2012 Annual Report

Downer

This Annual Report includes Downer EDI Limited Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2012.

The Annual Report is available on the Downer website www.downergroup.com.

CONTENTS

The Directors of Downer EDI Limited submit the Annual Financial Report of the Company for the financial year ended 30 June 2012. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

BOARD OF DIRECTORS

R M Harding (63)

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

Mr Harding is currently a Director of Santos Limited and Roc Oil Company Limited and was a Director of Clough Limited from 2006 to 2010. He has held management positions around the world with British Petroleum (BP), including President and General Manager of BP Exploration Australia.

Mr Harding holds a Masters in Science, majoring in Mechanical Engineering.

Mr Harding lives in Sydney.

G A Fenn (47)

Managing Director and Chief Executive Officer since July 2010

Mr Fenn is an experienced executive with over 20 years in operational management, strategic development and financial management. Mr Fenn was previously a member of the Qantas Airways Limited (Qantas) Executive Committee, Chairman of Star Track Express and a Director of Australian Air Express. Mr Fenn held a number of senior roles at Qantas including Executive General Manager of Strategy and Investments and Executive General Manager – Associated Businesses, responsible for the Airports, Freight, Flight Catering and Qantas Holidays businesses.

Mr Fenn holds a Bachelor of Economics from Macquarie University and is a member of the Australian Institute of Chartered Accountants.

Mr Fenn lives in Sydney.

S A Chaplain (54)

Independent Non-executive Director since July 2008

Ms Chaplain is a former investment banker with extensive experience in public and private sector debt financing. She also has considerable experience as a Director of local and State government-owned corporations involved in road, water and port infrastructure. Ms Chaplain is a member of the Board of Taxation, was appointed to the Board of PanAust Ltd effective 1 July 2012 and was a Director of Coal & Allied Industries Limited from May 2011 to December 2011. She chairs KDR Gold Coast Pty Ltd and the Council of St Margaret's Anglican Girls School in Brisbane.

A Fellow of the Australian Institute of Company Directors, Ms Chaplain holds a Bachelor of Arts degree majoring in Economics and Mandarin in addition to a Masters of Business Administration (MBA) from the University of Melbourne.

Ms Chaplain lives on the Gold Coast.

L Di Bartolomeo (59)

Independent Non-executive Director since June 2006

Mr Di Bartolomeo was Managing Director of ADI Limited for four years and prior to this he was Chief Executive of a number of substantial businesses for more than 10 years, including six years as Managing Director of FreightCorp (now Pacific National).

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

Mr Di Bartolomeo is a qualified civil engineer and has a Masters degree in Engineering Science. He is a Fellow of the Australian Institute of Management, a Fellow of the Chartered Institute of Transport and a Member of the Institution of Engineers Australia.

Mr Di Bartolomeo lives in Sydney.

P S Garling (58)

Independent Non-executive Director since November 2011

Mr Garling has over 30 years' experience in the infrastructure, construction, development and investment sectors. He was most recently the Global Head of Infrastructure at AMP Capital Investors, a role he held for nine years. Prior to this, Mr Garling was Chief Executive Officer (CEO) of Tenix Infrastructure and a long-term senior executive at the Lend Lease Group, including five years as CEO of Lend Lease Capital Services.

Mr Garling is currently the Chairman of Australian Renewable Fuels Limited and a Director of The DUET Group, of which he was inaugural Chairman for seven years. Mr Garling is also a Director of the unlisted Infrastructure Fund of India and Chairman of the Asian Giants Infrastructure Fund.

Mr Garling holds a Bachelor of Building from the University of New South Wales and the Advanced Diploma from the Australian Institute of Company Directors. He is a Fellow of the Australian Institute of Building, Australian Institute of Company Directors and Institution of Engineers Australia.

Mr Garling lives in Sydney.

E A Howell (66)

Independent Non-executive Director since January 2012

Ms Howell has over 40 years' experience in the oil and gas industry in a number of technical and managerial roles. She was most recently Executive Vice President for Health, Safety & Security at Woodside Energy Ltd and served as Executive Vice President of North West Shelf at Woodside.

Ms Howell is currently a Director of the West Australian Ballet and the Ngarluma & Yindjibarndi Foundation, Mermaid Marine Australia Limited and is the Chair and CEO of EMR Resources Pty Ltd. She has previously served on a number of boards, including the Fremantle Port Authority, the Australian Petroleum Production & Exploration Association where she chaired the Environmental Affairs Committee and as a board member and President of the Australian Mines and Metals Association. She is also a past President of the Australian Society of Exploration Geophysicists, a life member of the Petroleum Club of WA and a distinguished member of the Petroleum Exploration Society of Australia.

Ms Howell holds a Bachelor of Science (with Honours in Geology and Mathematics) from the University of London, an MBA from Edinburgh Business School, and she attended an Advanced Management Program at Thunderbird Campus in the United States.

Ms Howell lives in Perth.

J S Humphrey (57)

Independent Non-executive Director since April 2001

Mr Humphrey is currently Deputy Chairman of King & Wood Mallesons, where he is a partner specialising in corporate, mergers and acquisitions and infrastructure project work.

Mr Humphrey is currently a Director of Horizon Oil Limited and Wide Bay Australia Limited and is a former Chairman of Villa World Limited. He was appointed to the Board of Evans Deakin Industries Limited in 2000 and, subsequently, to the Board of Downer EDI Limited. He is also a member of the Australian Takeovers Panel.

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

Mr Humphrey lives in Brisbane.

K G Sanderson AO (61)

Independent Non-executive Director since January 2012

Ms Sanderson is an experienced executive and was most recently Agent General for the Government of Western Australia, based in London. In this role, Ms Sanderson represented the Government of Western Australia in Europe and Russia and promoted investment in Western Australia and Western Australian exports to Europe. She was previously Chief Executive Officer of Fremantle Ports for 17 years, and prior to that was Deputy Director General of Transport and worked for the Western Australian Department of Treasury for 17 years.

Ms Sanderson holds directorships with a number of companies, including Atlas Iron Limited, St John of God Health Care, Paraplegic Benefit Fund and Senses Foundation (Inc). Ms Sanderson is currently a member of the Advisory Council of the Curtin University Business School and has previously served as a Director of Austrade, the Australian Wheat Board, the Rio Tinto WA Future Fund and the Western Australian Lands Authority (LandCorp), as well as having served as President of Ports Australia.

Ms Sanderson holds a Bachelor of Science and a Bachelor of Economics from the University of Western Australia. She received an Honorary Doctorate of Letters from the University of Western Australia in 2005 and was named an Officer of the Order of Australia in 2004 for services to the development and management of the port and maritime industries in Australia, and to public sector governance in the areas of finance and transport.

Ms Sanderson lives in Perth.

C G Thorne (62)

Independent Non-executive Director since July 2010

Dr Thorne has over 36 years' experience in the mining and extraction industry, specifically in senior operational and executive roles across a broad range of product groups and functional activities in Australia and overseas. Dr Thorne has previously held a number of senior roles at Rio Tinto, including as a group executive reporting to Rio Tinto's Chief Executive Officer, as head of Rio Tinto's coal businesses in Indonesia and Australia, and as global head of its technology, innovation and project engineering functions. From 2006 to 2009, he was Group Executive Technology and Innovation and a member of Rio Tinto's Executive and Investment Committees.

Dr Thorne is a Director of Queensland Energy Resources Limited and a Fellow of the Australian Academy of Technological Sciences and Engineering. Dr Thorne also holds directorships with a number of private companies.

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

Dr Thorne lives on the Sunshine Coast.

DIRECTORS' SHAREHOLDINGS

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

Director	Number of Fully Paid Ordinary Shares	Number of Fully Paid Performance Rights	Number of Fully Paid Performance Options
R M Harding	5,780	–	–
G A Fenn*	346,061	–	–
S A Chaplain	50,137	–	–
L Di Bartolomeo	60,903	–	–
P S Garling	–	–	–
E A Howell	–	–	–
J S Humphrey	67,982	–	–
K G Sanderson	–	–	–
C G Thorne	25,750	–	–

* Mr Fenn's shareholding comprises 30,769 shares acquired under the Company's accelerated renounceable rights offer and 315,292 shares that have met all vesting conditions being the first tranche of shares in his 2009 grant (64,767 shares) and his sign-on grant that vested on 1 July 2011 (250,525 shares). A further 1,105,377 shares have been purchased as Mr Fenn's long-term incentive and are held by CPU Share Plans Pty Ltd (Trustee of the Downer EDI Limited Deferred Employee Share Plan). These shares are subject to performance and service period conditions over the period 2013 to 2016. Further details regarding the conditions relating to these restricted shares are outlined in sections 5.4 and 8 of the Remuneration Report.

COMPANY SECRETARY

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

Mr Tompkins was appointed Company Secretary on 27 July 2011. He has qualifications in law and commerce from Deakin University and is admitted as a solicitor in New South Wales. Mr Tompkins joined Downer in 2008 and was appointed General Counsel in 2010. Mr Tompkins is currently completing a Graduate Diploma of Applied Corporate Governance from Chartered Secretaries Australia.

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

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

Downer made significant progress during the 2012 financial year and the main features of the result for the 12 months to 30 June 2012 were:

- total revenue* of $8.5 billion (including $0.5 billion from joint ventures), up 22.5%
- statutory earnings before interest and tax (EBIT) of $264.2 million, up from $25.7 million
- statutory net profit after tax (NPAT) of $112.9 million, up from a loss of $27.7 million
- underlying EBIT of $346.5 million, up 18.6%
- underlying NPAT of $195.3 million, up 17.4%
- operating cash flow of $364.5 million
- gearing of 18.6% and liquidity of $890.2 million
- work-in-hand of about $20 billion

Downer's portfolio structure is now well defined with the establishment of Downer Infrastructure in May 2012 (bringing together the Group's infrastructure businesses in Australia and New Zealand) and the completion of the sale of CPG Asia for $147 million in April 2012.

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

Downer's three divisions – Mining, Infrastructure and Rail – are leaders in their sectors.

A profoundly disappointing aspect of Downer's performance during the year was that there were two workplace fatalities on road maintenance sites. Downer has implemented a number of initiatives to address the hazards involved with reversing vehicles.

Downer's Lost Time Injury Frequency Rate of 0.93 remained below one incident per million hours worked for the year and Total Recordable Injury Frequency reduced from 7.17 to 6.21 per million hours worked.

The Downer Board decided not to declare a final dividend. Downer will continue to pay dividends on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

OPERATIONAL HIGHLIGHTS

DOWNER MINING

- total revenue of $2.5 billion, up 67.9%
- EBIT of $173.5 million, up 45.1%
- EBIT margin of 7.0%, down 1.2 ppts
- ROFE of 20.3%, up from 19.3%
- Work-in-hand of $6.5 billion

Downer Mining performed very well during the year with revenue growth driven by new and expanded open cut mining contracts and record levels of work in the blasting and tyre management businesses.

Downer Mining is making solid progress on all its projects, including:

- Christmas Creek, Pilbara, WA (Fortescue Metals Group): mine infrastructure, drill and blast services and load and haul of overburden and iron ore. This is a six-year contract awarded in August 2010 and valued at approximately $3 billion. Following the ramp up period, the contract is now performing well;
- Goonyella Riverside, Bowen Basin, QLD (BHP Mitsubishi Alliance (BMA)): load and haul of prestrip material and drill and blast services. Initially this was a five-year contract, beginning in July 2010 and valued at $2 billion, for the supply of contract mining services at both Goonyella Riverside and Norwich Park. In April 2012, BMA announced it would cease production at Norwich Park indefinitely. Since this time, Downer's Norwich Park fleet has been redeployed to other BMA mines including Blackwater and Saraji;
- Boggabri, Gunnedah Basin, NSW (Idemitsu Australia Resources): drill and blast, mine planning, and load and haul of both overburden and coal. This five-year agreement commenced in December 2011, with base case revenue valued at approximately $900 million over the duration of the contract; and
- Karara, Pilbara, WA (Karara Iron Ore Project): mine infrastructure, drill and blast services and load and haul of waste and ore. This contract commenced in February 2012 and has total estimated revenue of approximately $570 million over six years.

Downer's blasting and tyre management businesses continued to win new contracts and contract extensions and reported solid revenue and earnings growth. In April 2012, Downer secured a three-year blasting services contract with Jellinbah Resources valued at around $90 million. The underground business also continued to perform well and is actively pursuing new opportunities.

In July 2012, Downer announced it had been awarded a long-term rolling contract with TEC Coal Pty Ltd, a wholly owned subsidiary of Stanwell Corporation Limited, to provide mining services at Meandu Mine in South East Queensland. The contract, which has an initial term of five and a half years, will commence in January 2013 and have a value in the range of $600 million to $800 million.

DOWNER INFRASTRUCTURE

Downer Infrastructure was established in May 2012, bringing together the Company's two infrastructure businesses – Downer Australia and Downer New Zealand. The creation of Downer Infrastructure is allowing Downer to optimise performance, deliver better results for customers and implement change more effectively. It is also delivering a range of benefits across Zero Harm, Risk and Project Management and the business' key business systems.

AUSTRALIA

- total revenue of $3.7 billion, up 13.6%
- EBIT of $150.7 million, up 38.2 %
- EBIT margin of 4.1%, up 0.7 ppts
- ROFE of 18.5%, up from 14.4%
- Work-in-hand of $5.7 billion

In Australia, Downer Infrastructure was awarded a number of new projects during the year, including:

- an alliance contract with Xstrata Coal for the development of a coal handling preparation plant (CHPP) at the Ravensworth North Coal Project in New South Wales. The contract has a total value of more than $400 million and the scope of work includes the design, procurement, construction and commissioning of the CHPP as well as low voltage power supply and reticulation and high voltage transmission supply and relocation;
- a four year contract with FOXTEL to provide installation and maintenance services for FOXTEL's satellite and cable customers in Adelaide, Brisbane, Melbourne and Sydney. The value of the contract is expected to exceed $200 million over the four years;
- through a 50:50 joint venture with Clough, a contract valued at around $600 million with Fluor for the construction of pipelines, compression facilities and associated infrastructure relating to the Fairview component of the Santos GLNG project located in the Surat Basin, Queensland;
- through a 50:50 joint venture with Clough, a contract valued at approximately $200 million with CSBP Limited to provide project management, engineering, procurement, prefabrication, construction and pre-commissioning for the Ammonium Nitrate/Nitric Acid Plant Number 3 (NAAN3) at Kwinana, Western Australia;
- a demolition, design and construction contract for a new transmission line with Western Power, valued at more than $175 million;
- an electrical services contract for the supply, installation, testing and commissioning of high and low voltage power to the new Victorian Comprehensive Cancer Centre Project South Facility, valued at more than $85 million;

- an electrical and instrumentation contract with BHP Billiton Iron Ore, valued at $71.7 million. Downer is responsible for both Greenfields and Brownfields transmission line and substation works to provide power to a new mine at the client's Jimblebar operations in Western Australia;
- a number of electrical and instrumentation contracts with customers including BHP, Rio Tinto (including a framework agreement) and FMG; and
- road and rail maintenance and civil construction work across the ACT, New South Wales, Queensland, Tasmania, Victoria and Western Australia.

The Curragh CHPP achieved Practical Completion in June 2012.

Following a review of the CPG consultancy businesses, Downer completed the sale of its CPG Asia business to China Architecture Design and Research Group on 30 April 2012 for $147 million.

NEW ZEALAND

- total revenue of $0.9 billion, up 4.6%
- EBIT of $29.6 million, up 169%
- EBIT margin of 3.2%, up 1.9 ppts
- ROFE of 12.1% up from 4.2%*
- Work-in-hand of $2.8 billion

In New Zealand, Downer Infrastructure delivered a much improved performance in the second half of the year. However, New Zealand continues to experience difficult economic conditions compounded by ongoing seismic activity around Christchurch. The New Zealand business continues to adjust to these market conditions, including rationalising the number of depots.

Downer is a member of the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) that is rebuilding Christchurch's earthquake-damaged roads, sewerage, water supply pipes and parks. SCIRT is expected to undertake works valued at more than NZ$2 billion over five years and Downer will carry out approximately 20% of this work.

During the year Downer secured an initial one year contract with Chorus, New Zealand's largest telecommunications utility provider, to install ultrafast broadband (UFB). Downer New Zealand is also working with Chorus and Vodafone on the Rural Broadband Initiative.

Downer has a strong presence in the New Zealand market and is a key supplier to councils across the country. During the year, Downer also secured the following contracts:

- a four year contract with Auckland Transport for Road maintenance services to the south western area of Auckland. The contract, valued at NZ$130 million, can be extended by two years plus a further two years giving the contract a potential value of NZ$260 million;
- an open space management contract with Auckland Council worth NZ$70 million over five years, plus a three year and further two year option;
- a facilities management contract with Auckland Council worth NZ$24 million over three years, plus a four year option; and
- a NZ$40 million construction contract to build the Wiri Maintenance and Stabling Depot for Auckland's new electric trains.

DOWNER RAIL

- total revenue of $1.3 billion, up 14.0%
- EBIT of $76.4 million, up 1.8%
- EBIT margin of 5.9%, down 0.8 ppts
- ROFE of 16.3%, down from 17.8%
- Work-in-hand of $4.8 billion

In a very competitive environment, Downer Rail continued to win new business including:

- an order for 19 new locomotives by Fortescue Metals Group for use in the Pilbara. The total contract value is over $73 million including the provision of the locomotives and service and support activities over five years. The first locomotives are expected to be delivered in August 2012;
- a $292 million contract for the supply of locomotives to BHP Billiton Iron Ore in the Pilbara. This is a five year contract commencing June 2012, with an option to increase the total value to over $400 million; and
- a rolling stock supply contract to design, build and deliver 17 new PR22L locomotives to TasRail, Tasmania's State owned rail company. The total value of the contract is over $60 million, with the first new locomotives to be delivered in mid-2013.

Downer Rail also ramped up production on its passenger projects including Queensland Rail's Sunlander Tilt Trains and the WA Public Transport Authority's Transperth rail cars. Both are being manufactured at Downer's Maryborough rail facility.

In June 2012, Downer announced that it had signed a new five year agreement with Electro-Motive Diesel (EMD). Downer and EMD, which is owned by Progress Rail, a Caterpillar company, have worked together for more than six decades supplying and maintaining locomotives in Australia.

Under the new agreement, EMD will manufacture all locomotives for the Australian market with Downer continuing to sell EMD locomotives and after-market products, including spare parts. EMD will manufacture the locomotives at one of its new low cost overseas facilities. This new model will ensure Downer has a sustainable locomotive business as it exits high cost manufacturing and concentrates on sales, repairs and maintenance and whole of life asset management.

* 2011 ROFE has been restated due to the attribution of ROADS equity to New Zealand.

Downer continues to build its partnership with French company Keolis, one of Europe's leading public transport operators. The joint venture currently operates and maintains the Melbourne tram system, Yarra Trams, and will also operate and maintain the Gold Coast Light Rail, which is currently under construction and scheduled to open in 2014.

Downer Rail continues to develop its maintenance and asset management capabilities. It is the largest provider of outsourced freight maintenance services in Australia, with a national network of over 20 maintenance centres. It provides customers with frontline maintenance, locomotive overhauls, remote help desks and derailment recovery and repair services.

WARATAH TRAIN PROJECT

The Waratah Train Project passed a number of significant milestones during the year and now represents a substantially lower risk to the Group. At 30 June 2012, 11 Waratah trains had received a certificate of Practical Completion and were available for passenger service. The trains in passenger service are performing well.

OUTLOOK

There is, at the current time, an increasing level of uncertainty around the level and timing of Government and private sector investment in infrastructure in both Australia and New Zealand.

That said, Downer is well positioned in terms of the percentage of work already secured that will impact on the year ahead.

Accordingly, Downer expects to deliver EBIT of around $370 million and NPAT of around $210 million for the 2013 financial year.

BOARD RENEWAL

The process of Board renewal continued during the year with three new appointments. Mr Garling was appointed as an independent Non-executive Director on 24 November 2011. Ms Howell and Ms Sanderson were appointed as independent Non-executive Directors on 16 January 2012.

CHANGES IN STATE OF AFFAIRS

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

SUBSEQUENT EVENTS

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

FUTURE DEVELOPMENTS

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

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

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

DIVIDENDS

The Board did not resolve to pay an interim or final dividend for the 2012 financial year.

As detailed in the Directors' Report for the 2011 financial year, the Board did not resolve to pay an interim or final dividend for the 2011 financial year.

EMPLOYEE DISCOUNT SHARE PLAN (ESP)

No shares were issued under the terms of the ESP during the 2012 financial year (2011: 1,884,000). Further details about the employee discount share plan are disclosed in Note 36 to the financial statements.

There are no performance rights or performance options outstanding.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as named above), the Company Secretary, all officers of the Company and any related body corporate against a liability incurred as a Director, secretary or executive officer to the extent permitted by the *Corporations Act 2001* (Cth).

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

Under Downer's Constitution, Downer indemnifies, to the extent permitted by law, each Director and Company Secretary of Downer and its subsidiaries against liability incurred in the performance of their roles as officers. The Directors and Company Secretaries listed on pages 2 to 4, individuals who act as a Director or company secretary of Downer's subsidiaries and certain individuals who formerly held any of these roles also have the benefit of the indemnity in the Constitution.

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

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of Board Committees) held during the 2012 financial year and the number of meetings attended by each Director (while they were a Director or Board Committee member). During the year, 12 Board meetings, five Audit Committee meetings, six Remuneration Committee meetings, three Risk Committee meetings, three Zero Harm Committee meetings and two Nominations and Corporate Governance Committee meetings were held. In addition, 11 ad hoc meetings (attended by various Directors) were held in relation to various matters including tender review and contract review.

	Board		Audit Committee		Remuneration Committee	
Director	Held*	Attended	Held*	Attended	Held*	Attended
R M Harding	12	12	–	–	6	6
G A Fenn	12	12	–	–	–	–
S A Chaplain	12	12	5	5	6	6
L Di Bartolomeo	12	11	–	–	6	6
P S Garling	9	9	–	–	2	2
E A Howell	7	7	–	–	–	–
J S Humphrey	12	12	5	4	–	–
K G Sanderson	7	7	2	2	–	–
C G Thorne	12	10	5	5	–	–

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

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

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles). The consolidated entity's corporate governance statement is set out at page 117 of this Annual Report.

NON-AUDIT SERVICES

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

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

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

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

A copy of the auditor's independence declaration is set out on page 32 of this Annual Report.

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

	June 2012 $	June 2011 $
Non-audit services		
Tax services	**252,225**	228,372
Audit related services	**70,000**	73,474
CPG Asia sale due diligence, capital raising and other non-audit services	**1,186,205**	810,694
	1,508,430	1,112,540

ROUNDING OF AMOUNTS

Downer 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, unless otherwise stated, been rounded off to the nearest thousand dollars.

REMUNERATION REPORT – AUDITED

The remuneration report provides information about the remuneration arrangements for key management personnel (KMP), which includes Non-executive Directors and the most senior group executives, for the year to 30 June 2012. Reference to executives in this report means KMPs who are not Non-executive Directors.

The report covers the following matters:

1. Remuneration policy, principles and practices;
2. Relationship between remuneration policy and company performance;
3. The Board's role in remuneration;
4. Description of Non-executive Director remuneration;
5. Description of executive remuneration;
6. Details of Director and executive remuneration required under the *Corporations Act 2001* (Cth);
7. Key terms of employment contracts; and
8. Prior equity-based remuneration plans.

SUMMARY OF CHANGES TO REMUNERATION POLICY

Downer undertook a significant review of executive remuneration policy in the prior year and this was refined during the period. The refinement considered Company strategy, reward plans based on performance measurement and stakeholder feedback on prior practices. There have been limited changes to the policy in the current year and these are noted in the various sections of this report and are summarised below:

- Increased focus on capital efficiency and cash flow through changing the cash measure for the short-term incentive (STI) from Operating Cash to Free Cash Flow (FFO). Refer to Section 5.3.3 for a definition of FFO; and
- Introduction of the increase in Board discretion for the 2012 period onwards to vary STI payments by up to + or – 100 per cent from the payment applicable to the level of performance achieved, up to the maximum for that executive.

1. REMUNERATION POLICY, PRINCIPLES AND PRACTICES

1.1 NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

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

1.2 EXECUTIVE REMUNERATION POLICY

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

Policy	Practices aligned with policy
Retain experienced, proven performers, and those considered to have high potential for succession	– Provide remuneration that is internally equitable and fair; and – Defer a substantial part of pay contingent on service and sustained performance.
Focus performance	– Provide a substantial component of pay contingent on performance; – Focus attention on the most important drivers of value by linking pay to their achievement; and – Require profitability to reach an acceptable level before any bonus payments can be made.
Provide a Zero Harm environment	– Incorporate "Zero Harm" for our employees, contractors, communities and the environment as a significant component of reward.
Manage risk	– Encourage sustainability by balancing incentives for achieving both short-term and longer-term results; – Set stretch targets that finely balance returns with reasonable but not excessive risk taking; – Cap maximum incentive payments to moderate risk taking; – Do not provide significant "cliff" reward vesting that may encourage excessive risk taking as a performance threshold is approached; – The long-term performance is assessed using multiple measures, diversifying risk and limiting the prospects of unintended consequences from focusing on just one measure; – Require service beyond performance periods for reward vesting to encourage retention and allow forfeiture of rewards that are the result of misconduct or material adjustments; – The Board retains full discretion to vary incentive payments in the event of excessive risk taking; – Staggered testing of performance at the end of the financial year (STIs) and calendar year long-term incentives (LTIs) to encourage performance sustainability and reduce the chance of excessive risk taking to maximise reward at one testing time; and – Restrict trading of vested equity rewards to ensure compliance with the Company's Securities Trading Policy.
Align executive interests with those of shareholders	– Provide that a significant proportion of pay is delivered as shares so part of executive reward is linked to shareholder value performance; – Maintain a guideline minimum shareholding requirement for the Managing Director; – Encourage holding of shares after vesting via a trading restriction for all executives; and – Prohibit hedging of unvested equity and equity subject to a trading lock to ensure alignment with shareholder outcomes.
Attract experienced, proven performers	– Provide a total remuneration opportunity sufficient to attract proven and experienced executives from secure positions in other companies.

2. RELATIONSHIP BETWEEN REMUNERATION POLICY AND COMPANY PERFORMANCE

2.1 COMPANY STRATEGY AND REMUNERATION

Downer's business strategy includes:

- Seeking organic growth through focusing on serving existing customers better across multiple products and service offerings of the Company;
- Paying down debt to improve gearing, reduce risk and enhance the Company's capability to withstand threats and take advantage of opportunities;
- Obtaining better utilisation of assets and improved margins through simplifying and driving efficiency;
- Identifying opportunities to manage the Downer portfolio that deliver long-term shareholder value;
- Being able to adapt to the changing economic and competitive environment to ensure Downer delivers shareholder value; and
- Capitalising on the resources sector opportunities.

