Downer EDI Limited

ABN: 97 003 872 848

Condensed Consolidated Financial Report for the half-year ended 31 December 2010

Results for announcement to the market
for the half-year ended 31 December 2010

Appendix 4D

	First half 2011 $'000	First half 2010 $'000	% change
Revenue from ordinary activities	**3,273,528**	2,783,595	17.6%
Total revenue and other income including joint ventures	**3,429,065**	2,841,365	20.7%
Earnings before interest and tax (after individually significant item)	**(117,556)**	140,213	(183.8%)
(Loss)/profit from ordinary activities after tax attributable to members of the parent entity (after individually significant item)	**(103,813)**	87,037	(219.3%)

	First half 2011 cents	First half 2010 cents	% change
Net tangible asset backing per ordinary share	**149.6**	215.4	(30.6%)

Dividends

An unfranked interim dividend of 13.1cents was paid in relation to the half year ended 31 December 2009. Interim dividend record date and payment date was 9 March 2010 and 9 April 2010 respectively. Conduit foreign income was 100%.

No interim dividend will be paid in relation to the half year ended 31 December 2010.

	2011	2010
ROADS		
Redeemable Optionally Adjustable Distributing Securities (ROADS)		
Dividend per ROADS (in Australian cents)	**2.7**	2.8
New Zealand imputation credit percentage per ROADS	**100%**	100%
ROADS payment date		
Quarter 1 instalment date	**15/09/2010**	15/09/2009
Quarter 2 instalment date	**15/12/2010**	15/12/2009

For commentary on the results for the year and review of operations, refer to the separate media release attached.

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for the half-year ended 31 December 2010

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Directors' Report

The Directors of Downer EDI Limited (Downer) submit the Condensed Consolidated Financial Report of the company for the half-year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

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

R M Harding	(Chairman, Independent Non-executive Director, elected Chairman 3 November 2010)
G A Fenn	(Finance Director, appointed 1 July 2010, Managing Director and Chief Executive Officer, appointed 30 July 2010)
S A Chaplain	(Independent Non-executive Director)
L Di Bartolomeo	(Independent Non-executive Director)
J S Humphrey	(Independent Non-executive Director)
P E Jollie AM	(Chairman, Independent Non-executive Director, resigned 3 November 2010)
G H Knox	(Former Managing Director and Chief Executive Officer, resigned 30 July 2010)
C J S Renwick AM	(Independent Non-executive Director, resigned 9 December 2010)
C G Thorne	(Independent Non-executive Director, appointed 1 July 2010)

Review of Operations

Highlights

- Total revenue[1] of $3.4 billion, up 20.7%
- Underlying[2] EBIT of $132.4 million, down 5.5%
- Statutory earnings before interest and tax (EBIT) was a loss of $117.6 million and net loss after tax of $103.8 million
- Underlying[2] net profit after tax (NPAT) of $71.2 million, down 18.2%
- Operating cashflow of $123.6 million, 93.3% of underlying EBIT
- Liquidity of $838.4 million, comprising cash of $322.5 million and undrawn committed facilities of $515.9 million
- Work-in-hand of $20.5 billion
- Safety performance – LTIFR[3]: 0.98 per million hours worked

Financial Performance

Downer reported total revenue of $3.4 billion for the six months to 31 December 2010, 20.7% higher than the previous corresponding period.

This strong revenue growth was driven by the Mining, Rail and Engineering divisions and offset by lower revenue from the Works division, including Downer New Zealand. The divisional contributions to Group revenue were: Mining $634.2 million (up 31.2%); Rail $667.5 million (up 45.7%); Engineering $1,171.8 million (up 34.7%); and Works $957.0 million (down 5.4%).

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[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 item.
[3] Lost Time Injury Frequency Rate.

Downer currently has work-in-hand worth $20.5 billion comprising the following divisional contributions: Engineering $2.2 billion; Mining $7.6 billion; Rail $5.4 billion; and Works $5.3 billion.

On 27 January 2011, Downer announced a pre-tax provision of $250.0 million in respect of the Waratah train project. As a result of this provision, Downer reported a net earnings before interest and tax (EBIT) loss of $117.6 million and a net loss after tax of $103.8 million.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) was $228.7 million, 3.0% higher than the previous corresponding period.

Underlying EBIT was $132.4 million, 5.5% lower than the previous half year, and underlying net profit after tax (NPAT) was 18.2% lower at $71.2 million.

Underlying operating cash flow remains strong at $185.9 million, which is 140.4% of underlying (EBIT). After $62.3 million of cash outflows relating to the Waratah train project, operating cash flow was $123.6 million.

As foreshadowed at Downer's Annual General Meeting on 3 November 2010, the main reasons for the lower underlying EBIT and NPAT for the half year were:

- for Downer Works, prolonged wet weather conditions around Australia and particularly in Queensland, New South Wales and Victoria;
- for Downer Works, including Downer New Zealand, a combination of both lower and deferred government expenditure;
- for Downer New Zealand, ongoing tough economic conditions, wet weather and restructuring costs;
- for Downer Engineering and Downer Works, intense competition with significant pressure on margins;
- for Downer Engineering, underperformance of certain contracts; and
- for Downer Group, restructuring and redundancy costs of $7.7 million.

The impact of these market and environmental conditions were partially offset by strong performance by both the Mining and Rail divisions which continue to benefit from growth in the resources sector.

At 31 December 2010, Downer had gearing of 35.7% and liquidity of $838.4 million, comprising cash of $322.5 million and undrawn committed facilities of $515.9 million.

Downer today announced it would undertake a fully underwritten 1 for 4 renounceable entitlement offer to all eligible shareholders to raise approximately $279 million.

Given that Downer is raising capital from shareholders and has no available franking credits to distribute, the Board has decided not to declare an interim dividend. Downer will assess whether to resume paying dividends at the full year.

Downer will continue to pay dividends on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

Wet Weather

According to the Australian Government Bureau of Meteorology[4], 2010 was Australia's wettest July to October on record and also the wettest July to December on record. In addition, December was the wettest on record for Queensland and eastern Australia, and the third wettest on record for Australia as a whole.

While there was no single weather event that had a material effect on the company, the total impact of extreme wet weather on Downer Group's EBIT during the half year was $23.0 million, with $11.2 million relating to the Australian Works business. There was a $6.5 million impact on Mining and a $4.0 million impact on Engineering.

Downer budgets for adverse and inclement weather, however the conditions experienced during the six month period were more severe and more prolonged than historic patterns.

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[4] Special Climate Statement 24 issued 7th January 2011

The wet weather had a particularly significant impact on Downer Works because most road and rail infrastructure work cannot be carried out in these conditions. Projects are delayed, productivity is negatively affected, margins are eroded and opportunities are lost.

Capital Management

At 31 December 2010, Downer had gearing of 35.7% and liquidity of $838.4 million, comprising cash of $322.5 million and undrawn committed facilities of $515.9 million.

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Downer will continue to pay dividends on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

Downer announced today it is undertaking a fully underwritten 1 for 4 accelerated renounceable entitlement offer (Offer) to all eligible shareholders to raise approximately $279 million.

This capital raising will provide financial flexibility to pursue attractive growth opportunities, strengthen Downer's balance sheet and support Downer maintaining investment grade credit metrics.

The Offer price of $3.25 per share represents a 17.1% discount to the closing price of Downer shares on 25 February and a 14.2% discount to the theoretical ex-rights price (TERP).

New shares issued under the Offer will rank equally with existing shares. Renounced entitlements will be sold via the institutional and retail bookbuilds, with any proceeds in excess of the issue price returned to renouncing shareholders.

Governance

Grant Fenn was appointed Chief Executive Officer of Downer on Friday, 30 July 2010 following the resignation of Geoff Knox. Mr Fenn was previously Chief Financial Officer of Downer. Kevin Fletcher, Downer's Deputy Chief Financial Officer, was appointed Acting Chief Financial Officer at the same time and then appointed Chief Financial Officer in November 2010.

The process of Board renewal continued during the half 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. 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 2011, including filling an existing vacancy.

Zero Harm

Downer's Lost Time Injury Frequency Rate for the half year was 0.98 per million hours worked, 4% lower than the previous corresponding period and an industry leading performance. Total Recordable Injury Frequency Rate was 10% lower at 7.77 per million hours worked.

Zero Harm is embedded in Downer's culture and is fundamental to the company's future success. Zero Harm means sustaining a work environment which supports the health and safety of Downer's people and minimises the impact Downer's business has on the environment.

Downer has been included in the Carbon Disclosure Project's Carbon Disclosure Leadership Index for the second year running and is the only contracting organisation listed in this Index. The Carbon Disclosure Project was established in 2000 and is an independent, not-for-profit organisation sponsored by governments and major investment institutions to accelerate solutions to climate change.

An example of Downer's contribution to sustainable development is the use of alternative fuels by the Downer Mining fleet to reduce consumption of traditional fossil fuels. Downer Mining is now the largest consumer of B20 biodiesel in the Australian mining sector.

Establishment of Downer Australia

Downer announced on 22 February that its Australian Works, Engineering and Emerging Sectors businesses would be combined into one division, Downer Australia. As a result of the change, Downer Group will consist of four divisions – Downer Australia, Downer New Zealand, Downer Mining and Downer Rail.

Fit for Business

Downer launched Fit for Business, a five year program targeting $250.0 million in savings across the Group, at its Full Year Results announcement in August 2010. Fit for Business will:

- build Downer's capability to efficiently and profitably meet customer needs;
- transform Downer's productivity and culture through significant and sustainable change to business models and processes; and
- encourage innovation and leverage the Group's skills and scale more effectively by empowering and engaging our people to determine and execute business improvement projects.

