011 $'000	2010 $'000
Syndicated bank loan facilities	**420,000**	235,624
Bilateral bank loan facilities	**207,075**	197,723
Total unutilised loan facilities	**627,075**	433,347
Syndicated bank bonding facilities	**7,214**	42,374
Bilateral bank and insurance company bonding facilities	**250,881**	351,720
Total unutilised bonding facilities	**258,095**	394,094

BANK LOANS

Syndicated loan facilities
Syndicated bank loans are unsecured, are subject to certain Group guarantees and have varying maturity dates ranging from May 2012 to November 2014.

Bilateral bank loans and overdrafts
Bank loans are unsecured, are subject to certain Group guarantees and have varying maturity dates of up to 1.5 years. Included in bank loans is an amount of $27.4 million which is supported by an export credit guarantee, amortises through even semi-annual instalments and matures in May 2017.

USD NOTES

USD unsecured private placement notes are on issue for a total amount of US$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 against the Australian dollar. The fair value of the USD notes is disclosed in Note 35.

AUD MEDIUM TERM NOTES (MTNs)

During 2009 and 2010, three tranches of unsecured MTNs were issued. Series 2009-1 amortises through even semi-annual instalments, until the final maturity date of April 2018 and has a balance of $93.0 million; Series 2009-2 for $150.0 million matures on a bullet basis in October 2013; Series 2010-1 amortises through even semi-annual instalments until the final maturity date of September 2015 and has a balance of $56.7 million. The MTNs were subject to certain Group guarantees.

WORKS NEW ZEALAND BONDS

During 2009, unsecured bonds were issued for a total amount of NZ$150.0 million ($116.1 million equivalent). The bonds are subject to certain Group guarantees. The bonds mature in September 2012.

FINANCE LEASE FACILITIES

The Group leases certain of its equipment under finance leases. The average lease term is 3.6 years. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all rentals under finance leases are fixed at respective contract dates with a weighted average rate of 8.1 per cent p.a. (2010: 8.2 per cent p.a.).

HIRE PURCHASE AND LEASE FACILITIES

Hire purchase facilities are secured by the specific assets financed.

NOTE 19. BORROWINGS – CONTINUED

COVENANTS ON FINANCING FACILITIES

The Group's financing facilities contain undertakings including an obligation to comply at all times with certain financial covenants (which require the Group to meet certain financial ratios) as well as maintain minimum levels of subsidiaries that are guarantors under various facilities.

The main financial covenants to which the Group is subject are net worth, interest service coverage and debt to capitalisation. A compliance certificate must be produced for financial covenants on a semi-annual basis. In addition, the Group's standard credit platform contains restrictions on the Group including that it is required to observe certain customary undertakings including but not limited to:

i) maintenance of authorisation;

ii) compliance with laws;

iii) disposal of assets;

iv) negative pledge (subject to certain "carve-outs");

v) change of business;

vi) non-guarantor subsidiaries incurring financial indebtedness; and

vii) maintenance of the guarantor group.

Formal testing is undertaken monthly, reporting of financial 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 financial covenants as at 30 June 2011.

BONDING

The Group has $1,106.8 million of bank guarantee and insurance bond facilities to support its contracting activities. $565.6 million of these facilities are provided to the Group on a committed basis and $541.2 million on an uncommitted basis. Under both committed and uncommitted facilities, the financial institution being requested to provide the guarantee/bond has the discretion as to whether to issue the instrument depending on factors such as the form of the guarantee/bond, the underlying contract of work being undertaken by the Group and potential concentration limits the financial institution may have on the industry where the work is being conducted. Furthermore, in the case of uncommitted facilities, the financier has the discretion to cancel any unutilised balance of a facility at any time or to suspend utilisation of the facility for a given period. The Group's committed facilities have varying maturity dates which range from November 2011 to June 2012 and July 2011 to September 2012 for uncommitted facilities.

The Group's facilities are provided by a number of different banks and insurance companies on an unsecured basis and are subject to certain Group guarantees. $848.7 million of these facilities were utilised as at 30 June 2011 with $258.1 million unutilised as at that date. $260.0 million of the current committed facility is made up of a syndicated bonding facility referrable to the Waratah Train Project which is due to be refinanced on 1 December 2011. As with all performance bonds, the risk being assumed under these bonds is Downer credit risk rather than project specific risk. Management has commenced engagement with key financiers to refinance this facility. Subsequent to 30 June 2011, an additional bonding facility of $30 million was approved by an insurance company. The Group has the flexibility in respect of a committed facility amount of $81.1 million (shown as part of the unutilised bilateral bank loan facilities) which can, at the request of the Group, also be utilised for bonding purposes.

REFINANCING REQUIREMENTS

Where existing facilities either approach or reach maturity, the Group will seek to re-negotiate with existing and new financiers to extend the maturity date of those facilities. The Group's earnings profile, credit rating, state of the economy, conditions in financial markets and other factors may influence the outcome of those negotiations.

CREDIT RATINGS

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

NOTE 20. OTHER FINANCIAL LIABILITIES

	Consolidated	
	2011 $'000	2010 $'000
Current		
Foreign currency forward contracts	55,256	24,243
Cross currency and interest rate swaps	6,564	1,260
Advances from joint venture entities	12,809	16,010
	74,629	41,513
Non-current		
Foreign currency forward contracts	35,427	27,333
Cross currency and interest rate swaps	36,288	12,264
	71,715	39,597
Total other financial liabilities	146,344	81,110

NOTE 21. PROVISIONS

	Consolidated ($'000)				
	Employee benefits	Decom-missioning	Contract claims/ warranties	Other	Total
At 1 July 2010					
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
At 1 July 2010	159,192	13,240	27,660	26,484	226,576
Additional provisions recognised	230,422	2,956	9,687	84,541	327,606
Unused provision reversed	(204)	(2,695)	(2,040)	(3,137)	(8,076)
Utilisation of provision	(200,175)	(634)	(9,670)	(75,620)	(286,099)
Disposal of businesses	(29)	(237)	–	–	(266)
Net foreign currency exchange differences	(1,024)	(89)	(52)	(108)	(1,273)
At 30 June 2011	188,182	12,541	25,585	32,160	258,468
Current	176,854	5,180	25,585	32,040	239,659
Non-current	11,328	7,361	–	120	18,809
Total	188,182	12,541	25,585	32,160	258,468

(i) Employee benefits comprise provision for annual leave, long service leave and other employee entitlements.

(ii) The provision for decommissioning includes obligations relating to environmental remediation and leasehold make good cost based on the Group's best estimate of the present value of the expenditure required to settle the restoration obligation.

(iii) Provisions for contract and claims warranty is made for the estimated liability on all products still under warranty at balance sheet date, and known claims arising under service and construction contracts. The provision is estimated having regard to previous claims experience.

(iv) Other provisions include return conditions for leased assets. The Group has leases that require the asset to be returned to the lessor in a certain condition. A provision has been raised for the present value of the future expected cost at lease expiry.

NOTE 22. TAX LIABILITIES

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Current			
Current tax overseas entities		**3,866**	5,012
Non-current			
a) Deferred tax liability		**6,279**	23,293
b) Movement in deferred tax liability for the financial year			
Balance at the beginning of the financial year		**92,578**	111,341
Charged to income statement as deferred expense/(benefit)	22(d)	**32,385**	(15,480)
Charged to equity		**(5,543)**	3,994
Net foreign currency exchange differences		**(2,502)**	5
Transfers		**4,483**	(7,282)
Balance at the end of the financial year (gross)	22(c)	**121,401**	92,578
Set-off of deferred tax assets within the same tax jurisdiction	13(b)	**(115,122)**	(69,285)
Net deferred tax liability		**6,279**	23,293
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		**3,137**	9,014
Inventories		**(1,188)**	(2,159)
Intangible assets		**(361)**	(156)
Trade and other receivables		**91,150**	63,462
Other current assets		**6,163**	2,551
Equity-accounted investments		**5,235**	1,722
Trade and other payables		**2,980**	3,599
Provisions		**363**	138
Borrowings		**212**	199
Hedges and foreign exchange movements		**11,272**	9,568
Other		**2,438**	4,640
Total deferred tax liabilities (gross)		**121,401**	92,578
d) Amounts charged to income statement as deferred income tax expense/(benefit):			
Property, plant and equipment		**(5,413)**	5,750
Inventories		**(411)**	(7,379)
Intangible assets		**(98)**	(241)
Trade and other receivables		**26,207**	(2,133)
Other assets		**7,292**	(3,135)
Trade and other payables		**(2,861)**	(6,588)
Borrowings		**(8)**	60
Provisions		**43**	(2,524)
Equity-accounted investments		**3,513**	1,722
Hedges and foreign exchange movements		**4,331**	(2,251)
Deferred tax liabilities in relation to prior years		**(210)**	1,239
Charged to income statement as deferred income tax expense/(benefit)		**32,385**	(15,480)

NOTE 23. ISSUED CAPITAL

	Consolidated	
	2011 $'000	2010 $'000
Ordinary shares –		
429,100,296 ordinary shares (2010: 336,582,351)	**1,278,564**	978,960
Unvested executive incentive shares –		
6,844,719 ordinary shares (2010: 7,891,599)	**(33,270)**	(38,888)
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (2010: 200,000,000)	**178,603**	178,603
	1,423,897	1,118,675

Changes to the *Corporations Law* abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

FULLY PAID ORDINARY SHARE CAPITAL

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

	Consolidated			
	2011		2010	
Fully paid ordinary share capital	000's	$'000	000's	$'000
Balance at the beginning of the financial year	**336,582**	**978,960**	331,077	937,259
Issue of shares through Dividend Reinvestment Plan election	**4,712**	**20,027**	5,505	41,701
Issue of shares under terms of Employee Share Plan (i)	**1,884**	**7,574**	–	–
Issue of shares under renounceable entitlement offer (ii)	**85,922**	**279,307**	–	–
Payment of share issue costs	**–**	**(7,304)**	–	–
Balance at the end of the financial year	**429,100**	**1,278,564**	336,582	978,960

(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 $7.6 million.