The Company's remuneration policy complements this strategy by:

- Incorporating company-wide performance requirements for both STI and LTI reward vesting to encourage cross-divisional co-operation;
- Performance metrics that focus on cash flow to reduce working capital and debt exposure, with increased weighting on this measure in 2012;
- Setting earnings before interest and tax (EBIT) STI performance and gateway requirements based on effective application of funds employed to run the business for better capital efficiency;
- Changing the cash measure for the STI from Operating Cash to Free Cash Flow (FFO) to provide more emphasis on control of capital expenditure; and
- Emphasis on Zero Harm measures in the STI.

2.2 REMUNERATION LINKED TO PERFORMANCE

The link to performance is provided by:

- Requiring a significant portion of executive remuneration to vary with short-term and long-term performance;
- Applying a profitability gateway to be achieved before an STI calculation for executives is made;
- Applying challenging financial and non-financial measures to assess performance; and
- Ensuring that these measures focus management on strategic business objectives that create shareholder value.

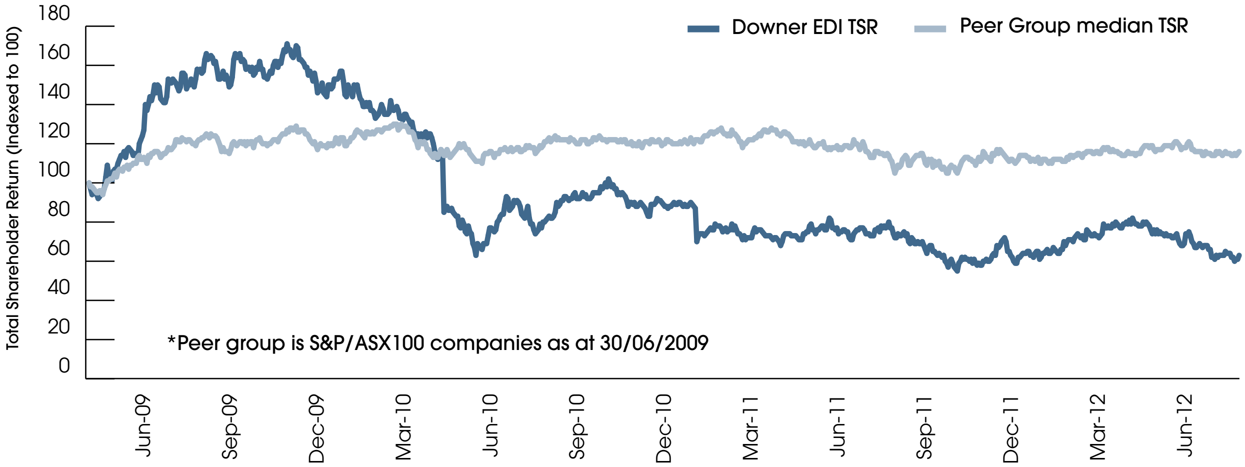
Downer measures performance on the following key corporate measures:

- Earnings per share (EPS) growth;
- Total shareholder return (TSR) relative to other ASX100 companies (excluding ASX "Financials" sector companies);
- EBIT;
- FFO;
- Development of our people; and
- Zero Harm measures of safety and environmental sustainability.

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

The following graph shows the Company's performance compared to the median performance of the ASX100 over the three year period to 30 June 2012.

Downer EDI TSR compared to peer group median*



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

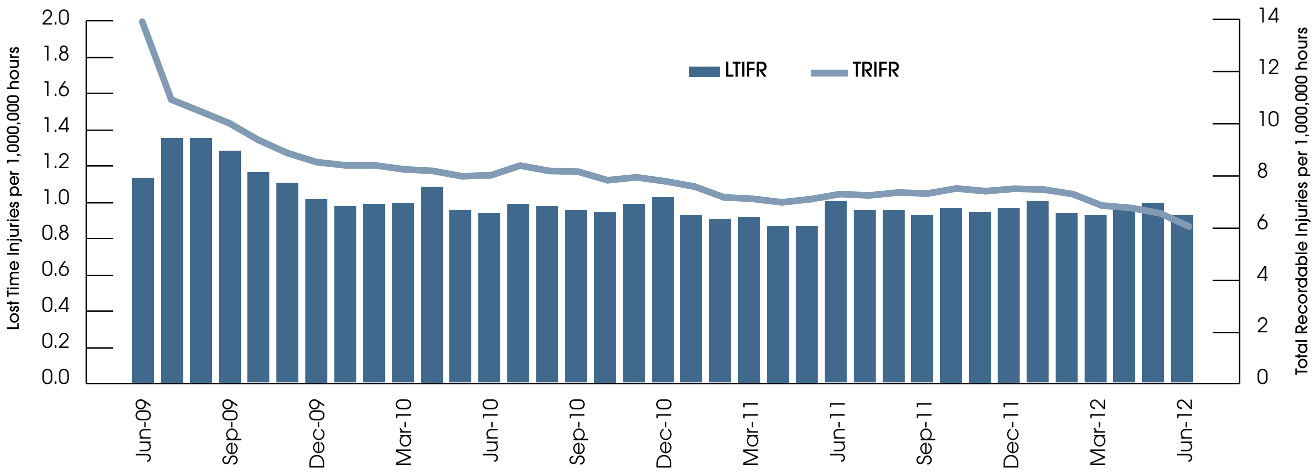
Continuing and discontinued operations:	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000
Total revenue and other income	5,455,875	5,849,657	5,826,664	6,641,847	**8,071,333**
Share of sales revenue from joint venture entities and associates	114,934	73,578	211,168	319,077	**453,236**
Total revenue including joint ventures and associates and other income (i)	5,570,809	5,923,235	6,037,832	6,960,924	**8,524,569**
Earnings before interest and tax – continuing operations	281,117	304,799	53,362	3,648	**261,202**
Earnings before interest and tax – discontinued operations	–	–	–	22,015	**3,002**
Total earnings before interest and tax	281,117	304,799	53,362	25,663	**264,204**
Net interest expense	(49,171)	(45,774)	(51,295)	(64,309)	**(71,531)**
Income tax (expense)/benefit	(66,104)	(69,649)	985	10,946	**(79,778)**
Net profit/(loss) after tax	165,842	189,376	3,052	(27,700)	**112,895**
Total earnings before interest and tax	281,117	304,799	53,362	25,663	**264,204**
Individually significant items	–	–	260,000	266,573	**82,279**
Earnings before interest and tax (before individually significant items) (ii)	281,117	304,799	313,362	292,236	**346,483**
Operating cash flow	276,031	336,464	204,266	185,625	**364,471**
Investing cash flow	(143,721)	(321,016)	(144,396)	(319,573)	**(202,990)**
Free cash flow	132,310	15,448	59,870	(133,948)	**161,481**
Share price at start of the year (iii)	7.36	6.87	5.59	3.48	**3.70**
Share price at end of the year	6.87	5.59	3.60	3.70	**3.13**
Interim dividend (cents)	13.0cps	13.0cps	13.1cps	–	**–**
Final dividend (cents)	12.5cps	16.0cps	16.0cps	–	**–**
Total Shareholder Return	(3%)	(14%)	(30%)	6%	**(15%)**
Basic earnings/(loss) per share	47.9cps	54.4cps	(2.4cps)	(10.5cps)	**23.7cps**
Earnings per share growth (%)	53%	14%	(104%)	(338%)	**326%**
Earnings growth rate (%)	63%	14%	(98%)	(1008%)	**508%**

(i) The Company considers Total Revenue to be an appropriate measure due to an industry trend toward joint venture models to meet the needs of engineering, procurement and construction (EPC) customers with regard to large scale integrated projects.

(ii) Earnings before interest and tax before significant items is determined as the statutory profit before tax and interest, less any items that have been classified as individually significant to the financial statements. The presentation of earnings before interest and tax before significant items is a non-IFRS disclosure.

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

The chart below illustrates Downer's performance on lost time injuries (LTIFR) and total recordable injuries (TRIFR) over the last three years.



3. THE BOARD'S ROLE IN REMUNERATION

The Board engages with shareholders, management and other stakeholders as required, to continuously refine and improve executive and Director remuneration policies and practices.

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

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

- executive remuneration and incentive policy;
- remuneration of senior executives of the Company;
- executive reward and its impact on risk management;
- executive incentive plan;
- equity-based incentive plan;
- superannuation arrangements;
- recruitment, retention, performance measurement and termination policies and procedures for all key management personnel and senior executives reporting directly to the Managing Director;
- disclosure of remuneration in the Company's public materials including ASX filings and the Annual Report; and
- retirement payments.

The Nominations and Corporate Governance Committee is responsible for recommending and reviewing remuneration arrangements for the Executive Directors and Non-executive Directors of the Company.

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

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

4. DESCRIPTION OF NON-EXECUTIVE DIRECTOR REMUNERATION

There has been no change to the basis of Non-executive Director fees since the prior reporting period.

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

Shareholders approved an annual aggregate cap of $2 million for Non-executive Director fees at the 2008 AGM. The allocation of fees to Non-executive Directors within this cap has been determined after consideration of a number of factors, including the time commitment of Directors, the size and scale of the Company's operations, the skill sets of Board members, the quantum of fees paid to Non-executive Directors of comparable companies and participation in Board Committee work.

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

The Chairman receives a base fee of $375,000 per annum (inclusive of all Committee fees) plus superannuation. The other Non-executive Directors each receive a base fee of $150,000 per annum plus superannuation. Additional fees are paid for Committee duties: $35,000 for the chair of the Audit Committee; and $15,000 for the chair of the Zero Harm Committee, Remuneration Committee and the Risk Committee.

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

5. DESCRIPTION OF EXECUTIVE REMUNERATION

5.1 EXECUTIVE REMUNERATION STRUCTURE

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

The variable component ensures that a proportion of pay varies with performance. Performance is assessed annually for performance periods covering one year and three years. Payment for performance assessed over one year is an STI. Payment for performance over a three year period is an LTI.

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

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

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

*Prior to the application of any individual performance modifier (IPM).

The proportions of STI to LTI take into account:

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

5.2 FIXED REMUNERATION

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

The level of remuneration is set to be able to attract proven performers from secure employment elsewhere, while maintaining internal equity to retain proven performers whether sourced externally or internally.

Remuneration is benchmarked against a peer group of direct competitors and a general industry peer group. While market levels of remuneration are monitored on a regular basis, there is no contractual requirement or expectation that any adjustments will be made. The market sectors in which the Company competes may have significant market differentials and remuneration levels must reflect those competitive forces.

Adjustments to executive fixed remuneration in 2012 were to recognise changed responsibilities and accountabilities or significant variations from market levels. Most KMP did not receive any adjustment in the 2012 year.

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

5.3 SHORT-TERM INCENTIVE

5.3.1 STI OVERVIEW

The STI plan provides for an annual payment that varies with annual performance. This has been applied to performance measured over the Company's financial year to 30 June 2012.

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

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

The STI payment is made in cash after finalisation of the annual audited results. No part of the STI is deferred, as Directors believe risk management is carefully addressed by other remuneration policies. Nevertheless, this aspect of policy remains under review, given emerging market trends to defer part of STI.

5.3.2 HOW STI PAYMENTS ARE ASSESSED

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

5.3.3 STI PERFORMANCE REQUIREMENTS

Overall Company performance is assessed on Company EBIT, FFO, Zero Harm and a measure of people development. The move to FFO and changes to the weighting between measures were designed to focus more on capital expenditure and cash collection. It is expected there will be refinements in the overall measures and weightings from year to year in order to better align with Company performance and better risk management.

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

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

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

- Total Recordable Injury Frequency Rate (TRIFR) calculated as the number of recordable injuries x 1,000,000/the hours worked in 12 months;
- Lost Time Injury Frequency Rate (LTIFR) is calculated as the number of lost time injuries x 1,000,000/the hours worked in 12 months; and
- Environmental sustainability covers the preparation of plans, reporting on energy consumption and GHG emissions and progressing to reductions in GHG emissions.

Should a fatality or serious environmental incident occur, the safety or environmental portion of the STI is foregone.

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

Weightings applied to the 2012 STI scorecard measures for all executives, including the Managing Director, are set out in the table below.

Executive	EBIT	Free cash flow	Zero Harm	People
Corporate	30%	30%	30%	10%
Business unit	30% (7.5% Group, 22.5% business unit)	30% (7.5% Group, 22.5% business unit)	30%	10%

The Board has increased its discretion for the 2012 period onwards to vary STI payments by up to + or – 100 per cent from the payment applicable to the level of performance achieved, up to the maximum for that executive.

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

5.3.4 STI TABULAR SUMMARY

The following table outlines the major features of the 2012 STI plan.

Purpose of STI plan	– Focus performance on drivers of shareholder value over 12 month period; – Improve "Zero Harm" and people related results; and – Ensure a part of remuneration costs varies with the Company's 12 month performance.
Minimum performance "gateway" before any payments can be made	90 per cent of budgeted EBIT for the business unit applicable to the executive, i.e. the Company EBIT for the Managing Director and corporate executives and business unit EBIT for business unit heads.
Maximum STI that can be earned	– KMP appointed pre 2011: up to 100 per cent of fixed remuneration; and – KMP appointed from 2011: up to 75 per cent of fixed remuneration.
Percentage of STI that can be earned on achieving target expectations	75 per cent of the maximum. For an executive to receive more, it will require performance in excess of target expectations.
Individual performance modifier (IPM)	– An IPM may be applied based on an executive's individual key performance indicators and relative performance; and – Moderate individual performance may result in an IPM of less than 1 or outstanding performance may result in an IPM greater than 1. The IPM must average 1 across all plan participants.

Discretion to vary payments	The Board, in its discretion, may vary STI payments by up to + or – 100 per cent from the payment applicable to the level of performance achieved up to the maximum for that executive.
Performance period	1 July 2011 to 30 June 2012.
Performance assessed	August 2012, following release of audited accounts.
Additional service period after performance period for payment to be made	None.
Payment timing	September 2012.
Form of payment	Cash.
Performance requirements	Group and divisional EBIT, FFO, Zero Harm and people measures.
New recruits	New executives (either new starts or promoted employees) are eligible to participate in the STI in the year in which they commence in their position with a pro-rata entitlement.
Terminating executives	There is no STI entitlement where an executive's employment terminates prior to the end of the financial year.

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

In determining the EBIT achievement for KMP during the reporting period, the Statutory Results have been adjusted for the sum of the Individually Significant Items per Note 4 of the Notes to the Financial Statements, the major item being the restructure of Reliance Rail in February 2012. Downer has transferred the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. This transfer has had no impact on cash, equity, net assets or underlying earnings. The restructure was implemented to provide greater certainty that Reliance Rail would be able to refinance its various facilities in 2018. While considered to be in the best interests of Downer, it has negatively impacted full year statutory earnings.

5.4 LONG-TERM INCENTIVE

5.4.1 LTI OVERVIEW

Executives participate in an LTI plan. This is an equity-based plan that provides for a reward that varies with Company performance over three year measures of performance. Three year measures of performance are considered to be the maximum reasonable time period for setting incentive targets for earnings per share.

The payment is in the form of restricted shares. The shares are purchased and held in a trust. This allows the Company to align the timing of its tax deduction with the impact on cash flow. Dividends on the shares held in trust related to plans prior to 2011 are distributed to executives prior to vesting of the shares. Directors note that these dividends are proportional to profit, which reinforces the focus on performance and alignment with the interests of shareholders provided by this form of remuneration. From the 2011 LTI plan onwards, dividends on shares held in trust will not be distributed during the performance measurement and service periods. Net accumulated dividends will be distributed to executives after all vesting conditions have been met.

The 2012 LTI represents an entitlement to ordinary shares subject to satisfaction of both a performance condition and a continued employment condition. Grants are in two equal tranches, with each tranche subject to an independent performance requirement. The performance requirements for both tranches share two common features:

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

Performance for the 2012 LTI grants is measured over the three year period to 31 December 2014. The Board is of the view that with STI assessed at the end of the financial year, assessing LTI at the end of the calendar year reduces risk because:

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

The proportion of shares that can vest will be calculated in February 2015, but executives must remain in service until 31 December 2015 (or, but for payment in lieu of notice, would have remained in service until 31 December 2015) before they receive any shares. This additional service requirement is to further enhance Company risk management by:

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

After vesting, the shares remain in trust and are subject to a trading restriction that is governed by the Remuneration Committee. The Remuneration Committee considers requests to lift the trading restriction after reviewing executive compliance with the Company's Securities Trading Policy.

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

5.4.2 PERFORMANCE REQUIREMENTS

One tranche of restricted shares in the 2012 LTI grant qualifies for vesting subject to performance relative to other companies, while the other tranche of restricted shares qualifies for vesting subject to an absolute performance requirement.

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

Shares in the tranche to which the relative TSR performance requirement applies vest pro rata between the median and 75th percentile. That is, 0 per cent of the tranche vest at the 50th percentile, 4 per cent at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile. Starting at 0 per cent means that there is no "cliff" on achievement of the 50th percentile and the level of reward is low until performance clearly exceeds the 50th percentile.

The comparator group for the 2012 LTI grant is the companies, excluding financial services companies, in the ASX100 index as at the start of the performance period on 1 January 2012. Consideration was given in 2012 to using a smaller group of direct competitors for customers, however:

- this was considered not to represent all competitors for capital and executives;
- limiting the comparator group to a small number of direct competitors could result in very volatile outcomes from period to period, which may have unintended behavioural consequences impacting risk; and
- management's strong focus on improving the Company's ranking among ASX100 companies has become embedded in Company culture, so reinforcing this rather than trying to dislodge it with another focus is considered desirable.

The absolute performance requirement applicable to the other tranche of shares is based on Earnings per Share (EPS) growth over the three year performance period to 31 December 2014. The EPS measure conforms to *AASB 133 Earnings per Share* and is externally audited.

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

The graduated rate of vesting from meeting the minimum EPS growth performance requirement is more conservative than most companies that have an EPS growth performance requirement. Downer's Directors believe that more graduated vesting provides better risk management because it reduces the tendency for excessive risk taking stemming from executives having very significant difference in reward outcomes either side of a performance "cliff". It also means that the level of vesting is not significant until EPS growth clearly exceeds six per cent.

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

5.4.3 POST-VESTING SHAREHOLDING GUIDELINE

The Managing Director is required to continue holding shares after they have vested until the shareholding guideline has been attained. This guideline requires that the Managing Director holds vested performance shares equal in value to 100 per cent of his fixed remuneration.

Whilst not a policy, application of the guideline minimum shareholding requirement has been restricted to the Managing Director in recognition that reorganisation of the Company has made it impractical for application to other executives.

The Remuneration Committee has discretion to allow variations from this guideline requirement in exceptional circumstances.

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

5.4.4 CHANGES FROM PRIOR PERIOD

The 2012 LTI plan retains the same structure and measures as the 2011 LTI plan. It is noted that the Board has 100 per cent discretion in relation to grants for executives, up to the maximum of the LTI for each executive.

5.4.5 LTI TABULAR SUMMARY

The following table outlines the major features of the 2012 LTI plan.

<table>
<tr><td>Purpose of LTI plan</td><td>– Focus performance on drivers of shareholder value over three year period;
– Manage risk by countering any tendency to overemphasise short-term performance to the detriment of longer-term growth and sustainability; and
– Ensure a part of remuneration costs varies with the Company's longer-term performance.</td></tr>
<tr><td>Maximum value of equity that can be granted</td><td>– Managing Director: 100 per cent of fixed remuneration;
– KMP appointed pre-2011: 75 per cent of fixed remuneration; and
– KMP appointed from 2011: 50 per cent of fixed remuneration.</td></tr>
<tr><td>Performance period</td><td>1 January 2012 to 31 December 2014.</td></tr>
<tr><td>Performance assessed</td><td>February 2015.</td></tr>
<tr><td>Additional service period after performance period for shares to vest</td><td>Shares for which the relevant performance vesting condition is satisfied will not vest unless executives remain employed with the Group on 31 December 2015.</td></tr>
<tr><td>Shares vest</td><td>1 January 2016.</td></tr>
<tr><td>Form of payment</td><td>Restricted shares.</td></tr>
<tr><td>Performance conditions</td><td>There are two performance conditions. Each applies to half the shares granted to each executive.

Relative TSR
The relative TSR performance condition is based on the Company's TSR performance relative to the TSR of companies comprising the ASX100 index, excluding financial services companies, at the start of the performance period, measured over the three years to 31 December 2014.

The performance vesting scale applicable to the shares subject to the relative TSR test are:
<table>
<tr><th>Downer EDI Limited's TSR ranking</th><th>per cent Shares subject to TSR condition that qualify for vesting</th></tr>
<tr><td>50th percentile or less</td><td>Zero per cent</td></tr>
<tr><td>Above 50th and below 75th percentile</td><td>Pro rata so that 4 per cent of the restricted shares in the tranche vest for every one per cent increase between the 50th percentile and 75th percentile</td></tr>
<tr><td>75th percentile and above</td><td>100 per cent</td></tr>
</table>
EPS growth
The EPS growth performance condition is based on the Company's compound annual EPS growth over the three years to 31 December 2014.

The performance vesting scale applicable to the shares subject to the EPS growth test is:
<table>
<tr><th>Downer EDI Limited's EPS compound annual growth</th><th>per cent Shares subject to EPS condition that qualify for vesting</th></tr>
<tr><td><6 per cent</td><td>Zero per cent</td></tr>
<tr><td>6 per cent to <12 per cent</td><td>Pro rata so that 16.7 per cent of the restricted shares in the tranche vest for every one per cent increase in EPS growth between 6 per cent and 12 per cent</td></tr>
<tr><td>12 per cent or more</td><td>100 per cent</td></tr>
</table>
</td></tr>
</table>

How shares are acquired	Shares are normally acquired on-market and placed in trust to: – minimise dilution; and – obtain a tax deduction aligned with the cash flow being incurred. For the 2012 LTI grant, there were sufficient forfeited shares in the scheme to cover the allocation to executives.
Treatment of dividends and voting rights on restricted shares	Dividends are received by the trust. The trust either uses dividends to acquire additional shares or distributes to executives the dividends that accrued during the vesting period on shares that vest, when they vest.
Restriction on hedging	Hedging of entitlements under the plan is not permitted.
Restriction on trading	Vested shares may only be released from the trust with the approval of the Remuneration Committee. Approval requires that trading comply with the Company's Securities Trading Policy.
New recruits	New executives (either new starts or promoted employees) are eligible to participate in the LTI on the first grant date applicable to all executives after they commence in their position, with an additional pro-rata entitlement if their employment commenced after the grant date in the prior calendar year.
Terminating executives	All shares in the 2012 LTI grant will be forfeited where an executive's employment terminates prior to 31 December 2015 (unless, but for payment in lieu of notice, the executive would have remained in service until 31 December 2015).
Change of control	Providing at least 12 months of the grants' performance period have elapsed, unvested shares pro rated with the elapsed service period are tested for vesting with performance against the relevant relative TSR or EPS growth requirements for that relevant period. Vesting will occur to the extent the performance conditions are met. Shares that have already been tested, have met performance requirements and are subject to the completion of the service condition fully vest.

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

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

6. DETAILS OF DIRECTOR AND EXECUTIVE REMUNERATION REQUIRED UNDER CORPORATIONS ACT

6.1 DIRECTORS AND EXECUTIVES

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

R M Harding	(Chairman)
G A Fenn	(Managing Director and Chief Executive Officer)
S A Chaplain	
L Di Bartolomeo	
P S Garling	(Appointed 23 November 2011)
E A Howell	(Appointed 16 January 2012)
J S Humphrey	
K G Sanderson AO	(Appointed 16 January 2012)
C G Thorne	

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

P Borden	(Chief Executive Officer – Downer Rail)
C Bruyn	(Chief Executive Officer – Downer New Zealand and United Kingdom)
D Cattell	(Chief Executive Officer – Downer Infrastructure, appointed 1 May 2012, Chief Executive Officer – Downer Australia, to 30 April 2012)
K Fletcher	(Chief Financial Officer)
D Overall	(Chief Executive Officer – Downer Mining)

6.2 REMUNERATION RECEIVED IN RELATION TO THE 2012 FINANCIAL YEAR

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

The table below lists the remuneration actually received in relation to the 2012 financial year, comprising fixed remuneration, STIs relating to 2012 and the value of LTI grants that vested during the 2012 financial year. This information differs to that provided in the statutory remuneration table at section 6.3 which has been prepared in accordance with accounting standards.

	Fixed remuneration[1] $	Bonus paid or payable in respect of current year $	Termination benefits $	Total cash payments $	Equity that vested during 2012[2] $	Total remuneration received $
Non-executive Directors						
R M Harding	408,750	–	–	408,750	–	408,750
S A Chaplain	201,650	–	–	201,650	–	201,650
L Di Bartolomeo	179,850	–	–	179,850	–	179,850
J S Humphrey	163,500	–	–	163,500	–	163,500
P S Garling	98,633	–	–	98,633	–	98,633
E A Howell	75,012	–	–	75,012	–	75,012
K G Sanderson	75,012	–	–	75,012	–	75,012
C G Thorne	196,200	–	–	196,200	–	196,200
KMP executives						
G Fenn	1,824,927	1,319,400	–	3,144,327	941,974	4,086,301
P Borden	716,108	355,700	–	1,071,808	–	1,071,808
C Bruyn	665,550	450,200	–	1,115,750	–	1,115,750
D Cattell	1,619,821	1,048,500	–	2,668,321	104,122	2,772,443
K Fletcher	814,238	703,700	–	1,517,938	–	1,517,938
D Overall	1,222,930	1,150,800	–	2,373,730	56,805	2,430,535
	8,262,181	**5,028,300**	**–**	**13,290,481**	**1,102,901**	**14,393,382**

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

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

6.3 REMUNERATION OF DIRECTORS & KEY MANAGEMENT PERSONNEL

2012	Short-term employee benefits			Post-employment benefits				
	Salary and fees $	Bonus paid or payable in respect of current year $	Non-monetary $	Super-annuation $	Termination benefits $	Subtotal $	Share-based payment trans-actions[2] $	Total $
Non-executive Directors								
R M Harding	375,000	–	–	33,750	–	408,750	–	408,750
S A Chaplain[3]	167,488	–	–	34,162	–	201,650	–	201,650
L Di Bartolomeo[4]	165,000	–	–	14,850	–	179,850	–	179,850
J S Humphrey	150,000	–	–	13,500	–	163,500	–	163,500
P S Garling[1]	90,489	–	–	8,144	–	98,633	–	98,633
E A Howell[1]	68,818	–	–	6,194	–	75,012	–	75,012
K G Sanderson[1]	68,818	–	–	6,194	–	75,012	–	75,012
C G Thorne[5]	180,000	–	–	16,200	–	196,200	–	196,200
KMP executives								
G Fenn	1,679,225	1,319,400	129,927	15,775	–	3,144,327	538,421	3,682,748
P Borden	625,000	355,700	66,108	25,000	–	1,071,808	71,297	1,143,105
C Bruyn	608,264	450,200	45,533	11,753	–	1,115,750	153,178	1,268,928
D Cattell[6]	1,475,000	1,048,500	119,821	25,000	631,579	3,299,900	635,839	3,935,739
K Fletcher	775,000	703,700	14,238	25,000	–	1,517,938	147,419	1,665,357
D Overall	1,184,224	1,150,800	22,931	15,775	–	2,373,730	202,846	2,576,576
	7,612,326	**5,028,300**	**398,558**	**251,297**	**631,579**	**13,922,060**	**1,749,000**	**15,671,060**

1 Amounts represent the payments relating to the period during which the individuals were key management personnel.

2 Represents the value of vested and unvested equity expensed during the period, in accordance with *AASB 2 Share-based Payment* related to grants made to the executive. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in sections 5.4.1 and 5.4.2. At each balance date, the entity revises its estimates of the number of restricted shares that are expected to vest having regard to historical forfeitures. The employee benefits expense recognised in each year takes into account the most recent estimate.