Fit for Business initiatives in the 2011 financial year include:

- a range of operational and organisational improvement initiatives;
- extending national procurement arrangements and consolidating office sites;
- restructuring back office activities across the business; and
- transforming IT infrastructure and rationalising IT equipment.

Waratah Update

In December 2010, following the appointment of the new Waratah Project Director, Ross Spicer, a detailed review of the Waratah project was undertaken as part of the Company's quarterly projects review process. An interim project report was tabled on 24 January 2011 which indicated that the existing project timetable and forecast cost to complete should be revised materially as a result of the following:

- an expected further delay to presenting the first train set to RailCorp for Practical Completion (PC);
- expected delays in production of subsequent trains as a result of asbestos in the Cardiff manufacturing facility (Cardiff); and
- more extensive changes being required to engineering and production processes to facilitate the high-volume assembly that is required for this large-scale and complex project.

On 24 January 2011, in response to the issues raised in the interim project report, Downer was granted a trading halt by the Australian Stock Exchange (ASX). The trading halt was lifted following the announcement by the Company on 27 January 2011 that a further onerous contract provision of $250.0 million would be required in respect of the Waratah project.

To address the issues identified, a revised Waratah project program has now been completed. The program provides for the production of trains in three distinct phases:

1. train Sets 1 to 15 (which have either been delivered to Australia or are in the process of being manufactured by CRC at Changchun, China (CRC or China)), will require significant re-work of the interior fit-out and related areas due to elements of the train design that have made assembly in China difficult;
2. train Sets 16 to 25 will be built to a first configuration freeze (Configuration Freeze 1) that will incorporate a number of 'quick win' initiatives to aid production of the bodyshell and interior fit-out in China, coupled with a temporary transfer of a limited amount of interior fit-out to Cardiff pending resolution of design and assembly changes to address production issues; and

3. train Sets 26 to 78 will be built based on a second configuration freeze (Configuration Freeze 2) following re-design of certain components and assemblies to achieve production rates and required quality levels, particularly in the interior fit-out. The program assumes that the interior fit-out transferred to Cardiff under stage 2 (approximately 26%) will continue to be undertaken at Cardiff during phase 3. An assessment will be made upon completion of the re-design and production process improvement exercises to determine when the scope can be transferred back to China.

The specific train Sets that are completed in each phase may vary depending on the progress in implementing changes to the train design and production processes that are outlined below.

In terms of delivery of train Sets to RailCorp, and entry into passenger service, the manufacturing program is targeting the following milestones:

- train Set 1 will be presented to RailCorp for PC between late April and July 2011;
- train Sets 2 to 6 being progressively delivered to RailCorp for PC between July 2011 and October 2011;
- train Set 7 entering passenger service late October 2011 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:

- the project management team acquires the requisite experience in high-volume train build projects and complementary project management skills;
- resolution of minor defects including software issues on train Set 1 to enable presentation to RailCorp for PC;
- the estimated completion timetable and man hours associated with Cardiff re-work are achieved for train Sets 1 to 15 in Cardiff (train sets 1 and 2 are substantially completed);
- productivity and quality improvements relating to the introduction of flow-line production methodology into Cardiff are achieved;
- the 'quick win' initiatives introduced for Configuration Freeze 1 and the temporary transfer of a limited amount of interior fit-out to Cardiff results in the estimated improvement in production rate and quality in China and reduced levels of re-work in Cardiff for trains 16 to 25;
- the re-design of certain components and assemblies to achieve the estimated production rates and required quality levels, particularly in the interior fit-out in China;
- achieving the reliability performance targets for train Sets 1 to 6 to allow subsequent trains to be delivered without undue disruption;
- the trains must meet certain performance thresholds, failure of the trains to meet the required benchmarks is likely to result in additional costs being incurred by Downer;
- Reliance Rail, or any successor, continues to honour its contractual obligations; and
- that RailCorp will 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.

The key assumptions of the program, and risks associated with each of these, are addressed as follows:

Project Management Team

Moves to substantially improve the management of the project were commenced in August 2010 and are continuing. Set out below are the key roles that have or are being addressed and the current status:

- Project Director – Ross Spicer appointed 1 December 2010. Extensive international experience in the rail industry in both manufacturing and operations;

- Engineering and Manufacturing Director – final interviews completed, preferred candidate identified. Expected commencement date, April 2011;
- Manufacturing Manager China – Wayne Redhead commenced in China 9 February 2011. Extensive experience in the UK rail industry in both manufacturing and operations;
- Commercial Director – to be identified. Currently supported from Group Office; and
- Human Resources (HR) Director – Jenny Gregory commenced in January 2011; and
- Trains Into Service Manager – David Cunningham commencing 28 February 2011. Extensive experience in managing the service introduction of new train fleets in the UK.

Recruitment of a permanent Commercial Director may take a further 3 to 6 months. This delay is not expected to have a material impact on the program. Additional experienced project resources are being recruited from internal and external sources.

Resolution of the Minor Defects list including software defects with train Set 1

The Company's announcement on 27 January 2011 advised that delivery to RailCorp of train Set 1 was targeted for late April 2011. This was predicated on the various software systems within the train, including the electronic Train Information System (eTIS), delivering acceptable functionality to ensure the safe and reliable operation of the train.

Whilst a number of issues remain within the various systems and sub-systems of the train at this time, it is currently projected that those defects which may impact the minimum operating standards of the train will either be corrected by the revised presentation date for PC or will be managed by alternate operational mitigations during operation thus enabling PC. This approach is normal for the introduction of new rolling stock into passenger service and has been common for the introduction of new fleets in Australia.

New versions of system software will be introduced between now and the revised PC date and testing will continue through that period. A key risk to the PC of train set 1 is RailCorp's acceptance of the "minor defects" including software functionality and mitigation systems.

In the event that PC is not granted due to functionality defects within the eTIS system it is expected that PC would be delayed by up to 7 weeks as version 11 of the eTIS software is received and tested. This would coincide with the presentation of train set 2 for PC.

Rework to complete train Sets 1 to 15

In excess of 400,000 labour hours have been allowed for re-work and retro-fit of the interior fit-out at Cardiff for the first 15 train Sets. The program assumes a reduction in re-work hours over train Sets 5 to 15 as productivity increases due to an estimated learning factor, and the introduction of flow-line production at Cardiff.

In addition, the two train Sets which have been used for early static and dynamic testing (which do not have full interior fit-out (the test Sets)) and will be delivered as train Sets 6 and 7, are to be managed as discreet projects to minimise disruption to the flow-line production of other trains.

Flow-line production at Cardiff

The program assumes that final fit-out and completion at Cardiff will be undertaken through a flow-line production approach, which involves dedicated teams allocated to specific tasks/stages of fit-out and completion to optimise efficiency, quality, costs and delivery performance. Flow-line production is targeted to be introduced for completion of train Set 4, with detailed planning for the introduction of this process currently in progress.
The revised program has made allowance for a phased introduction of the flow-line benefits.

Manufacturability assessment and train re-design

As is usual for the development of new train design platforms, design improvements (engineering instructions (EIs)) continue to be developed and introduced during manufacture. The number and method of EI introduction has however caused disruption to production in both China and Cardiff. To address those production issues and provide a stable platform for both manufacture and design review, the revised program introduces two configuration freeze points as follows:

1. Configuration Freeze 1, which will be effective for manufacture of train Sets 16 to 25; and
2. Configuration Freeze 2, which will be effective for manufacture of train Set 26 to 78.

The configuration freezes are being introduced in two phases recognising that a full manufacturability assessment and re-design of certain elements of the train will take 4 to 6 months to complete and implement. A number of 'quick win' initiatives have been identified for train Sets 16 to 25 including use of additional jigs, fixtures, tooling and gauges to improve repeatability and throughput in China, pending the more comprehensive manufacturability re-design envisaged for Configuration Freeze 2.

This later freeze focuses on improving manufacturability and assembly of vehicle components and, in particular, the interior fit-out. RailCorp will have the right to reject any design changes however it is assumed that they will be supportive to ensure the project is completed on the revised schedule.

During both phases, allowance has been made for a team of experts (approximately 8 to 10 personnel) to be located in China to assist with fit-out, quality control and supervision to ensure delivery of trains to time and quality.

Partial transfer of interior fit-out from China to Cardiff

The program allows for approximately 26% (by labour hours) of the interior fit-out currently undertaken in China to be transferred to Cardiff for all trains from Sets 16 to 78 (in excess of 300,000 labour hours), recognising some elements of assembly and interior fit-out may not be addressed through re-design.

A value engineering exercise will be undertaken to determine if this scope can be transferred back to China following Configuration Freeze 2 being implemented, presenting an opportunity to reduce costs.

The contingency held in the revised total forecast costs includes allowance for up to 62% (by labour hours) of the interior fit-out currently undertaken in China to be transferred to Cardiff (a further 470,000 labour hours in addition to the 300,000 planned) in the event that the interventions in China to improve interior fit-out and assembly are not fully successful.

The Forecast-Cost-At-Completion (FCAC) includes a specific contingency with potential liquidated damages to allow for a level of slippage in the targeted manufacturing program delivery milestones as there are a number of assumptions and risks existing within the revised program.

This specific contingency allows for train Sets to enter passenger service as follows:

- train Set 1 (June 2011);
- train Set 6 (January 2012);
- train Set 7 (April 2012);
- train Set 78 (June 2014).

These assumptions have been made for financial purposes only and the company will work closely with RailCorp to achieve the milestones currently targeted in the manufacturing program.

The general contingency of $73 million included in the forecast cost to complete however will not cover all possible outcomes.

Further information in relation to the Waratah train project is provided in Note 1 of the Condensed Consolidated Financial Report.