(ii) During March 2011, the Company undertook a capital raising by way of a fully underwritten one for four accelerated renounceable entitlement offer. Net proceeds of $272.0 million were raised in the entitlement offer.

	Consolidated			
	2011		2010	
Unvested executive incentive shares	000's	$'000	000's	$'000
Balance at the beginning of the financial year	**7,892**	**(38,888)**	7,726	(37,071)
Unvested executive incentive shares transactions	**–**	**–**	557	(4,476)
Vested executive incentive shares transactions	**(1,047)**	**5,618**	(391)	2,659
Balance at the end of the financial year	**6,845**	**(33,270)**	7,892	(38,888)

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.

NOTE 23. ISSUED CAPITAL – CONTINUED

Redeemable Optionally Adjustable Distributing Securities (ROADS)	Consolidated 2011 000's	2011 $'000	2010 000's	2010 $'000
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 per cent 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 (2010: nil) or performance options (2010: 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 2011 $'000	2010 $'000
Available-for-sale investment reserve	**–**	(2,816)
Hedge reserve	**(77,673)**	(84,642)
Foreign currency translation reserve	**(58,683)**	(39,945)
Employee benefits reserve	**14,775**	19,510
Total reserves	**(121,581)**	(107,893)

HEDGE RESERVE

The hedge reserve included a balance of $73.8 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, $2.8 million has been amortised and reflected as an expense in the income statement.

NOTE 25. ACQUISITION OF BUSINESSES

a) Summary of acquisitions

2011

The Group did not acquire any businesses during the financial year ended 30 June 2011.

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	Consolidated 2010 $'000
Purchase consideration:		
Cash paid		32,675
Purchase price adjustment		6,090
Total purchase consideration		38,765
Less: fair value of net identifiable assets acquired		13,325
Goodwill	17	25,440

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.

	Consolidated 2010 $'000
b) Purchase consideration	
Outflow of cash to acquire businesses, net of cash acquired:	
Cash consideration	32,675
Cash received post-acquisition settlement	(339)
Outflow of cash	32,336

NOTE 26. STATEMENT OF CASH FLOWS – ADDITIONAL INFORMATION

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
a) Reconciliation of cash and cash equivalents			
For the purpose of the statement of cash flows, cash and cash equivalents comprises:			
Cash		**286,395**	381,776
Short-term deposits		**2,180**	3,350
	35(a)	**288,575**	385,126
Bank overdrafts	19	**(6,343)**	(6,744)
		282,232	378,382

NOTE 26. STATEMENT OF CASH FLOWS – ADDITIONAL INFORMATION – CONTINUED

b) Non-cash financing and investing activities

During the current financial year, $27.6 million (2010: $41.7 million) in equity was issued in respect of:

i) Dividend Reinvestment Plan elections $20.0 million (2010: $41.7 million); and

ii) Issue of shares under the terms of Employee Share Plan $7.6 million (2010: $nil).

During the financial year, the Group acquired $58.3 million (2010: $0.5 million) 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.

	Consolidated	
	2011 $'000	**2010 $'000**
c) Reconciliation of profit after tax to net cash flows from operating activities		
(Loss)/profit after tax for the year	**(27,700)**	3,052
Adjustments for:		
Share of joint ventures and associates' profits net of distributions	**(13,728)**	(5,314)
Depreciation and amortisation of non-current assets	**210,494**	160,159
Impairment of assets held for sale	**–**	25,871
Amortisation of deferred costs	**3,582**	2,870
Net gain on sale of property, plant and equipment	**(8,490)**	(27,700)
Loss/(profit) on disposal of businesses	**441**	(2,350)
Foreign exchange (gain)/loss	**(172)**	527
Decrease in income tax payable	**(1,439)**	(4,641)
Movement in deferred tax balances	**(27,867)**	(20,668)
Equity-settled share-based transactions	**3,779**	6,261
Payments for unvested executive incentive shares	**–**	(4,476)
Settlement of operational foreign exchange contracts	**–**	(34,882)
Impairment of goodwill	**9,770**	42,000
Impairment of assets	**2,277**	–
Other	**4,505**	1,838
	183,152	139,495
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current trade and other receivables	**(113,202)**	2,000
Current inventories	**(26,371)**	5,048
Other current assets	**(14,092)**	3,211
Other financial assets	**–**	(83)
Other non-current assets	**(598)**	781
Increase/(decrease) in liabilities:		
Current trade and other payables	**148,276**	55,663
Current provisions	**41,575**	(3,065)
Non-current trade and other payables	**2,733**	(1,796)
Non-current provisions	**(8,148)**	(40)
	30,173	61,719
Net cash generated by operating activities	**185,625**	204,266

NOTE 27. COMMITMENTS

	Note	Consolidated 2011 $'000	2010 $'000
a) Capital expenditure commitments			
Plant and equipment:			
Within one year		**155,283**	226,967
Between one and five year(s)		**72,589**	–
		227,872	226,967
b) Operating lease commitments			
Non-cancellable operating leases relate to premises and plant and equipment with lease terms of between one and 15 year(s).			
Within one year		**134,035**	122,880
Between one and five year(s)		**264,550**	233,843
Greater than five years		**130,202**	103,628
		528,787	460,351
c) Finance lease commitments			
Finance leases relate to plant and equipment with lease terms of between one and five year(s).			
Within one year		**23,924**	12,367
Between one and five year(s)		**91,777**	44,953
Minimum finance lease payments		**115,701**	57,320
Future finance charges		**(19,464)**	(9,542)
Finance lease liabilities		**96,237**	47,778
Included in the financial statements as:			
Current borrowings	19	**16,995**	8,328
Non-current borrowings	19	**79,242**	39,450
		96,237	47,778
d) Other expenditure commitments			
Hire purchase liabilities			
Within one year		**2,241**	1,344
Between one and five year(s)		**4,254**	4,469
Greater than five years		**670**	54
Minimum hire purchase payments		**7,165**	5,867
Future finance charges		**(70)**	(117)
Hire purchase liabilities		**7,095**	5,750
Included in the financial statements as:			
Current borrowings	19	**2,206**	1,337
Non-current borrowings	19	**4,889**	4,413
		7,095	5,750

NOTE 28. CONTINGENT LIABILITIES

	Consolidated	
	2011 $'000	**2010 $'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	**848,715**	834,798

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;

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;
- 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; and
- some entities in the Group have been named as co-defendants in several proceedings with projects associated with the "weathertight" homes issue in New Zealand.

In relation to the Siemens Ltd claim, the Directors are of the opinion that adequate provisions have been established. Insufficient information currently exists to reliably assess the liability that may arise as a consequence of the claims made by SP PowerAssets Ltd and 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.

v) IMF (Australia) Ltd has announced to the ASX that it proposes to fund claims of certain current and former Downer EDI shareholders against Downer EDI. The claim relates to Downer EDI's $190.0 million impairment to its Waratah rolling stock manufacturing contract announced on 1 June 2010. No claim has been issued. However, Downer EDI is aware that a Government Information Public Access request (freedom of information) was made on behalf of IMF against RailCorp seeking information about the project. Downer EDI does not currently have sufficient information to make any meaningful assessment of the potential claims. No provision has been made in the financial statements.

NOTE 29. RENDERING OF SERVICES AND CONSTRUCTION CONTRACTS

		Consolidated	
	Note	2011 $'000	2010 $'000
Cumulative contracts in progress as at reporting date:			
Cumulative costs incurred plus recognised profits less recognised losses to date		**10,187,145**	8,484,934
Less: progress billings		**(9,509,730)**	(7,951,447)
Less: provision for Waratah train project(i)	11	**(254,598)**	(190,000)
Net amount		**422,817**	343,487
Recognised and included in the financial statements as amounts due:			
From customers under contracts-current	11	**702,893**	613,525
To customers under contracts-current	18	**(280,076)**	(270,038)
Net amount		**422,817**	343,487

(i) Provision for Waratah train project includes $185.4 million of provision utilised during the financial year ended 30 June 2011.