3 S A Chaplain: comprised of $150,000 Board fee and $35,000 Audit Committee chair fee. An amount of $17,512 was salary sacrificed into superannuation.

4 L Di Bartolomeo: comprised of $150,000 Board fee and $15,000 Remuneration Committee chair fee.

5 C G Thorne: comprised of $150,000 Board fee, $15,000 Risk Committee chair fee and $15,000 Zero Harm Committee chair fee.

6 D Cattell: termination benefits represents the accrual of cash benefits payable at the end of Mr Cattell's fixed term contract, being 12 months' fixed remuneration.

2011	Short-term employee benefits			Post-employment benefits				
	Salary and fees $	Bonus paid or payable in respect of current year $	Non-monetary $	Super-annuation $	Termination benefits $	Subtotal $	Share-based payment trans-actions[2] $	Total $
Non-executive Directors								
R M Harding[6]	316,406	–	–	28,477	–	344,883	–	344,883
P E J Jollie[1]	110,897	–	–	29,056	–	139,953	–	139,953
S A Chaplain[3]	159,987	–	–	41,663	–	201,650	–	201,650
L Di Bartolomeo[4]	191,086	–	–	17,198	–	208,284	–	208,284
J S Humphrey	150,000	–	–	13,500	–	163,500	–	163,500
C J S Renwick[1,5]	82,500	–	–	7,425	–	89,925	–	89,925
C G Thorne[7]	168,342	–	–	15,151	–	183,493	–	183,493
KMP executives								
G Fenn	1,563,134	–	163,086	15,199	–	1,741,419	1,308,314	3,049,733
G Knox[9]	342,937	–	–	–	2,000,000	2,342,937	(1,306,996)	1,035,941
P Borden	681,667	–	33,798	25,000	–	740,465	22,986	763,451
C Bruyn	539,321	–	65,588	11,475	–	616,384	125,087	741,471
D Cattell[10]	1,554,232	–	72,273	25,000	550,877	2,202,382	747,983	2,950,365
S Cinerari	561,067	–	52,209	37,780	–	651,056	154,595	805,651
K Fletcher[1]	710,416	–	266	22,917	–	733,599	65,155	798,754
E Kolatchew[1,8]	832,768	–	–	39,506	865,479	1,737,753	20,102	1,757,855
D Overall	887,897	702,644	17,415	12,102	–	1,620,058	255,274	1,875,332
	8,852,657	**702,644**	**404,635**	**341,449**	**3,416,356**	**13,717,741**	**1,392,500**	**15,110,241**

1 Amounts represent the payments relating to the period during which the individuals were key management personnel.

2 Represents the value of vested and unvested equity expensed during the period, in accordance with *AASB 2 Share-based Payment*, related to grants made to the executive. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in sections 5.4.1 and 5.4.2.

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

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

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

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

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

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

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

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

6.4 PERFORMANCE RELATED REMUNERATION

The table below lists the proportions of remuneration paid during the year ended 30 June 2012 that are performance and non-performance related.

	Performance Related	Non-Performance Related
KMP executives		
G Fenn[1]	50%	50%
P Borden[1]	37%	63%
C Bruyn[1]	48%	52%
D Cattell[1]	43%	57%
K Fletcher[1]	51%	49%
D Overall[1]	53%	47%

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

Weightings applied to the 2012 STI scorecard measures for executives are set out in the table below.

Executive	EBIT	Free cash flow	Zero Harm	People
Corporate	30%	30%	30%	10%
Business unit	30% (7.5% Group, 22.5% business unit)	30% (7.5% Group, 22.5% business unit)	30%	10%

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

Measure	Target
Safety	
TRIFR (total recordable injury frequency rate)	Achieve a set reduction in the TRIFR at level of responsibility. Award pro rates linearly.
LTIFR (lost time injury frequency rate)	Achieve a set reduction in the LTIFR at level of responsibility.
Environmental	
Sustainable development	Development of environmental sustainability plans, reporting on energy consumption and GHG emissions and progressing to reductions in GHG emissions.

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

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

The following table summarises the average performance achieved by the KMP across each element of the scorecard.

	EBIT	Free cash flow	Zero Harm	People
Weighting of scorecard element	30%	30%	30%	10%
Per cent performance of the element weighting achieved	23.6%	26.3%	14.2%	9.7%

The following table shows the STIs that were earned during the year ended 30 June 2012 due to the achievement of the relevant performance targets.

	Short Term Incentive in respect of 2012 financial year	
	Paid %	Forfeited %
KMP executives		
G Fenn	73%	27%
P Borden	55%	45%
C Bruyn	70%	30%
D Cattell	70%	30%
K Fletcher	88%	12%
D Overall	96%	4%

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

Relevant executives	Relevant LTI measure	Performance outcome	% LTI tranche that vested
D Cattell, D Overall	2008 Plan Share price hurdle.	The vesting range was $6 to $13. The actual share price was $3.20.	Zero per cent. The shares were forfeited.
G Fenn, C Bruyn, D Cattell, D Overall	Tranche Two of Three in 2009 plan Percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a three year period.	Actual performance ranked at the 23rd percentile.	Zero per cent became provisionally qualified. The shares were forfeited.
G Fenn, C Bruyn, D Cattell, D Overall	Tranche Three of Three in 2009 plan Percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a three year period.	Actual performance ranked at the 23rd percentile.	Zero per cent became provisionally qualified. The tranche is subject to a single re-test.

6.5 SHARE-BASED PAYMENTS

6.5.1 RESTRICTED SHARES

The table below shows the number of restricted shares granted and percentage of restricted shares that vested or were forfeited during the year for each grant that affects compensation in this or future reporting periods.

	2008 Plan			2009 Plan			2010 Plan		
	Number of Shares (share price hurdle)[1]	% vested	% forfeited	Number of shares[2]	% vested	% forfeited	Number of shares[3]	% vested	% forfeited
KMP executives									
G Fenn	–	–	–	444,825	56%	15%	95,410	–	–
P Borden	–	–	–	–	–	–	31,803	–	–
C Bruyn	–	–	–	86,957	–	33%	53,430	–	–
D Cattell	387,500	8%	75%	291,451	–	33%	143,115	–	–
K Fletcher	–	–	–	–	–	–	77,309	–	–
D Overall	270,000	5%	86%	145,726	–	33%	71,558	–	–

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

2 Grant date 1 April 2009 except for C Bruyn (12 June 2009) and G Fenn (332,258 30 June 2009, 112,567 27 January 2010). All shares with EBIT and cash flow hurdles have vested in prior years and are not disclosed in the table.

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

	2011 Plan			CEO 30 July 2011			2012 Plan		
	Number of shares[1]	% vested	% forfeited	Number of shares[2]	% vested	% forfeited	Number of shares[3]	% vested	% forfeited
KMP executives									
G Fenn	480,205	–	–	300,000	–	67%	464,996	–	–
P Borden	86,704	–	–	–	–	–	83,958	–	–
C Bruyn	130,055	–	–	–	–	–	117,392	–	–
D Cattell	–	–	–	–	–	–	–	–	–
K Fletcher	160,068	–	–	–	–	–	154,999	–	–
D Overall	180,077	–	–	–	–	–	232,498	–	–

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

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

3 Grant date 22 June 2012. The fair value of shares granted was $3.095 per share for the EPS tranche and $1.848 per share for the TSR tranche.

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

	Maximum number of shares for the year				
	2012	2013	2014	2015	2016
KMP executives					
G Fenn	64,767	164,766	295,410	480,205	464,996
P Borden	–	–	31,803	86,704	83,958
C Bruyn	28,986	28,985	53,430	130,055	117,392
D Cattell	226,316	390,266	–	–	–
K Fletcher	–	–	77,309	160,068	154,999
D Overall	108,575	138,576	131,558	210,077	232,498

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

	Maximum value of shares for the year				
$	2012	2013	2014	2015	2016
KMP executives					
G Fenn	747,284	915,366	786,651	521,354	163,012
P Borden	98,159	155,241	142,170	94,134	29,433
C Bruyn	233,709	274,800	223,116	135,209	41,154
D Cattell	506,284	294,398	107,281	–	–
K Fletcher	204,497	309,828	274,169	173,783	54,337
D Overall	342,412	440,119	362,676	238,226	81,506

6.5.2 OPTIONS AND RIGHTS

No performance options or rights were granted or exercised during the year ended 30 June 2012.

There are no performance rights or performance options outstanding.

6.6 REMUNERATION CONSULTANTS

Guerdon Associates Pty Ltd was engaged by the Board Remuneration Committee to provide remuneration advice in relation to KMP, but did not provide the Board Remuneration Committee with remuneration recommendations as defined under Division 1, Part 1.2, 9B (1) of the *Corporations Act 2001* (Cth).

The Board was satisfied that advice received was free from any undue influence by key management personnel to whom the advice may relate, because strict protocols were observed and complied with regarding any interaction between Guerdon Associates Pty Ltd and management, and because all remuneration advice was provided to the Board Remuneration Committee chair.

7. KEY TERMS OF EMPLOYMENT CONTRACTS

7.1 NOTICE AND TERMINATION PAYMENTS

All executives are on contracts with no fixed end date, other than D Cattell who is on a fixed term contract that ends on 1 January 2013. The following table captures the notice periods applicable to termination of the employment of executives.

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

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

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

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

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

Mr Fenn's remuneration comprises fixed and variable components.

The initial fixed remuneration is $1.8 million per annum and this was unchanged during the 2012 financial year. This amount includes superannuation contributions and non-cash benefits and excludes Mr Fenn's home telephone rental and call costs, home internet costs and medical health, life and salary continuance insurance. Mr Fenn may also be accompanied by his wife when travelling on business, at the Chairman's discretion. There was no such travel during the year. It is reviewable annually in accordance with Downer's policies.

Mr Fenn is eligible to receive an annual STI and the maximum STI opportunity is 100 per cent of fixed remuneration. Any entitlement to an STI is at the discretion of the Board, having regard to performance measures and targets developed in consultation with Mr Fenn including Downer's financial performance, safety, people, environmental and sustainability targets and adherence to risk management policies and practices. The Board also retains the right to vary the STI by + or – 100 per cent (up to the 100 per cent maximum) based on its assessment of performance.

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

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

Mr Fenn was also eligible to receive key milestone incentives on a once-only basis in lieu of an LTI grant pro rated with service as Managing Director for calendar 2010. These milestones are over and above the STI operating and financial objectives, and are considered to be sufficiently critical to shareholder value to warrant special STI treatment on a one-off basis. These special milestone incentives included a grant of 200,000 shares which was made with a specific performance hurdle requiring the achievement of practical completion of the first six Waratah Train Sets by 30 September 2011. The service period prior to vesting is a further 2.25 years to 31 December 2013. The timing required under the performance hurdle was not met and the shares are forfeited.

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

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

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

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

Mr Fenn can resign:

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

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

Downer can terminate Mr Fenn's employment:

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

(b) by providing 12 months' written notice.

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

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

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

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

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

8. PRIOR EQUITY-BASED REMUNERATION PLANS

Prior Downer equity-based remuneration plans in which executives retained an interest during the financial year are:

- 2011 executive share plan;
- 2010 executive share plan;
- 2009 executive share plan; and
- 2008 executive share plan.

Details of LTI plans from prior years are set out in the table below.

Plan name	Type of award	Performance requirements	Re-test	Service requirements	Vesting schedule
2011 executive share plan	Grant of restricted shares delivered in two equal tranches	Tranche One: Percentile ranking of Downer's TSR relative to the constituents of the ASX100 as at the beginning of the performance tests period. Tranche Two: EPS annual compound growth to be within 6 per cent to 12 per cent. The performance period for both tranches is three years.	There is no re-test.	The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December in the final year of the performance period for which the performance condition is satisfied.	Tranche One: The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its TSR peer group, the ASX100. Shares vest pro rata between the median and 75th percentile. That is, 4 per cent of the shares vest at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile. Tranche Two: Pro rata from 6 per cent to 12 per cent EPS growth such that 16.67 per cent of the restricted shares in the tranche vest for every 1 per cent increase in EPS growth between 6 per cent and 12 per cent.

Plan name	Type of award	Performance requirements	Re-test	Service requirements	Vesting schedule
2010 executive share plan	Grant of restricted shares delivered in two equal tranches	Tranche One: Percentile ranking of Downer's TSR relative to the constituents of the ASX100 as at the beginning of the performance tests period. Tranche Two: EPS annual compound growth to be within 6 per cent to 12 per cent. The performance period for both tranches is three years.	There is no re-test.	The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December in the final year of the performance period for which the performance condition is satisfied.	Tranche One: The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its TSR peer group, the ASX100. Shares vest pro rata between the median and 75th percentile. That is, 4 per cent of the shares vest at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile. Tranche Two: Pro rata from 6 per cent to 12 per cent EPS growth such that 16.67 per cent of the restricted shares in the tranche vest for every 1 per cent increase in EPS growth between 6 per cent and 12 per cent.
2009 executive share plan	Grant of restricted shares delivered in three equal tranches	Percentile ranking of Downer's TSR relative to the constituents of the ASX100 as at the beginning of the performance test period. Initial performance periods for the three tranches are 1, 2 and 3 years, respectively.	Shares that do not meet the initial relative TSR test are subject to a single re-test 12 months after the first test. If the performance hurdles are met at the re-test, the awards will vest. Shares that do not meet the re-test are forfeited.	The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December in the final year of the performance period for which the performance condition is satisfied.	The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its TSR peer group, the ASX100. Shares vest pro rata between the median and 75th percentile. That is, 4 per cent of the shares vest at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile.

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

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

On behalf of the Directors

R.M. Harding

R M Harding
Chairman

Sydney, 13 August 2012

Deloitte.

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

13 August 2012

Dear Directors

DOWNER EDI LIMITED

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

As lead audit partner for the audit of the financial report of Downer EDI Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
From continuing operations[i]			
Revenue from ordinary activities	3(a)	**7,915,413**	6,433,549
Other income	3(a)	**5,053**	8,662
Total revenue	2	**7,920,466**	6,442,211
Employee benefits expense[ii]	3(b)	**(2,711,332)**	(2,161,310)
Raw materials and consumables used[ii]		**(1,638,502)**	(1,519,626)
Subcontractor costs[ii]		**(1,600,039)**	(1,255,459)
Plant and equipment costs[ii]		**(1,025,943)**	(670,425)
Communication expenses		**(67,234)**	(54,104)
Occupancy costs		**(118,915)**	(117,151)
Professional fees		**(32,298)**	(37,422)
Travel and accommodation expenses[ii]		**(125,788)**	(82,804)
Other expenses from ordinary activities		**(56,792)**	(91,328)
Depreciation and amortisation	3(b)	**(245,995)**	(208,472)
Share of net profit of joint venture entities and associates	15(b)	**45,853**	26,111
Individually significant items	4	**(82,279)**	(266,573)
		(7,659,264)	(6,438,563)
Earnings before interest and tax		**261,202**	3,648
Finance income	3(c)	**10,746**	14,107
Finance costs	3(c)	**(82,257)**	(78,405)
		(71,511)	(64,298)
Profit/(loss) before income tax from continuing operations		**189,691**	(60,650)
Income tax (expense)/benefit	5	**(82,176)**	14,368
Profit/(loss) after income tax from continuing operations		**107,515**	(46,282)

(i) The 2011 balances have been restated to reflect continuing operations.

(ii) The 2011 balances have been restated to better reflect the nature of the costs incurred. There has been no impact on the profit/(loss) before income tax as a result of these changes.

The consolidated income statement should be read in conjunction with the accompanying notes on pages 40 to 112.

CONSOLIDATED INCOME STATEMENT – CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Profit/(loss) from continuing operations attributable to:			
– Non-controlling interest		**11**	(63)
– Members of the parent entity		**107,504**	(46,219)
Profit/(loss) for the year from continuing operations		**107,515**	(46,282)
Discontinued operations			
– Profit from discontinued operations	27	**5,380**	18,582
Profit/(loss) for the year		**112,895**	(27,700)
Profit/(loss) for the year that is attributable to:			
– Non-controlling interest		**129**	143
– Members of the parent entity		**112,766**	(27,843)
Total profit/(loss) for the year		**112,895**	(27,700)
Earnings per share (cents)			
Basic earnings/(loss) per share			
– From continuing operations	7	**22.5**	(15.5)
– From discontinued operations	7	**1.2**	5.0
		23.7	(10.5)
Diluted earnings/(loss) per share			
– From continuing operations	7	**22.4**	(15.5)
– From discontinued operations	7	**1.1**	5.0
		23.5	(10.5)

The consolidated income statement should be read in conjunction with the accompanying notes on pages 40 to 112.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Profit/(loss) after income tax		**112,895**	(27,700)
Other comprehensive income/(loss)			
– Exchange differences arising on translation of foreign operations		**5,070**	(18,738)
– Net gain on available-for-sale investments taken to equity		**–**	3,433
– Net (loss)/gain on foreign currency forward contracts taken to equity		**(1,186)**	10,055
– Net loss on cross currency interest rate swaps taken to equity		**(9,599)**	(4,215)
– Amortisation of share of reserves from associates	25	**1,253**	2,801
– Derecognition of share of reserves from associates	25	**72,540**	–
– Income tax relating to components of other comprehensive income		**3,079**	(2,289)
Other comprehensive income/(loss) included in equity		**71,157**	(8,953)
Total comprehensive income/(loss) for the year		**184,052**	(36,653)
Total comprehensive income/(loss) for the year that is attributable to:			
Non-controlling interest		**129**	143
Members of the parent entity		**183,923**	(36,796)
Total comprehensive income/(loss) for the year		**184,052**	(36,653)

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 40 to 112.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**296,691**	288,575
Inventories	10	**282,738**	192,568
Trade and other receivables	11	**1,598,414**	1,312,998
Other financial assets	12	**14,211**	6,078
Current tax assets	13	**13,765**	14,312
Other assets	14	**48,969**	40,961
Total current assets		**2,254,788**	1,855,492
Non-current assets			
Trade and other receivables	11	**1,922**	–
Equity-accounted investments	15(b)	**60,893**	37,354
Property, plant and equipment	16	**1,133,470**	1,055,015
Intangible assets	17	**577,651**	589,195
Other financial assets	12	**7,794**	30,977
Deferred tax assets	13(a)	**71,271**	137,949
Other assets	14	**3,553**	4,684
Total non-current assets		**1,856,554**	1,855,174
Total assets		**4,111,342**	3,710,666
LIABILITIES			
Current liabilities			
Trade and other payables	18	**1,388,995**	1,117,726
Borrowings	19	**180,938**	165,121
Other financial liabilities	21	**77,532**	74,629
Provisions	22	**332,450**	239,659
Current tax liabilities	23	**3,926**	3,866
Total current liabilities		**1,983,841**	1,601,001
Non-current liabilities			
Trade and other payables	18	**3,955**	2,812
Borrowings	19	**437,972**	567,665
Other financial liabilities	21	**46,112**	71,715
Provisions	22	**15,612**	18,809
Deferred tax liabilities	23(a)	**6,150**	6,279
Total non-current liabilities		**509,801**	667,280
Total liabilities		**2,493,642**	2,268,281
Net assets		**1,617,700**	1,442,385
EQUITY			
Issued capital	24	**1,427,730**	1,423,897
Reserves	25	**(51,752)**	(121,581)
Retained earnings		**241,737**	139,969
Parent interests		**1,617,715**	1,442,285
Non-controlling interest		**(15)**	100
Total equity		**1,617,700**	1,442,385

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 40 to 112.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

2012

$'000	Issued capital	Hedge reserve (Note 25)	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2011	1,423,897	(77,673)	(58,683)	14,775	139,969	1,442,285	100	1,442,385
Profit after income tax	–	–	–	–	112,766	112,766	129	112,895
Exchange differences arising on translation of foreign operations	–	–	5,070	–	–	5,070	–	5,070
Net loss on foreign currency forward contracts	–	(1,186)	–	–	–	(1,186)	–	(1,186)
Net loss on cross currency interest rate swaps	–	(9,599)	–	–	–	(9,599)	–	(9,599)
Amortisation on share of reserves from associates	–	1,253	–	–	–	1,253	–	1,253
Derecognition of share of reserves from associates	–	72,540	–	–	–	72,540	–	72,540
Income tax relating to components of other comprehensive income	–	3,079	–	–	–	3,079	–	3,079
Total comprehensive income for the year	–	66,087	5,070	–	112,766	183,923	129	184,052
Vested executive incentive shares transactions	3,833	–	–	(3,833)	–	–	–	–
Share-based transactions during the year	–	–	–	2,237	–	2,237	–	2,237
Income tax relating to share-based transactions during the year	–	–	–	(3,214)	–	(3,214)	–	(3,214)
Payment of dividends[i]	–	–	–	–	(10,998)	(10,998)	(163)	(11,161)
Amounts derecognised on disposal of subsidiary	–	(8)	3,490	–	–	3,482	(81)	3,401
Balance at 30 June 2012	1,427,730	(11,594)	(50,123)	9,965	241,737	1,617,715	(15)	1,617,700

(i) Payment of dividends relates to ROADS dividends and minority interests dividends paid during the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 40 to 112.

2011

$'000	Issued capital	Available-for-sale investment reserve	Hedge reserve (Note 25)	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2010	1,118,675	(2,816)	(84,642)	(39,945)	19,510	231,974	**1,242,756**	95	**1,242,851**
(Loss)/profit after income tax	–	–	–	–	–	(27,843)	**(27,843)**	143	**(27,700)**
Exchange differences arising on translation of foreign operations	–	–	–	(18,738)	–	–	**(18,738)**	–	**(18,738)**
Net gain on available-for-sale investments	–	3,433	–	–	–	–	**3,433**	–	**3,433**
Net gain on foreign currency forward contracts(i)	–	–	10,055	–	–	–	**10,055**	–	**10,055**
Net loss on cross currency interest rate swaps	–	–	(4,215)	–	–	–	**(4,215)**	–	**(4,215)**
Amortisation on share of reserves from associates	–	–	2,801	–	–	–	**2,801**	–	**2,801**
Income tax relating to components of other comprehensive income	–	(617)	(1,672)	–	–	–	**(2,289)**	–	**(2,289)**
Total comprehensive (loss)/income for the year	–	2,816	6,969	(18,738)	–	(27,843)	**(36,796)**	143	**(36,653)**
Contributions of equity (net of transaction costs)(ii)	296,474	–	–	–	–	–	**296,474**	–	**296,474**
Income tax relating to capital raising transaction costs	3,130	–	–	–	–	–	**3,130**	–	**3,130**
Vested executive incentive shares transactions	5,618	–	–	–	(5,618)	–	**–**	–	**–**
Share-based transactions during the year	–	–	–	–	(2,483)	–	**(2,483)**	–	**(2,483)**
Income tax relating to share-based transactions during the year	–	–	–	–	3,366	–	**3,366**	–	**3,366**
Payment of dividends(iii)	–	–	–	–	–	(64,162)	**(64,162)**	(138)	**(64,300)**
Balance at 30 June 2011	1,423,897	–	(77,673)	(58,683)	14,775	139,969	**1,442,285**	100	**1,442,385**

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

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

(iii) Payment of dividends relates to 2010 interim, 2009 final dividend and ROADS dividends paid during the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 40 to 112.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers		**8,584,764**	7,275,150
Distributions from equity-accounted investments	15(b)	**24,281**	12,667
Dividends received from external entities		**11**	701
Payments to suppliers and employees		**(8,158,966)**	(7,025,409)
Interest received		**6,914**	14,275
Interest and other costs of finance paid		**(76,860)**	(73,399)
Income tax paid		**(15,673)**	(18,360)
Net cash inflow from operating activities	28(c)	**364,471**	185,625
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**38,119**	44,154
Payments for property, plant and equipment		**(373,990)**	(446,010)
Proceeds from sale and leaseback of plant and equipment		**5,976**	82,891
Payments for intangible assets		**(6,575)**	(1,421)
Receipts from/(payments for) investments		**4,027**	(3,948)
Proceeds from the sale of investments		**–**	7,962
Repayments from/(advances to) joint ventures		**1,261**	(3,201)
Proceeds from sale of businesses	27(d)	**129,192**	–
Payments for businesses acquired	26	**(1,000)**	–
Net cash used in investing activities		**(202,990)**	(319,573)
Cash flows from financing activities			
Net proceeds from issue of equity securities		**–**	270,185
Proceeds from borrowings		**2,320,430**	972,576
Repayments of borrowings		**(2,463,159)**	(1,148,133)
Proceeds from joint ventures		**4,000**	–
Dividends paid		**(10,998)**	(44,135)
Dividend paid to non-controlling interest		**(163)**	(138)
Net cash (used in)/inflow from financing activities		**(149,890)**	50,355
Net increase/(decrease) in cash and cash equivalents		**11,591**	(83,593)
Cash and cash equivalents at the beginning of the year		**282,232**	378,382
Effect of exchange rate changes		**2,866**	(12,557)
Cash and cash equivalents at the end of the year	28(a)	**296,689**	282,232

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 40 to 112.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

The Financial Report was authorised for issue by the Directors on 13 August 2012.

ROUNDING OF AMOUNTS

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

BASIS OF PREPARATION

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

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

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

APPLICATION OF CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

REVENUE RECOGNITION

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

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

In determining revenues and expenses for construction contracts, Management makes key assumptions regarding estimated revenues and expenses over the life of the contracts. Where contract variations are recognised in revenue, assumptions are made regarding the probability that customers will approve those contract variations and the amount of revenue arising from contract variations. In respect of costs, key assumptions regarding costs to complete contracts may include estimation of labour, technical costs, impact of delays and productivity. Changes in these estimation methods could have a material impact on the financial statements of Downer.

CAPITALISATION OF TENDER/BID COSTS

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

Judgement is exercised by Management in determining whether it is probable that the contract will be awarded. An error in judgement may result in capitalised tender/bid costs being recognised in the income statement in the following financial year.

KEY CONTRACTS AND SUPPLIERS

A number of contracts that Downer enters into are long-term contracts with recurring revenues but are terminable on short notice for convenience. There is a risk that such 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 may impact Downer's ability to complete projects and earn profits. In addition, there are particular suppliers with whom Downer has a long-term relationship that 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 purchases is dependent upon availability from suppliers in an international market. Management judgement is therefore required to estimate the impact of the loss of key contracts and suppliers on future earnings, supporting existing goodwill and intangible assets.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

WARATAH TRAIN PROJECT

A total provision of $440.0 million has previously been provided against the Waratah Train Project (WTP) based on an estimate to complete the contract. The provision was based on program design, manufacture, production and delivery schedules (the program) to complete the contract within the estimated provision.