Operational Highlights

Engineering[5]

- Revenue of $1,171.8 million, up $302.0 million or 34.7%
- EBIT of $48.4 million, down $9.2 million or 15.9%
- EBIT margin of 4.1%, down 2.5 percentage points (ppts)
- ROFE[6] of 25.2%, up 1.7 ppts
- Work-in-hand of $2.2 billion

Downer Engineering increase in revenue was driven by a number of projects including Collgar Wind Farms in Western Australia, the Mangoola coal project in New South Wales, the Curragh expansion in central Queensland, and construction of transmission lines from Yabulu South to Ingham in North Queensland.

The main reason for the lower EBIT and EBIT margin performance was very competitive market conditions with significant pressure on margins. In addition, tender costs were high and costs were incurred as capacity was maintained following delayed projects.

There have been a certain number of underperforming contracts during the first half, including the Curragh coal project in central Queensland. Action is being taken to address the performance of these projects. The impact has been included in the half year results and the outlook for the full year.

In addition, wet weather had a $4 million impact on Downer Engineering's EBIT for the half year.

Downer Engineering rationalised its underperforming regional offices in Asia during the six month period, including closing its office in Thailand.

The CPG consulting businesses in Australia and New Zealand experienced tough market conditions. The CPG Asia consulting business continued to perform well, although some projects have been slowed to reduce inflationary pressures in Singapore.

The CPG Resources business (incorporating QCC, MT and Snowden) is experiencing strong demand in the coal sector with markets in the industrial minerals business also responding to higher prices. There is also increased interest in front end metals projects in the Snowden business.

Downer Engineering won a number of new projects during the half year including 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.

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[5] The Engineering result includes the Consulting, Emerging Sectors and Downer Asia business units.

[6] Return On Funds Employed = underlying EBIT divided by average funds employed (AFE) (AFE = Average Opening and Closing Net Debt + Equity)

Mining

- Revenue of $634.2 million, up $150.7 million or 31.2%
- EBIT of $50.8 million, up $13.8 million or 37.4%
- EBIT margin of 8.0%, up 0.3 ppts
- ROFE of 15.4%, up 3.2 ppts
- Work-in-hand of $7.6 billion

Downer Mining performed strongly during the half year despite the impact of wet weather. There continues to be strong demand for contract mining services and Downer Mining remains a market leader due to its full-service offering, close relationship with customers and commitment to Zero Harm.

Downer Mining's performance was driven by a number of large contract wins and renewals during the half year, in particular:

- a six-year contract, 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

- contracts with BHP Billiton Mitsubishi Alliance (BMA) at Goonyella Riverside and Norwich Park Mines in the Bowen Basin, 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 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 Boggabri open-cut coal mine in the Gunnedah Basin, New South Wales.

This new contract starts in December 2011 and will extend the company's involvement at Boggabri to over a decade. Services 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.

Downer Blasting Services and Otraco International (Downer's tyre and rim management business), also won new contracts and contract extensions.

Downer Mining will continue to focus on extending and expanding its existing footprint and growing its blasting and tyre management services.

Rail

- Revenue of $667.5 million, up $209.5 million or 45.7%
- *Excluding the Waratah train project, revenue was $480.2 million up $159.4 million or 49.7%*
- EBIT of $47.7 million, up $18.6 million or 63.8%
- EBIT margin of 7.1%, up 0.7 ppts
- ROFE of 25.1%, up 3.6 pts
- Work-in-hand of $5.4 billion

Downer Rail continues to benefit from strong demand for resources, particularly coal and iron ore, which is driving demand for its narrow and standard gauge locomotives from customers including QR National, Pacific National and BHP Billiton.

Downer Rail is finalising the delivery of new, single-deck passenger cars for Queensland Rail and Perth's Public Transport Authority. State Governments are investing in passenger rail as population and patronage increases, although foreign competition is increasing in this market.
During the half year, Downer Rail secured:

- a negotiated contract valued at approximately $190 million to expand and upgrade Queensland Rail's fleet of high speed passenger diesel Tilt Trains that service the Brisbane to Cairns rail corridor. Downer has previously built both electric and diesel Tilt Trains for Queensland Rail and has been a supplier to, and partner with, Queensland Rail for over three decades. The new 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 the contract consolidates Downer's position in design, technology and maintenance capability in the locomotive market. Downer will maintain these locomotives for Pacific National;

- an order for seven new standard gauge diesel electric locomotives for Genesee & Wyoming, the first major investment by this customer since it acquired FreightLink in December 2010. The locomotives will be delivered in the fourth quarter of 2011. 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 increase this order quantity to 24 units. Downer will maintain these locomotives for Pacific National.

During the period, a new maintenance facility in Western Australia was commissioned to cater for BHP Iron Ore's locomotive overhaul requirements.

Works[7]

- Revenue of $957.0 million, down $54.5 million or 5.4%
- EBIT of $19.7 million, down $27.0 million or 57.9%
- EBIT margin of 2.1%, down 2.5 ppts
- ROFE of 12.8%, down 9.1 ppts
- Work-in-hand of $5.3 billion

Downer Works' profitability was significantly affected by wet weather during the six month period, particularly in Eastern Australia. Wet weather had an $11.2 million impact on the Australian Works business during the half year and a $1.3 million impact on Downer New Zealand.

In addition, government expenditure on road and rail maintenance softened in both Australia and New Zealand and delays have been experienced to expected programs.

Downer New Zealand successfully completed the Vanuatu and Ruby Bay Bypass projects during the period and a joint venture project with Leighton has been substantially completed.

Economic conditions in New Zealand remain tough, however, and there is strong competition in all markets with discounting putting pressure on margins. There has been a significant reduction in expenditure by local governments and also the New Zealand Transport Authority with work awarded to the lowest price offered.

Downer New Zealand is continuing to restructure and drive efficiencies in response to these circumstances.

[7] Works comprises the Works Australia, Downer New Zealand and Works United Kingdom business units.

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

- the first contract win for the strategic join venture DownerMouchel, being an Integrated Service Arrangement with Main Roads Western Australia for the delivery of fence-to-fence road network asset management on more than 2,500 lane-kilometres of road within the Perth metropolitan network. The annual value is not fixed but is expected to be over $50 million each year for an initial period of five years with the opportunity to extend the agreement based on performance;

- DownerMouchel being awarded preferred supplier status by Main Roads Western Australia for the Mid-West ISA Agreement covering the Gascoyne region. It is expected that approximately $35 million will be spent each year for an initial period of five years with the opportunity to extend;

- 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;

- the rail infrastructure business within Downer Works being contracted by Australian Rail Track Corporation (ARTC) to undertake rail upgrade work, as part of the Federal Government's Nation Building Rail Investment, including:
  - track duplication projects across NSW and Victoria;
  - re-railing of track on the north-south corridor between Albury and Geelong;
  - signalling separation work between Enfield and Port Botany, NSW; and
  - upgrade of rail lines at Geelong Port and Altona, Victoria.

- 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; and

- In New Zealand, over NZ$150 million of work predominantly in the transport and water sectors for key government and local government customers, along with a major civil site works contract for BP Oil NZ.

Outlook

A number of factors are expected to affect Downer's performance in the second half of the year.

Downer Engineering will continue to experience strong competition, high tender costs, the completion of a number of underperforming contracts and the impact of maintaining capacity as a consequence of delayed projects.

Downer Works typically reports a higher contribution in the second half of the year, and a strong performance is expected again during the second half of this year, subject to weather conditions. This includes the commencement of projects relating to flood remediation work in Eastern Australia.

Downer New Zealand will continue to be affected by challenging economic conditions during the second half of the year.

Downer Mining will continue to ramp up work on its major projects, particularly at Goonyella, Norwich Park and Christmas Creek.

Strong demand for locomotives will keep Downer Rail's manufacturing and maintenance facilities close to capacity during the second half of the year, even though a number of projects were completed successfully during the first half of the year. Costs and delays associated with asbestos remediation works at the Cardiff facility in New South Wales will also be included in the result for the second half of the year.

Based on the above, and subject to risks including weather and market conditions, Downer Group expects to deliver underlying EBIT of around $300 million for the Full Year and underlying NPAT of around $169 million.

Directors' Report – *continued*

Financial Commentary

Summary

Downer today reported the following financial results for the period ended 31 December 2010:

$million (unless otherwise stated)	**Result**	**Variance to Prior period**	
Statutory revenue	3,280.0	468.7	16.7%
Total revenue	3,429.1	587.7	20.7%
Statutory EBIT	(117.6)	(257.8)	(183.8%)
Statutory NPAT	(103.8)	(190.9)	(219.3%)
Underlying EBIT	132.4	(7.8)	(5.5%)
Underlying EBIT margin[8] (%)	3.9%	(1.0) %pts	
Underlying NPAT	71.2	(15.9)	(18.2%)
Underlying effective tax rate (%)	27.0%	3.6 %pts	
Operating cash flow	123.6	(41.6)	(25.2%)
Underlying ROFE (%)	17.2%	0.8 %pts	

Revenue

Statutory revenue of $3.3 billion was 16.7% above the prior period and reflected strong results by the Mining and Rail divisions as a result of new contracts. This increase is partially offset by wet weather conditions along the eastern seaboard of Australia and New Zealand which affected the Works divisions coupled with general economic weakness in the New Zealand and United Kingdom markets.

The divisional contributions to Group revenue were: Engineering $1,171.8 million; Mining $634.2 million; Rail $667.5 million and Works $957.0 million.

Included within statutory revenue was $2.4 million of other income, which was $17.2 million lower than prior period which included $17.8 million gains on the sale of properties in New Zealand.