NOTE 30. SUBSEQUENT EVENTS

SECOND WARATAH TRAIN PRESENTED TO RAILCORP

On 28 July 2011, Downer presented the second Waratah train to Reliance Rail and RailCorp for Practical Completion. A certificate of Practical Completion is expected to be received in late August 2011 prior to putting the train into passenger service.

The third Waratah train is undergoing testing and is expected to be submitted for Practical Completion in early September 2011.

REVIEW OF CPG CONSULTING BUSINESSES

On 3 August 2011, Downer announced it was conducting a review of its general consultancy practices – CPG Asia, CPG Australia and CPG New Zealand – as part of its ongoing focus on optimising the Group portfolio. Downer has been approached by third parties interested in acquiring these businesses and consequently Management is considering the divestment option.

The review will include the potential divestment of these businesses, but will exclude the resource focused consultancy businesses (Snowden, QCC and Mineral Technologies). The review is ongoing at the date of issuing this financial report.

NOTE 31. CONTROLLED ENTITIES

Name of controlled entity	Country of incorporation	Ownership interest 2011 %	Ownership interest 2010 %
Advanced Separation Engineering Australia Pty Ltd	Australia	**100**	100
CA Facilities Pte Ltd	Singapore	**51**	51
Century Administration Pty Limited(x)	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 Ltd	Australia	**100**	100
CPG Consultants (Macau) Pte Ltd	Macau	**100**	100
CPG Consultants India Pvt Ltd	India	**100**	100
CPG Consultants Pte Ltd	Singapore	**100**	100
CPG Consultants Qatar W.L.L	Qatar	**100**	100
CPG Corporation Pte Ltd	Singapore	**100**	100
CPG Environmental Engineering Co. Ltd	China	**75**	75
CPG Facilities Management 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 (xi)	Singapore	**–**	100
CPG New Zealand Limited	New Zealand	**100**	100
CPG Resources – Mineral Technologies Pty Ltd(i)	Australia	**100**	100
CPG Resources – MT Holdings Pty Ltd(ii)	Australia	**100**	100
CPG Resources – QCC Pty Ltd(iii)	Australia	**100**	100
CPG Resources Pty Ltd	Australia	**100**	100
CPG Resources – Mineral Technologies (Proprietary) Ltd(iv)	South Africa	**100**	100
CPG Resources – Mineral Technologies (USA) Inc(v)	USA	**100**	100
CPG Resources – Mining and Mineral Services (Proprietary) Ltd(vi)	South Africa	**70**	70
CPG Traffic Pty Ltd	Australia	**100**	100
CPG Vietnam Co Ltd	Vietnam	**100**	100
CPGCorp Philippines Inc.	Philippines	**100**	100
CPGreen Pte. Ltd.	Singapore	**100**	100
DCE Limited	New Zealand	**100**	100
Dean Adams Consulting Pty Ltd	Australia	**100**	100
DGL Investments Limited	New Zealand	**100**	100
DJC & Associates Limited	New Zealand	**90**	80
DMQA Technical Services (UK) Limited	United Kingdom	**100**	100
DMQA Training Limited	United Kingdom	**100**	100
Downer Australia Pty Ltd	Australia	**100**	100

NOTE 31. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest	
		2011 %	2010 %
Downer Bitumen Surfacing Limited	New Zealand	**100**	100
Downer Construction (Fiji) Limited	Fiji	**100**	100
Downer Construction (New Zealand) Limited	New Zealand	**100**	100
Downer Construction PNG Ltd	PNG	**100**	100
Downer EDI (UK) Limited	United Kingdom	**100**	100
Downer EDI (USA) Inc.	USA	**100**	100
Downer EDI (USA) Pty Ltd	Australia	**100**	100
Downer EDI Consulting Pty Ltd	Australia	**100**	100
Downer EDI Engineering – Projects 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 Limited	New Zealand	**100**	100
Downer EDI Engineering Group Pty Limited	Australia	**100**	100
Downer EDI Engineering Holdings (Thailand) Limited	Thailand	**100**	100
Downer EDI Engineering Holdings Pty Ltd	Australia	**100**	100
Downer EDI Engineering Limited	New Zealand	**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
Downer EDI Engineering Thailand Limited	Thailand	**100**	100
Downer EDI Engineering (M) Sdn Bhd	Malaysia	**100**	100
Downer EDI Engineering (S) Pte Ltd	Singapore	**100**	100
Downer EDI Engineering Transmission Pty Ltd	Australia	**100**	100
Downer EDI Finance (NZ) Limited	New Zealand	**100**	100
Downer EDI Group Finance (NZ) Limited	New Zealand	**100**	100
Downer EDI Group Insurance Pte. Ltd.	Singapore	**100**	–
Downer EDI Limited	United Kingdom	**100**	100
Downer EDI Mining NZ Limited	New Zealand	**100**	100
Downer EDI Mining Pty Ltd	Australia	**100**	100
Downer EDI Mining – Blasting Services Pty Ltd	Australia	**100**	100
Downer EDI Mining – Minerals Exploration Pty Ltd	Australia	**100**	100
Downer EDI Properties Limited	New Zealand	**100**	100
Downer EDI Rail (Hong Kong) Limited	Hong Kong	**100**	100
Downer EDI Rail (USA) LLC	USA	**100**	100
Downer EDI Rail Pty Ltd	Australia	**100**	100
Downer EDI Rail V/Line Maintenance Pty Ltd[(xi)]	Australia	**–**	100
Downer EDI Resource Holdings Limited	Australia	**100**	100
Downer EDI Services Pty Ltd	Australia	**100**	100
Downer EDI Works (Hong Kong) Limited[(vii)]	Hong Kong	**100**	100

NOTE 31. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest	
		2011 %	2010 %
Downer EDI Works Limited	New Zealand	**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
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 Number 1 Limited	New Zealand	**100**	100
Downer Number 2 Limited(viii)	New Zealand	**100**	100
Downer NZ Finance Pty Ltd(x)	Australia	**100**	100
Downer PPP Investments Pty Ltd	Australia	**100**	100
Downer Pte Ltd(ix)	Singapore	**100**	100
Duffill Watts Pte Ltd	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 Ltd	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 Limited	Australia	**100**	100
Gaden Drilling Pty Limited(x)	Australia	**100**	100
H.R.S. New Zealand Limited	New Zealand	**100**	100
Indeco Consortium Pte Ltd	Singapore	**100**	100
Kiwi Pacific Investments Limited (x)	New Zealand	**100**	100
Locomotive Demand Power Pty Ltd	Australia	**100**	100
Lowan (Management) Pty Ltd	Australia	**100**	100
Miningtek Consultants and Services Limited	British Virgin Islands	**100**	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 Ltd	Australia	**100**	100
Otracom Pty Ltd	Australia	**100**	100
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

NOTE 31. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest	
		2011 %	2010 %
PT Otraco Indonesia	Indonesia	**100**	100
PT QDC Technologies	Indonesia	**–**	50
Rail Services Victoria Pty Ltd	Australia	**100**	100
REJV Services Pty Ltd	Australia	**100**	100
Reussi Pty Limited	Australia	**100**	100
Richter Drilling (PNG) Limited	PNG	**100**	100
Rimtec Pty Ltd	Australia	**100**	100
Rimtec USA Inc.	USA	**100**	100
Roche Bros. (Hong Kong) Limited	Hong Kong	**100**	100
Roche Bros. Superannuation Pty Ltd	Australia	**100**	100
Roche Castings Pty Limited[(x)]	Australia	**100**	100
Roche Contractors Pty Ltd	Australia	**100**	100
Roche Highwall Mining Pty Ltd	Australia	**100**	100
Roche Mining (MT) Brasil Ltda	Brazil	**100**	100
Roche Mining (PNG) Ltd	PNG	**100**	100
Roche Mining MT India Pvt Ltd	India	**100**	100
Roche Services Pty Ltd	Australia	**100**	100
RPC Roads Pty Ltd	Australia	**100**	100
Sach Infrastructure Pty Ltd	Australia	**100**	100
Shanghai CPG Architectural Design Co. Ltd	China	**100**	100
Sillars (B. & C.E.) Ltd	United Kingdom	**100**	100
Sillars (FRC) Ltd	United Kingdom	**100**	100
Sillars (TMWC) Limited	United Kingdom	**100**	100
Sillars (TMWD) Limited	United Kingdom	**100**	100
Sillars Holdings Limited	United Kingdom	**100**	100
Sillars Road Construction Limited	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 (Pty) Ltd	South Africa	**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 Technologies Limited	British Virgin Islands	**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 Limited[(xi)]	Australia	**–**	100
Suzhou PM Link Co Ltd	China	**60**	60
TSE Wall Arlidge Limited	New Zealand	**100**	100
TSG Architects Pte. Ltd.	Singapore	**100**	100
Underground Locators Limited	New Zealand	**100**	100