The WTP team has continued to implement changes to the program over the past 12 months, which are summarised below. Importantly, as part of its planning for the delivery of trains, the WTP team continues to be required to estimate future events and make a number of assumptions in relation to the revised program.

The provision currently reflects the revised program (Master Program Schedule (MPS) 11) that provides for the production of trains in five distinct phases.

1. Trains 1 and 2 (in order of delivery from Changchun Railway Vehicles Company (CRC or China)) were delivered early in the project, without their full interiors and have been used as test trains. Train 1 has been returned to CRC to be retrofitted to the required standard and will be available for Practical Completion (PC) in late 2013. Train 2 completes its test train activities during August 2012 and will be returned to CRC before the end of 2012 for retrofit in similar timescales;

2. Trains 3 to 9 were part of a focused production plan for the initial trains that required significant additional work on the interior fit-out and related areas due to design related production issues, inadequate methods and processes in assembly. These trains were manufactured and delivered to the customer by December 2011 (consistent with the MPS10 schedule developed in June 2011);

3. Trains 10 to 14 were made to an initial configuration standard using new methods and processes to assist efficient production of the bodyshell and interior fit-out. These trains have been built with an improved level of quality compared to the initial trains, however still require some rework. Trains 10 and 11 were completed prior to the launch of new flow-line processes in Cardiff in February 2012 and delivered to the customer during April and May 2012 and subsequently achieved PC. Three train sets are currently within the production facility at Cardiff but being worked on a separate flow-line due to the higher levels of rework than following trains. The program schedule has been adjusted so that this work can be carried out at Cardiff efficiently without causing delay to the following trains;

4. Trains 15 to 40 are being built using a flow-line process that has been implemented in the interior fit-out shop in CRC. Continuing process and design improvements introduced progressively at Trains 15 and 24 have resulted in trains of a higher quality, with significantly reduced rework and with design changes as a result of testing and development included in the base build. These trains are then being completed at Cardiff on the new flow-lines that have been in place since February 2012. This has been operating at a four day TAKT time (the time which passes before each occasion that the flow-line is pulsed) since late May 2012 meaning that eight cars come out of production every eight business days. Train 24 has seen rework reduced to below that originally budgeted for in Cardiff for the first time in the project leading to reduced costs of manufacture. Also additional workforce has been applied to the workshops in CRC to deliver output of three trains per month from June 2012; and

5. Trains 41 to 78 are scheduled to be built with further process and design improvements for simpler assembly and higher quality of the passenger areas being progressively implemented at Trains 41 and 51. Further acceleration of the flow-lines in Cardiff to a three day TAKT time is being planned from Train 41 (in February 2013).

The program (MPS11) is targeting the following delivery milestones, which remain broadly within the parameters outlined in February 2011:

- Since 30 June 2011, 12 trains have been presented to RailCorp, received PC and are currently available for passenger service;
- The current delivery schedule provides for a further 11 trains (a total of 23 trains) by Christmas 2012; and
- The program initiatives still enable Train 78 to be delivered to RailCorp and enter passenger service before the end of FY2014.

Key assumptions underpinning the manufacturing program include:

- The successful acceleration to a three day cycle time from Train 41 in February 2013 in Cardiff;
- The program will recover the six weeks lag to schedule resulting from resource shortages in the early stages of flow-line implementation in Cardiff;
- Continued refinement of Lean Manufacturing initiatives in China (jointly with CRC) and Cardiff will continue to improve the quality and production rates evidenced by three trains being manufactured in each of June and July 2012 in CRC;
- Improved quality from CRC is maintained, which has already resulted in more efficient production rates and reduced labour hours at Cardiff;
- The continuing progressive implementation of process and component re-designs to achieve the estimated production rates required quality levels in the bodyshell and interior fit-out shops in China (VE programs);
- CRC continues to deploy the requisite number of resources to the interior fit-out shop in Changchun with the appropriate skill and experience to achieve the required productivity and quality in trains (significant resource increases were seen during May 2012 and these have remained allowing the increased outputs to be met in June and July 2012);
- All parties continue to honour their contractual obligations;
- That RailCorp and Reliance Rail continue to adopt a reasonable industry approach to the acceptance of trains for passenger service through the manufacture phase of the WTP (including supporting documentation) and the required track access will be made available to allow the project to achieve reliability and growth targets;

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

WARATAH TRAIN PROJECT – CONTINUED

- That the majority of monies held in the Manufacturing Delay Account (MDA) are paid to Downer upon achievement of contracted milestones, and that interest that accrues on the MDA is to be paid when Train 78 is delivered to Reliance Rail, together with the balance of the MDA ($12.5 million) that will be retained in the MDA to meet Downer's contingency funding obligation until 2018 as part of the Reliance Rail restructure. MDA interest receivable in the Forecast Cost At Completion (FCAC) assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature from September 2012 with an APRA regulated financial institution; and
- An accelerated delivery cadence continues to be accepted by RailCorp.

The FCAC includes a general contingency of ~ $64 million and provides for liquidated damages (LDs) in line with the revised delivery program with no specific contingency for LDs.

Cost Category	Dec 11 Estimate $m	Change $m	Jun 12 Estimate $m
Materials and Sub-Contracted Components	1,047	6	1,053
Labour	303	22	325
Engineering Services	156	–	156
Transport, Logistics and Procurement	164	2	166
Project Management	136	1	137
Insurance, Bonding and Finance	59	(4)	55
Forecast Liquidated Damages (LDs)	170	5	175
Manufacturing Delay Account (MDA) interest receivable	(104)	3	(101)
Other Costs	85	3	88
General Contingency	70	(6)	64
Total FCAC	**2,086**	**32**	**2,118**
Revenue	**1,656**	**32**	**1,688**
FCAC (Loss)	**(430)**	**–**	**(430)**

MATERIALS AND SUB-CONTRACTED COMPONENT

This cost category represents approximately 50 per cent of the total FCAC and is largely contracted and committed.

The materials forecast reflects the following assumptions:

- Current yield and scrap rates based upon experience contained within the existing bill of material (BOM) and based upon the initial history of the build through 26 completed trains from CRC. For example, the BOM assumes a 20 per cent loss on stainless steel while cutting, due to scrappage;
- Estimated costs of materials obsolescence based upon known engineering changes and other design changes and design faults;
- No specific allowance has been made for variation to these yield assumptions, obsolete parts or materials associated with future engineering changes or potential improvements to the yield associated with value engineering proposed to be undertaken; and
- It is assumed that any materials obsolescence associated with value engineering (or investments in supplier tooling) will be offset by additional savings in manufacturing cost reductions from Cardiff.

The WTP team has implemented a number of specific business control programs during the year to address key risks across a number of the major materials categories. These programs are largely designed to address risks with Glass Reinforced Plastic (GRP) (and associated rework programs), stainless steel and flooring. The impact of these areas remains a work in progress and represent some additional risk to the total materials cost, although these cost risks are considered to be adequately offset by opportunities for reduction in the cost of Jointly Procured Materials (JPM) items managed with CRC.

The FCAC assumes that all current suppliers remain solvent over the remaining build contract duration and that there are no latent defects or quality issues in any parts or designs provided. Should any latent defects manifest through the build or testing phase, it is assumed that they will be rectified at the supplier's cost with no significant delays to the manufacturing schedule. Where the WTP team has identified suppliers with inherent risks in quality, secondary sourcing strategies to address the supply chain and cost risks have been implemented. These costs have been included as risks and opportunities within the materials management plan of the FCAC.

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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

MATERIALS AND SUB-CONTRACTED COMPONENT – CONTINUED

While Downer currently has a potential right of recovery of LDs 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 LDs 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. CRC has committed to maintain the increased labour undertaking within the interior fit-out shop to allow them to meet the agreed cadence and delivery dates and will continue to satisfy their obligations.

The FCAC includes a Cardiff labour allowance for the significant rework of Trains 1 to 23 at Cardiff and minor levels of rework thereafter to Train 78. In making the estimates for rework, the experience of the trains built to date has been taken into consideration, as well as a clearly defined process of signing-off rework requirements before trains depart Changchun for Australia. In addition, the expected productivity benefits derived from an assumed learning curve (derived from the learning curve experienced on past passenger train builds) have been applied. Similar learning curve assumptions have been factored into the labour productivity assumptions for the original Cardiff scope of work.

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

Labour cost forecasts have increased by $22.0 million since December 2011 to reflect additional costs associated with the implementation and embedding of the new four stage, four stations flow-line, increased utilisation of the Cardiff facility to meet the revised MPS11 delivery schedule, and the removal of previously identified manpower stretch targets. A "controlled build" was carried out on Train 17 whereby every task was timed precisely to allow cost estimates for the remainder of the build to be estimated more accurately. This has also identified efficiencies in the flow-line process to prevent further cost increases and has allowed a more cost-effective build to be implemented from Train 24 onwards. The labour cost for the remainder of the build is therefore now seen to be more accurate based on actual consideration of work as opposed to estimates.

ENGINEERING SERVICES

This category includes the cost of the initial train design, testing and commissioning throughout the program and the proposed manufacturability assessment and redesign to improve vehicle components and assembly. The FCAC assumes that the Engineering resource reduces during the program as the trains reach a steady state of production and delivery. The FCAC does not provide for any significant delays in the program due to failures in service that require substantial engineering redesign. In addition to these labour costs, the Engineering Services FCAC includes a $7.5 million provision for an estimated weight penalty.

TRANSPORT, LOGISTICS AND PROCUREMENT

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

The FCAC provides for the transport of all trains from China to Australia with allowances for single or double shipments where expected. All trains and warehoused materials are insured for direct loss.

The FCAC provides for the customs duty expected to be incurred on importation of dutiable materials into Australia at a rate of five per cent.

Since December 2011, the FCAC cost has been increased by $2.0 million and includes the cost of returning Trains 1 and 2 to CRC for fit-out and return to Australia.

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 trains reach a steady state of production and delivery. The FCAC has provided for the expected future cost of international travel to China, consultants, external accounting services and legal costs associated with the normal operation of the program. These costs have been determined by reference to historical experience, stage of the project and have been indexed for expected inflation.

Since December 2011, the FCAC cost has been increased by $1.0 million to reflect additional senior resources to support production in China and the flow-line at Cardiff.

INSURANCE, BONDING AND FINANCE

This includes the actual costs incurred to insure property, liability and people for the full duration of the program. This insurance cost was fully contracted at inception of the program and costs associated with the extension of the Rolling Stock Manufacture (RSM) phase insurance resulted in a $1.0 million reduction in cost. The cost of bonding reflected in the FCAC assumes a market rate being applied to the outstanding bond value through to completion of the project and that existing committed bonding facilities will be rolled on substantially similar terms to those in place at 30 June 2012. Financing costs also include the cost of hedging the foreign exchange risk associated with foreign denominated costs included within the FCAC.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

INSURANCE, BONDING AND FINANCE– CONTINUED

In February 2012 a series of foreign currency hedges were put in place which substantially covered the risk relating to USD, Euro, CNY and KRW. The foreign currency equivalent of $54.5 million remained unhedged at 30 June 2012.

Since December 2011, the FCAC cost has been decreased by $4.0 million reflecting close management of these financial costs.

FORECAST LIQUIDATED DAMAGES (LDs)

Forecast LDs are based on a formula that broadly approximates to $200,000 per train per month the train is not in service. While 78 trains are being manufactured under the project, only 72 trains are required to be in passenger service, so LDs are only payable against 72 trains.

The 'initial recovery phase' program had an adverse impact on the program schedule in the second half of FY2012. However, the current program takes this into account, as well as the increased production rate by CRC and the new processes implemented at Cardiff. The delay extends partially through the year with a corresponding increase in LDs of $5.0 million since December 2011.

The projected LDs of $175.0 million represent an approximate delay of 13 months for every train to be delivered, which is consistent with the entry into passenger service of the first train in June 2011, compared to the original contract delivery date of April 2010 (after allowing for the three month grace period). Forecast LDs assume a relaxation of the delivery cadence between trains which has been progressively demonstrated over the acceptance process between the third and fourth trains and again between the fifth and sixth trains. There is now an understanding with RailCorp and the Transport for NSW that supports the intent to accelerate the rate at which trains are accepted into service and discussions will continue on this going forward.

The FCAC no longer includes a specific contingency for additional LDs. Any program slippage against MPS11 beyond June 2014 will be required to be funded from the general contingency.

MANUFACTURING DELAY ACCOUNT (MDA)

The MDA reflects the contractual arrangement between Downer, the RSM and Reliance Rail under which milestone payments are paid to Downer in accordance with the actual delivery schedule achieved. To the extent that monies are not paid to Downer due to late delivery and/or missed performance milestones, monies are held by Reliance Rail in the MDA. Monies held in the MDA are paid to Downer upon achievement of contract milestones. Interest, which accrues on the MDA, is to be paid to Downer when Train 78 is delivered to Reliance Rail, together with the balance of the MDA. MDA interest receivable has been shown as a cost offset in the FCAC. This estimate assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature. At 31 December 2011, the FCAC position was restated to anticipate MDA interest based upon a combination of actual deposit rates of 4.5 per cent achieved by Reliance Rail and anticipated longer term deposits for cash balances in excess of six monthly cash requirements of the project at 5.2 per cent from 1 April 2012. At June 2012, the impact of the delays implementing an appropriate investment strategy and the effect of reduced interest rates has had a negative impact on the FCAC position by $3.0 million.

GENERAL CONTINGENCY

A general contingency of $64.0 million is included in the FCAC to cover unforeseen events or cost variations that may arise over the life of the program.

The remaining contingency has been positively impacted by the recognition of the settlement and recovery of contract variation claims and disputes with Reliance Rail and RailCorp included within revenue on the FCAC. The FCAC discussed above does not rely on any recovery from claims submitted or other commercial actions which may be available to Downer from suppliers.

Sensitivity analysis indicates that if the project experiences incremental delays beyond September 2014 and the cost of that could not be abated, further provision would be required.

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

RELIANCE RAIL

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

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

The RSM contract has been subcontracted to an unincorporated joint venture between Downer EDI Rail Pty Ltd and Hitachi Limited (RSM Joint Venture).

The total funding raised by Reliance Rail to deliver the WTP is approximately $2.4 billion. The majority of this funding ($1.9 billion) was raised via senior and junior ranking bonds in December 2006, plus equity contributions of $137.0 million. The bonds are guaranteed by two specialist financial guarantors, FGIC (UK) Ltd and Syncora Guarantee Inc (monoline insurers). These funds were placed on deposit and are being progressively released to meet ongoing project costs and expenses as milestones under the contracts are achieved.

The balance of the funding is a $357.0 million senior, secured committed bank debt facility (Bank Facility), which was raised in December 2006, with scheduled drawdowns over 18 months which commenced in February 2012. Since February 2012 (until September 2013), Reliance Rail has lodged six drawdown notices and the banks have funded $173.9 million of the Bank Facility. Access to the balance of the Bank Facility remains subject to Reliance Rail's directors continuing to lodge drawdown notices over the next 12 months and the banks providing funding in line with their commitments.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

RELIANCE RAIL – CONTINUED

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

Reliance Rail's funding arrangements are on a non-recourse basis to Downer and except as set out in Note 15. Downer is not obliged to provide further equity to Reliance Rail.

On 6 February 2012, the New South Wales Government announced it had agreed to invest $175.0 million in 2018 in Reliance Rail in return for 100 per cent of the equity, subject to certain conditions precedent being achieved. The restructure was implemented to provide greater certainty that Reliance Rail would be able to refinance its various facilities in 2018 and for the repayment of the Bank Facility; factors which the Directors of Reliance Rail are required to take into consideration when resolving to lodge Bank Facility drawdown notices.

As a result of the restructure of Reliance Rail, Downer has transferred the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. This transfer, which is an Individually Significant Item (refer Note 4), has had no impact on cash, equity, net assets or underlying earnings but has negatively impacted full year statutory earnings.

To further enhance the refinancing of Reliance Rail in 2018, further discussions involving Reliance Rail's financiers are taking place and if successful would likely remove the termination right in the event of the insolvency of the monoline insurers.

It is the current view of Downer that Reliance Rail will continue as the operating entity of the WTP contract.

Management has considered the case that the WTP is terminated and has estimated, based on commercial judgement, including sub-contractors, suppliers and Reliance Rail, the financial consequences for Downer as:

- A pre-tax accounting loss of between $450 and $500 million; and
- A negative cash impact of between $300 and $320 million, which would be payable over several years as sub-contractor and supplier claims are resolved.

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

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

- The RSM Contract is terminated and no further delivery of trains is required by RailCorp;
- The RSM ceases to manufacture trains and ceases testing and commissioning activities;
- Approximately 40 per cent of all currently committed purchase orders could be mitigated by suppliers;
- All current Work In Progress (WIP) and future payments to suppliers (approximately 60 per cent of current committed purchase orders) will be written off assuming no recoveries;
- No provision has been made for redundancy costs on the assumption that all permanent staff will be redeployed;
- All foreign exchange contracts are closed out at current market rates;
- All performance bonds issued to Reliance Rail are returned to Downer;
- No additional contract "break costs" are incurred as key suppliers are assumed to take all reasonable steps to mitigate their losses; and
- Other project termination costs are in accordance with normal business practices.

The estimated profit and cash flow impacts on Downer of a termination of the WTP are such that Downer would likely breach a number of its debt financial covenants which, as is common in banking agreements, could result in Downer's debt facilities becoming repayable on demand.

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

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

The financial report has been prepared on the basis that the Group is a going concern, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. As a result of the above, no adjustments have been made to the financial report relating to the recoverability and classification of assets or liabilities.

IMPAIRMENT OF ASSETS

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis or whenever there is an indication of impairment. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. The Group uses the higher of fair value less costs to sell, and value in use to determine recoverable amount. An impairment loss of $18.0 million (2011: $16.6 million) was recognised in the current year in respect of goodwill related to the Downer Asia ($9.3 million) and CPG Australia ($8.7 million) following an assessment of the future performance of those businesses. Key assumptions requiring Management's judgement include projected cash flows, growth rate estimates, discount rates, gross margin, working capital and capital expenditure.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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 State Government bonds at balance date that most closely match the terms of maturity of the related liabilities.

RECOVERY OF DEFERRED TAX ASSETS

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

INCOME TAXES

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

ENVIRONMENTAL RISK AND REGULATION

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

CARBON TAX

The *Clean Energy Act 2001* containing a Carbon price mechanism commenced operations in July 2012:

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been consistently applied in preparing the Financial Report for the year ended 30 June 2012, as well as the comparative information presented in these financial statements.

PRINCIPLES OF CONSOLIDATION

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

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

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and the statement of financial position respectively. The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the statement of comprehensive income.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

REVENUE RECOGNITION

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

RENDERING OF SERVICES

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

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

MINING SERVICES CONTRACTS

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

CONSTRUCTION CONTRACTS

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

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

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

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

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

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

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

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

SALE OF GOODS

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

OTHER REVENUE

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

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

OTHER REVENUE – CONTINUED

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

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

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

FINANCE AND BORROWING COSTS

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

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

GOODS AND SERVICES TAX

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

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

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

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

INCOME TAX

CURRENT TAX

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

DEFERRED TAX

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

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

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

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

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

CURRENT AND DEFERRED TAX FOR THE YEAR

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

TAX CONSOLIDATION

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

CASH AND CASH EQUIVALENTS

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

RECEIVABLES

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

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

INVENTORIES

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

FINANCIAL ASSETS

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

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

INVESTMENT IN ASSOCIATES

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

LOANS AND RECEIVABLES

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

FAIR VALUE THROUGH PROFIT AND LOSS INVESTMENTS

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

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

JOINT VENTURES

JOINTLY CONTROLLED ASSETS AND OPERATIONS

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

JOINTLY CONTROLLED ENTITIES

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is provided on property, plant and equipment, including freehold buildings, but excluding land. Depreciation is calculated on a basis to recognise the net cost of each asset over its expected useful life to its estimated residual value. The basis of depreciation is determined after assessing the nature of the productive capacity of the asset and may include straight line, diminishing value and units of production (including hours of use) methodologies. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

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

– Buildings	20 – 30 years
– Plant and equipment	3 – 25 years
– Equipment under finance lease	5 – 15 years

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

LEASES

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

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

FINANCE LEASES

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

OPERATING LEASES

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

INTANGIBLE ASSETS

GOODWILL

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

INTELLECTUAL PROPERTY

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

SOFTWARE

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

AMORTISATION

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

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

IMPAIRMENT OF ASSETS

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

PAYABLES

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

BORROWINGS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

FAIR VALUE HEDGES

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

CASH FLOW HEDGES

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

EMBEDDED DERIVATIVES

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

EMPLOYEE BENEFITS

Liabilities are incurred for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, redundancy and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities incurred in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities incurred in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be paid by the consolidated entity in respect of services provided by employees up to reporting date. Contributions to defined contribution superannuation plans are expensed when incurred.

BONUS PLANS

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

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

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

PROVISIONS

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

DECOMMISSIONING AND RESTORATION

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

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

WARRANTY

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

ONEROUS CONTRACT

A provision for an onerous contract is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under that contract, and only after impairment losses to assets dedicated to that contract have been recognised.

The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date of national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payment where the effect of discounting is material.

FOREIGN CURRENCY

FOREIGN CURRENCY TRANSACTIONS

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

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

FOREIGN OPERATIONS

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

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

FINANCIAL INSTRUMENTS

DEBT AND EQUITY INSTRUMENTS

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

TRANSACTION COSTS ON THE ISSUE OF EQUITY INSTRUMENTS

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

INTEREST AND DIVIDENDS

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

DIVIDENDS

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

SHARE-BASED TRANSACTIONS

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

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

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

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

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

SHARE CAPITAL

ORDINARY SHARES

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

TREASURY SHARES

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

ACCOUNTING FOR FINANCIAL GUARANTEE CONTRACTS

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

EARNINGS PER SHARE (EPS)

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

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

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

OPERATING SEGMENTS

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

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 124 Related Party Disclosures (2009), AASB 2009-12 Amendments to Australian Accounting Standards* effective for annual reporting periods beginning on or after 1 January 2011;
- *AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* effective for annual reporting periods beginning on or after 1 January 2011; and
- *AASB 2010-5 Amendments to Australian Accounting Standards* effective for annual reporting periods beginning on or after 1 January 2011.

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

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

- *AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2013;
- *AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2015;
- *AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* effective for annual periods beginning on or after 1 January 2012;
- *AASB 10 Consolidated Financial Statements* effective 1 January 2013;
- *AASB 11 Joint Arrangements* effective 1 January 2013;
- *AASB 12 Disclosure of Interest in Other Entities* effective 1 January 2013;
- *AASB 13 Fair Value Measurement and related AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 119 Employee Benefits* effective 1 January 2013;
- *AASB 127 Consolidated and Separate Financial Statements* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 128 Investments in Associates and Joint Ventures* effective 1 January 2013;
- *AASB 2011-4 Amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements* effective 1 January 2013;
- *AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements* effective for annual periods beginning on or after 1 January 2013; and
- *AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* effective 1 July 2012.

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 a combination of 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.

Downer Australia: Downer Australia is the combination of several cash-generating units, generally across geographical groupings. Downer Australia provides a full suite of engineering, construction and project management services in the public and private infrastructure industries. The industries in which Downer Australia are involved include construction, road and rail infrastructure, power systems including transmission lines and renewable energy, asphalt, mining and materials handling, minerals processing, communication networks and water treatment and management.

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

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 as well as importing and commissioning of completed locomotives units for use in the resources sector.

Downer New Zealand: Provides essential services for the construction, development, management and maintenance of road and rail assets in the public and private sectors. Providing utility services such as groundworks for power, open space and facilities management, infrastructure management including airport runways and wharves, gas and telecommunications, and construction and maintenance of water supply and wastewater treatment.

Consulting: Provides project management and other engineering services throughout Australia and New Zealand.

ACCOUNTING POLICIES AND INTER-SEGMENT TRANSACTIONS

The accounting policies used by the Group in reporting segments internally are the same as the Group accounting policies contained in Note 1.

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

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

CURRENT YEAR

(a) In the current year, the Group recognised $72.5 million pre-tax derecognition of hedge reserve relating to Reliance Rail, $33.6 million pre-tax profit on CPG Asia disposal, $18.0 million pre-tax impairment of goodwill, $20.0 million pre-tax provision referrable to Singapore Tunnel dispute and $5.3 million pre-tax provision referrable to Stephen Gillies' litigation that are not included in the measure of segment profit and loss. The details of the provision charge and impairment of assets are separately disclosed as "Individually significant items" in the consolidated income statement and as discussed in Note 4;

(b) Interest income and finance cost;

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

(d) Income tax expense.

PRIOR YEAR

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

NOTE 2. SEGMENT INFORMATION – CONTINUED

INFORMATION ABOUT MAJOR CUSTOMERS

Included in the Group's revenues are sales arising from the Group's largest customer. These are related to the following revenue categories:

	2012 $'000
Rendering of services	**45,168**
Mining services	**780,743**
	825,911

The above customer did not contribute 10 per cent or more to the Group's revenue in the prior year and no other single customer contributed 10 per cent or more to the Group's revenue for the years ended 30 June 2012 or 30 June 2011.