Total revenue, which includes Downer's proportionate share of revenue from non-consolidated joint ventures and associates, was $3.4 billion which was a $587.7 million or 20.7% improvement over the prior period largely reflecting higher revenue from KDR Victoria, a joint venture which operates the Yarra trams in Melbourne.

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[8] Underlying EBIT margin is calculated as underlying EBIT divided by total revenue

Directors' Report – *continued*

EBIT

Statutory EBIT was a loss of $117.6 million which was $257.8 million below the prior period. This reflects the Waratah train provision of a further $250.0 million pre-tax provision (as announced on 27 January 2011).

Underlying EBIT of $132.4 million was $7.8 million, or 5.5% below the prior period, resulting in an underlying EBIT margin of 3.9%. The margin deterioration of 1.0% reflected:

- the impact on Downer Works of prolonged wet weather conditions around Australia and particularly in Queensland, New South Wales and Victoria;
- the ongoing tough economic conditions in New Zealand and also the impact of wet weather in New Zealand;
- very competitive market conditions for Downer Engineering and Downer Works with significant pressure on margins.

Downer estimates the impact of extreme wet weather was $23.0 million.

Net Interest and Tax

Net interest expense for the period was $34.9 million, up $8.3 million or 31.0% over the prior period, reflecting an increase in borrowing rates post the financial crisis and an increase in net debt.

Reported tax was a benefit of $48.7 million for the period, reflecting the impact of the Waratah provision. Tax expense on underlying profit was $26.3 million, reflecting an underlying effective tax rate of 27.0%.

The underlying effective tax rate was below the Australian Corporation tax rate of 30.0% due mainly to profits being derived in foreign jurisdictions with nil or significantly lower corporate tax rates together with research and development benefits recognised.

Actual tax paid during the year was $7.4 million referrable to profits in foreign jurisdictions principally Singapore and New Zealand.

NPAT

Statutory NPAT for the period was a loss of $103.8 million which was $190.9 million below the prior period, reflecting the Waratah train provision totalling $175.0 million post-tax.

Underlying NPAT was a profit of $71.2 million, or $15.9 million below the prior period.

Underlying Performance

Underlying EBIT for the period was $132.4 million and NPAT $71.2 million. Underlying EBIT and NPAT performance reflect the statutory results adjusted for individually significant item. A reconciliation of underlying results to statutory results is set out below.

	Note	**EBIT $million**	**NPAT $million**
Underlying Result		**132.4**	**71.2**
Less: Individually significant item: Waratah train provision	*1*	(250.0)	(175.0)
Statutory Result		**(117.6)**	**(103.8)**

Discussion on the Waratah provision at the EBIT level is provided below:

Note 1: The Waratah train provision reflects the estimated forecast cost-to-complete for the train design and manufacture phase, including contingency. The provision includes additional estimated costs to be incurred including labour, technical costs, finance costs, transport and logistics costs and impact of delays. The additional provision raised on the Waratah train project is based on management's projected delivery of train Set 1 to RailCorp in June 2011 and June 2014 for practical completion of train Set 78 (the final train to enter in passenger service).

Balance Sheet

Net assets totalled $1,095.5 million at 31 December 2010, a decrease of $147.4 million compared to 30 June 2010. This reduction reflected the statutory NPAT result (as a result of the Waratah train project provision) less final dividend payments (net of the DRP) of $33.7 million and ROADS dividend of $5.2 million.

Included within total equity is a hedge reserve of ($80.1) million. This includes the mark-to-market movements for foreign exchange and interest rate derivative instruments which are subject to hedge accounting as at 31 December 2010 and a balance of ($75.2) million related to Downer's investment in Reliance Rail. The balance represents Downer's equity-accounted share of the historical movements of Reliance Rail hedge reserves. The hedge reserve is being amortised on a straight-line basis over a 30-year period.

Gearing was 35.7% at 31 December 2010. Adjusted Net Debt[9] divided by Adjusted EBITDAR[10] was 2.7 times.

Cash flow

Operating cash flow totalled $123.6 million, a $41.6 million reduction on the prior period. Included within operating cash flow was $62.3 million in net payments towards the Waratah train build which are recoverable on delivery of trains. Underlying operating cash flow was $185.9 million, 140.4% of underlying EBIT.

Investing cash outflows totalled $137.8 million, comprising $162.4 million in net capital expenditure less $25.5 million from the sale of properties and other equipment.

Financing cash outflows totalled $35.9 million representing $3.0 million net proceeds from borrowings and $39.0 million dividend payments net of participation in the DRP. Participation in the DRP for the interim FY10 dividend was 37%.

Cash on hand[11] at 31 December 2010 totalled $322.5 million, a $62.6 million decrease when compared to 30 June 2010. Total debt facilities, adjusted for the mark-to-market revaluation of relevant hedges and deferred finance charges, at 31 December 2010 were $1,446.7 million, of which $930.8 million was drawn ($515.9 million undrawn). Net debt at 31 December 2010 was $608.3 million, an increase of $77.6 million since 30 June 2010.

Liquidity, including cash and undrawn committed debt facilities totalled $838.4 million at 31 December 2010.

Bid, performance and retention bond facilities available to the Group at 31 December 2010 were $1,209.3 million of which $767.0 million was drawn ($442.3 million undrawn). Analysis of available debt and bonding facilities is detailed within Note 14 of the Condensed Consolidated Financial Report for 31 December 2010.

Dividends

Given that Downer is raising capital from shareholders and has no available franking credits to distribute, the Board has decided not to declare an interim dividend. Downer will assess whether to resume paying dividends at the full year.

Downer will continue to pay dividends on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

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[9] Adjusted Net Debt comprises Net Debt plus 6x current operating lease commitments
[10] EBITDAR = underlying earnings before interest, tax, depreciation, amortisation and equipment and properties operating lease rental expense
[11] Cash on hand excludes bank overdrafts of $4.7 million which are included in borrowings

Auditors' independence declaration

The Auditors' independence declaration, as required under Section 307C of the Corporations Act 2001, is set out on page 16.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

R M Harding
Chairman

Sydney, 28 February 2011

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The Board of Directors
Downer EDI Limited
Level 2, 39 Delhi Road
NORTH RYDE NSW 2113

28 February 2011

Dear Directors

Downer EDI Limited

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

As lead audit partner for the review of the consolidated financial report of Downer EDI Limited for the half-year ended 31 December 2010, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

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

We have reviewed the accompanying half-year financial report of Downer EDI Limited, which comprises the condensed statement of financial position as at 31 December 2010, and the condensed income statement, the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 19 to 48.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Downer EDI Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our review, 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.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

Sydney, 28 February 2011

Condensed consolidated income statement
for the half-year ended 31 December 2010

		Consolidated	
	Note	**First half 2011 $'000**	First half 2010 $'000
Revenue from ordinary activities	3(a)	**3,273,528**	2,783,595
Finance income	3(a)	**3,989**	8,066
Other income	3(a)	**2,444**	19,628
Total revenue		**3,279,961**	2,811,289
Employee benefits expense	3(b)	**(1,111,942)**	(999,132)
Raw materials and consumables used		**(846,643)**	(709,372)
Subcontractor costs		**(605,309)**	(434,886)
Plant and equipment costs		**(320,574)**	(266,938)
Communication expenses		**(27,522)**	(29,169)
Occupancy costs		**(53,971)**	(48,166)
Professional fees		**(20,801)**	(17,468)
Travel and accommodation expenses		**(36,001)**	(28,716)
Other expenses from ordinary activities		**(38,503)**	(52,376)
Depreciation and amortisation	3(b)	**(96,232)**	(81,789)
Finance costs	3(b)	**(38,914)**	(34,726)
Share of net profit of joint ventures entities and associates	6	**13,970**	5,002
Individually significant item	4	**(250,000)**	-
		(3,432,442)	(2,697,736)
(Loss)/profit before income tax		**(152,481)**	113,553
Income tax benefit/(expense)		**48,670**	(26,516)
(Loss)/profit after income tax		**(103,811)**	87,037
(Loss)/profit for the year that is attributable to:			
Non-controlling interest		**2**	-
Members of the parent entity		**(103,813)**	87,037
Total (loss)/profit for the period		**(103,811)**	87,037
Earnings per share (cents)			
• Basic (loss)/earnings per share		**(32.0)**	24.5
• Diluted (loss)/earnings per share		**(32.0)**	24.5

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

Condensed consolidated statement of comprehensive income

for the half-year ended 31 December 2010

	Consolidated	
	First half 2011 $'000	First half 2010 $'000
(Loss)/profit after income tax	**(103,811)**	87,037
Other comprehensive income		
• Exchange differences arising on translation of foreign operations	**(17,829)**	(9,701)
• Net gain on available-for-sale investments taken to equity	**2,207**	320
• Net gain/(loss) on foreign currency forward contracts taken to equity[1]	**6,771**	(42,370)
• Net (loss)/gain on cross currency interest rate swaps taken to equity	**(2,412)**	3,253
• Amortisation on share of reserves from associates	**1,401**	1,236
• Income tax relating to components of other comprehensive income	**(1,586)**	11,847
Other comprehensive expense included in equity	**(11,448)**	(35,415)
Total comprehensive (loss)/income for the period	**(115,259)**	51,622
Total comprehensive (loss)/income for the period that is attributable to:		
Non-controlling interest	**2**	-
Members of the parent entity	**(115,261)**	51,622
Total comprehensive (loss)/income for the period	**(115,259)**	51,622

[1] The December 2010 balance includes $68.3m reclassification adjustment from other comprehensive income into the profit and loss in accordance with AASB139 "Financial Instruments: Recognition and Measurement".