NOTE 31. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest	
		2011 %	2010 %
Waste Solutions Limited	New Zealand	**100**	100
Welshpool Engineering Pty Ltd(x)	Australia	**100**	100
Works Finance (NZ) Limited	New Zealand	**100**	100
Works Infrastructure (Holdings) Limited	United Kingdom	**100**	100
Works Infrastructure Harker Underground Construction Joint Venture Limited	New Zealand	**100**	100
Works Infrastructure Limited	United Kingdom	**100**	100

(i) Formerly Downer EDI Mining-Mineral Technologies Pty Ltd
(ii) Formerly Roche Mining (MT) Holdings Pty Ltd
(iii) Formerly Downer EDI Engineering – QCC Pty Ltd
(iv) Formerly Downer EDI Mining – Mineral Technologies (SA) (Proprietary) Ltd
(v) Formerly Downer EDI Mining – Mineral Technologies (USA) Inc
(vi) Formerly Downer EDI Mining Services (Proprietary) Ltd
(vii) Formerly Downer Construction (Hong Kong) Limited
(viii) Formerly Downer Signs Limited
(ix) Formerly Downer EDI Works Pte Ltd
(x) Indicates entities currently undergoing liquidation
(xi) Indicates entities disposed during the financial year ended 30 June 2011

NOTE 32. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Key management personnel

Directors

R M Harding, Chairman, appointed 3 November 2010

P E J Jollie AM, Chairman, resigned 3 November 2010

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

G H Knox, Managing Director and Chief Executive Officer, to 30 July 2010

S A Chaplain, Non-executive Director

L Di Bartolomeo, Non-executive Director

J S Humphrey, Non-executive Director

C J S Renwick AM, Non-executive Director, resigned 9 December 2010

C G Thorne, Non-executive Director

Key Management Executives

P Borden, Chief Executive Officer – Downer Rail

C Bruyn, Chief Executive Officer – Downer New Zealand & United Kingdom

D Cattell, Chief Executive Officer – Downer Australia, appointed 22 February 2011, Chief Operating Officer 1 July 2010 to 21 February 2011

S Cinerari, Chief Executive Officer – Downer Works Australia

K Fletcher, Chief Financial Officer

E Kolatchew, Chief Executive Officer – Downer Engineering, resigned 21 February 2011

D Overall, Chief Executive Officer – Downer Mining

NOTE 32. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES – CONTINUED

b) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 33.

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 $817,244 (2010: $737,818).

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 2011:

		Transaction type		
Director	Entity	Sponsorship $'000	Sales of goods and services $'000	Purchase of goods $'000
R M Harding	Santos Ltd	–	–	1
L Di Bartolomeo	Australian Rail Track Corporation Limited	–	155,334	643
	Macquarie Generation	–	1,377	–
	Australian Super Limited	–	389	–
S A Chaplain	Australian Youth Orchestra	28	–	–
	Coal & Allied Industries	–	3,242	–
G A Fenn	KDR Victoria Pty Ltd	–	–	3,310

e) Transactions within the wholly-owned Group

Aggregate amounts receivable from and payable to wholly-owned subsidiaries are included within total assets and liabilities balances as disclosed in Note 36. 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 arm's length 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 31.

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.

NOTE 32. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES – CONTINUED

h) Key management personnel equity holdings

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

2011	Balance at 1 July 2010 No.	Net change No.	Balance at 30 June 2011 No.
R M Harding	–	–	–
S A Chaplain	19,609	30,528	50,137
L Di Bartolomeo	47,959	12,944	60,903
J S Humphrey	54,226	13,756	67,982
C G Thorne	–	13,750	13,750
G A Fenn(i)	–	80,959	80,959
P Borden	1,000	500	1,500
C Bruyn	500	300	800
D Cattell	9,059	129,886	138,945
S Cinerari	1,843	(1,043)	800
K Fletcher	3,000	32,000	35,000
D Overall	–	–	–
	137,196	313,580	450,776

(i) Excludes 250,525 sign-on shares and 14,577 shares acquired under the accelerated renounceable rights offer attached to those shares that vested on 1 July 2011.

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	–	–	–
P Reichler(i)	200,256	(66,602)	133,654
G Wannop	47,064	(14,458)	32,606
	1,138,080	181,043	1,319,123

(i) Included in comparatives to acknowledge KMP status for one quarter of the year ended 30 June 2010.

NOTE 32. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES – CONTINUED

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

2011	Balance at 1 July 2010 No.	Net change No.	Balance at 30 June 2011 No.
D Cattell	**34,863**	**(34,863)**	**–**
C Bruyn	**24,481**	**(24,481)**	**–**
S Cinerari	**19,016**	**(19,016)**	**–**
P Borden	**5,140**	**(5,140)**	**–**
	83,500	**(83,500)**	**–**

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
P Reichler(i)	16,082	-	16,082
G Wannop	25,106	–	25,106
	119,548	–	119,548

(i) Included in comparatives to acknowledge KMP status for one quarter of the year ended 30 June 2010.

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

2011	Balance at 1 July 2010 No.	Net change No.	Balance at 30 June 2011 No.
D Cattell	**11,000**	**(11,000)**	**–**
C Bruyn	**7,724**	**(7,724)**	**–**
S Cinerari	**6,000**	**(6,000)**	**–**
P Borden	**1,622**	**(1,622)**	**–**
	26,346	**(26,346)**	**–**

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
P Reichler(i)	5,074	–	5,074
G Wannop	7,921	–	7,921
	37,719	–	37,719

(i) Included in comparatives to acknowledge KMP status for one quarter of the year ended 30 June 2010.

NOTE 33. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation	Consolidated[i]	
	2011 $	2010 $
Short-term employee benefits	**9,959,936**	12,737,853
Post-employment benefits	**3,757,805**	1,196,921
Share-based payments	**1,392,499**	3,725,571
	15,110,240	17,660,345

(i) Comparative balances restated to reflect KMPs for the year ended 30 June 2010.

NOTE 34. 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.

In the current year, 6,280 employees accepted the offer to participate in the Employee Share Plan, which allowed them to acquire up to 300 of the Company's shares with a $1,000 discount. A total of 1,884,000 shares for a total value of $7.6 million were issued under the plan (Refer to Note 23).

NOTE 35. 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 meet all its financial obligations when they fall due, to provide adequate returns to shareholders and to maintain an appropriate capital structure to optimise its cost of capital. The consolidated entity's capital management strategy remains unchanged from 2010.

The consolidated entity monitors its gearing ratio determined as the ratio of net debt to total capitalisation. During the years ended 30 June 2011 and 30 June 2010, the gearing ratios were as follows:

		Consolidated	
	Note	2011 $'000	2010 $'000
Current borrowings	19	**165,121**	272,167
Non-current borrowings	19	**567,665**	617,012
Gross debt [i]		**732,786**	889,179
Adjustment for the mark to market of cross currency and interest rate swaps and deferred finance charges		**48,286**	26,644
Adjusted gross debt		**781,072**	915,823
Less: cash and cash equivalents	9	**(288,575)**	(385,126)
Net debt		**492,497**	530,697
Equity [ii]		**1,442,385**	1,242,851
Total capitalisation (Net debt + Equity)		**1,934,882**	1,773,548
Gearing ratio [iii]		**25.5%**	29.9%
Off balance sheet debt			
Operating leases [iv]		**241,299**	179,621
Gearing ratio (including off balance sheet debt)		**33.7%**	36.4%

(i) Gross debt is defined as all borrowings.

(ii) Equity consists of all capital and reserves.

(iii) Net debt/Total capitalisation.

(iv) The Group enters into operating leases in respect of plant and equipment (excluding real property) utilised in its businesses. The present value of these leases at 30 June 2011 discounted at 10 per cent p.a. (discount rate prescribed by the loan covenant) was $241.3 million (June 2010: $179.6 million).

NOTE 35. FINANCIAL INSTRUMENTS – CONTINUED

(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 foreign exchange, interest rate and commodity market risk, counterparty 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.