	Total revenue(i)		Share of sales revenue in joint venture entities and associates		Total revenue including joint ventures and associates	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Continuing operations by business segment						
Downer Australia	**3,485,517**	3,167,187	**177,541**	56,807	**3,663,058**	3,223,994
Mining	**2,388,680**	1,391,666	**72,411**	74,154	**2,461,091**	1,465,820
Rail	**1,088,676**	944,328	**195,718**	181,989	**1,284,394**	1,126,317
Downer New Zealand	**913,124**	873,877	**6,503**	5,304	**919,627**	879,181
Consulting	**53,505**	57,392	**–**	–	**53,505**	57,392
Inter-segment sales	**(9,414)**	(9,885)	**–**	–	**(9,414)**	(9,885)
Subtotal	**7,920,088**	6,424,565	**452,173**	318,254	**8,372,261**	6,742,819
Unallocated	**378**	17,646	**–**	–	**378**	17,646
Total – continuing operations	**7,920,466**	6,442,211	**452,173**	318,254	**8,372,639**	6,760,465
Discontinued operations						
CPG Asia	**150,867**	199,636	**1,063**	823	**151,930**	200,459
Total – including discontinued operations	**8,071,333**	6,641,847	**453,236**	319,077	**8,524,569**	6,960,924

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

NOTE 2. SEGMENT INFORMATION – CONTINUED

	Note	Segment results 2012 $'000	2011 $'000
Continuing operations by business segment			
Downer Australia		**150,704**	109,063
Mining		**173,505**	119,578
Rail		**76,377**	75,034
Downer New Zealand		**29,620**	11,019
Consulting		**(7,395)**	(15,915)
Total reported segment result		**422,811**	298,779
Unallocated:			
Provision for Waratah Train Project		**–**	(250,000)
Other		**(161,609)**	(45,131)
Total unallocated		**(161,609)**	(295,131)
Interest revenue	3(c)	**10,746**	14,107
Interest expense	3(c)	**(82,257)**	(78,405)
Net interest expense		**(71,511)**	(64,298)
Profit/(loss) before income tax from continuing operations		**189,691**	(60,650)
Income tax (expense)/benefit	5	**(82,176)**	14,368
Net profit/(loss) after tax from continuing operations		**107,515**	(46,282)
Discontinued operations			
Reported result – CPG Asia		**3,002**	22,015
Net interest expense		**(20)**	(11)
Profit before income tax from discontinued operations	27	**2,982**	22,004
Income tax benefit/(expense)	27	**2,398**	(3,422)
Net profit after tax from discontinued operations	27	**5,380**	18,582
Total net profit/(loss) after tax		**112,895**	(27,700)

NOTE 2. SEGMENT INFORMATION – CONTINUED

		Segment results	
	Note	2012 $'000	2011 $'000
Reconciliation of segment net operating profit from continuing operations to net profit/(loss) after tax from continuing operations:			
Segment net operating profit from continuing operations		**422,811**	298,779
Unallocated:			
Individually significant items:			
Derecognition of hedge reserve relating to Reliance Rail	4	**(72,540)**	–
CPG Asia net profit on disposal	4	**33,585**	–
Impairment of goodwill	4	**(18,000)**	(9,770)
Provision referrable to Singapore Tunnel dispute	4	**(20,000)**	–
Provision referrable to Stephen Gillies' litigation	4	**(5,324)**	–
Provision for Waratah Train Project	4	**–**	(250,000)
Impairment of assets	4	**–**	(6,803)
Total individually significant items		**(82,279)**	(266,573)
Gain on property sales		**–**	4,050
(Provision)/Settlement for customer contracts		**(6,086)**	13,166
Restructuring costs		**(2,229)**	(6,894)
Corporate costs		**(71,015)**	(38,880)
Total unallocated		**(161,609)**	(295,131)
Earnings before interest and tax		**261,202**	3,648
Interest income	3(c)	**10,746**	14,107
Interest expense	3(c)	**(82,257)**	(78,405)
Total profit/(loss) before income tax from continuing operations		**189,691**	(60,650)
Income tax (expense)/benefit	5	**(82,176)**	14,368
Total net profit/(loss) after tax from continuing operations		**107,515**	(46,282)

NOTE 2. SEGMENT INFORMATION – CONTINUED

	Segment assets		Segment liabilities		Carrying value of equity-accounted investments	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
By business segment						
Downer Australia	**1,345,969**	1,297,792	**673,337**	572,449	**14,862**	10,665
Mining	**1,365,969**	1,013,383	**588,724**	427,753	**10,254**	11
Rail	**932,556**	786,784	**467,782**	404,309	**33,398**	20,649
Downer New Zealand	**324,030**	345,740	**261,820**	261,103	**2,379**	2,094
Consulting	**28,220**	181,982	**10,616**	44,357	**–**	3,935
Total	**3,996,744**	3,625,681	**2,002,279**	1,709,971	**60,893**	37,354
Unallocated	**114,598**	84,985	**491,363**	558,310	**–**	–
Total	**4,111,342**	3,710,666	**2,493,642**	2,268,281	**60,893**	37,354

	Share of net profit of equity-accounted investments		Depreciation and amortisation		Acquisition of segment assets	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Continuing operations by business segment						
Downer Australia	**16,039**	7,290	**44,871**	48,094	**49,996**	61,630
Mining	**16,389**	9,948	**165,460**	123,239	**314,653**	410,726
Rail	**12,804**	8,337	**7,598**	5,393	**11,655**	18,049
Downer New Zealand	**621**	536	**21,930**	23,508	**16,238**	12,796
Consulting	**–**	–	**1,945**	2,639	**319**	5,813
Total	**45,853**	26,111	**241,804**	202,873	**392,861**	509,014
Unallocated	**–**	–	**4,191**	5,599	**12,663**	2,381
Total – continuing operations	**45,853**	26,111	**245,995**	208,472	**405,524**	511,395
Discontinued operations						
CPG Asia	**383**	284	**1,173**	2,022	**905**	1,400
Total – including discontinued operations	**46,236**	26,395	**247,168**	210,494	**406,429**	512,795

NOTE 2. SEGMENT INFORMATION – CONTINUED

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

	Total revenue[i]		Segment assets		Acquisition of segment assets	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
By geographic locations Continuing operations						
Australia	**6,889,317**	5,429,130	**3,649,898**	3,063,976	**383,165**	495,558
Pacific	**940,282**	878,484	**406,933**	434,461	**16,339**	12,928
North East Asia	**–**	–	**31**	47	**–**	–
South East Asia	**23,779**	56,802	**17,927**	34,953	**760**	432
Other	**67,088**	77,795	**36,553**	37,935	**5,260**	2,477
Total – continuing operations	**7,920,466**	6,442,211	**4,111,342**	3,571,372	**405,524**	511,395
Discontinued operations						
North East Asia	**5,641**	9,476	**–**	11,239	**–**	–
South East Asia	**142,751**	188,063	**–**	125,366	**905**	1,400
Other	**2,475**	2,097	**–**	2,689	**–**	–
Total – including discontinued operations	**8,071,333**	6,641,847	**4,111,342**	3,710,666	**406,429**	512,795

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

NOTE 3. PROFIT FROM ORDINARY ACTIVITIES – CONTINUING OPERATIONS

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
a) Revenue			
Sales revenue			
Rendering of services		**4,127,711**	3,789,397
Mining services		**2,351,195**	1,364,048
Construction contracts		**1,162,168**	1,041,117
Sale of goods		**262,832**	214,324
Other revenue			
Other revenue		**2,938**	16,761
Rental income		**8,565**	7,655
Dividends			
Other entities		**4**	247
		7,915,413	6,433,549
Other income			
Net gain on disposal of property, plant and equipment		**5,053**	8,490
Net foreign exchange gains		**–**	172
Total other income		**5,053**	8,662
Total revenue and other income		**7,920,466**	6,442,211
Share of sales revenue from joint venture entities and associates	2	**452,173**	318,254
Total revenue including joint ventures and associates and other income		**8,372,639**	6,760,465

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

		Consolidated	
	Note	2012 $'000	2011 $'000
b) Operating expenses			
Cost of goods sold		**201,673**	165,451
Net foreign exchange losses		**1,113**	–
Net loss on disposal of business		**–**	441
Depreciation and amortisation of non-current assets:			
– Plant and equipment	16	**220,542**	194,804
– Buildings	16	**2,319**	2,425
– Amortisation of leased assets	16	**17,079**	8,795
Total depreciation		**239,940**	206,024
Amortisation of intellectual property/software	17	**6,055**	2,448
Total depreciation and amortisation		**245,995**	208,472
Doubtful debts		**3,316**	2,164
Operating lease expenses relating to land and buildings		**66,376**	60,970
Operating lease expenses relating to plant and equipment		**245,137**	163,660
Total operating lease expenses		**311,513**	224,630
Employee benefits expense:			
– Defined contribution plans		**152,422**	114,937
– Share-based transactions		**2,154**	4,596
– Employee benefits		**2,556,756**	2,041,777
Total employee benefits expense		**2,711,332**	2,161,310
(Gain) arising on derivatives in a designated fair value hedge accounting relationship		**(419)**	(732)
Loss arising on adjustment to hedged item in a designated fair value hedge accounting relationship		**409**	508
		(10)	(224)
c) Finance income and costs			
Finance income			
Interest income	2	**10,746**	14,107
Finance costs			
Finance costs on liabilities carried at amortised cost:			
– Interest expense		**74,875**	73,628
– Finance lease expense		**7,382**	4,777
Total interest and finance lease expense	2	**82,257**	78,405

NOTE 4. INDIVIDUALLY SIGNIFICANT ITEMS

		Consolidated	
	Note	2012 $'000	2011 $'000
The following material items are relevant to an understanding of the Group's financial performance:			
– Derecognition of hedge reserve relating to Reliance Rail	25	**72,540**	–
– CPG Asia net profit on disposal	27(c)	**(33,585)**	–
– Impairment of goodwill	17	**18,000**	9,770
– Provision referrable to Singapore Tunnel dispute		**20,000**	–
– Provision referrable to Stephen Gillies' litigation		**5,324**	–
– Provision for Waratah Train Project		**–**	250,000
– Impairment of assets		**–**	6,803
		82,279	266,573

DERECOGNITION OF HEDGE RESERVE RELATING TO RELIANCE RAIL

As at 30 June 2011, the hedge reserve included a debit balance of $73.8 million representing the equity-accounted share of the historical movements of Reliance Rail's hedge reserve. The hedge reserve was being amortised on a straight line basis over 30 years, being the contracted term of the Waratah Public-Private Partnership (PPP) Through-Life Support (TLS) contract.

As a result of the Reliance Rail restructure announced to the ASX on 6 February 2012, Downer transferred the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. Amortisation in the current year of $1.3 million is reflected as an expense in the income statement (refer Note 1).

CPG ASIA NET PROFIT ON DISPOSAL

On 14 December 2011, the Group announced it had signed a Share Sale Agreement with China Architecture Design and Research Group (CAG) to sell the CPG Asia business for $147.0 million. The sale of CPG Asia was completed on 30 April 2012 with a pre-tax profit of $33.6 million recognised during the financial year. The details of the disposal are separately disclosed in Note 27.

IMPAIRMENT OF GOODWILL AND ASSETS

As required by Accounting Standards, the Group undertook an assessment of the carrying value of assets, having regard to the current and future operating performance of a number of businesses. As a result of this assessment, Management identified impairments of goodwill relating to Downer Asia and CPG Australia totalling $18.0 million (2011: $16.6 million impairments of goodwill and assets relating to Works UK and CPG New Zealand).

DOWNER ASIA

The Downer Asia business has not performed to the expectations of the Group, as a consequence of increased competition from other Asian contractors who have commenced operations in Singapore and has not secured sufficient future work to support the value of the carrying goodwill in the business. Management has decided to impair goodwill of Downer Asia by $9.3 million.

CONSULTING – CPG AUSTRALIA

The CPG business in Australia has underperformed as a result of challenging economic conditions and scarcity of work to support its operational and overhead structure. Management has decided to impair goodwill of CPG Australia by $8.7 million.

PROVISION REFERRABLE TO SINGAPORE TUNNEL DISPUTE

Note 30 details a dispute with SP PowerAssets Ltd (SPP) in relation to the construction of an electrical services tunnel in Singapore. The Group is currently awaiting the outcome of arbitration proceedings and a High Court action.

The Group is defending the arbitration, however it is attempting to reach a commercial settlement with SPP. A provision of $20.0 million was taken during the year to cover settlement outcomes in relation to this claim. The Directors are of the view that disclosing of any further information related to this claim would be prejudicial to the interests of the Group.

PROVISION REFERRABLE TO STEPHEN GILLIES' LITIGATION

Former Managing Director Stephen Gillies received an initial award from the New South Wales Supreme Court in the sum of $7.8 million including costs ($5.3 million) and interest ($2.5 million). An appeal by the Group was heard by the Court of Appeal in May 2012 and a decision is pending.

NOTE 5. INCOME TAX – CONTINUING OPERATIONS

	Consolidated 2012 $'000	Consolidated 2011 $'000
a) Income tax recognised in the income statement		
Tax expense/(benefit) comprises:		
Current tax expense/(benefit)	**29,053**	(28,551)
Deferred tax expense relating to the origination and reversal of temporary differences	**53,123**	14,183
Total tax expense/(benefit)	**82,176**	(14,368)
The prima facie income tax expense/(benefit) on pre-tax accounting profit reconciles to the income tax expense/(benefit) in the financial statements as follows:		
Profit/(loss) before income tax	**189,691**	(60,650)
Group income tax expense/(benefit) calculated at 30 per cent of operating profit/(loss)	**56,907**	(18,195)
– Amortisation of intangible assets	**87**	73
– Non-taxable gains	**(10,080)**	(545)
– Exempt income	**–**	(528)
– Non-deductible expenses	**1,721**	343
– Effect of different rates of tax on overseas income	**(655)**	(2,662)
– Research and development	**(3,892)**	(2,130)
– Effect of unrecognised temporary differences	**2,960**	3,407
– Impairment of goodwill and derecognition of hedge reserve	**27,168**	2,930
– Other items	**5,490**	3,155
	79,706	(14,152)
Under/(over) provision of income tax in previous year	**2,470**	(216)
Income tax expense/(benefit) attributable to profit	**82,176**	(14,368)

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

	Consolidated 2012 $'000	Consolidated 2011 $'000
b) Income tax recognised directly in other comprehensive income		
The following deferred tax amounts were charged directly to equity during the year:		
Deferred tax		
– share issue expenses	**–**	3,130
– share-based costs	**(3,214)**	3,366
Revaluations of financial instruments treated as:		
– cash flow hedges	**3,079**	(1,672)
– available for sale reserve	**–**	(617)
Total deferred tax charged to equity	**(135)**	4,207

NOTE 6. REMUNERATION OF AUDITORS

	Consolidated 2012 $	Consolidated 2011 $
Audit or review of financial reports:		
Auditor of the parent entity	**2,928,257**	2,780,516
Related practice of the parent entity auditor	**668,663**	733,824
	3,596,920	3,514,340
Non-audit services:		
Tax services	**252,225**	228,372
Audit related services	**70,000**	73,474
CPG Asia sale due diligence and other non-audit services(i)	**1,186,205**	810,694
	1,508,430	1,112,540

The auditor of the Group is Deloitte Touche Tohmatsu.

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

NOTE 7. EARNINGS PER SHARE

	2012 Cents per share	2011 Cents per share
Basic earnings/(loss) per share (EPS)		
– Continuing operations	**22.5**	(15.5)
– Discontinued operations	**1.2**	5.0
	23.7	(10.5)

	Continuing operations	Discontinued operations (Note 27)
2012		
Profit attributable to members of the parent entity ($'000)	**107,504**	**5,262**
Adjustment to reflect ROADS dividends paid ($'000)	**(10,998)**	**–**
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**96,506**	**5,262**
Weighted average number of ordinary shares (WANOS) on issue (000's)	**429,100**	**429,100**
Earnings per share (cents per share)	**22.5**	**1.2**
2011		
(Loss)/profit attributable to members of the parent entity ($'000)	(46,219)	18,376
Adjustment to reflect ROADS dividends paid ($'000)	(10,392)	–
(Loss)/profit attributable to members of the parent entity used in calculating EPS ($'000)	(56,611)	18,376
Weighted average number of ordinary shares (WANOS) on issue (000's)	365,448	365,448
(Loss)/earnings per share (cents per share)	(15.5)	5.0

NOTE 7. EARNINGS PER SHARE – CONTINUED

	2012 Cents per share	2011 Cents per share
Diluted earnings/(loss) per share (EPS)		
– Continuing operations	**22.4**	(15.5)
– Discontinued operations	**1.1**	5.0
	23.5	(10.5)

	Continuing operations	Discontinued operations (Note 27)
2012		
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**107,504**	**5,262**
Weighted average number of ordinary shares (WANOS) on issue (000's)	**429,100**	**429,100**
WANOS adjustment to reflect potential dilution for ROADS (000's)(i)	**51,316**	**51,316**
WANOS used in the calculation of EPS (000's)	**480,416**	**480,416**
Earnings per share (cents per share)	**22.4**	**1.1**

(i) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the reporting date. It is calculated based on the issued value of ROADS in New Zealand dollars converted to Australian dollars at the spot rate prevailing at the reporting date ($156.7 million), divided by the market price of the Company's ordinary shares at the reporting date ($3.13) discounted by 2.5 per cent according to the ROADS contract terms.

	Continuing operations	Discontinued operations (Note 27)
2011		
(Loss)/profit attributable to members of the parent entity used in calculating EPS ($'000)	(46,219)	18,376
Weighted average number of ordinary shares (WANOS) on issue (000's)	365,448	365,448
WANOS adjustment to reflect potential dilution for ROADS (000's)(i)	38,413	38,413
WANOS used in the calculation of EPS (000's)	403,861	403,861
(Loss)/earnings per share (cents per share)(ii)	(15.5)	5.0

(i) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the reporting date. It is calculated based on the issued value of ROADS in New Zealand dollars converted to Australian dollars at the spot rate prevailing at the reporting date ($154.8 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2010 to 30 June 2011 ($4.13) discounted by 2.5 per cent according to the ROADS contract terms. The average market price was used in the calculation in the FY2011 year as it produces a more representative price by taking into consideration the fluctuating share price during the financial year.

(ii) At 30 June 2011, the ROADS are deemed anti-dilutive; hence diluted EPS for continuing operations remained at a loss of 15.5 cents per share.

NOTE 8. DIVIDENDS

a) Ordinary shares

No dividends will be or were paid in relation to the financial years ended 30 June 2012 or 30 June 2011.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

	Quarter 1 2012	Quarter 2 2012	Quarter 3 2012	Quarter 4 2012	Total 2012
Dividend per ROADS (in Australian cents)	**1.38**	**1.34**	**1.39**	**1.39**	**5.50**
New Zealand imputation credit percentage	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'000)	**2,769**	**2,687**	**2,778**	**2,764**	**10,998**
Payment date	**15/09/11**	**15/12/11**	**15/03/12**	**15/06/12**	

	Quarter 1 2011	Quarter 2 2011	Quarter 3 2011	Quarter 4 2011	Total 2011
Dividend per ROADS (in Australian cents)	1.35	1.30	1.26	1.33	5.24
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'000)	2,611	2,601	2,526	2,654	10,392
Payment date	15/09/10	15/12/10	15/03/11	15/06/11	

c) Franking credits

	Parent Entity	
	2012 $'000	2011 $'000
Franking account balance	**–**	–

NOTE 9. CASH AND CASH EQUIVALENTS

	Note	Consolidated 2012 $'000	2011 $'000
Cash at bank and in hand		**292,672**	286,395
Short-term deposits		**4,019**	2,180
	37(a)	**296,691**	288,575

NOTE 10. INVENTORIES

		2012 $'000	2011 $'000
Current			
Raw materials – at cost		**229,427**	144,959
Work in progress – at cost		**3,316**	1,748
Finished goods – at cost		**30,480**	32,348
Components and spare parts – at cost		**19,515**	13,513
		282,738	192,568

NOTE 11. TRADE AND OTHER RECEIVABLES

	Note	2012 $'000	2011 $'000
Current			
Trade receivables	11(a)	**647,224**	564,057
Allowance for doubtful debts	11(b)	**(7,160)**	(5,573)
		640,064	558,484
Amounts due from customers under contracts and rendering of services		**1,063,569**	957,491
Provision for Waratah Train Project(i)	31	**(164,108)**	(254,598)
	31	**899,461**	702,893
Other receivables		**58,889**	51,621
		1,598,414	1,312,998
Non-current			
Other receivables		**1,922**	–
Total trade and other receivables		**1,600,336**	1,312,998

(i) Provision for Waratah Train Project reflects total provision established against the contract of $440.0 million, less $90.5 million of provision utilised during the financial year ended 30 June 2012 and $185.4 million utilised during the financial year ended 30 June 2011.

(a) Of the total $647.2 million (2011: $564.1 million) of trade receivables, $460.4 million (2011: $383.1 million) are current (i.e. within 30 days). Management considers that there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Of the total receivables of $647.2 million (2011: $564.1 million):

– $0.9 million (2011: $nil) are renegotiated receivables and Management has assessed that these are all recoverable and no impairment has been taken;

– $178.7 million (2011: $175.4 million) are past due but not impaired with an average of more than 76 days. These relate to a number of customers for whom there is no recent history of default, nor other indicators of impairment. Management considers that no provision is required on these balances. The consolidated entity does not hold any collateral over these balances; and

– $7.2 million (2011: $5.6 million) are impaired and have been provided for. An allowance account has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience.

NOTE 11. TRADE AND OTHER RECEIVABLES – CONTINUED

(b) Movement in the allowance for doubtful debts

	Consolidated	
	2012 $'000	2011 $'000
Balance at the beginning of financial year	**(5,573)**	(4,606)
Additional provisions	**(4,976)**	(3,133)
Amounts used	**1,460**	1,424
Amounts reversed	**1,612**	634
Provision derecognised on disposal of subsidiary	**321**	–
Foreign currency exchange differences	**(4)**	108
Balance at the end of financial year	**(7,160)**	(5,573)

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

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

NOTE 12. OTHER FINANCIAL ASSETS

Current		
Foreign currency forward contracts	**3,002**	5,179
Fair value commodity hedges	**419**	–
Fair value through profit and loss investments	**–**	150
Other financial assets	**10,790**	749
	14,211	6,078
Non-current		
Advances to joint venture entities	**972**	–
Available-for-sale investments	**–**	13,750
Foreign currency forward contracts	**1,082**	607
Cross currency and interest rate swaps	**–**	1,122
Fair value through profit and loss investments	**5,188**	5,223
Deferred consideration receivable	**–**	475
Other financial assets	**552**	9,800
	7,794	30,977
Total other financial assets	**22,005**	37,055

NOTE 13. TAX ASSETS

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Current			
Current tax assets		**13,765**	14,312
Non-current			
a) Deferred tax assets		**71,271**	137,949
b) Movement in deferred tax assets for the financial year			
Balance at the beginning of the financial year		**253,071**	192,565
Charged to income statement as deferred income tax (expense)/benefit	13(d)		
– continuing operations		**(12,400)**	18,172
– discontinued operations		**–**	(53)
Charged to equity		**670**	(1,336)
Net foreign currency exchange differences		**224**	(2,279)
Tax losses (utilised or transferred)/recognised		**(11,305)**	51,172
Disposal of entities and operations	27(b)	**(622)**	(126)
Other		**(8,522)**	(5,044)
Balance at the end of the financial year (gross)	13(c)	**221,116**	253,071
Set-off of deferred tax liabilities within the same tax jurisdiction	23(b)	**(149,845)**	(115,122)
Net deferred tax assets		**71,271**	137,949
c) Deferred tax assets at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to:			
Trade and other receivables		**20,205**	43,566
Inventories		**4,394**	4,275
Property, plant and equipment		**5,751**	8,649
Trade and other payables		**19,021**	18,151
Provisions		**108,956**	78,139
Borrowings		**196**	661
Income tax losses		**51,905**	62,976
Hedges and foreign exchange movements		**7,940**	32,395
Share issue expenses		**2,004**	3,130
Other		**744**	1,129
Total deferred tax assets (gross)		**221,116**	253,071
d) Amounts charged to income statement as deferred income tax (expense)/benefit:			
Trade and other receivables		**(37,803)**	10,113
Inventories		**108**	279
Property, plant and equipment		**(1,813)**	5,681
Trade and other payables		**(2,450)**	(2,512)
Provisions		**34,083**	14,417
Borrowings		**(465)**	(227)
Income tax losses		**–**	(6,676)
Hedges and foreign exchange movements		**1,118**	2,893
Share issue expenses		**(830)**	–
Other		**(1,126)**	(1,018)
Deferred tax assets in relation to prior years		**(3,222)**	(4,831)
Charged to income statement as deferred income tax (expense)/benefit		**(12,400)**	18,119

NOTE 14. OTHER ASSETS

	Consolidated	
	2012 $'000	2011 $'000
Current		
Prepayments	**46,109**	35,540
Other deposits	**2,213**	4,134
Other current assets	**647**	1,287
	48,969	40,961
Non-current		
Prepayments	**3,122**	4,684
Other non-current assets	**431**	–
	3,553	4,684
Total other assets	**52,522**	45,645

NOTE 15. EQUITY-ACCOUNTED INVESTMENTS

	Note	2012 $'000	2011 $'000
Equity-accounted investments	15(b)	**60,893**	37,354

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

Name of joint venture	Principal activity	Country of operation	Ownership interest	
			2012 %	2011 %
BPL Downer Joint Venture	Building construction	Singapore	**50**	50
CMC and Downer Joint Venture	Road construction	Australia	**50**	–
Dampier Highway Joint Venture	Highway construction and design	Australia	**50**	50
Downer Clough Joint Venture	Ammonium nitrate production	Australia	**50**	–
Downer Contech Joint Venture	Construction	Fiji	**50**	50
Downer Daracon Joint Venture	Construction	Australia	**50**	–
Downer CSS Joint Venture(i)	Telecommunications	Thailand	**60**	60
Downer Electrical GHD JV(i)	Traffic control infrastructure	Australia	**90**	90
Leighton Works Joint Venture	Road construction	New Zealand	**50**	50
Yokogawa Downer Joint Venture	Refurbishment of power station	Australia	**50**	50
Synergy Joint Venture	Road and pavement construction	Australia	**33**	33
Roche Thiess Linfox Joint Venture(ii)	Contract mining; civil works and plant hire	Australia	**44**	44
Thiess Downer EDI Works	Construction of coast to coast railway	Australia	**25**	25
Yorke Civil Pty Ltd and Downer EDI Engineering Pty Ltd Joint Venture	Construction of water pump station	Australia	**50**	–

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

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

NOTE 15. EQUITY-ACCOUNTED INVESTMENTS – CONTINUED

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

Name of entity	Principal activity	Country of incorporation	Ownership interest 2012 %	Ownership interest 2011 %
Joint ventures				
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
Bitumen Importers Australia Joint Venture	Construction of bitumen storage facility	Australia	**50**	50
Bitumen Importers Australia Pty Ltd	Bitumen importer	Australia	**50**	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco Ltd	Emulsion plant	New Zealand	**50**	50
John Holland EDI Joint Venture	Research reactor	Australia	**40**	40
MPE Facilities Management Sdn Bhd (i)	Facilities management consultancy service	Malaysia	**–**	50
Roche Thiess Linfox Mining and Earthworks Pty Ltd (ii)	Contract mining; civil works and plant hire	Australia	**44**	–
SIP Jiacheng Property Development Co Ltd (iii)	Property development	China	**–**	50
DownerMouchel (iv)	Road maintenance	Australia	**60**	50
Works Infrastructure Cortex Resources JV Ltd	Construction of bulk coal handling equipment	New Zealand	**50**	50
Green Vision Recycling Ltd	Recycling	New Zealand	**33**	33
Stockton Alliance Ltd	Mine operations	New Zealand	**50**	50
CDJV Construction Pty Ltd (v)	Gas compression facilities and pipelines	Australia	**50**	–
Dust-A-Side Australia Pty Ltd (v)	Dust suppression to mine industry	Australia	**50**	–
Associates				
Clyde Babcock Hitachi (Australia) Pty Ltd	Refurbishment, construction and maintenance of boilers	Australia	**27**	27
D'axis Planners & Consultants Co. Ltd (vi)	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
KDR Gold Coast Pty Ltd	Operations of and maintenance of Gold Coast Rapid Transit Project	Australia	**49**	49

(i) Joint venture was disposed during the financial year as part of the CPG Asia disposal.

(ii) Roche Thiess Linfox Mining and Earthworks Pty Ltd was previously unincorporated and disclosed as a joint venture operation as at 30 June 2011. It was incorporated during the current year and transferred to a joint venture entity.

(iii) Joint venture was disposed of during the financial year.