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

Condensed consolidated statement of financial position
As at 31 December 2010

	Note	Consolidated December 2010 $'000	June 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**322,542**	385,126
Inventories		**190,361**	193,138
Trade and other receivables		**1,039,268**	1,183,878
Other financial assets		**14,473**	12,708
Current tax assets		**13,746**	13,765
Other assets		**30,045**	28,787
Non-current assets held for sale		**2,079**	-
Total current assets		**1,612,514**	1,817,402
Non-current assets			
Equity-accounted investments		**31,452**	22,410
Property, plant and equipment		**971,184**	862,076
Intangible assets	7	**582,103**	589,414
Other financial assets		**32,759**	35,954
Deferred tax assets		**178,223**	123,280
Other assets		**5,120**	5,464
Total non-current assets		**1,800,841**	1,638,598
Total assets		**3,413,355**	3,456,000
LIABILITIES			
Current liabilities			
Trade and other payables		**1,012,303**	987,266
Borrowings		**73,740**	272,167
Other financial liabilities		**80,596**	41,513
Provisions		**215,574**	199,414
Current tax liabilities		**1,172**	5,012
Total current liabilities		**1,383,385**	1,505,372
Non-current liabilities			
Trade and other payables		**203**	713
Borrowings		**804,465**	617,012
Other financial liabilities		**79,432**	39,597
Provisions		**27,689**	27,162
Deferred tax liabilities		**22,717**	23,293
Total non-current liabilities		**934,506**	707,777
Total liabilities		**2,317,891**	2,213,149
Net assets		**1,095,464**	1,242,851
EQUITY			
Issued capital	9	**1,146,276**	1,118,675
Reserves	10	**(120,091)**	(107,893)
Retained earnings		**69,182**	231,974
Parent interests		**1,095,367**	1,242,756
Non-controlling interest		**97**	95
Total equity		**1,095,464**	1,242,851

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2010

Consolidated	Issued capital $'000	Available-for-sale investment reserve $'000	Hedge reserve (Note 10) $'000	Foreign currency translation reserve $'000	Employee benefits reserve $'000	Retained earnings $'000	**Attributable to owners of the parent $'000**	Non-controlling interest $'000	**Total $'000**
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 after income tax	**-**	**-**	**-**	**-**	**-**	**(103,813)**	**(103,813)**	**2**	**(103,811)**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**(17,829)**	**-**	**-**	**(17,829)**	**-**	**(17,829)**
Net gain on available-for-sale investments	**-**	**2,207**	**-**	**-**	**-**	**-**	**2,207**	**-**	**2,207**
Net gain on foreign currency forward contracts [1]	**-**	**-**	**6,771**	**-**	**-**	**-**	**6,771**		**6,771**
Net loss on cross currency interest rate swaps	**-**	**-**	**(2,412)**	**-**	**-**	**-**	**(2,412)**	**-**	**(2,412)**
Amortisation on share of reserves from associates	**-**	**-**	**1,401**	**-**	**-**	**-**	**1,401**	**-**	**1,401**
Income tax relating to components of other comprehensive income	**-**	**(397)**	**(1,189)**	**-**	**-**	**-**	**(1,586)**	**-**	**(1,586)**
Total comprehensive loss for the period	**-**	**1,810**	**4,571**	**(17,829)**	**-**	**(103,813)**	**(115,261)**	**2**	**(115,259)**
Contributions of equity (net of transaction costs) [2]	**27,601**	**-**	**-**	**-**	**-**	**-**	**27,601**	**-**	**27,601**
Share-based transactions during the period	**-**	**-**	**-**	**-**	**(3,393)**	**-**	**(3,393)**	**-**	**(3,393)**
Income tax relating to share-based transactions during the period	**-**	**-**	**-**	**-**	**2,643**	**-**	**2,643**	**-**	**2,643**
Payment of dividends [3]	**-**	**-**	**-**	**-**	**-**	**(58,979)**	**(58,979)**	**-**	**(58,979)**
Balance at 31 December 2010	**1,146,276**	**(1,006)**	**(80,071)**	**(57,774)**	**18,760**	**69,182**	**1,095,367**	**97**	**1,095,464**

[1] The December 2010 balance includes $68.3m reclassification adjustment from other comprehensive income into the profit and loss in accordance with AASB139 "Financial Instruments: Recognition and Measurement".
[2] Contributions of equity relate to shares issued as a result of Employee Share Plan and Dividend Re-investment Plan operable for the 2010 Final Dividend.
[3] Payment of dividends relates to 2010 final dividend and ROADS dividends paid during the financial period.

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

Condensed consolidated statement of changes in equity - *continued*

for the half-year ended 31 December 2010

Consolidated	Issued capital $'000	Available-for-sale investment reserve $'000	Hedge reserve (Note 10) $'000	Foreign currency translation reserve $'000	Employee benefits reserve $'000	Retained earnings $'000	**Attributable to owners of the parent $'000**	Non-controlling interest $'000	**Total $'000**
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	-	-	-	-	-	87,037	**87,037**	-	**87,037**
Exchange differences arising on translation of foreign operations	-	-	-	(9,701)	-	-	**(9,701)**	-	**(9,701)**
Loss on available-for-sale investments	-	320	-	-	-	-	**320**	-	**320**
Net loss on foreign currency forward contracts	-	-	(42,370)	-	-	-	**(42,370)**	-	**(42,370)**
Net gain on cross currency interest rate swaps	-	-	3,253	-	-	-	**3,253**	-	**3,253**
Amortisation on share of reserves from associates	-	-	1,236	-	-	-	**1,236**	-	**1,236**
Income tax relating to components of other comprehensive income	-	(96)	11,943	-	-	-	**11,847**	-	**11,847**
Total comprehensive income for the period	-	224	(25,938)	(9,701)	-	87,037	**51,622**	-	**51,622**
Contributions of equity (net of transaction costs)[1]	20,469	-	-	-	-	-	**20,469**	-	**20,469**
Share-based transactions during the period	-	-	-	-	2,672	-	**2,672**	-	**2,672**
Income tax relating to share-based transactions during the period	-	-	-	-	(426)	-	**(426)**	-	**(426)**
Payment of dividends [2]	-	-	-	-	-	(58,547)	**(58,547)**	-	**(58,547)**
Balance at 31 December 2009	1,099,260	(2,829)	(87,840)	(45,830)	18,206	365,211	**1,346,178**	-	**1,346,178**

[1] Contributions of equity relate to shares issued as a result of Dividend Re-investment Plan.

[2] Payment of dividends relates to 2009 final dividend and ROADS dividends paid during the financial period.

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

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2010

		Consolidated	
		First half 2011 $'000	First half 2010 $'000
Cash flows from operating activities			
Receipts from customers		**3,754,313**	3,121,606
Distributions from equity-accounted investments		**4,535**	6,043
Dividends received from external entities		**4**	17
Payments to suppliers and employees		**(3,596,051)**	(2,922,464)
Interest received		**3,761**	8,199
Interest and other costs of finance paid		**(35,552)**	(32,269)
Income tax paid		**(7,414)**	(15,944)
Net cash flows from operating activities		**123,596**	165,188
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**25,542**	46,579
Payments for property, plant and equipment		**(221,848)**	(117,253)
Proceeds from sale and leaseback of plant and equipment		**59,465**	-
Payments for intangible assets		**(563)**	(2,825)
Payments for investments		**(492)**	(24,704)
Advances to joint ventures		**96**	(2,048)
Advances to other entities		**-**	(28,189)
Payments for businesses acquired		**-**	(24,525)
Net cash flows used in investing activities		**(137,800)**	(152,965)
Cash flows from financing activities			
Proceeds from borrowings		**461,746**	515,209
Repayments of borrowings		**(458,774)**	(462,620)
Proceeds from issue of equity securities		**79**	-
Dividends paid		**(38,952)**	(38,078)
Net cash flow (used in)/from financing activities		**(35,901)**	14,511
Net (decrease)/increase in cash and cash equivalents		**(50,105)**	26,734
Cash and cash equivalents at the beginning of the period		**378,382**	292,223
Effect of exchange rate changes		**(10,465)**	(1,315)
Cash and cash equivalents at the end of the period	11	**317,812**	317,642

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

Notes to the condensed consolidated financial statements
for the half-year ended 31 December 2010

Note 1. Summary of accounting policies

Statement of Compliance

These condensed consolidated financial statements represent the consolidated results of Downer EDI Limited (ABN 97 003 872 848). The condensed consolidated half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and Accounting Standards which include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the condensed consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS') and AASB 134 'Interim Financial Reporting' and Interpretations, and comply with other requirements of the law. This half-year financial report does not include all of the notes that would normally be included in an Annual Financial Report and should be read in conjunction with the 2010 Annual Financial Report.

The condensed consolidated financial statements were authorised for issue by the Directors on 28 February 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 condensed consolidated financial statements have 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 accounting policies and methods of computation in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2010 Annual Financial Report for the financial year ended 30 June 2010.

The preparation of the half-year 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 condensed consolidated financial statements are described below.

Note 1. Summary of accounting policies - *continued*

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 condensed consolidated financial statements:

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

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

In determining revenues and expense for construction contracts, management makes key assumptions regarding estimated revenues and expense over the life of the contracts as well as the impact of weather conditions and natural disasters. 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.

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. 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 loss of key contracts and suppliers on future earnings supporting existing goodwill and intangible assets.