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[(i)]		Financial liabilities[(i)]	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Consolidated				
US dollar (USD)	**23,608**	62,906	**2,026**	41,831
New Zealand dollar (NZD)	**395**	16,802	**1,449**	26,104
Great British pound (GBP)	**710**	1,800	**162**	479
Euro (EUR)	**4,125**	23,794	**454**	998
Chinese yuan (CNY)	**–**	3,689	**–**	100
Singapore dollars (SGD)	**236**	234	**9**	123
	29,074	109,225	**4,100**	69,635

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

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

NOTE 35. 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	
	2011	2010	2011 FC'000	2010 FC'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Buy USD / Sell AUD								
Less than 3 months	**0.9122**	0.8171	**57,007**	79,818	**62,492**	97,689	**(8,793)**	(2,997)
3 to 6 months	**0.8769**	0.7746	**43,298**	24,617	**49,375**	31,778	**(8,287)**	(2,176)
Later than 6 months	**0.8310**	0.7726	**200,360**	239,966	**241,098**	310,592	**(42,935)**	(8,451)
			300,665	344,401	**352,965**	440,059	**(60,015)**	(13,624)
Buy AUD / Sell USD								
Less than 3 months	**0.9668**	0.8807	**7,150**	1,873	**7,396**	2,127	**652**	(105)
3 to 6 months	**0.9167**	0.8949	**5,801**	4,005	**6,328**	4,475	**791**	(331)
Later than 6 months	**0.8740**	0.8570	**7,401**	13,422	**8,468**	15,660	**1,228**	(1,103)
			20,352	19,300	**22,192**	22,262	**2,671**	(1,539)
Buy EUR / Sell AUD								
Less than 3 months	**0.5386**	0.6115	**8,117**	14,180	**15,068**	23,191	**(4,031)**	(2,545)
3 to 6 months	**0.6300**	0.6097	**31,986**	14,715	**50,769**	24,135	**(6,887)**	(2,479)
Later than 6 months	**0.6028**	0.5414	**60,692**	64,657	**100,691**	119,428	**(15,261)**	(18,298)
			100,795	93,552	**166,528**	166,754	**(26,179)**	(23,322)
Buy CNY / Sell USD								
Less than 3 months	**6.5193**	6.7325	**139,480**	101,957	**21,395**	15,144	**184**	(138)
3 to 6 months	**6.4543**	6.6849	**101,422**	134,861	**15,714**	20,174	**35**	(286)
Later than 6 months	**6.2460**	6.3703	**588,933**	1,032,385	**94,290**	162,062	**(1,529)**	(5,681)
			829,835	1,269,203	**131,399**	197,380	**(1,310)**	(6,105)
Buy KRW / Sell USD								
3 to 6 months	**1,374.0**	1,373.5	**6,583,000**	6,265,000	**4,791**	4,561	**1,242**	645
Later than 6 months	**1,383.5**	1,376.4	**6,583,000**	19,588,000	**4,758**	14,232	**1,220**	2,017
			13,166,000	25,853,000	**9,549**	18,793	**2,462**	2,662
Buy GBP / Sell AUD								
Less than 3 months	**0.5311**	0.5439	**1,016**	918	**1,912**	1,689	**(383)**	(56)
3 to 6 months	**0.5166**	0.5379	**918**	765	**1,778**	1,423	**(377)**	(47)
Later than 6 months	**0.5038**	0.5129	**4,369**	8,043	**8,673**	15,681	**(1,740)**	(471)
			6,303	9,726	**12,363**	18,793	**(2,500)**	(574)
Buy AUD / Sell ZAR								
Less than 3 months	**7.0101**	6.5970	**1,412**	1,115	**201**	169	**7**	(3)
3 to 6 months	**7.3268**	6.6240	**1,770**	988	**242**	149	**(2)**	(3)
			3,182	2,103	**443**	318	**5**	(6)
Buy SGD / Sell USD								
Less than 3 months	**0.7831**	0.7173	**1,100**	1,700	**1,405**	2,370	**41**	(5)
3 to 6 months	**0.7836**	0.7157	**2,200**	2,550	**2,807**	3,563	**81**	–
Later than 6 months	**0.7844**	0.7243	**600**	3,350	**765**	4,625	**22**	(44)
			3,900	7,600	**4,977**	10,558	**144**	(49)

NOTE 35. FINANCIAL INSTRUMENTS – CONTINUED

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 equivalent 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	
	2011 %	2010 %	2011	2010	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Buy USD / Sell AUD								
Less than 1 year	**6.8**	6.8	**0.7217**	0.7217	**2,772**	2,772	**(898)**	(325)
2 to 5 years	**8.0**	8.0	**0.6787**	0.6787	**103,141**	103,141	**(33,387)**	(11,611)
5 years or more	**6.8**	6.8	**0.7220**	0.7220	**9,695**	9,695	**(1,935)**	393
					115,608	115,608	**(36,220)**	(11,543)
Buy SGD / Sell AUD								
Less than 1 year	**8.8**	–	**1.1845**	–	**50,654**	–	**(5,546)**	–
1 to 2 year(s)	**–**	8.7	**–**	1.1845	**–**	50,654	**–**	(312)
					50,654	50,654	**(5,546)**	(312)

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

Outstanding contracts	Weighted average interest rate		Weighted average exchange rate		Contract value		Fair value	
	2011 %	2010 %	2011	2010	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Buy NZD / Sell AUD								
1 to 2 year(s)	**10.0**	–	**1.2384**	–	**28,887**	–	**(873)**	–
2 to 5 years	**–**	9.7	**–**	1.2384	**–**	28,887	**–**	484
Total					**28,887**	28,887	**(873)**	484

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

NOTE 35. FINANCIAL INSTRUMENTS – CONTINUED

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 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.

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.

	Profit/(loss)(i)		Equity(ii)	
Consolidated	2011 $'000	2010 $'000	2011 $'000	2010 $'000
USD impact				
– 10% rate change	–	7,871	–	38,759
+ 10% rate change	–	(6,440)	–	(31,712)
– 20% rate	**5,396**	–	**67,707**	–
+ 20% rate	**(3,597)**	–	**(45,138)**	–
EUR impact				
– 10% rate change	–	2,533	–	13,434
+ 10% rate change	–	(2,072)	–	(13,434)
– 15% rate change	**648**	–	**20,088**	–
+ 15% rate change	**(479)**	–	**(20,088)**	–
CNY impact				
– 10% rate change	–	399	**13,591**	25,659
+ 10% rate change	–	(326)	**(11,092)**	(20,880)
NZD impact				
– 10% rate change	**(117)**	(1,034)	**317**	–
+ 10% rate change	**96**	846	**(388)**	–
GBP impact				
– 10% rate change	–	147	–	1,700
+ 10% rate change	–	(120)	–	(1,700)
– 15% rate change	**97**	–	**1,411**	–
+ 15% rate change	**(71)**	–	**(1,411)**	–

(i) This is mainly a result of the changes in the value of forward foreign exchange contracts not designated in a hedge relationship, 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 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 of the year.

NOTE 35. 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 is detailed in the table below:

	Weighted average effective interest rate		Consolidated	
	2011 %	2010 %	2011 $'000	2010 $'000
Floating interest rates – cash flow exposure				
Bank overdrafts (i)	**2.6**	3.6	**6,343**	6,435
Bank loans				
AUD (ii)	**7.6**	8.4	**78,022**	71,832
GBP	**2.6**	2.2	**12,244**	31,296
SGD	**3.2**	3.4	**38,970**	11,735
USD	**–**	1.6	**–**	22,882
THB	**3.4**	–	**3,633**	–
AUD medium term notes:				
Series 2009-2 (iii)	**–**	8.4	**–**	100,000
Series 2010-1	**7.9**	–	**56,700**	–
Cash and cash equivalents	**4.3**	3.7	**(288,575)**	(385,126)
Cash flow exposure – total			**(92,663)**	(140,946)
Fixed interest rates – fair value exposure				
Bank loans				
AUD	**2.9**	6.3	**5,126**	211,933
SGD (iv)	**5.1**	5.0	**7,687**	12,573
USD notes	**7.8**	7.8	**109,769**	115,608
AUD medium term notes:				
Series 2009-1	**7.2**	7.2	**92,292**	106,308
Series 2009-2 (iii)	**9.8**	9.8	**150,000**	50,000
NZD Works Bonds				
NZD (v)	**9.7**	9.7	**116,954**	121,693
Finance lease and hire purchase liabilities	**8.5**	8.2	**103,332**	53,528
Fair value exposure – total			**585,160**	671,643

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

(i) Bank overdrafts located in UK (GBP denominated) and India (INR denominated). The value of the interest rate and cross currency swaps have been included in the debt numbers above.

(ii) Includes a bank loan amount that has been swapped from floating rate SGD to floating rate AUD.

(iii) AUD150.0 million MTN Series 2009-2 fixed rate note; AUD100.0 million swapped from fixed rate to floating rate in 2009 and swapped back to fixed rate in 2011.

(iv) Part of SGD bank loan swapped from floating rate to fixed rate.

(v) NZD Bonds 150.0 million fixed rate; partial amount swapped from fixed rate NZD to fixed rate AUD.