(iv) DownerMouchel is an unincorporated joint venture. The joint venture agreement specifies 50 per cent interest, except where an Integrated Service Arrangement (ISA) obligation is in place, whereby Downer EDI has a 60 per cent interest in the joint venture.

(v) Joint venture interests were invested in Dust-A-Side Australia Pty Ltd and CDJV Construction Pty Ltd joint ventures during the financial year.

(vi) Associate entity was disposed of during the financial year as part of the CPG Asia disposal.

NOTE 15. EQUITY-ACCOUNTED INVESTMENTS – CONTINUED

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Equity-accounted investments			
Equity-accounted amount of investment at the beginning of the financial year		**37,354**	22,410
– Share of net profit from:			
Continuing operations	2	**45,853**	26,111
Discontinued operations	2	**383**	284
– Share of distributions		**(24,281)**	(12,667)
– Earn-in contribution		**(488)**	–
– Additional interest in joint venture entities		**7,230**	2,448
– Disposal of interest in joint venture entities		**(5,528)**	(791)
– Foreign currency exchange differences		**370**	(441)
Equity-accounted investment at the end of the financial year		**60,893**	37,354
Share of results of joint venture entities and associates			
Continuing operations:			
Revenue	3(a)	**452,173**	318,254
Expenses		**(398,720)**	(288,419)
		53,453	29,835
Summarised financial information of the consolidated entity's share of the above joint venture entities and associates:			
Current assets		**205,540**	121,022
Non-current assets		**34,974**	30,237
Total assets		**240,514**	151,259
Current liabilities		**164,918**	105,621
Non-current liabilities		**13,405**	17,812
Total liabilities		**178,323**	123,433
Net assets		**62,191**	27,826

Investment in associates

Reliance Rail Pty Ltd

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

With effect from May 2009, Reliance Rail ceased hedge accounting for its financial derivative instruments. Downer adopted a consistent accounting treatment. The hedge reserve of $79.1 million at that date was being amortised on a straight line basis over 30 years, being the contracted term of the Waratah Public Private Partnership (PPP) Through-Life Support (TLS) contract.

On 6 February 2012, the New South Wales Government announced it had agreed to invest $175.0 million in 2018 in Reliance Rail in return for 100 per cent of the equity, subject to certain conditions precedent being achieved. Reliance Rail's remaining debt funding of $357.0 million is subject to Reliance Rail lodging draw down notices over the next 18 months and the banks providing funding in line with their commitment. Six drawdowns totalling $173.9 million have now been drawn against this Bank Facility.

As a result of the restructure, Downer has transferred the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. This transfer has been classified as an Individually Significant Item (Note 4) and has had no impact on cash, equity, net assets or underlying earnings but has negatively impacted the full year statutory earnings.

c) Contingent liabilities

The consolidated entity's share of the contingent liabilities of joint venture entities are included in Note 30.

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

2012	Consolidated				
$'000	Freehold Land	Buildings	Plant and Equipment	Equipment under Finance Lease	Total
At 1 July 2011					
Cost	18,872	49,203	1,688,721	130,826	1,887,622
Accumulated depreciation	–	(14,416)	(797,225)	(20,966)	(832,607)
Net book value	18,872	34,787	891,496	109,860	1,055,015
Year ended 30 June 2012					
Additions	74	3,242	371,433	24,105	398,854
Disposals at net book value	(191)	(328)	(42,320)	(216)	(43,055)
Disposals of business at net book value (Note 27(b))	–	–	(2,282)	–	(2,282)
Depreciation expense from:					
– Continuing operations (Note 3(b))	–	(2,319)	(220,542)	(17,079)	(239,940)
– Discontinued operations (Note 2)	–	–	(1,173)	–	(1,173)
Reclassifications at net book value [(i)]	239	206	(35,626)	(345)	(35,526)
Net foreign currency exchange differences at net book value	6	115	1,458	(2)	1,577
Closing net book value	19,000	35,703	962,444	116,323	1,133,470
At 30 June 2012					
Cost	19,000	51,047	1,838,392	151,577	2,060,016
Accumulated depreciation	–	(15,344)	(875,948)	(35,254)	(926,546)
Closing net book value	19,000	35,703	962,444	116,323	1,133,470

(i) Includes the reclassification of software systems associated with the Waratah Train TLS contract known as the Fleet Maintenance Facility System (FMFS) of $33.2 million from Capital Work in Progress to Intangible Assets.

NOTE 16. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

2011	Consolidated				
$'000	Freehold Land	Buildings	Plant and Equipment	Equipment under Finance Lease	Total
At 1 July 2010					
Cost	11,388	54,029	1,499,571	64,271	1,629,259
Accumulated depreciation	–	(16,283)	(740,196)	(10,704)	(767,183)
Net book value	11,388	37,746	759,375	53,567	862,076
Year ended 30 June 2011					
Additions	8,349	4,383	438,292	60,003	511,027
Disposals at net book value	(823)	(2,468)	(103,293)	(445)	(107,029)
Disposal of business at net book value	–	(3)	(714)	–	(717)
Depreciation expense from:					
– Continuing operations (Note 3(b))	–	(2,425)	(194,804)	(8,795)	(206,024)
– Discontinued operations (Note 2)	–	–	(2,022)	–	(2,022)
Impairment (Note 17)	–	(426)	(894)	–	(1,320)
Transfers/reclassifications at net book value	–	(1,479)	3,595	5,564	7,680
Net foreign currency exchange differences at net book value	(42)	(541)	(8,039)	(34)	(8,656)
Closing net book value	18,872	34,787	891,496	109,860	1,055,015
At 30 June 2011					
Cost	18,872	49,203	1,688,721	130,826	1,887,622
Accumulated depreciation	–	(14,416)	(797,225)	(20,966)	(832,607)
Closing net book value	18,872	34,787	891,496	109,860	1,055,015

NOTE 17. INTANGIBLE ASSETS

2012		Consolidated	
$'000	Goodwill	Intellectual Property/ Software	Total
At 1 July 2011			
Cost	**618,053**	**85,166**	**703,219**
Accumulated amortisation	**(51,770)**	**(62,254)**	**(114,024)**
Net book value	**566,283**	**22,912**	**589,195**
Year ended 30 June 2012			
Purchases	**–**	**6,575**	**6,575**
Additions of goodwill (i)	**1,000**	**–**	**1,000**
Reclassifications at net book value (ii)	**–**	**35,526**	**35,526**
Disposal of businesses at net book value (Note 27(b))	**(31,766)**	**–**	**(31,766)**
Amortisation expense (Note 3(b))	**–**	**(6,055)**	**(6,055)**
Impairment (Note 4)	**(18,000)**	**–**	**(18,000)**
Net foreign currency exchange differences at net book value	**1,071**	**105**	**1,176**
Closing net book value	**518,588**	**59,063**	**577,651**
At 30 June 2012			
Cost	**588,358**	**128,879**	**717,237**
Accumulated amortisation and impairment	**(69,770)**	**(69,816)**	**(139,586)**
Closing net book value	**518,588**	**59,063**	**577,651**

(i) Additions of goodwill represent deferred contingent consideration in relation to the purchase of the business assets of Corke Instrumentation Engineering, originally acquired during the year ended 30 June 2009. (Refer to Note 26).

(ii) Includes the reclassification of software systems associated with the Waratah Train TLS contract known as the Fleet Maintenance Facility System (FMFS) of $33.2 million from Capital Work in Progress to Intangible Assets.

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

NOTE 17. INTANGIBLE ASSETS – CONTINUED

Allocation of goodwill to cash-generating units (CGUs)

Goodwill has been allocated for impairment testing purposes to individual CGUs, taking into consideration geographical spread, resource allocation, how operations are monitored and where independent cash inflows are identifiable. Post the disposal of CPG Asia, 10 independent CGUs have been identified across the Group against which impairment testing has been undertaken:

	Consolidated	
	2012 $'000	2011 $'000
– Downer Australia East	**178,645**	177,645
– Downer Australia West	**58,850**	58,850
– Specialist Services	**90,074**	90,092
– Downer Asia(i)	**–**	9,271
– Mining	**65,545**	65,545
– Rail	**69,459**	69,459
– Downer New Zealand	**49,791**	49,395
– Works United Kingdom(ii)	**–**	–
– CPG Asia(iii)	**–**	31,073
– CPG Australia(i)	**6,224**	14,953
– CPG New Zealand(ii)	**–**	–
	518,588	566,283

(i) Impaired at 30 June 2012 following impairment testing performed by Management.

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

(iii) Disposal of business during the year.

RECOVERABLE AMOUNT TESTING

The carrying amount of goodwill is tested for impairment annually at 30 June and whenever there is an indicator that the asset may be impaired. Where an asset is deemed impaired, it is written down to its recoverable amount.

Management identified $18.0 million impairment relating to goodwill in the Downer Asia and CPG Australia businesses following an assessment of the future performance of these businesses. The sale of CPG Asia has further undermined the ability of Downer Asia and CPG Australia to produce sufficient profits to support their goodwill amount as the CPG brand name leveraged these businesses in the past. As a result, a goodwill impairment of $9.3 million and $8.7 million has been recognised in Downer Asia and CPG Australia respectively in the current year.

Impairment testing is typically undertaken in one of two ways:

- A comparison of asset book values against fair value less costs to sell; or
- A comparison of the asset book values to the "value in use" of the assets.

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

Projected cash flows
Cash flow projections are based on the Board approved 2012/13 (FY13) budget for the year ending 30 June 2013 and the business plan for the subsequent financial years ending 30 June 2014 to 30 June 2017 by applying division specific growth estimates and assuming a 2.5 per cent terminal growth rate to allow for organic growth on the existing asset base. Cash flows are then determined utilising the calculated Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) less tax, capital maintenance spending and working capital changes to provide a "free cash flow" estimate. This calculated cash flow is then compared against the free cash flow in the business plan to ensure the two are consistent.

Growth rate estimates
The future annual growth rates for FY14 onwards are based on expected market and expected business performance rates for each CGU being tested for impairment.

NOTE 17. INTANGIBLE ASSETS – CONTINUED

RECOVERABLE AMOUNT TESTING – CONTINUED

Discount rates
Discount rates of between 10.8 per cent and 12.1 per cent (2011: between 11.2 per cent and 12.6 per cent) reflect Management's estimate of the time value of money and risks specific to each CGU. In determining the appropriate discount rate for each CGU, consideration has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for country and business risk specific to that CGU.

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

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

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

SENSITIVITIES

Sensitivity analysis has been undertaken for each CGU by varying terminal growth and discount rates. Assuming no material variation in these assumptions compared to those used in the analysis, Management is satisfied that the carrying value of the CGUs not impaired (refer above) exceeds their recoverable amount.

NOTE 18. TRADE AND OTHER PAYABLES

		Consolidated	
	Note	2012 $'000	2011 $'000
Current			
Trade payables		**577,954**	434,047
Amounts due to customers under contracts and rendering of services	31	**310,364**	280,076
Accruals		**412,020**	321,477
Goods and services tax payable		**50,846**	34,155
Other		**37,811**	47,971
		1,388,995	1,117,726
Non-current			
Other		**3,955**	2,812
Total trade and other payables		**1,392,950**	1,120,538

NOTE 19. BORROWINGS

	Note	Consolidated 2012 $'000	2011 $'000
Current			
Secured – at amortised cost:			
– Finance lease liabilities	29(c)	**21,472**	16,995
– Hire purchase liabilities	29(d)	**3,236**	2,206
– Supplier finance		**6,332**	5,127
		31,040	24,328
Unsecured – at amortised cost:			
– Bank loans		**10,160**	112,374
– Bank overdrafts	28(a)	**2**	6,343
– AUD medium term notes (2009-1)		**13,283**	13,283
– AUD medium term notes (2010-1)		**12,600**	12,600
– USD notes		**–**	1,862
– Works NZ Bonds		**117,527**	–
– Deferred finance charges		**(3,674)**	(5,669)
		149,898	140,793
Total current borrowings	37(a)	**180,938**	165,121
Non-current			
Secured – at amortised cost:			
– Finance lease liabilities	29(c)	**78,533**	79,242
– Hire purchase liabilities	29(d)	**3,048**	4,889
		81,581	84,131
Unsecured – at amortised cost:			
– Bank loans		**32,930**	22,809
– USD notes		**76,185**	71,688
– Works NZ Bonds		**–**	116,081
– AUD medium term notes (2009-1)		**66,460**	79,743
– AUD medium term notes (2009-2)		**151,186**	152,063
– AUD medium term notes (2010-1)		**31,500**	44,100
– Deferred finance charges		**(1,870)**	(2,950)
		356,391	483,534
Total non-current borrowings	37(a)	**437,972**	567,665
Total borrowings		**618,910**	732,786

NOTE 20. FINANCING FACILITIES

FINANCING FACILITIES

At 30 June 2012, the consolidated entity had the following facilities that were not utilised at balance date:

	2012 $'000	2011 $'000
Syndicated bank loan facilities	**420,000**	420,000
Bilateral bank loan facilities	**173,525**	207,075
Total unutilised loan facilities	**593,525**	627,075
Syndicated bank bonding facilities	–	7,214
Bilateral bank and insurance company bonding facilities	**327,930**	250,881
Total unutilised bonding facilities	**327,930**	258,095

BANK LOANS

Syndicated loan facilities
The Syndicated bank loan is unsecured, is subject to certain Group guarantees and with one tranche ($294.0 million) maturing in November 2013 and the other tranche ($126.0 million) in November 2014.

Bilateral bank loans and overdrafts
Bank loans are unsecured, are subject to certain Group guarantees and excluding those supported by export credit guarantees (refer below) are due for annual renewal in the 2013 financial year. Included in bank loans are amounts of $41.9 million in aggregate, which are supported by export credit guarantees, and which amortise through even semi-annual instalments and with final maturity dates of April 2017 and May 2017.

USD NOTES

USD unsecured private placement notes are on issue for a total amount of US$77.0 million and are subject to certain Group guarantee arrangements. The notes mature in various tranches in 2014 and 2019. The USD principal and interest have been fully hedged against the Australian dollar. The fair value of the USD notes is disclosed in Note 37.

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 $79.7 million; Series 2009-2 for $150.0 million matures on a bullet basis in October 2013; Series 2010-1 amortises through even semi-annual instalments until the final maturity date of September 2015 and has a balance of $44.1 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 ($117.5 million AUD equivalent translated at year end exchange rate). The bonds are subject to certain Group guarantees. The bonds mature in September 2012.

FINANCE LEASE FACILITIES

The Group leases certain of its equipment under finance leases. The average lease term is 1.6 years. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all rentals under finance leases are fixed at relevant contract dates with a weighted average rate of 7.63 per cent per annum (2011: 8.1 per cent per annum).

HIRE PURCHASE AND LEASE FACILITIES

Hire purchase facilities are secured by the specific assets financed.

SUPPLIER FINANCE

Supplier finance in respect of the financing of the Group's insurance premiums has been entered in the normal course of business. The financing has a term of less than one year and amortises on a monthly basis. Security is limited to insurance premiums that have been paid.

NOTE 20. FINANCING FACILITIES – CONTINUED

COVENANTS ON FINANCING FACILITIES

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

The main financial covenants to which the Group is subject to are Net Worth, Interest Service Coverage and Debt to Capitalisation. In addition, the Group's standard credit platform contains certain restrictions and undertakings including but not limited to:

i) Maintenance of authorisation;

ii) Compliance with laws;

iii) Disposal of assets;

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

v) Change of business;

vi) Non-guarantor subsidiaries incurring financial indebtness; and

vii) Maintenance of the guarantor group.

Financial covenants testing is undertaken and is reported to the Board on a monthly basis. Reporting of financial covenants to financiers occurs semi-annually for the rolling 12 month periods to 30 June and 31 December. The Group was in compliance with all its financial covenants as at 30 June 2012.

BONDING

The Group has $1,294.1 million of bank guarantee and insurance bond facilities to support its contracting activities. $543.4 million of these facilities are provided to the Group on a committed basis and $750.7 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 bonding instrument depending on factors such as the form of the guarantee/bond, the underlying contract of work being undertaken and potential concentration limits the financial institution may have on the industry where the work is being conducted. Furthermore, in the case of uncommitted facilities, the financier has the discretion to cancel any unutilised balance of a facility at any time or to suspend utilisation of the facility for a given period. The Group's committed facilities have varying maturity dates which range from November 2012 to December 2014 and for uncommitted facilities from September 2012 to December 2013.

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. $966.2 million of these facilities were utilised as at 30 June 2012 with $327.9 million unutilised as at that date. $254.5 million of the current committed facilities is made up of a syndicated bonding facility referrable to the Waratah Train Project which was refinanced on 1 December 2011. As with all performance bonds, the risk being assumed under these bonds is Downer credit risk rather than project specific risk. The Group has the flexibility in respect of a committed facility amount of $51.1 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 approach maturity, the Group will seek to renegotiate with existing and new financiers to extend the maturity date of those facilities. The Group's earnings profile, credit rating, state of the economy, conditions in financial markets and other factors may influence the outcome of those negotiations.

CREDIT RATINGS

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

NOTE 21. OTHER FINANCIAL LIABILITIES

	Consolidated	
	2012 $'000	2011 $'000
Current		
Foreign currency forward contracts	**48,171**	55,256
Cross currency and interest rate swaps	**897**	6,564
Advances from joint venture entities	**28,464**	12,809
	77,532	74,629
Non-current		
Foreign currency forward contracts	**4,822**	35,427
Cross currency and interest rate swaps	**41,290**	36,288
	46,112	71,715
Total other financial liabilities	**123,644**	146,344

NOTE 22. PROVISIONS

	Consolidated ($'000)				
	Employee benefits[(i)]	Decom-missioning[(ii)]	Contract claims/ warranties[(iii)]	Other[(iv)]	Total
At 1 July 2011					
Current	176,854	5,180	25,585	32,040	239,659
Non-current	11,328	7,361	–	120	18,809
Total	188,182	12,541	25,585	32,160	258,468
Additional provisions recognised	293,842	1,878	15,174	127,792	438,686
Unused provision reversed	(2,821)	(1,518)	(2,302)	(1,880)	(8,521)
Utilisation of provision	(223,021)	(473)	(8,983)	(105,571)	(338,048)
Disposal of businesses (Note 27(b))	(1,638)	(376)	–	31	(1,983)
Net foreign currency exchange differences	(536)	504	(20)	(488)	(540)
At 30 June 2012	254,008	12,556	29,454	52,044	348,062
Current	245,198	6,358	29,454	51,440	332,450
Non-current	8,810	6,198	–	604	15,612
Total at 30 June 2012	254,008	12,556	29,454	52,044	348,062

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

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

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

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

NOTE 23. TAX LIABILITIES

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Current			
Current tax overseas entities		**3,926**	3,866
Non-current			
a) Deferred tax liability		**6,150**	6,279
b) Movement in deferred tax liability for the financial year			
Balance at the beginning of the financial year		**121,401**	92,578
Charged to income statement as deferred income tax expense	23(d)		
– continuing operations		**40,723**	32,355
– discontinued operations		**–**	30
Charged to equity		**805**	(5,543)
Net foreign currency exchange differences		**300**	(2,502)
Disposal of entities and operations	27(b)	**(113)**	–
Other		**(7,121)**	4,483
Balance at the end of the financial year (gross)	23(c)	**155,995**	121,401
Set-off of deferred tax assets within the same tax jurisdiction	13(b)	**(149,845)**	(115,122)
Net deferred tax liability		**6,150**	6,279
c) Deferred tax liabilities at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to			
Property, plant and equipment		**2,069**	3,137
Inventories		**4,105**	(1,188)
Intangible assets		**3,235**	(361)
Trade and other receivables		**116,413**	91,150
Other current assets		**5,224**	6,163
Equity-accounted investments		**9,624**	5,235
Trade and other payables		**7,385**	2,980
Provisions		**389**	363
Borrowings		**168**	212
Hedges and foreign exchange movements		**1,567**	11,272
Other		**5,816**	2,438
Total deferred tax liabilities (gross)		**155,995**	121,401

NOTE 23. TAX LIABILITIES – CONTINUED

	Note	Consolidated 2012 $'000	2011 $'000
d) Amounts charged to income statement as deferred income tax expense/(benefit)			
Property, plant and equipment		**422**	(5,413)
Inventories		**1,825**	(411)
Intangible assets		**3,596**	(98)
Trade and other receivables		**27,017**	26,207
Other assets		**(710)**	7,292
Trade and other payables		**3,370**	(2,861)
Borrowings		**(142)**	(8)
Provisions		**228**	43
Equity-accounted investments		**4,389**	3,513
Hedges and foreign exchange movements		**(241)**	4,331
Deferred tax liabilities in relation to prior years		**969**	(210)
Charged to income statement as deferred income tax expense/(benefit)		**40,723**	32,385

NOTE 24. ISSUED CAPITAL

	Consolidated 2012 $'000	2011 $'000
Ordinary shares		
429,100,296 ordinary shares (2011: 429,100,296)	**1,278,564**	1,278,564
Unvested executive incentive shares 6,115,960 ordinary shares (2011: 6,844,719)	**(29,437)**	(33,270)
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (2011: 200,000,000)	**178,603**	178,603
	1,427,730	1,423,897

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

FULLY PAID ORDINARY SHARE CAPITAL

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

	Consolidated 2012		2011	
	000's	$'000	000's	$'000
Fully paid ordinary share capital				
Balance at the beginning of the financial year	**429,100**	**1,278,564**	336,582	978,960
Issue of shares through Dividend Reinvestment Plan election	**–**	**–**	4,712	20,027
Issue of shares under terms of Employee Discount Share Plan(i)	**–**	**–**	1,884	7,574
Issue of shares under renounceable entitlement offer(ii)	**–**	**–**	85,922	279,307
Payment of share issue costs	**–**	**–**	–	(7,304)
Balance at the end of the financial year	**429,100**	**1,278,564**	429,100	1,278,564

(i) In FY2011, under the terms of the offer, a $1,000 discount was provided in recognition of each employee's contribution to the Company's performance. Under A-IFRS, the value of the discount is recognised as an expense with a corresponding increase in share capital of $7.6 million.

(ii) During FY2011, the Company undertook a capital raising by way of a fully underwritten one for four accelerated renounceable entitlement offer. Net proceeds of $272.0 million were raised in the entitlement offer.

NOTE 24. ISSUED CAPITAL – CONTINUED

	Consolidated			
	2012		2011	
	000's	$'000	000's	$'000
Unvested executive incentive shares				
Balance at the beginning of the financial year	**6,845**	**(33,270)**	7,892	(38,888)
Vested executive incentive shares transactions	**(729)**	**3,833**	(1,047)	5,618
Balance at the end of the financial year	**6,116**	**(29,437)**	6,845	(33,270)

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

	Consolidated			
	2012		2011	
	000's	$'000	000's	$'000
Redeemable Optionally Adjustable Distributing Securities (ROADS)				
Balance at the beginning of the financial year	**200,000**	**178,603**	200,000	178,603
Balance at the end of the financial year	**200,000**	**178,603**	200,000	178,603

ROADS are perpetual, redeemable, exchangeable preference shares, which were refinanced on the reset date of 15 June 2012. While Downer had a number of options available to it on the Step-up Date of 15 June 2012, it elected to leave the securities on issue and to Step-up the margin in accordance with the terms of the "Prospectus and Investment Statement" dated 7 March 2007.

ROADS had a yield of 9.80 per cent per annum over the period April 2007 to 15 June 2012 which was based on the five year swap rate at the time of issue plus a margin of 2.05 per cent per annum. In terms of the Step-up, the margin increased to 4.05 per cent per annum with effect from 15 June 2012 and with the yield now based on the one year swap rate prevailing on that date of 2.55 per cent per annum. Accordingly the overall yield for the one year period commencing 15 June 2012 is 6.60 per cent per annum.

SHARE OPTIONS AND PERFORMANCE RIGHTS

During the financial year, no performance rights (2011: nil) or performance options (2011: nil) were granted to senior executives of the Group under the Long Term Incentive plan. Further details of the key management personnel Long Term Incentive plan are contained in the Remuneration Report.

NOTE 25. RESERVES

	Consolidated	
	2012 $'000	2011 $'000
Hedge reserve	**(11,594)**	(77,673)
Foreign currency translation reserve	**(50,123)**	(58,683)
Employee benefits reserve	**9,965**	14,775
Total reserves	**(51,752)**	(121,581)

HEDGE RESERVE

As at 30 June 2011, the hedge reserve included a debit balance of $73.8 million representing the equity-accounted share of the historical movements of Reliance Rail's hedge reserve. The hedge reserve was 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.

As a result of the Reliance Rail restructure announced to the ASX on 6 February 2012, Downer transferred the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. Amortisation in the current year of $1.3 million is reflected as an expense in the income statement (refer to Note 1 and Note 4 for further details).

NOTE 26. ACQUISITION OF BUSINESSES

2012

During the financial year ended 30 June 2012, there was an addition of goodwill of $1.0 million representing deferred contingent consideration in relation to the purchase of the business assets of Corke Instrumentation Engineering, originally acquired in FY2009. There were no acquisitions of controlling interest in any businesses during the financial year ended 30 June 2012.

2011

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

NOTE 27. DISPOSAL OF SUBSIDIARY

CPG ASIA

On 14 December 2011, the Group announced it had signed a Share Sale Agreement with China Architecture Design and Research Group (CAG) to sell the CPG Asia business for $147.0 million. The sale of CPG Asia was completed on 30 April 2012.

For the purposes of these financial statements, the CPG Asia business is classified as a discontinued operation. The results of the discontinued operations included in the consolidated statement of comprehensive income are set out below. The comparative results from CPG Asia have been re-presented as discontinued operations in the current year, with the profit on sale recognised in the income statement.

RESULTS OF CPG ASIA – DISCONTINUED OPERATIONS

	Note	2012 $'000	2011 $'000
Revenue	2	**150,867**	199,636
Expenses		**(147,885)**	(177,632)
Profit before income tax		**2,982**	22,004
Income tax benefit/(expense)		**2,398**	(3,422)
Net profit from discontinued operations		**5,380**	18,582
Profit for the period that is attributable to:			
Non-controlling interest		**118**	206
Members of the parent entity	7	**5,262**	18,376
Total profit for the period		**5,380**	18,582
Cash flows from discontinued operations			
Net cash (used in)/inflow from operating activities		**(893)**	2,652
Net cash from investing activities		**3,346**	103
Net cash (used in)/inflow from financing activities		**(22,083)**	4,614
Net cash (outflows)/inflows		**(19,630)**	7,369

NOTE 27. DISPOSAL OF SUBSIDIARY – CONTINUED

	Note	2012 $'000
a) Consideration received		
Consideration received in cash and cash equivalents	27(d)	147,000
b) Analysis of assets and liabilities over which control was lost		
ASSETS		
Current assets		
Cash and cash equivalents	27(d)	12,610
Trade and other receivables		69,639
Other financial assets		42
Other assets		4,986
Total current assets		87,277
Non-current assets		
Property, plant and equipment	16	2,282
Intangible assets	17	31,766
Other financial assets		13,727
Deferred tax assets	13(b)	622
Total non-current assets		48,397
Total assets		135,674
LIABILITIES		
Current liabilities		
Trade and other payables		30,404
Borrowings	27(d)	1,026
Provisions		1,607
Current tax liabilities		712
Total current liabilities		33,749
Non-current liabilities		
Trade and other payables		2
Provisions		376
Deferred tax liabilities	23(b)	113
Total non-current liabilities		491
Total liabilities		34,240
Net assets disposed	27(c)	101,434

NOTE 27. DISPOSAL OF SUBSIDIARY – CONTINUED

	Note	2012 $'000
c) Gain on disposal of subsidiary		
Consideration received		147,000
Less		
Net assets disposed	27(b)	101,434
Cumulative exchange differences in respect of the net assets of the subsidiary and related hedging instruments reclassified from equity to profit and loss on loss of control of subsidiary.		3,401
Divestment costs		8,580
Gain on disposal	4	33,585

The gain on disposal is included in the profit for the year in the income statement.