Waratah train project
Based on a full forecast cost to complete review on the Waratah train contract, an additional provision of $250.0 million was raised during the period. In determining this provision, management was required to estimate future events and make a number of key assumptions to deliver the revised program. The provision has been based on the revised Waratah project program which provides for production of trains in three distinct phases:

1. train Sets 1 to 15 (which have either been delivered to Australia or are in the process of being manufactured by CRC at Changchun, China (CRC or China)), will require significant re-work of the interior fit-out and related areas due to elements of the train design that have made assembly in China difficult;
2. train Sets 16 to 25 will be built to a first configuration freeze (Configuration Freeze 1) that will incorporate a number of 'quick win' initiatives to aid production of the bodyshell and interior fit-out in China, coupled with a temporary transfer of a limited amount of interior fit-out to Cardiff pending resolution of design and assembly changes to address production issues; and
3. train Sets 26 to 78 will be built based on a second configuration freeze (Configuration Freeze 2) following re-design of certain components and assemblies to achieve production rates and required quality levels, particularly in the interior fit-out. The program assumes that the interior fit-out transferred to Cardiff under stage 2 (approximately 26%) will continue to be undertaken at Cardiff during phase 3. An assessment will be made upon completion of the re-design and production process improvement exercises to determine when the scope can be transferred back to China.

Notes to the condensed consolidated financial statements
for the half-year ended 31 December 2010

Note 1. Summary of accounting policies - *continued*

Application of critical judgements and key sources of estimation uncertainty - continued

Waratah train project - *continued*

In terms of delivery of train Sets to RailCorp, and entry into passenger service, the manufacturing program is targeting the following milestones:

- train Set 1 will be presented to RailCorp for PC between late April and July 2011;
- train Sets 2 to 6 being progressively delivered to RailCorp for PC between July 2011 and October 2011;
- train Set 7 entering passenger service late October 2011 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:

- the project management team acquires the requisite experience in high-volume train build projects and complementary project management skills;
- resolution of minor defects including software issues on train Set 1 to enable presentation to RailCorp for PC;
- the estimated completion timetable and man hours associated with Cardiff re-work are achieved for train Sets 1 to 15 in Cardiff (train sets 1 and 2 are substantially completed);
- productivity and quality improvements relating to the introduction of flow-line production methodology into Cardiff are achieved;
- the ‘quick win’ initiatives introduced for Configuration Freeze 1 and the temporary transfer of a limited amount of interior fit-out to Cardiff results in the estimated improvement in production rate and quality in China and reduced levels of re-work in Cardiff for trains 16 to 25;
- the re-design of certain components and assemblies to achieve the estimated production rates and required quality levels, particularly in the interior fit-out in China;
- achieving the reliability performance targets for train Sets 1 to 6 to allow subsequent trains to be delivered without undue disruption;
- the trains must meet certain performance thresholds. Failure of the trains to meet the required benchmarks is likely to result in additional costs being incurred by Downer.
- Reliance Rail, or any successor, continues to honour its contractual obligations; and
- that RailCorp will 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.

The Forecast-Cost-At-Completion (FCAC) includes a specific contingency with potential liquidated damages to allow for a level of slippage in the targeted manufacturing program delivery milestones as there are a number of assumptions and risks existing within the revised program. This specific contingency allows for train Sets to enter passenger service as follows:

- train Set 1 (June 2011);
- train Set 6 (January 2012);
- train Set 7 (April 2012); and
- train Set 78 (June 2014).

Program costs
The project FCAC is currently estimated at $2,083 million, of which approximately 38% has been spent at 31 December 2010, compared to project revenue receivable from Reliance Rail of $1,653 million resulting in a projected loss of $430 million.

The FCAC includes a general contingency (refer below) to allow for a level of slippage in the targeted manufacturing program delivery milestones as there are a number of assumptions and risks existing within the revised program.

The level of contingency reflects management’s best estimate of incremental costs that may be incurred to deliver 78 train sets. 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.

Notes to the condensed consolidated financial statements
for the half-year ended 31 December 2010

Note 1. Summary of accounting policies - *continued*

Application of critical judgements and key sources of estimation uncertainty - continued

Waratah train project - continued

The FCAC is summarised below by major cost category.

Cost Category	$m
Materials & Sub-Contracted Components	1,019
Labour	324
Engineering Services	131
Transport, Logistics & Procurement	175
Project Management	143
Insurance, Bonding & Finance	95
Potential Liquidated Damages (LDs)	155
Manufacturing Delay Account (MDA) interest receivable	(111)
Other Costs	78
General Contingency	73
Total FCAC	**2,082**

Materials & Sub-Contracted Component
This cost category represent approximately 50% of the total FCAC and has substantially 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% 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 the 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 suppliers 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 (approximately $8 million) 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 body fit out 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 proposed re-work of train Sets 1 to 15 at Cardiff (in excess of 470,000 labour hours) and the transfer of approximately 26% of the interior fit-out from China to Cardiff for Sets 16 to 78 (in excess of 300,000 labour hours).

Note 1. Summary of accounting policies *- continued*

Application of critical judgements and key sources of estimation uncertainty - continued

Waratah train project - continued

The number of labour hours estimated for re-work on the transferred scope of work has been estimated by taking the actual hours of work spent on getting train Set 1 in an acceptable condition for presentation to RailCorp and using this experience as a base for estimated labour hours across the future sets. In making these estimates, 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 is 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.

Engineering Services
This category includes the cost of the initial train design, testing and commissioning throughout the program and the proposed manufacturability assessment and re-design 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, incremental direct overheads after allowance for future CPI price escalation through to the end of the programme. The FCAC assumes that the Engineering resource reduces during the program as the trains reach a steady state 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 FCAC includes a $7 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 Company is currently pursuing a claim to reinstate the $37 million Tariff Concession Order (TCO) that was obtained at the outset of the project that was subsequently revoked by Customs under the 'In-Transit' provisions. No allowance has been made for any recovery under these proceedings.

The FCAC assumes 45 shipments with double sets starting from train Set 11. All train Sets and warehoused materials are insured for direct loss but not for any consequential loss. The FCAC allows for additional air freight to support configuration Freeze 1. The FCAC provides for the customs duty expected to be incurred on importation of dutiable materials into Australia at a rate of 5%.

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 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 indexed for expected inflation.

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*

Application of critical judgements and key sources of estimation uncertainty - continued

Waratah train project - *continued*

Insurance, Bonding & Finance
This includes the actual costs incurred to insure property, liability and people for the full duration of the program. This cost was fully contracted at inception of the program. The cost of bonding reflected in the FCAC assumes a charge of 0.71% of 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 31 December 2010. 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% 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 spot rate.

Potential Liquidated Damages (LDs)
Potential 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 $155 million represent an approximate delay of 14 months for every train Set to be delivered which is consistent with the projected entry into passenger service of train Set 1 in June/July 2011, compared to the original contract delivery date of train Set 1 of April 2010 (after allowing for the three month grace period).

Manufacturing Delay Account (MDA)
MDA interest receivable by the Company is estimated at $111 million. This reflects the contractual arrangement between Downer and Reliance Rail under which milestone payments are paid to Downer in accordance with the actual delivery schedule achieved. To the extent that those monies are not paid to Downer due to late delivery and/or missed performance milestones, the monies are held by Reliance Rail in an escrowed MDA. The contract with Reliance Rail provides that monies held in the 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. MDA interest receivable has been shown as a cost offset in the above table, however the interest receivable will be accounted for as revenue in Downer's statutory Financial Statements in accordance with Australian Accounting Standards. This estimate assumes that the funds are invested at arms length interest rates available for deposits of this term, size and nature.

General Contingency
A General Contingency of $73 million is 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, as outlined earlier, the transfer of further elements of the interior fit-out currently undertaken in China should the interventions to improve time and quality performance in China not be achieved.

Program of this size and duration would normally have unidentified costs saving or taskings 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 include any recovery from mediation or other actions which may be available to Downer.

Note 1. Summary of accounting policies - *continued*

Application of critical judgements and key sources of estimation uncertainty - continued

Waratah train project - continued

Reliance Rail

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. Reliance Rail currently has a $357m bank construction loan facility which is guaranteed by two specialist financial guarantors, FGIC (UK) Ltd and Syncora Guarantee Inc ("monoline insurers"), however this facility may be withdrawn 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 and the financial position of both monoline insurers remains uncertain, although they are still operating. If both the monoline insurers default, the $357 million undrawn facility could be cancelled by the banking syndicate if three of the four banks resolve to do so.

On the occurrence of a prescribed event of default, it is possible that the lenders providing financing to Reliance Rail may seek to cancel any existing facilities and/or not make available any un-drawn facilities. Downer does not believe that such prescribed event of default presently exist. Additionally, in the event that Reliance Rail's financing was to fail, the contracting arrangements for the project give RailCorp (or lenders) the option of stepping into the place of Reliance Rail to enable Downer to continue delivery of the train sets under its contract.

Impairment of assets

The Group determines whether goodwill and intangibles 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 intangibles 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. Key assumption 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 condensed consolidated statement of financial position. Assumption about the generation of future taxable profits depends on management's estimate of future cash flows. Change in circumstances will alter expectations, which may impact the amount of deferred tax assets and liabilities recognised on the condensed consolidated statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

The Australian Federal Government is in the process of negotiating legislation in relation to the Mining Resource Rent Tax ('MRRT') for certain coal and iron ore projects. The uncertainty relating to government legislation, such as taxes, carbon trading schemes and regulation of resource projects could lead to delays and project abandonment, which would adversely affect the market for services which Downer provides. Infrastructure projects, which are a key source of revenue for Downer, remain subject to significant discretion by government departments and ministers.

Note 1. Summary of accounting policies - *continued*

Application of critical judgements and key sources of estimation uncertainty - continued

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.

New accounting standards and interpretations

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:
- AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from Annual Improvements Project' (AASB 5,8,101,117,118,136 and 139) effective 1 January 2010;
- AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvement Project' (AASB 3 and 127) effective 1 July 2010; and
- AASB Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments' - effective 1 July 2010.

The adoption of these amendments and interpretations did not have any impact on the financial position or performance of the Group.

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 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 and provides 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.