NOTE 35. 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 the reporting date:

Outstanding floating for fixed contracts	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2011 %	2010 %	2011 $'000	2010 $'000	2011 $'000	2010 $'000
AUD interest rate swaps						
Less than 1 year[(i)]	–	5.2	–	180,000	–	(598)
2 to 5 years	**5.1**	5.1	**120,397**	138,242	**1,028**	496
			120,397	318,242	**1,028**	(102)
SGD interest rate swaps						
Less than 1 year[(ii)]	**2.2**	1.8	**7,567**	4,191	**(121)**	(33)
1 to 2 year(s)	–	2.2	–	8,382	–	(176)
			7,567	12,573	**(121)**	(209)

(i) AUD 180.0 million swaps matured in June 2011.

(ii) SGD 5.0 million swap matured in May 2011.

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

Outstanding fixed for floating contracts	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2011 %	2010 %	2011 $'000	2010 $'000	2011 $'000	2010 $'000
AUD interest rate swaps						
2 to 5 years	–	8.4	–	100,000	–	2,672
			–	100,000	–	2,672

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

NOTE 35. FINANCIAL INSTRUMENTS – CONTINUED

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	
	2011 $'000	2010 $'000
Increase in rate		
Profit or loss (i)	**918**	1,707
Equity (ii)	**4,368**	6,672
Decrease in rate		
Profit or loss	**(918)**	(1,834)
Equity	**(4,563)**	(6,824)

(i) This is mainly attributable to the consolidated entity's exposure to interest rates on its unhedged variable rate borrowings.

(ii) This is mainly on account of the change in valuation of the interest rate swaps and cross currency interest rate swaps held by the consolidated entity and designated as cash flow hedges.

Sensitivities have been based on an increase in interest rates by 1.0 per cent p.a. and a decrease by 1.0 per cent p.a. across the yield curve.

(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.

	Consolidated	
	2011 $'000	2010 $'000
Impact on Equity		
Fair value through equity	–	156

NOTE 35. FINANCIAL INSTRUMENTS – CONTINUED

(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 receivables 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 Treasury Policies. Investments of surplus funds are made only with approved counterparties (with credit ratings of no less than AA-) and within approved credit limits assigned to each counterparty.

Counterparty credit limits are reviewed by the Board from time to time. 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.

(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 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.

NOTE 35. FINANCIAL INSTRUMENTS – CONTINUED

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.

$'000	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Consolidated						
2011						
Financial liabilities						
Trade payables	434,047	–	–	–	–	–
Bank overdrafts	6,343	–	–	–	–	–
Supplier finance	5,276	–	–	–	–	–
Bank loans	115,207	5,719	5,564	5,359	5,084	4,789
USD notes	7,056	5,138	5,138	68,039	424	8,012
AUD medium term notes (Series 2009-1)	19,530	18,664	18,031	17,265	16,245	29,361
AUD medium term notes (Series 2009-2)	14,625	14,625	157,313	–	–	–
AUD medium term notes (Series 2010-1)	16,762	15,783	14,931	13,964	6,582	–
NZD Bonds	11,173	118,632	–	–	–	–
Total borrowings including interest	195,972	178,561	200,977	104,627	28,335	42,162
Finance lease and hire purchase liabilities	26,165	25,413	23,931	22,678	24,009	670
Derivative instruments(i)						
Cross currency interest rate swaps						
– Receive leg	(56,564)	(33,484)	(5,132)	(67,953)	(424)	(8,002)
– Pay leg	69,506	38,519	8,865	107,201	659	12,007
Interest rate swaps	346	103	(301)	(522)	(411)	(396)
Foreign currency forward contracts	46,827	39,731	71	–	–	–
Total	716,299	248,843	228,411	166,031	52,168	46,441

(i) Includes assets and liabilities.

NOTE 35. FINANCIAL INSTRUMENTS – CONTINUED

LIQUIDITY RISK TABLES – CONTINUED

$'000	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
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 2009-1)	20,257	19,532	18,682	18,118	17,152	45,499
AUD medium term notes (Series 2009-2)	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.

(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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Total borrowings (i)	**629,454**	835,651	**657,608**	859,693

(i) Total borrowings exclude finance leases.

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.

NOTE 35. FINANCIAL INSTRUMENTS – CONTINUED

(i) Fair value of financial instruments – continued

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).

2011

$'000	Level 1	Level 2	Level 3	Total
Financial assets in designated hedge accounting relationships				
Foreign currency forward contracts	–	5,786	–	5,786
Cross currency and interest rate swaps	–	1,122	–	1,122
Financial assets at fair value through profit and loss				
Unquoted equity investments	–	–	5,373	5,373
Available-for-sale financial assets				
Unquoted equity investments	–	–	13,750	13,750
	–	6,908	19,123	26,031
Financial liabilities in designated hedge accounting relationships				
Foreign currency forward contracts	–	90,683	–	90,683
Cross currency and interest rate swaps	–	42,852	–	42,852
	–	133,535	–	133,535

2010

$'000	Level 1	Level 2	Level 3	Total
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 investments	39	–	–	39
Available-for-sale financial assets				
Listed equity investments	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 35. FINANCIAL INSTRUMENTS – CONTINUED

Reconciliation of Level 3 fair value measurements of financial assets

2011	Fair value through profit or loss	Available-for-sale	Total
$'000	Unquoted equity investments	Unquoted equity investments	
Opening balance	**6,291**	**15,236**	**21,527**
Total gains or losses:			
– in profit or loss	**(500)**	**–**	**(500)**
– in other comprehensive income	**–**	**(1,486)**	**(1,486)**
Settlements	**(1,918)**	**–**	**(1,918)**
Purchases	**1,500**	**–**	**1,500**
Closing balance	**5,373**	**13,750**	**19,123**

2010	Fair value through profit or loss	Available-for-sale	Total
$'000	Unquoted equity investments	Unquoted equity investments	
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.

NOTE 36. PARENT ENTITY DISCLOSURES

		Company	
		2011 $'000	2010 $'000
(a)	**Financial position**		
	Assets		
	Current assets	**603,975**	470,464
	Non-current assets	**1,119,009**	912,230
	Total assets	**1,722,984**	1,382,694
	Liabilities		
	Current liabilities	**26,874**	16,327
	Non-current liabilities	**353,771**	358,745
	Total liabilities	**380,645**	375,072
	Net assets	**1,342,339**	1,007,622
	Equity		
	Issued capital	**1,245,294**	940,072
	Retained earnings	**82,270**	48,040
	Reserves		
	Employee benefit reserve	**14,775**	19,510
	Total equity	**1,342,339**	1,007,622
(b)	**Financial performance**		
	Profit for the year	**87,996**	89,625
	Other comprehensive income	**–**	–
	Total comprehensive income	**87,996**	89,625

(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 liabilities as at 30 June 2011.

(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 2011.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2011

In the opinion of the Directors of Downer EDI Limited:

(a) the financial statements and notes set out on pages 34 to 111 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;

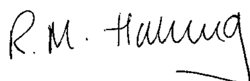
(b) there are reasonable grounds to believe that Downer EDI will be able to pay its debts as and when they become due and payable;

(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



R M Harding
Chairman

Sydney, 24 August 2011

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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 2011, 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's end or from time to time during the financial year as set out on pages 34 to 112.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply 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. Those 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 of the financial report that gives a true and fair view, 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.

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Downer EDI Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2011 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

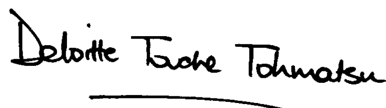
(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 31 of the directors' report for the year ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU

AV Griffiths
Partner
Chartered Accountants

Sydney, 24 August 2011

SUSTAINABILITY AT DOWNER

For our business, sustainability means being a valued contributor to the communities in which we operate, demonstrating sound environmental performance and being a responsible employer, while delivering excellence to our customers and rewarding our shareholders. We continually strive to achieve this by understanding and responding to emerging global risks and opportunities, engaging with our stakeholders and developing proactive partnerships within our value chain.

We are committed to tracking and disclosing our sustainability impacts, challenges and opportunities through our annual Sustainability Report. This report supplements our 2011 Annual Report and Annual Review, and provides a summary of our non-financial, sustainability-related performance for the year ended 30 June 2011. Our 2011 Sustainability Report will be available on the Downer website in December 2011.

A summary of our approach to the management of sustainability-related issues is provided below.

MANAGEMENT SYSTEMS

Our Zero Harm Management System (ZHMS) has been developed to ensure that all our activities are carried out in a manner that will not result in harm to the people associated with our operations, to the communities in which we work, or to the environment. The ZHMS also endeavours to ensure Downer's compliance with relevant international and Australian standards, conventions, statutes, regulations and codes of practice including:

- Australian standards referenced in legislation;
- statutory licences and industry codes;
- responsible care; and
- Downer's Zero Harm policies, standards and procedures.