	Note	2012 $'000
d) Net cash inflow on disposal of subsidiary		
Consideration received in cash and cash equivalents	27(a)	147,000
Less		
Cash and cash equivalent balances disposed of:		
– Cash at bank	27(b)	12,610
– Overdrafts	27(b)	(1,026)
Transaction and other divestment costs paid in cash		6,224
Net proceeds from sale of business		129,192

NOTE 28. STATEMENT OF CASH FLOWS – ADDITIONAL INFORMATION

	Note	Consolidated 2012 $'000	2011 $'000
a) Reconciliation of cash and cash equivalents			
For the purpose of the statement of cash flows, cash and cash equivalents comprise:			
Cash		292,672	286,395
Short-term deposits		4,019	2,180
	37(a)	296,691	288,575
Bank overdrafts	19	(2)	(6,343)
		296,689	282,232

b) Non-cash financing and investing activities

During the financial year, the Group acquired $21.5 million (2011: $58.3 million) of equipment under finance leases. This acquisition will be reflected in the statement of cash flows over the term of the finance lease via lease repayments.

During the current financial year no equity was issued in respect of Dividend Reinvestment Plan elections or under the terms of the Employee Discount Share Plan.

During the prior financial year, $27.6 million in equity was issued in respect of:

i) Dividend Reinvestment Plan elections $20.0 million; and

ii) Issue of shares under the terms of the Employee Discount Share Plan $7.6 million.

NOTE 28. STATEMENT OF CASH FLOWS – ADDITIONAL INFORMATION – CONTINUED

	Note	Consolidated 2012 $'000	2011 $'000
c) Reconciliation of profit after tax to net cash flows from operating activities			
Profit/(loss) after tax for the year		**112,895**	(27,700)
Adjustments for:			
Share of joint ventures and associates' profits net of distributions		**(21,955)**	(13,728)
Depreciation and amortisation of non-current assets	2	**247,168**	210,494
Amortisation of deferred costs		**3,494**	3,582
Net gain on sale of property, plant and equipment	3(a)	**(5,053)**	(8,490)
(Profit)/loss on disposal of businesses	4	**(33,585)**	441
Derecognition of hedge reserve relating to Reliance Rail	4	**72,540**	-
Foreign exchange loss/(gain)	3	**1,113**	(172)
Decrease in income tax payable		**1,702**	(1,439)
Movement in deferred tax balances		**65,830**	(27,867)
Equity-settled share-based transactions		**2,237**	3,779
Impairment of goodwill	4	**18,000**	9,770
Impairment of assets		**416**	2,277
Other		**(1,351)**	4,505
		350,556	183,152
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase)/decrease in assets:			
Current trade and other receivables		**(389,686)**	(113,202)
Current inventories		**(90,544)**	(26,371)
Other current assets		**(13,141)**	(14,092)
Non-current trade and other receivables		**(1,835)**	–
Other non-current assets		**1,190**	(598)
Increase/(decrease) in liabilities:			
Current trade and other payables		**302,063**	148,276
Current provisions		**94,887**	41,575
Non-current trade and other payables		**944**	2,733
Non-current provisions		**(2,858)**	(8,148)
		(98,980)	30,173
Net cash generated by operating activities		**364,471**	185,625

NOTE 29. COMMITMENTS

	Note	Consolidated 2012 $'000	2011 $'000
a) Capital expenditure commitments			
Plant and equipment			
Within one year		**196,338**	155,283
Between one and five year(s)		**30,593**	72,589
		226,931	227,872
b) Operating lease commitments			
Non-cancellable operating leases relate to premises and plant and equipment with lease terms of between one to 15 year(s).			
Within one year		**143,378**	134,035
Between one and five year(s)		**223,210**	264,550
Greater than five years		**128,141**	130,202
		494,729	528,787
c) Finance lease commitments			
Finance leases relate to plant and equipment with lease terms of between one to five year(s).			
Within one year		**28,328**	23,924
Between one and five year(s)		**87,439**	91,777
Minimum finance lease payments		**115,767**	115,701
Future finance charges		**(15,762)**	(19,464)
Finance lease liabilities		**100,005**	96,237
Included in the financial statements as:			
Current borrowings	19	**21,472**	16,995
Non-current borrowings	19	**78,533**	79,242
		100,005	96,237
d) Hire purchase liabilities			
Within one year		**3,589**	2,241
Between one and five year(s)		**3,522**	4,254
Greater than five years		**–**	670
Minimum hire purchase payments		**7,111**	7,165
Future finance charges		**(827)**	(70)
Hire purchase liabilities		**6,284**	7,095
Included in the financial statements as:			
Current borrowings	19	**3,236**	2,206
Non-current borrowings	19	**3,048**	4,889
		6,284	7,095
e) Other service contracts			
Within one year		**20,561**	–
Between one and five year(s)		**77,936**	–
Greater than five years		**1,580**	–
		100,077	–

On 29 July 2011, Downer entered a six year contract with Hewlett-Packard Australia Pty Ltd relating to the provision of information technology services commencing 1 December 2011.

NOTE 30. CONTINGENT LIABILITIES

	Consolidated	
	2012 $'000	2011 $'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.	**966,193**	848,715

In the ordinary course of business:

i) The Group is 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) The Group is 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) The Group has 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) The Group has the normal contractor's liability in relation to services and construction contracts, as well as liability for personal injury/property damage. This liability may include claims, disputes and/or litigation/arbitration by or against Group companies and/or joint venture arrangements in which the Group has an interest. The Group is currently managing a number of arbitration/litigation matters in relation to contracts, the most significant of which are set out below:

- A claim by SP PowerAssets Ltd (SPP) in relation to the construction of an electrical services tunnel in Singapore (Project);
- A claim by Alstom Limited (Alstom) in relation to construction of the Playford B Power Station;
- A claim by the Group against BHP Billiton Nickel West Pty Ltd for extensions of time and variations associated with the Talc Redesign project at Mt. Keith, Western Australia; and
- Some entities in the Group have been named as co-defendants in several proceedings with projects associated with the "weathertight" homes issue in New Zealand.

v) In August 2003, the Group entered an agreement (Agreement) with SP PowerAssets Ltd (SPP) for the design and construction of a transmission cable tunnel in Singapore (Project). The contract value was S$85.0 million.

In November 2005, the Land Transit Authority (LTA) issued a stop work direction for the Project, (Stop Work Direction). Despite the fact that the Group complied with the Stop Work Direction and other stipulations imposed by the LTA as best it was able, the LTA refused to lift the Stop Work Direction and in March 2006 the Group asserted that the Agreement had become frustrated (i.e. the actions of the LTA meant that it was no longer possible to perform the Works as contemplated by the Agreement).

In November 2006, the Group and SPP entered into a further agreement (Supplemental Agreement) that covered a new arrangement for completion of the Project, in the event that the Stop Work Direction was ever lifted. The Project eventually recommenced in June 2007 (i.e. 18 months after the Stop Work Direction was issued) and completed in June 2009.

SPP claims reimbursement of S$85.0 million paid to the Group for completion of the Project under the Supplemental Agreement. SPP also claim interest plus legal costs. Attempts to resolve the dispute via mediation were unsuccessful. A 10 day arbitration hearing took place in Singapore during March 2012 which covered the cross-examination of witnesses and presentation of expert witnesses. Written submissions were filed on 14 May 2012 and final reply submissions were filed in early July 2012. A decision is expected within one to three months of the final submissions being filed.

The Group's position is that SPP is not entitled to any reimbursement on the basis that the original contract for the Project was frustrated and that the Group is entitled to retain amounts paid by SPP under the Supplemental Agreement. More specifically, the Group's position is that there were intervening third party events (namely orders issued by the LTA) which made the Agreement impossible to perform as contemplated by the parties.

A separate High Court action in Singapore has also been commenced by the Group in relation to the dispute, seeking declaratory relief (specifically that the Stop Work Direction issued by the LTA was invalid). An unsuccessful strike out application was pursued by SPP and the Group is awaiting further orders from the court to progress preparation for hearing (which is not expected until early 2013).

The Group has defended the claim and is awaiting the arbitration decision. In parallel the Group is pursuing the High Court proceedings. The Directors are of the opinion that disclosure of any further information related to this claim would be prejudicial to the interests of the Group.

NOTE 30. CONTINGENT LIABILITIES – CONTINUED

vi) In relation to the Alstom Limited claim, Downer Engineering and Yokogawa Australia Pty Limited entered into an unincorporated "50/50" joint venture arrangement (YDRML) which was subcontracted by Alstom in August 2002 to undertake electrical and control and instrumentation works for the Playford Power Station refurbishment.

Alstom's claims arise from alleged defaults and delays concerning the completion of YDRML's work under the subcontract, with the total of the claims being $31.8 million. YDRML issued a counter-claim for payment of liquidated damages wrongfully deducted and payment for variations, together with interest and legal costs. YDRML's counter-claim is more than $20.0 million.

On 2 April 2012 the South Australian Supreme Court gave judgement, dismissing Alstom's claim in full and finding in favour of YDRML on its counter-claim, with the declaratory orders on quantum to be determined separately. On 23 July 2012, the South Australian Supreme Court awarded interest in favour of YDRML in the sum of $3.6 million.

The action in relation to the declaratory orders is ongoing, and the Directors are of the opinion that disclosure of any further information related to this claim would be prejudicial to the interests of the Group.

vii) Former Managing Director Stephen Gillies received an initial award from the New South Wales Supreme Court in the sum of $7.8 million, including costs and interest. An appeal by the Group was heard by the Court of Appeal in May 2012 and a decision is pending. The Directors are of the opinion that the current provision of $7.8 million raised against this matter is sufficient.

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

ix) The Group previously disclosed provisions in relation to Ramu Highway, Sembawang, Port Botany Terminal and Laverton Power Station disputes in relation to contracts for completed projects. All these historical disputes have been settled during the current financial year. A claim by CECA France in relation to a commercial dispute over a bitumen additive purchase contract has also been settled during the financial year. These settlements did not have a material impact on the consolidated income statement in the current year.

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

NOTE 31. RENDERING OF SERVICES AND CONSTRUCTION CONTRACTS

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Cumulative contracts in progress as at reporting date:			
Cumulative costs incurred plus recognised profits less recognised losses to date		**11,528,012**	10,187,145
Less: progress billings		**(10,774,807)**	(9,509,730)
Less: provision for Waratah Train Project[(i)]	11	**(164,108)**	(254,598)
Net amount		**589,097**	422,817
Recognised and included in the financial statements as amounts due:			
From customers under contracts – current	11	**899,461**	702,893
To customers under contracts – current	18	**(310,364)**	(280,076)
Net amount		**589,097**	422,817

(i) Provision for Waratah Train Project reflects total provision established against the contract of $440.0 million, less $90.5 million of provision utilised during the financial year ended 30 June 2012 and $185.4 million utilised during the financial year ended 30 June 2011.

NOTE 32. SUBSEQUENT EVENTS

At the date of this report there is no matter or circumstance that has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

(a) The Group's operations in future financial years;

(b) The results of those operations in future financial years; or

(c) The Group's state of affairs in future financial years.

NOTE 33. CONTROLLED ENTITIES

Name of controlled entity	Country of incorporation	Ownership interest 2012 %	2011 %
Advanced Separation Engineering Australia Pty Ltd	Australia	**100**	100
CA Facilities Pte Ltd (i)	Singapore	**–**	51
Century Administration Pty Limited (vi)	Australia	**100**	100
Chan Lian Construction Pte Ltd	Singapore	**100**	100
Chang Chun Ao Da Technical Consulting Co Ltd	China	**100**	100
Choad Pty Ltd (vi)	Australia	**100**	100
Construction Professionals Pte Ltd (i)	Singapore	**–**	100
Coomes AC Consulting Pty Ltd (vi)	Australia	**100**	100
Coomes Consulting Group Unit Trust	Australia	**100**	100
Corke Instrument Engineering (Australia) Pty Ltd (vi)	Australia	**100**	100
CPG Advisory (Shanghai) Co. Ltd (i)	China	**–**	100
CPG Australia Pty Ltd	Australia	**100**	100
CPG Consultants (Macau) Pte Ltd (i)	Macau	**–**	100
CPG Consultants India Pvt Ltd (i)	India	**–**	100
CPG Consultants Pte Ltd (i)	Singapore	**–**	100
CPG Consultants Qatar W.L.L (i)	Qatar	**–**	100
CPG Corporation Pte Ltd (i)	Singapore	**–**	100
CPG Environmental Engineering Co. Ltd (i)	China	**–**	75
CPG Facilities Management Pte Ltd (i)	Singapore	**–**	100
CPG Holdings Pte. Ltd.	Singapore	**100**	100
CPG Hubin (Suzhou) Pte Ltd (i)	Singapore	**–**	100
CPG Investments Pte Ltd (i)	Singapore	**–**	100
CPG New Zealand Limited	New Zealand	**100**	100
CPGreen Pte. Ltd. (i)	Singapore	**–**	100
CPG Resources – QCC Pty Ltd	Australia	**100**	100
CPG Resources Pty Ltd	Australia	**100**	100
CPG Resources – Mineral Technologies (Proprietary) Ltd	South Africa	**100**	100
CPG Resources – Mineral Technologies (USA) Inc	USA	**100**	100
CPG Resources – Mining and Mineral Services (Proprietary) Ltd	South Africa	**70**	70
CPG Traffic Pty Ltd (vi)	Australia	**100**	100
CPG Vietnam Co Ltd (i)	Vietnam	**–**	100
CPGCorp Philippines Inc. (i)	Philippines	**–**	100
DCE Limited	New Zealand	**100**	100
Dean Adams Consulting Pty Ltd	Australia	**100**	100
DGL Investments Limited	New Zealand	**100**	100
DMQA Technical Services (UK) Limited (vi)	United Kingdom	**100**	100
DMQA Training Limited (vi)	United Kingdom	**100**	100
Downer Australia Pty Ltd	Australia	**100**	100
Downer Bitumen Surfacing Limited (i)	New Zealand	**–**	100
Downer Construction (Fiji) Limited	Fiji	**100**	100
Downer Construction (New Zealand) Limited	New Zealand	**100**	100

NOTE 33. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest 2012 %	2011 %
Downer Construction PNG Ltd	PNG	100	100
Downer EDI (UK) Limited (i)	United Kingdom	–	100
Downer EDI (USA) Inc. (i)	USA	–	100
Downer EDI (USA) Pty Ltd	Australia	100	100
Downer EDI Consulting Pty Ltd	Australia	100	100
Downer EDI Engineering Communications Limited	New Zealand	100	100
Downer EDI Engineering Company Pty Limited	Australia	100	100
Downer EDI Engineering Construction (Australia) Pty Ltd	Australia	100	100
Downer EDI Engineering CWH Pty Limited	Australia	100	100
Downer EDI Engineering Electrical Pty Ltd	Australia	100	100
Downer EDI Engineering Group Limited	New Zealand	100	100
Downer EDI Engineering Group Pty Limited	Australia	100	100
Downer EDI Engineering Holdings (Thailand) Limited	Thailand	100	100
Downer EDI Engineering Holdings Pty Ltd	Australia	100	100
Downer EDI Engineering Limited	New Zealand	100	100
Downer EDI Engineering Power Limited	New Zealand	100	100
Downer EDI Engineering Power Pty Ltd	Australia	100	100
Downer EDI Engineering Pty Limited	Australia	100	100
Downer EDI Engineering Thailand Limited	Thailand	100	100
Downer EDI Engineering (M) Sdn Bhd	Malaysia	100	100
Downer EDI Engineering (S) Pte Ltd	Singapore	100	100
Downer EDI Engineering Transmission Pty Ltd	Australia	100	100
Downer EDI Finance (NZ) Limited	New Zealand	100	100
Downer EDI Group Finance (NZ) Limited	New Zealand	100	100
Downer EDI Group Insurance Pte Ltd	Singapore	100	100
Downer EDI Limited (i)	United Kingdom	–	100
Downer EDI Mining NZ Limited	New Zealand	100	100
Downer EDI Mining Pty Ltd	Australia	100	100
Downer EDI Mining – Blasting Services Pty Ltd	Australia	100	100
Downer EDI Mining – Minerals Exploration Pty Ltd	Australia	100	100
Downer EDI Properties Limited (i)	New Zealand	–	100
Downer EDI Rail (Hong Kong) Limited	Hong Kong	100	100
Downer EDI Rail (USA) LLC (i)	USA	–	100
Downer EDI Rail Pty Ltd	Australia	100	100
Downer EDI Resources Holdings Pty Ltd (iv)(vi)	Australia	100	100
Downer EDI Services Pty Ltd	Australia	100	100
Downer EDI Works (Hong Kong) Limited	Hong Kong	100	100
Downer EDI Works Pty Ltd	Australia	100	100
Downer EDI Works Vanuatu Limited	Vanuatu	100	100
Downer Energy Systems Pty Limited	Australia	100	100
Downer Group Finance International Pty Ltd	Australia	100	100

NOTE 33. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest 2012 %	2011 %
Downer Group Finance Pty Limited	Australia	**100**	100
Downer Holdings Pty Ltd	Australia	**100**	100
Downer MBL Limited [i]	New Zealand	**–**	100
Downer MBL Pty Limited [vi]	Australia	**100**	100
Downer New Zealand Limited	New Zealand	**100**	100
Downer Number 1 Limited [i]	New Zealand	**–**	100
Downer Number 2 Limited [i]	New Zealand	**–**	100
Downer NZ Finance Pty Ltd [vi]	Australia	**100**	100
Downer PPP Investments Pty Ltd	Australia	**100**	100
Downer Pte Ltd	Singapore	**100**	100
Duffill Watts Pte Ltd	Singapore	**100**	100
Duffill Watts Vietnam Ltd	Vietnam	**100**	100
EDI Rail (Maryborough) Pty Ltd [vi]	Australia	**100**	100
EDI Rail Investments Pty Ltd [vi]	Australia	**100**	100
EDI Rail PPP Maintenance Pty Ltd	Australia	**100**	100
EDICO Pty Ltd	Australia	**100**	100
Emoleum Partnership	Australia	**100**	100
Emoleum Road Services Pty Ltd	Australia	**100**	100
Emoleum Roads Group Pty Limited	Australia	**100**	100
Emoleum Services Pty Limited	Australia	**100**	100
Evans Deakin Industries Pty Ltd	Australia	**100**	100
Faxgroove Pty Limited	Australia	**100**	100
Gaden Drilling Pty Limited [vi]	Australia	**100**	100
Indeco Consortium Pte Ltd [i]	Singapore	**–**	100
Kiwi Pacific Investments Limited [i]	New Zealand	**–**	100
Locomotive Demand Power Pty Ltd	Australia	**100**	100
Lowan (Management) Pty Ltd	Australia	**100**	100
Mineral Technologies (Holdings) Pty Ltd [ii]	Australia	**100**	100
Mineral Technologies Pty Ltd [v]	Australia	**100**	100
Miningtek Consultants and Services Limited [i]	British Virgin Islands	**–**	100
Otraco Brasil Gerenciamento de Pneus Ltda	Brazil	**100**	100
Otraco Canada Inc	Canada	**100**	100
Otraco Chile SA	Chile	**100**	100
Otraco International Pty Ltd	Australia	**100**	100
Otracom Pty Ltd	Australia	**100**	100
Otraco Southern Africa (Pty) Ltd	South Africa	**100**	100
Peridian Asia Pte Ltd [i]	Singapore	**–**	100
Peridian India Pvt Ltd [i]	India	**–**	100
PM Link Pte Ltd [i]	Singapore	**–**	100
Primary Producers Improvers Pty Ltd	Australia	**100**	100
PT Duffill Watts Indonesia	Indonesia	**100**	100

NOTE 33. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest 2012 %	2011 %
PT Otraco Indonesia	Indonesia	**100**	100
QCC Resources Pty Ltd (vii)	Australia	**100**	100
Rail Services Victoria Pty Ltd	Australia	**100**	100
REJV Services Pty Ltd	Australia	**100**	100
Reussi Pty Limited	Australia	**100**	100
Richter Drilling (PNG) Limited	PNG	**100**	100
Rimtec Pty Ltd	Australia	**100**	100
Rimtec USA Inc.	USA	**100**	100
Roche Bros. (Hong Kong) Limited	Hong Kong	**100**	100
Roche Bros. Superannuation Pty Ltd	Australia	**100**	100
Roche Castings Pty Limited (vi)	Australia	**100**	100
Roche Contractors Pty Ltd (vi)	Australia	**100**	100
Roche Highwall Mining Pty Ltd	Australia	**100**	100
Roche Mining (MT) Brasil Ltda	Brazil	**100**	100
Roche Mining (PNG) Ltd	PNG	**100**	100
Roche Mining MT India Pvt Ltd	India	**100**	100
Roche Services Pty Ltd	Australia	**100**	100
RPC Roads Pty Ltd	Australia	**100**	100
SACH Infrastructure Pty Ltd	Australia	**100**	100
Shanghai CPG Architectural Design Co. Ltd (i)	China	**–**	100
Sillars (B. & C.E.) Ltd	United Kingdom	**100**	100
Sillars (FRC) Ltd (vi)	United Kingdom	**100**	100
Sillars (TMWC) Limited (vi)	United Kingdom	**100**	100
Sillars (TMWD) Limited	United Kingdom	**100**	100
Sillars Holdings Limited	United Kingdom	**100**	100
Sillars Road Construction Limited	United Kingdom	**100**	100
Singleton Bahen Stansfield Pty Ltd (vi)	Australia	**100**	100
Snowden Consultoria do Brasil Limitada	Brazil	**100**	100
Snowden Mining Industry Consultants (Pty) Ltd	South Africa	**100**	100
Snowden Mining Industry Consultants Inc.	Canada	**100**	100
Snowden Mining Industry Consultants Limited	United Kingdom	**100**	100
Snowden Mining Industry Consultants Pty Ltd	Australia	**100**	100
Snowden Mining Technologies Limited	British Virgin Islands	**100**	100
Snowden Technologies Pty Ltd	Australia	**100**	100
Snowden Training (Pty) Ltd	South Africa	**100**	100
Southern Asphalters Pty Ltd	Australia	**100**	100
Suzhou PM Link Co Ltd (i)	China	**–**	60
Techtel Training & Development Ltd (iii)	New Zealand	**90**	90
TSE Wall Arlidge Limited	New Zealand	**100**	100
TSG Architects Pte. Ltd. (i)	Singapore	**–**	100
Underground Locators Limited	New Zealand	**100**	100

NOTE 33. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest	
		2012 %	2011 %
Waste Solutions Limited	New Zealand	**100**	100
Welshpool Engineering Pty Ltd (i)	Australia	**–**	100
Works Finance (NZ) Limited	New Zealand	**100**	100
Works Infrastructure (Holdings) Limited	United Kingdom	**100**	100
Works Infrastructure Harker Underground Construction Joint Venture Limited	New Zealand	**100**	100
Works Infrastructure Limited	United Kingdom	**100**	100

(i) Indicates entities disposed, amalgamated or deregistered during the financial year ended 30 June 2012.

(ii) Formerly CPG Resources – MT Holdings Pty Ltd.

(iii) Formerly DJC & Associates Limited.

(iv) Formerly Downer EDI Resources Holdings Limited.

(v) Formerly CPG Resources – Mineral Technologies Pty Ltd.

(vi) Indicates entities currently undergoing liquidation as part of a corporate simplification process.

(vii) Formerly Downer EDI Engineering – Projects Pty Ltd.

NOTE 34. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Key management personnel

Directors

R M Harding, Chairman, appointed 3 November 2010

G A Fenn, Managing Director and Chief Executive Officer, appointed 30 July 2010

S A Chaplain, Non-executive Director, appointed 1 July 2008

L Di Bartolomeo, Non-executive Director, appointed 22 June 2006

P S Garling, Non-executive Director, appointed 24 November 2011

E A Howell, Non-executive Director, appointed 16 January 2012

J S Humphrey, Non-executive Director, appointed 11 April 2001

K G Sanderson, Non-executive Director, appointed 16 January 2012

C G Thorne, Non-executive Director, appointed 1 July 2010

Key Management Executives

P Borden, Chief Executive Officer – Downer Rail

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

D Cattell, Chief Executive Officer – Downer Infrastructure, appointed 1 May 2012,
Chief Executive Officer – Downer Australia to 30 April 2012

K Fletcher, Chief Financial Officer

D Overall, Chief Executive Officer – Downer Mining

NOTE 34. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES – CONTINUED

b) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 35.

c) Other transactions with Directors

A Director of the Company, J S Humphrey, has an interest as a partner in the firm King Wood Mallesons, solicitors (formerly Mallesons Stephen Jacques). This firm renders legal advice to the consolidated entity in the ordinary course of business under normal commercial terms and conditions. The amount of fees paid and recognised was $418,953 (2011: $817,244).

d) Transactions with other related parties:

Transactions with other related parties are made on normal commercial terms and conditions. The following transactions with other related parties, where a Director of the Company also has a directorship or association, occurred during the financial year ended 30 June 2012:

		Transaction type	
Key management personnel	Entity	Sales of goods and services $'000	Purchase of goods $'000
L Di Bartolomeo	Australian Rail Track Corporation Limited	132,806	126
	Macquarie Generation	1,660	–
	Australian Industry Group	–	218
	Australian Super Limited	–	556
C G Thorne	Downer Clough JV	1,381	–
G A Fenn and S A Chaplain	KDR Gold Coast Pty Ltd	1,080	–
G A Fenn	KDR Victoria Pty Ltd	3,450	–
	Australian Constructors Association Limited	–	39
P Borden	EDI Rail Bombardier Transportation (Maintenance) Pty Ltd	35	–
	EDI Rail Bombardier Transportation Pty Ltd	43,742	2,646
D Overall	Minerals Council of Australia	–	726

e) Transactions within the wholly-owned Group

Aggregate amounts receivable from and payable to wholly-owned subsidiaries are included within total assets and liabilities balances as disclosed in Note 38. Amounts contributed to the defined contribution plan are disclosed in Note 3.

Other transactions occurred during the financial year between entities in the wholly-owned Group on normal arm's length commercial terms.

f) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 33.

Equity interests in associates and joint ventures

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

g) Controlling entity

The parent entity of the Group is Downer EDI Limited.