Note 2. Segment information - *continued*

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as the Group accounting policies disclosed in the company's 2010 Annual Financial Report.

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 period, the Group recognised $250.0 million pre-tax provision on the Waratah train project. This provision charge is not included in the measure of segment profit and loss as they are not expected to recur. The details of the provision charge is separately disclosed as a "Individually significant item" in the condensed consolidated income statement and as discussed in Note 4;
(b) Interest income and finance cost;
(c) Corporate charges comprise non-segmental expenses such as head office expenses; and
(d) Income tax expense.

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

	Total revenue (i)		**Share of sales revenue in joint venture entities**		**Total revenue including joint ventures**	
	First half 2011 $'000	First half 2010 $'000	**First half 2011 $'000**	First half 2010 $'000	**First half 2011 $'000**	First half 2010 $'000
By business segment						
Engineering and Consulting Services	**1,149,101**	869,010	**22,705**	796	**1,171,806**	869,806
Mining	**594,579**	454,739	**39,596**	28,772	**634,175**	483,511
Rail	**583,297**	458,042	**84,244**	-	**667,541**	458,042
Works	**954,429**	1,010,933	**2,559**	508	**956,988**	1,011,441
Inter-segment sales	**(5,339)**	(5,502)	**-**	-	**(5,339)**	(5,502)
Subtotal	**3,276,067**	2,787,222	**149,104**	30,076	**3,425,171**	2,817,298
Unallocated	**3,894**	24,067	**-**	-	**3,894**	24,067
Total	**3,279,961**	2,811,289	**149,104**	30,076	**3,429,065**	2,841,365

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

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2010

Note 2. Segment information - *continued*

		Segment results	
		First half 2011 $'000	First half 2010 $'000
By business segment			
Earnings before interest and tax			
Engineering and Consulting Services		**48,366**	57,524
Mining		**50,830**	36,998
Rail		**47,664**	29,093
Works		**19,674**	46,677
		166,534	170,292
Unallocated:			
Provision for Waratah train project (disclosed as individually significant item)	4	**(250,000)**	-
Other		**(34,090)**	(30,079)
Total unallocated		**(284,090)**	(30,079)
Interest revenue	3(a)	**3,989**	8,066
Interest expense	3(b)	**(38,914)**	(34,726)
Net interest expense		**(34,925)**	(26,660)
Total (loss)/profit before income tax		**(152,481)**	113,553
Income tax benefit/(expense)		**48,670**	(26,516)
Total net (loss)/profit after income tax		**(103,811)**	87,037

Reconciliation of segment net operating profit to net (loss)/profit after tax:		**First half 2011 $'000**	First half 2010 $'000
Segment net operating profit		**166,534**	170,292
Provision for Waratah train project (disclosed as individually significant item)	4	**(250,000)**	-
MB Century EBIT guarantee and other costs		**-**	(3,908)
Impairment of MB Century		**-**	(11,500)
Gain on property sales [(i)]		**1,850**	17,777
Ramu arbitration award		**-**	12,000
Settlement/provision for customer contracts		**(5,710)**	(20,508)
Restructuring costs		**(4,994)**	(5,300)
Corporate costs		**(25,236)**	(18,640)
Total unallocated		**(284,090)**	(30,079)
Interest revenue		**3,989**	8,066
Interest expense		**(38,914)**	(34,726)
Total (loss)/profit before income tax		**(152,481)**	113,553
Income tax benefit/(expense)		**48,670**	(26,516)
Total net (loss)/profit after tax		**(103,811)**	87,037

(i) During the period, a number of properties in Australia have been sold and/or subject to sale and leaseback for gross proceeds of $5.3 million (2010: $39.0m), net proceeds of $5.2 million (2010: $37.5m) and profit of $1.9 million (2010: $17.8m).

Note 3. Profit from ordinary activities - continuing operations

	Note	Consolidated First half 2011 $'000	Consolidated First half 2010 $'000
a) Revenue			
Sales revenue			
Rendering of services		**2,054,772**	1,852,449
Mining services		**591,081**	440,930
Construction contracts		**565,140**	433,091
Sale of goods		**56,116**	46,151
Other revenue			
Other revenue		**5,666**	10,607
Rental income		**749**	350
Dividends			
Other entities		**4**	17
		3,273,528	2,783,595
Interest revenue			
Other loans and receivables	2	**3,989**	8,066
Other income			
Net gain on disposal of property, plant and equipment		**2,444**	18,746
Net foreign exchange gains		**-**	882
Total other income		**2,444**	19,628
Total revenue and other income		**3,279,961**	2,811,289
Share of sales revenue from joint venture entities	2	**149,104**	30,076
Total revenue and other income including joint ventures		**3,429,065**	2,841,365

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2010

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

b) Operating expenses

	Note	Consolidated First half 2011 $'000	Consolidated First half 2010 $'000
Finance costs on liabilities carried at amortised cost:			
Interest expense		**37,178**	32,587
Finance lease expense		**1,736**	2,139
Total finance costs	2	**38,914**	34,726
Net foreign exchange losses		**595**	-
Depreciation and amortisation of non-current assets:			
Plant and equipment		**91,120**	73,886
Buildings		**1,274**	1,698
Amortisation of leased assets		**2,746**	3,601
Total depreciation		**95,140**	79,185
Amortisation of intellectual property/software	7	**1,092**	2,604
Total depreciation and amortisation		**96,232**	81,789
Impairment of assets held for sale		**-**	11,500
Operating lease expenses		**84,781**	84,853
Employee benefits expense:			
Defined contribution plans		**68,261**	57,955
Share-based transactions		**2,802**	2,672
Employee benefits		**1,040,879**	938,505
Total employee benefits expense		**1,111,942**	999,132

Note 4. Individually significant item

The following material item is relevant to an understanding of the Group's financial performance:

On 27 January 2011, the Group announced a $250.0 million pre-tax provision on the Waratah train project as a result of:

- a further delay to presenting the first Waratah train set to RailCorp for Practical Completion;
- delays in production of subsequent trains as a result of asbestos in the Cardiff manufacturing facility; and
- changes to the manufacturing production schedule and project costs.

The key elements of the provision are discussed in Note 1.

Note 5. Dividends

	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 additional 1,884,000 shares issued under the employee share plan on 31 August 2010.

No interim dividend will be paid in relation to the half year ended 31 December 2010.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)	**Quarter 2 2011**	**Quarter 1 2011**	**Total 2011**
Dividend per ROADS (in Australian cents)	**1.30**	**1.35**	**2.65**
New Zealand imputation credit percentage	**100%**	**100%**	**100%**
Cost (in A$'000)	**2,601**	**2,611**	**5,212**
Payment date	**15/12/2010**	**15/09/2010**	

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

Note 6. Joint ventures and associate entities

The consolidated entity and its controlled entities have interests in the following joint venture and associates entities which are equity accounted for:

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

	First half 2011 $'000	First half 2010 $'000
Share of net profit of joint ventures entities and associates	**13,970**	5,002

Note 6. Joint ventures and associate entities - *continued*

Investments in associates

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

Under the accounting elections made by the Group, this had the effect of reducing the carrying value of the investment to $nil and increasing the hedge reserve balance to $79.1 million. With effect from May 2009, Reliance Rail ceased hedge accounting for its financial derivative instruments. Downer adopted a consistent accounting treatment. 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. Should Reliance Rail cease to be a going concern, Downer may be require to write-off the unamortised balance.

At 31 December 2010, the Group's share of profit in Reliance Rail for the period ended 31 December 2010 was $11.6 million, due to the uncertainties associated with the investment in Reliance Rail, the Group raised a provision for impairment of $13.0 million in the current year to continue to recognise the net investment in Reliance Rail at $nil. There has been no net impact on the income statement in the current or prior years as a result of the equity accounting for Reliance Rail.

	Consolidated	
	December 2010 $'000	June 2010 $'000
Movement in 49% investment in Reliance Rail		
Equity-accounted amount of investment at the beginning of the financial period/year	**-**	-
Share of reserve movements	**1,401**	2,637
Share of profit/(loss) recognised for the period	**11,580**	(61,670)
Allowance against investment	**(12,981)**	59,033
Equity-accounted amount of investment at the end of the financial period/year	**-**	-
Unaudited summarised financial position of Reliance Rail		
Current assets	**1,151,612**	1,023,335
Non-current assets	**917,359**	1,047,586
Total assets	**2,068,971**	2,070,921
Current liabilities	**88,483**	70,862
Non-current liabilities	**1,955,261**	2,010,183
Total liabilities	**2,043,744**	2,081,045
Net assets/(liabilities)	**25,227**	(10,124)
Group's share of associate's net assets/(liabilities)	**12,361**	(4,961)

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2010

Note 7. Intangible assets

December 2010	Consolidated Goodwill $'000	Intellectual Property/ software $'000	Total $'000
At 1 July 2010			
Cost	**625,616**	**28,523**	**654,139**
Accumulated amortisation and impairment	**(42,000)**	**(22,725)**	**(64,725)**
Net book value	**583,616**	**5,798**	**589,414**
Period ended 31 December 2010			
Purchases	**-**	**563**	**563**
Amortisation expense (Note 3(b))	**-**	**(1,092)**	**(1,092)**
Net foreign currency exchange differences at net book value	**(6,750)**	**(32)**	**(6,782)**
Closing net book value	**576,866**	**5,237**	**582,103**
At 31 December 2010			
Cost	**618,866**	**28,280**	**647,146**
Accumulated amortisation and impairment	**(42,000)**	**(23,043)**	**(65,043)**
Closing net book value	**576,866**	**5,237**	**582,103**

June 2010	Consolidated Goodwill $'000	Intellectual Property / software $'000	Total $'000
At 1 July 2009			
Cost	604,412	24,514	628,926
Accumulated amortisation	-	(18,956)	(18,956)
Net book value	604,412	5,558	609,970
Year ended 30 June 2010			
Purchases	-	3,985	3,985
Acquisition of businesses	25,440	-	25,440
Amortisation expense	-	(3,724)	(3,724)
Impairment	(42,000)	-	(42,000)
Net foreign currency exchange differences at net book value	(4,236)	(21)	(4,257)
Closing net book value	583,616	5,798	589,414
At 30 June 2010			
Cost	625,616	28,523	654,139
Accumulated amortisation and impairment	(42,000)	(22,725)	(64,725)
Closing net book value	583,616	5,798	589,414

Note 8. Acquisition of businesses

There were no acquisition of businesses during the financial reporting period ended 31 December 2010.