HEALTH AND SAFETY

We aspire to create a Zero Harm environment which, in the context of health and safety, means caring for and protecting our people with a goal of zero injuries or health impacts. Our health and safety performance is monitored through the measure of Lost Time Injury Frequency Rate (LTIFR)[1] and Total Recordable Injury Frequency Rate (TRIFR)[2]. As at 30 June 2011, we maintained a LTIFR below one, with a result of 0.93, and a TRIFR reduction of 11.8%, with a result of 7.17.

PEOPLE AND COMMUNITY

With over 21,500 people in a diverse range of roles around the world, our goal is to empower our people to enable them to deliver improved value to our clients and shareholders, communities and themselves.

We are committed to diversity and providing equal opportunities for all our people. We believe our diversity makes us stronger and we welcome different views from all our people, as these help us to improve the quality of our services. We aim to ensure equal treatment and equal employment opportunities for all our people, regardless of gender, race, ethnicity, religion, age, national origin or ancestry, physical or mental disability or sexual orientation.

We understand the value of strong and enduring relationships with the communities in which we operate and we are committed to engaging with these important stakeholders. Our community relations principles are to provide appropriate and tangible social benefits, while ensuring that all community initiatives are aligned with Company values.

ENVIRONMENTAL SUSTAINABILITY

Effective management of environmental issues is fundamental to the way we do business and embedded into our overall risk management processes. Our objective is to achieve an appropriate balance between economic and environmental sustainability outcomes.

We recognise that climate change presents a serious challenge to business, society and the natural environment. We are committed to participating in climate change solutions by developing processes and technology to reduce our emissions and overall energy consumption. We also embrace the opportunity to assist our clients to manage the challenges that climate change represents for the global community.

Further information about Downer's approach to sustainability is available in our Annual Review and our Sustainability Reports, which are available on the Downer website at www.downergroup.com.

1 Lost time injuries (LTIs) are defined as diseases or occurrences that result in a fatality, permanent disability or time lost from one day/shift or more. The LTIFR is the number of LTIs per million hours worked.

2 TRIFR is the number of fatal injuries + lost-time injuries + medically treated injuries per million hours worked.

OVERVIEW

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.

Downer continues to enhance its policies and processes to promote leading corporate governance practices.

The Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles).

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Downer Board Charter sets out the functions and responsibilities of the Board and is available on the Downer website at **downergroup.com**.

The Board Charter states that 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 Group CEO and senior executives;
- monitoring performance of the Group CEO and senior executives; and
- reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Directors receive formal letters of engagement setting out the key terms, conditions and expectations of their engagement.

The Board Charter also describes the functions delegated to management, which is led by the Group CEO.

The primary goal set for management by the Board is to focus on enhancing shareholder value, and includes responsibility for Downer's economic, environmental and social performance.

The Group CEO is responsible for the day-to-day management of Downer and his authority is delegated and authorised by the Board.

Details of the Downer Executive Leadership Team are available on the Downer website at **downergroup.com**.

The Board has formal induction procedures for both Directors and senior executives. These procedures have been developed to enable new Directors and senior executives to gain an understanding of:

- Downer's financial position, strategies, operations and risk management policies; and
- the respective rights, duties and responsibilities and roles of the Board and senior executives.

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 where they receive feedback on progress against these targets.

The most recent performance evaluation of Downer's senior executives was undertaken in 2011.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Throughout the 2011 financial year, the Board was comprised of a majority of independent Directors.

The Board is currently comprised of the Chairman (Mike Harding, an independent, Non-executive Director), five independent, Non-executive Directors and an Executive Director (the Group CEO, Grant Fenn). Details of the members of the Board, including their skills, experience, status and terms of office are set out in the Directors' Report on page 2 and are also available on the Downer website at **downergroup.com**.

The composition of the Board is assessed by the Nominations and Corporate Governance Committee to ensure the Board is of a composition, size and commitment to effectively discharge its responsibilities and duties.

Directors are required to bring an independent judgement to bear on all Board decisions. To facilitate this, it is Downer's policy to provide Directors with access to independent professional advice at the Company's expense in appropriate circumstances.

Downer's Non-executive Directors recognise the benefit of conferring regularly without management present, and they do so at various times throughout the year.

The Board considers that an independent Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could (or could reasonably be perceived to) materially interfere with the independent exercise of their judgement. Downer regularly assesses the independence of each Director.

Downer's governance framework requires each Director to promptly disclose actual and possible conflicts of interest, interests in contracts, other directorships or offices held, related party transactions and any dealings in the Company's securities.

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

The chairman of the Board (Chairman) is an independent, Non-executive Director. He is responsible for leadership of the Board and for the efficient organisation and functioning of the Board. The Chairman is appointed by the Board to ensure that a high standard of values, governance and constructive interaction is maintained.

The Chairman facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and the Board and management. He also represents the views of the Board to Downer's shareholders and conducts the AGM.

The roles of Chairman and Group CEO are not exercised by the same person and the division of responsibilities between the Chairman and the Group CEO have been agreed by the Board and are set out in the Board Charter and Downer's delegations policy.

The Board has established a number of sub-committees to assist the Board to effectively and efficiently execute its responsibilities (Board Committees). A list of the main Board Committees and their membership is set out in the table below.

Board Committee	Chairman	Members
Audit Committee	Annabelle Chaplain	John Humphrey Grant Thorne
Zero Harm Committee	Grant Thorne	Mike Harding Grant Fenn
Nominations and Corporate Governance Committee	Mike Harding	Annabelle Chaplain Lucio Di Bartolomeo John Humphrey
Remuneration Committee	Lucio Di Bartolomeo	Annabelle Chaplain Mike Harding
Risk Committee	Grant Thorne	Mike Harding Grant Fenn Annabelle Chaplain Lucio Di Bartolomeo John Humphrey
Disclosure Committee	Mike Harding	John Humphrey Grant Fenn

The names of members of each Board Committee, the number of meetings and the attendances by each of the members of the various Board Committees to which they are appointed are set out in the Directors' Report on pages 7 and 8.

The Board has established the Nominations and Corporate Governance Committee to oversee the selection and appointment practices of the Company.

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 governance practice.

The Nominations and Corporate Governance Committee has a charter which sets out its roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-Committee members to attend meetings. The Nominations and Corporate Governance Committee Charter gives the Committee access to internal and external resources, including access to advice from external consultants and specialists. The Nominations and Corporate Governance Committee Charter is available on the Downer website at **downergroup.com**.

The Nominations and Corporate Governance Committee consists of a majority of independent Directors, is chaired by an independent Director and has a minimum of three members.

The Nominations and Corporate Governance Committee's responsibilities include:

- assessing the skills and competencies required on the Board;
- 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 identifying suitable candidates for appointment to the Board; and
- recommending the engagement of nominated persons as Directors.

When appointing Directors, the Nominations and Corporate Governance Committee aims to ensure that an appropriate balance of skills, experience, expertise and diversity is represented on the Board. The Company recognises the value of diversity and diversity has been a component of the appointment process over the past few years.

From time to time, Downer engages external specialists to assist with the selection process as necessary, and the Chairman and Group CEO meet with nominees as part of the appointment process.

Nominations for re-election of Directors are reviewed by the Nominations and Corporate Governance Committee and Directors are re-elected in accordance with the Downer Constitution and the ASX Listing Rules.

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

Downer's Director and senior executive induction program was implemented in the previous financial year to enable new Directors and senior executives to gain an understanding of, among other things, Downer's culture and values and the Company's financial, strategic, operational and risk management position.

Directors are given an induction briefing by the Company Secretariat and an induction pack containing information about Downer and its business, Board and Board Committee charters and Downer group 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 are encouraged to continually build on their exposure to the Company's business and a formal program of Director site visits has been in place since 2009.

Directors are also encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge and the Company Secretariat regularly organises governance and other continuing education sessions for the Board.

The Board is provided with the information it needs to discharge its responsibilities effectively. The Directors also have access to the Company Secretary for all Board and governance-related issues and the appointment and removal of the Company Secretary is determined by the Board. The Company Secretary is accountable to the Board on all governance matters.

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. Following an extensive review of its codes of conduct, Downer adopted a new code, the Downer Standards of Business Conduct. The Standards of Business Conduct sets the ethical tone and standards of the Company and deals with matters such as:

- compliance with the letter and the spirit of the law;
- prohibition against bribery;
- protection of confidential information;
- engaging with stakeholders;
- workplace safety;
- sustainability; and
- conflicts of interest.

Downer has also implemented a formal whistleblower policy and procedures for reporting and investigating breaches of the Standards of Business Conduct.

The Standards of Business Conduct applies to all officers and employees and is available on the Downer website at **downergroup.com.**

Downer endorses leading governance practices and has in place policies setting out the Company's approach to various matters, including:

- securities trading (stipulating 'trading windows' for designated employees and a formal process which all employees must adhere to when dealing in securities);
- the Company's disclosure obligations (including continuous disclosure);
- communicating with shareholders and the general investment community; and
- privacy.

These policies are available on the Downer website at **downergroup.com**.

Downer has a proud history of diversity and inclusiveness and is a member of the Diversity Council of Australia.

The Company has recently formalised its practices in a Diversity and Inclusiveness Policy and has convened a Diversity and Inclusiveness Committee made up of senior executives across the Group.

Downer has reported on diversity in its annual Sustainability Report since 2009 and is currently in the process of formalising reporting on diversity in line with the amended ASX Principles for the 2012 financial year.

The Diversity and Inclusiveness Policy and Downer's Sustainability Reports are available on the Downer website at **downergroup.com**.

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.

The 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 and its role includes a particular focus on the qualitative aspects of financial reporting to shareholders.

The Audit Committee is structured so that it:

- consists of only Non-executive Directors;
- consists of a majority of independent Directors;
- is chaired by an independent chairman (who is not the Chairman of the Board);
- has at least three members.

The Audit Committee currently comprises of only independent Directors, includes members who are financially literate and has at least one member who has relevant qualifications and experience.

The Audit Committee Charter sets out the Audit Committee's role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-Committee members to attend meetings.

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

The Audit Committee is responsible for reviewing the integrity of Downer's financial reporting and overseeing the independence of the Company's external auditors. The Audit Committee reports to the Board on all matters relevant to its role and responsibilities.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company's 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 **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.

Downer's Disclosure Committee consists of two independent, Non-executive Directors (one of which is the Chairman) and the Group CEO. The Disclosure Committee oversees disclosure of information by the Company to the market and the general investment community.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Downer empowers its shareholders by:

- communicating effectively with shareholders;
- giving shareholders ready access to balanced and understandable information about the Company; and
- making it easy for shareholders to participate in general meetings.

The Downer Communication Policy sets out the Company's approach to communicating with shareholders and is available on the Downer website at **downergroup.com**.

The Company publishes corporate information on its website, including Annual and Half Year Reports, ASX announcements and media releases.

Downer encourages shareholder participation at AGMs through its use of electronic communication, including by making notices of meetings available on its website and audio casting of general meetings and significant Group presentations.

Downer's external auditor attends the Company's AGMs 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

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

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 and workplace health and safety policies and procedures). These controls are designed to ensure that Downer complies with legal and regulatory requirements as well as community standards.

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. The Board regularly reviews the effectiveness of the Company's systems for the management of material business risks and the implementation of these systems.

The Company's internal audit team analyses and undertakes independent appraisal of the adequacy and effectiveness of Downer's risk management and internal control system. Downer's internal audit team is independent of the external auditor and has access to the Audit Committee and to management.

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 obligations.

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

The Board receives assurances from the Group CEO and the Group CFO 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 Board has established a Remuneration Committee and has adopted the Remuneration Committee Charter which sets out its role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-Committee members to attend meetings.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board about:

- executive remuneration and incentive policies;
- the remuneration, recruitment, retention, performance measurement and termination policies and procedures for all senior executives reporting directly to the Group CEO, including the Group CFO and the Company Secretary;
- executive and equity-based incentive plans; and
- superannuation arrangements and retirement payments.

Remuneration of the Group CEO, Executive Directors and Non-executive Directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Downer's remuneration policy is designed to motivate senior executives to pursue the long term growth and success of the Company and prescribes a relationship between the performance and remuneration of senior executives.

The Remuneration Committee consists of a majority of independent Directors, is chaired by an independent Director and has at least three members (currently, no Executive Director is a member of the Remuneration Committee).

The maximum aggregate fee approved by shareholders that can be paid to Non-executive Directors is $2 million per annum. This cap was approved by shareholders on 30 October 2008. Further details about remuneration paid to Non-executive Directors are set out in the Remuneration Report at page 13.

The Company's previous Constitution allowed for retiring Non-executive Directors to receive a retiring allowance, subject to the limitations set out in the *Corporations Act 2001* (Cth). Consistent with the ASX Principles, the right to retirement benefits 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 any payments has been fully provided in the financial statements. Directors entitled to a retirement benefit were paid a reduced fee and 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.

Executive Directors and senior executives are prohibited from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any of the Company's equity-based remuneration schemes.

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report at page 13 and key features of the current Downer employee share plans and details of Downer shares beneficially owned by Directors are provided in the Directors' Report at pages 7 and 3, respectively.

INFORMATION FOR INVESTORS
FOR THE YEAR ENDED 30 JUNE 2011

Downner shareholders

Downer had 25,846 ordinary shareholders as at 31 July 2011.

The largest shareholder, J P Morgan Nominees Australia Limited, holds 25.67% of the 429,100,296 fully paid ordinary shares issued at that date. Downer has 22,900 shareholders with registered addresses in Australia.

Securities exchange listing

Downer is listed on the Australian Securities Exchange (ASX) under the 'Downer EDI' 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 **downergroup.com** offers comprehensive information about Downer and its services. The website also contains news releases and announcements to the ASX, financial presentations, Annual Reports, Half Year Reports and company newsletters. Downer printed communications for shareholders include the Annual Report and Half Year Report. 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 to be paid in future years to the Australian Taxation Office.

International shareholders can use Computershare's 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 (DRP) 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 DRP 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 registry, Computershare Investor Services Pty Ltd (Computershare):

Level 5
115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

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 inquiries. This number is recorded on issuer sponsored and CHESS statements.

Updating your shareholder details

Shareholders can update their details (including bank accounts, DRP 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.

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 Computershare.

Lost issuer sponsored statement

You are advised to contact Computershare in writing immediately if your issuer sponsored statement has been lost or stolen.

Annual Report mailing list

Shareholders must elect to receive a Downer Annual Report and Half Year Report by writing to Computershare at the address provided above. 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 31 July 2011

Number of holders of equity securities

Ordinary share capital

429,100,296 fully paid listed ordinary shares were held by 25,846 shareholders. All issued ordinary shares carry one vote per share.

Substantial shareholders

The following shareholders have notified that they are substantial shareholders of Downer as at 31 July 2011.

Shareholders	Ordinary shares held	% of issued shares
Schroder Investment Management Australia Limited	31,814,069	7.41
Franklin Resources Inc	28,239,397	6.58
JCP Investment Partners Ltd	26,810,977	6.21

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 31 July 2011 is set out in the table below.

Range of holdings	Number of shareholders	Shareholders %	Ordinary shares held	Shares %
1–1,000	13,983	54.1	6,319,687	1.47
1,001–5,000	9,216	35.7	21,301,297	4.96
5,001–10,000	1,581	6.1	11,241,513	2.62
10,001–100,000	1,000	3.9	21,569,146	5.03
100,001 and over	66	0.3	368,668,653	85.92
Total	**25,846**	**100.0**	**429,100,296**	**100.00**
Holding less than a marketable parcel of shares	1,129			

Twenty largest shareholders

Downer's 20 largest shareholders of ordinary fully paid shares as at 31 July 2011 are set out in the table below.

Shareholder	Shares held	% of issued shares
J P Morgan Nominees Australia Limited	110,156,275	25.67
HSBC Custody Nominees (Australia) Limited	88,995,157	20.74
National Nominees Limited	68,092,564	15.87
Citicorp Nominees Pty Ltd	35,820,232	8.35
Cogent Nominees Pty Limited	10,580,546	2.47
Computershare Plan Co Pty Ltd	8,308,086	1.94
Australian Reward Investment Alliance	7,597,279	1.77
JP Morgan Nominees Australia Limited	6,928,180	1.61
Tasman Asset Management Ltd – Cash Income A/C	4,271,974	1.00
Queensland Investment Corporation – Tyndall Australian Share Whole	3,919,454	0.91
AMP Life Ltd	2,492,897	0.58
Argo Investments Ltd	2,392,527	0.56
Cogent Nominees Pty Limited – SMP Accounts	2,038,982	0.48
Citicorp Nominees Pty Limited – Colonial First State Inv A/C	2,035,653	0.47
Citicorp Nominees Pty Limited – Cfsil Cwlth Aust Shs 5 A/C	1,759,712	0.41
Masfen Securities Limited	1,171,647	0.27
Mr Barry Sydney Patterson + Mrs Glenice Margaret Patterson	891,642	0.21
Tasman Asset Management Ltd – Tyndall Australian Share Conce	874,806	0.20
RBC Dexia Investor Services Australia Nominees Pty Limited – MLCI A/C	546,359	0.13
HSBC Custody Nominees (Australia) Limited – A/C 2	456,897	0.11
Total for top 20 shareholders	**359,330,869**	**83.75**

On-market buy-back

There is no current on-market buy-back.

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F +61 2 9897 2305

SHARE REGISTRY

Shareholders and investors seeking information about Downer shareholdings or dividends should contact the Company's share registry, Computershare Investor Services Pty Ltd:

Level 5
115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

Tel: 1300 556 161
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www.computershare.com

Downner

WWW.DOWNERGROUP.COM