Note 9. Issued capital

	Consolidated	
	December 2010 $'000	June 2010 $'000
Ordinary shares:		
343,178,483 ordinary shares (June 2010: 336,582,351)	**1,006,561**	978,960
Unvested executive incentive shares:		
7,891,599 ordinary shares (June 2010: 7,891,599)	**(38,888)**	(38,888)
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (June 2010: 200,000,000)	**178,603**	178,603
	1,146,276	1,118,675

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

	Consolidated			
	December 2010		June 2010	
Fully paid ordinary share capital	**000's**	**$'000**	000's	$'000
Balance at the beginning of financial period/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**	-	-
Balance at the end of financial period/year	**343,178**	**1,006,561**	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 $7,574,000.

	Consolidated			
	December 2010		June 2010	
Unvested executive incentive shares	**000's**	**$'000**	000's	$'000
Balance at the beginning of financial period/year	**7,892**	**(38,888)**	7,726	(37,071)
Unvested executive incentive shares transactions	**-**	**-**	557	(4,476)
Vested executive incentive shares transactions	**-**	**-**	(391)	2,659
Balance at the end of financial period/year	**7,892**	**(38,888)**	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.

	Consolidated			
	December 2010		June 2010	
Redeemable Optionally Adjustable Distributing Securities (ROADS)	**000's**	**$'000**	000's	$'000
Balance at the end of financial period/year	**200,000**	**178,603**	200,000	178,603

ROADS are perpetual, redeemable, exchangeable preference shares.

Note 10. Reserves

	Consolidated	
	December 2010 $'000	June 2010 $'000
Available-for-sale investment reserve	**(1,006)**	(2,816)
Hedge reserve	**(80,071)**	(84,642)
Foreign currency translation reserve	**(57,774)**	(39,945)
Employee benefits reserve	**18,760**	19,510
Total reserves	**(120,091)**	(107,893)

Hedge reserve

The hedge reserve includes a balance of $75.2 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 period, $1.4 million has been amortised and reflected as an expense in the income statement.

Note 11. Reconciliation of cash and cash equivalents

	Consolidated	
For the purpose of the statement of cash flows, cash and cash equivalents comprises:	**December 2010 $'000**	December 2009 $'000
Cash	**318,031**	290,534
Short-term deposits	**4,511**	35,832
	322,542	326,366
Bank overdrafts	**(4,730)**	(8,724)
Total cash and cash equivalents	**317,812**	317,642

Note 12. Contingent liabilities

	Consolidated	
	December 2010 $'000	June 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	**766,960**	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. The success of Downer's defence depends upon the determination of complex legal and factual matters. Evidence has not been served and much of Downer's evidence is yet to be prepared. Downer has advice to the effect that, on the basis of the information currently available, it is not probable that the claim against Downer will be successful;
- 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
- an unquantified claim by Sembawang Engineers and Constructors Pte Ltd in relation to the design of temporary work on a construction project. An arbitration is scheduled to commence in July 2011.

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 any potential claim that may arise as a consequence of SP PowerAssets Ltd, Sembawang Engineers and Constructors Pte 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; and

v) IMF (Australia) Ltd has announced to ASX that it proposes to fund claims of certain current and former Downer shareholders against Downer. The claim relates to Downer's $190 million impairment to its Waratah rollingstock manufacturing contract announced on 1 June 2010. Downer 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 13. Debt and gearing

The consolidated entity monitors its gearing ratio determined as the ratio of net debt to total capitalisation. As at 31 December 2010 and 30 June 2010, the gearing ratios were as follows:

	Consolidated	
	December 2010 $'000	June 2010 $'000
Current borrowings	**73,740**	272,167
Non-current borrowings	**804,465**	617,012
Gross debt (i)	**878,205**	889,179
Adjustment for cross currency swap hedges and deferred finance charges	**52,600**	26,644
Adjusted gross debt	**930,805**	915,823
Less: cash and cash equivalents	**(322,542)**	(385,126)
Net debt	**608,263**	530,697
Equity (ii)	**1,095,464**	1,242,851
Total capitalisation (Net debt + Equity)	**1,703,727**	1,773,548
Gearing ratio (iii)	**35.7%**	29.9%

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

Note 14. Financing facilities

At 31 December 2010, the consolidated entity had the following facilities that were not utilised at balance date:

	Consolidated	
	December 2010 $'000	June 2010 $'000
Syndicated bank loan facilities	**258,690**	235,624
Bilateral bank loan facilities	**257,174**	197,723
Total unutilised loan facilities	**515,864**	433,347
Syndicated bank bonding facilities	**48,219**	42,374
Bilateral bank and insurance company bonding facilities	**394,112**	351,720
Total unutilised bonding facilities	**442,331**	394,094
Total facilities that were not utilised at balance date	**958,195**	827,441

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

Bilateral bank loans are unsecured, are subject to certain Group guarantees and have varying maturity dates of up to two years. Finance leases are secured against the underlying equipment being financed and have maturity dates of up to five years.

USD notes

USD unsecured private placement notes are on issue for a total amount of USD 79.0 million and are subject to certain Group guarantee arrangements. The notes mature in various tranches in 2011, 2014 and 2019. The USD principal and interest have been fully hedged against the Australian dollar.

Note 14. Financing facilities - *continued*

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 A$99.7 million; Series 2009-2 for A$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 A$63.0 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 (A$115.5 million equivalent). The bonds are subject to certain Group guarantees. The bonds mature in September 2012.

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

Covenants on financing facilities
The Group's financing facilities contain 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. In certain circumstances, lenders may require that such banking facilities be repaid immediately. Under such a scenario, there is no guarantee that Downer will be able to secure alternative financing on commercially acceptable terms or at all.

Formal testing 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 31 December 2010. Based on earnings expectations as well as the successful implementation of capital raising initiatives the company expects to remain in compliance with its banking covenants.

Bonding
The Group has A$1,209.3 million of bank guarantee and insurance bond facilities to support its contracting activities. A$535.2 million of these facilities are provided to the Group on a committed basis and A$674.1 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 facilities have varying maturity dates which range from June 2011 to December 2011 for committed facilities and March 2011 to December 2011 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. A$767.0 million of these facilities were utilised as at 31 December 2010 and with A$442.3 million unutilised as at that date. The Group has the flexibility in respect of a committed facility amount of A$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, Downer may seek to re-negotiate with existing and new financiers to extend the maturity date of those facilities. Downer's earnings profile, credit rating, state of the economy, and other factors may influence the outcome of those negotiations. Where refinancing occurs at a higher cost, this may impact the ability of Downer to win new work and the profitability of its operations.

Credit ratings
Changes to Downer's credit rating by Fitch may impact the ability of Downer to win new work as well as the cost of funding. Where the credit rating is reduced, or placed on negative watch, customers and suppliers may be less willing to contract with Downer as Downer may be considered to be higher counterparty risk. Banks and other lending institutions may demand a higher interest rate on funds provided to Downer to reflect the higher risk of lending. In such circumstances, both the revenue and profitability of Downer may be reduced.

Note 15. Subsequent events

Downer announced on 22 February 2011 that its Australian Works, Engineering and Emerging Sectors businesses would be combined into one division, Downer Australia. As a result of the change, Downer Group will consist of four divisions – Downer Australia, Downer New Zealand, Downer Mining and Downer Rail.

The Group has announced plans to raise up to $279 million by way of a fully underwritten accelerated renounceable pro-rata entitlement rights issue ("Entitlement Offer or "Capital Raising"). The gross proceeds under the Entitlement Offer (which is underwritten and does not require shareholder approval) are expected to be approximately $279 million, reduced by transaction costs of approximately $10 million.

The Group has two Arbitral Awards against the Independent State of Papua New Guinea (GoPNG) arising out of the Ramu Highway Upgrade project in Papua New Guinea, awarding it K86.4 million, together with ongoing interest at the Indicator Lending Rate of the ANZ Bank PNG Ltd plus 2%. Interest is continuing to accrue, presently at the rate of 13.95% or K33 thousands per day. The Group commenced Federal Court proceedings in Brisbane and on 1 February 2011, consent orders were agreed and if the orders are complied with by 15 June 2011, the work in progress balance will be fully recoverable.

With the exception of the items disclosed above, there has not arisen in the interval between 31 December 2010 and the date of this report, any event that would have had a material effect on the condensed consolidated financial statements at 31 December 2010.

Directors' Declaration
for the half-year ended 31 December 2010

In the opinion of the directors of Downer EDI Limited:

(a) the attached condensed consolidated financial statements and notes thereto comply with Accounting Standards AASB 134 "Interim Financial Reporting;

(b) the condensed consolidated financial statements and notes thereto give a true and fair view of the financial position and performance of the consolidated entity;

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

(d) the attached condensed consolidated financial statements and notes thereto are in accordance with the Corporations Act 2001; and

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

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

R M Harding
Chairman

Sydney, 28 February 2011