NOTE 34. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES – CONTINUED

h) Key management personnel equity holdings

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

2012	Balance at 1 July 2011 No.	Net change No.	Balance at 30 June 2012 No.
R M Harding	–	5,780	5,780
S A Chaplain	50,137	–	50,137
L Di Bartolomeo	60,903	–	60,903
G A Fenn	80,959	265,102	346,061
P S Garling	–	–	–
E A Howell	–	–	–
J S Humphrey	67,982	–	67,982
K G Sanderson	–	–	–
C G Thorne	13,750	12,000	25,750
P Borden	1,500	–	1,500
C Bruyn	1,800	–	1,800
D Cattell	138,945	32,236	171,181
K Fletcher	35,000	20,000	55,000
D Overall	–	12,216	12,216
	450,976	347,334	798,310

2011	Balance at 1 July 2010 No.	Net change No.	Balance at 30 June 2011 No.
R M Harding	–	–	–
S A Chaplain	19,609	30,528	50,137
L Di Bartolomeo	47,959	12,944	60,903
J S Humphrey	54,226	13,756	67,982
C G Thorne	–	13,750	13,750
G A Fenn(i)	–	80,959	80,959
P Borden	1,000	500	1,500
C Bruyn	1,500	300	1,800
D Cattell	9,059	129,886	138,945
S Cinerari(ii)	1,843	(1,043)	800
K Fletcher	3,000	32,000	35,000
D Overall	–	–	–
	138,196	313,580	451,776

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

(ii) Included in comparatives to acknowledge KMP status for one quarter of the year ended 30 June 2011.

NOTE 34. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES – CONTINUED

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

2012

No movement in equity holdings in performance options for D Cattell, C Bruyn and P Borden were registered during the financial year.

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

(i) Included in comparatives to acknowledge KMP status for one quarter of the year ended 30 June 2011.

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

2012

No movement in equity holdings in performance rights for D Cattell, C Bruyn and P Borden were registered during the financial year.

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

(i) Included in comparatives to acknowledge KMP status for one quarter of the year ended 30 June 2011.

NOTE 35. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation	Consolidated 2012 $	Consolidated 2011 $
Short-term employee benefits	**13,039,184**	9,959,936
Post-employment benefits	**882,876**	3,757,805
Share-based payments	**1,749,000**	1,392,500
	15,671,060	15,110,241

NOTE 36. EMPLOYEE DISCOUNT SHARE PLAN

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

No shares were issued under the Employee Discount Share Plan during the year ended 30 June 2012 (2011: 1,884,000 shares issued for a total value of $7.6 million). Refer to Note 24.

NOTE 37. FINANCIAL INSTRUMENTS

(a) Capital risk management

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

The consolidated entity's objectives when managing capital are to safeguard its ability to operate as a going concern so that it can meet all its financial obligations when they fall due, to provide adequate returns to shareholders and to maintain an appropriate capital structure to optimise its cost of capital. The consolidated entity's capital management strategy remains unchanged from 2011.

The consolidated entity monitors its gearing ratio determined as the ratio of net debt to total capitalisation. The gearing ratios at 30 June 2012 and 30 June 2011 were as follows:

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Current borrowings	19	**180,938**	165,121
Non-current borrowings	19	**437,972**	567,665
Gross debt (i)		**618,910**	732,786
Adjustment for the mark to market of derivatives and deferred finance charges		**46,545**	48,286
Adjusted gross debt		**665,455**	781,072
Less: cash and cash equivalents	9	**(296,691)**	(288,575)
Net debt		**368,764**	492,497
Equity (ii)		**1,617,700**	1,442,385
Total capitalisation (Net debt + Equity)		**1,986,464**	1,934,882
Gearing ratio (iii)		**18.6%**	25.5%
Off balance sheet debt			
Operating leases (iv)		**298,994**	241,299
Gearing ratio (including off balance sheet debt)		**29.2%**	33.7%

(i) Gross debt is defined as all borrowings.

(ii) Equity consists of all capital and reserves.

(iii) Net debt/Total capitalisation.

(iv) The Group enters into operating leases with respect to plant and equipment (excluding real property) utilised in its businesses. The present value of these leases at 30 June 2012 discounted at 10 per cent per annum (discount rate prescribed by the loan covenant) was $299.0 million (June 2011: $241.3 million).

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives

The consolidated entity's Treasury function manages the Group's funding, liquidity and financial risks. These risks include foreign exchange, interest rate, commodity and counterparty credit risk.

The consolidated entity may enter into a variety of derivative financial instruments to manage its exposure to foreign exchange rates, interest rates and commodity prices, including:

i) Forward foreign exchange contracts (outright forwards and options) to hedge the exchange rate risk arising from cross border trade flows, foreign income and debt service obligations;

ii) Cross currency interest rate swaps to manage the currency risk associated with currency denominated borrowings;

iii) Interest rate swaps to mitigate the risk of rising interest rates; and

iv) Fuel Index derivatives in relation to its input costs.

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

(c) Accounting policies

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

(d) Foreign currency risk management

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

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

	Financial assets(i)		Financial liabilities(i)	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Consolidated				
US dollar (USD)	**25,594**	23,608	**14,910**	2,026
New Zealand dollar (NZD)	**4,666**	395	**189**	1,449
Great British pound (GBP)	**7,429**	710	**4,706**	162
Euro (EUR)	**14,760**	4,125	**2,588**	454
Singapore dollar (SGD)	**–**	236	**–**	9
	52,449	29,074	**22,393**	4,100

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

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

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

FOREIGN CURRENCY FORWARD CONTRACTS

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

Outstanding contracts	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
	2012	2011	2012 FC'000	2011 FC'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Buy USD / Sell AUD								
Less than 3 months	**0.8947**	0.9122	**81,330**	57,007	**90,902**	62,492	**(11,166)**	(8,793)
3 to 6 months	**0.9351**	0.8769	**81,603**	43,298	**87,271**	49,375	**(6,575)**	(8,287)
Later than 6 months	**0.9305**	0.8310	**146,758**	200,360	**157,718**	241,098	**(9,853)**	(42,935)
			309,691	300,665	**335,891**	352,965	**(27,594)**	(60,015)
Buy AUD / Sell USD								
Less than 3 months	**0.9057**	0.9668	**3,031**	7,150	**3,346**	7,396	**371**	652
3 to 6 months	**0.9678**	0.9167	**2,949**	5,801	**3,047**	6,328	**136**	791
Later than 6 months	**0.9738**	0.8740	**2,275**	7,401	**2,336**	8,468	**70**	1,228
			8,255	20,352	**8,729**	22,192	**577**	2,671
Buy EUR / Sell AUD								
Less than 3 months	**0.6544**	0.5386	**24,056**	8,117	**36,760**	15,068	**(6,903)**	(4,031)
3 to 6 months	**0.6374**	0.6300	**19,439**	31,986	**30,497**	50,769	**(6,073)**	(6,887)
Later than 6 months	**0.7222**	0.6028	**48,377**	60,692	**66,984**	100,691	**(4,365)**	(15,261)
			91,872	100,795	**134,241**	166,528	**(17,341)**	(26,179)
Buy CNY / Sell USD								
Less than 3 months	**6.2726**	6.5193	**135,845**	139,480	**21,657**	21,395	**(198)**	184
3 to 6 months	**6.2324**	6.4543	**137,914**	101,422	**22,128**	15,714	**(450)**	35
Later than 6 months	**6.2537**	6.2460	**627,727**	588,933	**100,378**	94,290	**(2,528)**	(1,529)
			901,486	829,835	**144,163**	131,399	**(3,176)**	(1,310)
Buy KRW / Sell USD								
Less than 3 months	**1,136.9**	–	**2,500,000**	–	**2,199**	–	**(17)**	–
3 to 6 months	**1,138.3**	1,374.0	**2,000,000**	6,583,000	**1,757**	4,791	**(15)**	1,242
Later than 6 months	**1,140.2**	1,383.5	**6,500,000**	6,583,000	**5,701**	4,758	**(70)**	1,220
			11,000,000	13,166,000	**9,657**	9,549	**(102)**	2,462
Buy GBP / Sell AUD								
Less than 3 months	**0.5040**	0.5311	**778**	1,016	**1,544**	1,912	**(348)**	(383)
3 to 6 months	**0.5058**	0.5166	**900**	918	**1,779**	1,778	**(381)**	(377)
Later than 6 months	**0.4956**	0.5038	**914**	4,369	**1,844**	8,673	**(408)**	(1,740)
			2,592	6,303	**5,167**	12,363	**(1,137)**	(2,500)
Buy AUD / Sell ZAR								
Less than 3 months	**8.2421**	7.0138	**1,463**	1,412	**177**	201	**3**	7
3 to 6 months	**8.4207**	7.3268	**743**	1,770	**88**	242	**–**	(2)
Later than 6 months	**8.5586**	–	**294**	–	**34**	–	**–**	–
			2,500	3,182	**299**	443	**3**	5
Buy NZD / Sell AUD								
Later than 6 months	**1.2299**	–	**5,134**	–	**4,174**	–	**(120)**	–

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

CROSS CURRENCY INTEREST RATE SWAPS

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

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

Outstanding contracts	Weighted average interest rate		Weighted average exchange rate		Contract value		Fair value	
	2012 %	2011 %	2012	2011	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Buy USD / Sell AUD								
Less than 1 year	–	6.8	–	0.7217	–	2,772	–	(898)
2 to 5 years	**8.0**	8.0	**0.6787**	0.6787	**103,141**	103,141	**(34,750)**	(33,387)
5 years or more	**6.8**	6.8	**0.7220**	0.7220	**9,695**	9,695	**(2,030)**	(1,935)
					112,836	115,608	**(36,780)**	(36,220)
Buy SGD/Sell AUD								
Less than 1 year	–	8.8	–	1.1845	–	50,654	–	(5,546)
Buy NZD / Sell AUD								
Less than 1 year	**10.0**	–	**1.2384**	–	**28,887**	–	**(897)**	–
1 to 2 years	–	10.0	–	1.2384	–	28,887	–	(873)
					28,887	28,887	**(897)**	(873)

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

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

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

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

	Profit/(loss)[(i)]		Equity[(ii)]	
Consolidated	2012 $'000	2011 $'000	2012 $'000	2011 $'000
USD impact				
– 20% rate change	**2,671**	5,396	**74,811**	67,707
+ 20% rate change	**(1,781)**	(3,597)	**(49,874)**	(45,138)
EUR impact				
– 15% rate change	**2,148**	648	**16,980**	20,088
+ 15% rate change	**(1,588)**	(479)	**(16,980)**	(20,088)
CNY impact				
– 10% rate change	**–**	–	**15,118**	13,591
+ 10% rate change	**–**	–	**(12,387)**	(11,092)
NZD impact				
– 10% rate change	**497**	(117)	**443**	317
+ 10% rate change	**(407)**	96	**(362)**	(388)
GBP impact				
– 15% rate change	**481**	97	**594**	1,411
+ 15% rate change	**(355)**	(71)	**(594)**	(1,411)

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

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

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

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

(e) Interest rate risk management

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

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

	Weighted average effective interest rate		Consolidated	
	2012 %	2011 %	2012 $'000	2011 $'000
Floating interest rates – cash flow exposure				
Bank overdrafts(i)	**5.1**	2.6	**2**	6,343
Bank loans				
AUD	**5.8**	7.6	**19,116**	78,022
GBP	**–**	2.6	**–**	12,244
SGD	**2.2**	3.2	**1,165**	38,970
THB	**–**	3.4	**–**	3,633
AUD medium term notes:				
Series 2010-1	**7.3**	7.9	**44,100**	56,700
Cash and cash equivalents	**3.5**	4.3	**(296,691)**	(288,575)
Cash flow exposure – total			**(232,308)**	(92,663)
Fixed interest rates – fair value exposure				
Bank loans				
AUD	**5.6**	2.9	**29,974**	5,126
SGD	**–**	5.1	**–**	7,687
USD notes	**7.8**	7.8	**112,965**	109,769
AUD medium term notes:				
Series 2009-1	**7.2**	7.2	**83,420**	92,292
Series 2009-2	**9.8**	9.8	**150,000**	150,000
NZD Works Bonds				
NZD (ii)	**9.7**	9.7	**118,424**	116,954
Finance lease and hire purchase liabilities	**7.7**	8.5	**106,289**	103,332
Fair value exposure – total			**601,072**	585,160

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

(i) Bank overdrafts located in Australia (AUD denominated).

(ii) NZD150.0 million fixed rate bonds; partial amount swapped from fixed rate NZD to fixed rate AUD.

The value of the interest rate and cross currency swaps have been included in the debt numbers above.

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

INTEREST RATE SWAP CONTRACTS

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

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

Outstanding floating for fixed contracts	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2012 %	2011 %	2012 $'000	2011 $'000	2012 $'000	2011 $'000
AUD interest rate swaps						
2 to 5 years	**5.0**	–	**22,809**	–	**(833)**	–
5 years or more	**5.2**	5.1	**79,743**	120,397	**(3,677)**	1,028
			102,552	120,397	**(4,510)**	1,028
SGD interest rate swaps						
Less than 1 year	**–**	2.2	**–**	7,567	**–**	(121)
			–	7,567	**–**	(121)

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

INTEREST RATE SENSITIVITY ANALYSIS

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

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

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

	Consolidated	
	2012 $'000	2011 $'000
Increase in rate		
Profit or loss (i)	**2,326**	918
Equity (ii)	**3,384**	4,368
Decrease in rate		
Profit or loss (i)	**(2,327)**	(918)
Equity (ii)	**(3,516)**	(4,563)

(i) This is mainly attributable to the consolidated entity's exposure to interest rates on its unhedged floating cash flow exposure (borrowings and cash and cash equivalents).

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

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

(f) Commodity price risk

The consolidated entity is exposed to commodity price risks arising from variability in the bitumen price. The consolidated entity uses Fuel Oil Index derivative contracts to manage this commodity price exposure on the value of bitumen inventory. The bitumen hedges are designated as fair value hedges of bitumen inventory.

Commodity price risk sensitivity

The sensitivity analysis on commodity price risk has not been disclosed as the amount is not material due to the offsetting impact of the fuel oil hedge and inventory valuations.

(g) Credit risk management

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

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

The credit risk on derivative financial instruments is limited in terms of Treasury Policy to counterparties that have minimum long-term credit ratings from Standard & Poor's of no less than A+. Due to the downward migration of the credit ratings of two existing bank counterparties over recent years, the consolidated entity has exposure to one bank rated A and another rated BBB by Standard & Poor's. These counterparties were rated at A+ or higher when the transactions were originally executed.

Credit risk arising from cash balances held with banks is managed by Group Treasury. Investments of surplus funds are made only with approved counterparties and within approved credit limits assigned to each counterparty.

Counterparty credit limits are reviewed by the Board from time to time. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty default. No material exposure is considered to exist by virtue of the non-performance of any financial counterparty.

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

(h) Liquidity risk management

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

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and committed undrawn debt facilities, by continuously monitoring forecast and actual cash flows and where possible by matching the maturity profiles of financial assets and liabilities. Included in Note 20 is a listing of committed undrawn debt facilities.

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

LIQUIDITY RISK TABLES

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

$'000	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
2012						
Financial liabilities						
Trade payables	**577,954**	**–**	**–**	**–**	**–**	**–**
Bank overdrafts	**2**	**–**	**–**	**–**	**–**	**–**
Supplier finance	**6,332**	**–**	**–**	**–**	**–**	**–**
Bank loans	**12,010**	**10,247**	**9,976**	**9,627**	**6,157**	**–**
USD notes	**5,386**	**5,386**	**71,320**	**445**	**445**	**7,954**
AUD medium term notes (Series 2009-1)	**17,607**	**16,491**	**16,049**	**15,494**	**14,717**	**13,950**
AUD medium term notes (Series 2009-2)	**14,625**	**157,313**	**–**	**–**	**–**	**–**
AUD medium term notes (Series 2010-1)	**15,322**	**14,249**	**13,590**	**6,506**	**–**	**–**
NZD Bonds	**120,366**	**–**	**–**	**–**	**–**	**–**
Total borrowings including interest	**191,650**	**203,686**	**110,935**	**32,072**	**21,319**	**21,904**
Finance lease and hire purchase liabilities	**31,917**	**41,270**	**17,151**	**32,333**	**207**	**–**
Derivative instruments(i)						
Cross currency interest rate swaps						
– Receive leg	**(34,171)**	**(5,454)**	**(72,216)**	**(450)**	**(450)**	**(8,054)**
– Pay leg	**38,650**	**8,974**	**107,255**	**659**	**659**	**11,349**
Interest rate swaps	**1,484**	**1,658**	**995**	**500**	**270**	**99**
Foreign currency forward contracts	**45,705**	**3,674**	**248**	**–**	**–**	**–**
Total	**853,189**	**253,808**	**164,368**	**65,114**	**22,005**	**25,298**
2011						
Financial liabilities						
Trade payables	434,047	–	–	–	–	–
Bank overdrafts	6,343	–	–	–	–	–
Supplier finance	5,276	–	–	–	–	–
Bank loans	115,207	5,719	5,564	5,359	5,084	4,789
USD notes	7,056	5,138	5,138	68,039	424	8,012
AUD medium term notes (Series 2009-1)	19,530	18,664	18,031	17,265	16,245	29,361
AUD medium term notes (Series 2009-2)	14,625	14,625	157,313	–	–	–
AUD medium term notes (Series 2010-1)	16,762	15,783	14,931	13,964	6,582	–
NZD Bonds	11,173	118,632	–	–	–	–
Total borrowings including interest	195,972	178,561	200,977	104,627	28,335	42,162
Finance lease and hire purchase liabilities	26,165	25,413	23,931	22,678	24,009	670
Derivative instruments(i)						
Cross currency interest rate swaps						
– Receive leg	(56,564)	(33,484)	(5,132)	(67,953)	(424)	(8,002)
– Pay leg	69,506	38,519	8,865	107,201	659	12,007
Interest rate swaps	346	103	(301)	(522)	(411)	(396)
Foreign currency forward contracts	46,827	39,731	71	–	–	–
Total	716,299	248,843	228,411	166,031	52,168	46,441

(i) Includes assets and liabilities.

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

(i) Fair value of financial instruments

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

	Carrying amount		Fair value	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Total borrowings[(i)]	**512,621**	629,454	**525,202**	657,608

(i) Total borrowings exclude finance leases and hire purchase liabilities.

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

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

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

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

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

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

Fair value measurements recognised in the statement of financial position

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

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

2012

$'000	Level 1	Level 2	Level 3	Total
Financial assets in designated cash flow hedge accounting relationships				
Foreign currency forward contracts	**–**	**4,084**	**–**	**4,084**
Financial assets in designated fair value hedge accounting relationships				
Fair value commodity hedges	**–**	**419**	**–**	**419**
Financial assets at fair value through profit and loss				
Unquoted equity investments	**–**	**–**	**5,188**	**5,188**
	–	**4,503**	**5,188**	**9,691**
Financial liabilities in designated cash flow hedge accounting relationships				
Foreign currency forward contracts	**–**	**52,993**	**–**	**52,993**
Cross currency and interest rate swaps	**–**	**42,187**	**–**	**42,187**
	–	**95,180**	**–**	**95,180**

2011

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

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

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

Reconciliation of Level 3 fair value measurements of financial assets

2012	Fair value through profit or loss	Available-for-sale	Total
$'000	Unquoted equity investments	Unquoted equity investments	
Opening balance	**5,373**	**13,750**	**19,123**
Net foreign currency exchange	**–**	**(23)**	**(23)**
Settlements	**(185)**	**–**	**(185)**
Disposals of business	**–**	**(13,727)**	**(13,727)**
Closing balance	**5,188**	**–**	**5,188**

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

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

Fair value of financial assets and liabilities

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

NOTE 38. PARENT ENTITY DISCLOSURES

	Company	
	2012 $'000	2011 $'000
(a) Financial position		
Assets		
Current assets	**596,491**	603,975
Non-current assets	**1,162,030**	1,119,009
Total assets	**1,758,521**	1,722,984
Liabilities		
Current liabilities	**56,039**	26,874
Non-current liabilities	**355,012**	353,771
Total liabilities	**411,051**	380,645
Net assets	**1,347,470**	1,342,339
Equity		
Issued capital	**1,249,127**	1,245,294
Retained earnings	**88,378**	82,270
Reserves		
Employee benefit reserve	**9,965**	14,775
Total equity	**1,347,470**	1,342,339
(b) Financial performance		
Profit for the year	**6,108**	87,996
Other comprehensive income	**–**	–
Total comprehensive income	**6,108**	87,996

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

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

(d) Contingent liabilities of the parent entity

The parent entity has no contingent liabilities as at 30 June 2012.

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

The parent entity does not have any commitments for acquisition of property, plant and equipment as at 30 June 2012.

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

(a) The financial statements and notes set out on pages 33 to 112 are in accordance with the Australian *Corporations Act 2001* (Cth), including:

  (i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) The financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;

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

(c) The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* (Cth); and

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

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the *Corporations Act 2001* (Cth).

On behalf of the Directors

R M Harding
Chairman

Sydney, 13 August 2012

Deloitte.

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

Report on the Financial Report

We have audited the accompanying financial report of Downer EDI Limited, which comprises the statement of financial position as at 30 June 2012, and the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 33 to 113.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Deloitte.

Auditor's Independence Declaration

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

Opinion

In our opinion:

(a) the financial report of Downer EDI Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 31 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

Sydney, 13 August 2012

SUSTAINABILITY AT DOWNER

Sustainability for Downer means being a valued contributor to the communities in which we operate, demonstrating sound environmental performance and being a responsible employer, while delivering excellence to our customers and rewarding our shareholders. We recognise that climate change presents a challenge to business, society and the natural environment. Downer is committed to participating in climate change solutions by developing processes and technology to reduce our emissions and overall energy consumption.

We are committed to tracking and disclosing our sustainability impacts, challenges and opportunities through our annual Sustainability Report which is a supplement to our 2012 Annual Report and Annual Review. The Sustainability Report provides a summary of our non-financial, sustainability-related performance for the year ended 30 June 2012 and will be available on the Downer website in December 2012.

Understanding and managing our environmental impacts throughout the lifecycle of our products and services is fundamental to our long-term business success. Our ability to manage these impacts, and to identify opportunities to assist our clients to do the same, will deliver long term environmental benefits for all.

MANAGEMENT SYSTEMS

Downer maintains a Zero Harm Management System (ZHMS) that provides a level of governance across our core safety and environmental management systems. It ensures that all our activities are undertaken in a manner that will not result in harm to the people associated with our operations, to the communities in which we work, or to the environment.

During 2011–12, we undertook a major review of our high level ZHMS documents. These are our 146 Compliance Guides that identify the key requirements for Downer to meet its obligations for compliance with relevant international and Australian standards, conventions, statutes, regulations and codes of practice including:

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

The Compliance Guides reframe these obligations or requirements into a set of documents based on operational issues relevant to Downer's activities. Leadership and how we engage our employees and contractors through training and awareness raising, is fundamental to supporting our management systems and ensuring that they continue to be effective and assist us improving our Zero Harm performance.

A major focus during the year was the integration of essential processes, procedures and systems management across the newly formed division of Downer Australia which integrated the former Works, Engineering, CPG Resources and Emerging Sectors businesses to ensure continuity of Zero Harm practice.

HEALTH AND SAFETY

We aspire to create a Zero Harm environment which, in the context of health and safety, means caring for and protecting our people with a goal of zero injuries or health impacts. Tragically, during the year two employees died as a result of reversing vehicles. Following these fatalities we have undertaken a comprehensive review of work systems and practices and a number of initiatives have been implemented to address the hazards involved with reversing vehicles.

Our health and safety performance is monitored through the measure of Lost Time Injury Frequency Rate (LTIFR)[1] and Total Recordable Injury Frequency Rate (TRIFR).[2] At 30 June 2012, our LTIFR remains less than 1 at 0.93 per million hours worked and the TRIFR continues to reduce and currently is 13.4 per cent lower than the previous year at 6.21 per million hours worked.[3]

ENVIRONMENTAL SUSTAINABILITY

The diversity and scope of Downer's activities mean that our potential sustainability related impacts are wide-ranging. We realise that our social licence to operate is contingent upon our ability to identify, manage and mitigate these impacts. Effective management of our environmental impacts is embedded in our overall risk management processes and our divisions operate under tailored, robust aspects and impacts registers that address site facility and project-based hazards and risks. This approach reflects the diversity of our operations, and the need to focus on industry-specific risks and opportunities.

Climate change remains a key challenge for business, society and the natural environment. We operate within carbon-intensive industries and therefore key challenges for us are the effective management of our own carbon-related activities and the emission of greenhouse gases (GHG) to reduce our emissions intensity. Our response to climate change is an integrated approach to our emission-related activities, focusing on compliance, business improvement and business development opportunities.

As Downer is largely a contract service provider, this strategy has been influenced by the climate change related issues which also have an impact on our customers. Our ability to develop processes and technology to reduce our emissions and overall energy consumption across a wide range of business activities such as mining and manufacturing asphalt allows us to assist our customers in managing the climate change challenges for own their businesses.

Further information about Downer's approach to sustainability is available in our Annual Review and our 2011 Sustainability Reports, which are available on the Downer website at **www.downergroup.com**.

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

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

3 Published safety statistics may be subject to change due to updates in incident classifications and amendments to hours worked. These data will be subject to third party verification and will be published in the 2012 Sustainability Report.

OVERVIEW

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

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

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

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

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

The Board Charter states that the role of the Board is to provide strategic guidance for the Company and to effectively oversee management of the Company. Among other things, the Board is responsible for:

- overseeing the Company, including its control and accountability systems;
- appointing and removing the Group CEO and senior executives;
- monitoring performance of the Group CEO and senior executives; and
- reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

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

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

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

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

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

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

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

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

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Throughout the 2012 financial year, the Board was comprised of a majority of independent Directors.

The Board is currently comprised of the Chairman (Mike Harding, an independent, Non-executive Director), seven independent, Non-executive Directors and an Executive Director (the Group CEO, Grant Fenn). Details of the members of the Board, including their skills, experience, status and their term of office are set out in the Directors' Report on pages 2 to 3 and are also available on the Downer website at **www.downergroup.com**.

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

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

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

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

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

At least one Director must retire from office at each Annual General Meeting (AGM). No Non-executive Director can serve more than three years without offering themselves for re-election.

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

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

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE – CONTINUED

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

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

Board Committee	Chairman	Members
Audit Committee	S A Chaplain	J S Humphrey K G Sanderson C G Thorne
Zero Harm Committee	C G Thorne	G A Fenn R M Harding E A Howell
Nominations and Corporate Governance Committee	R M Harding	S A Chaplain L Di Bartolomeo J S Humphrey K G Sanderson
Remuneration Committee	L Di Bartolomeo	S A Chaplain P S Garling R M Harding
Risk Committee	C G Thorne	S A Chaplain L Di Bartolomeo G A Fenn P S Garling R M Harding E A Howell J S Humphrey K G Sanderson
Disclosure Committee	R M Harding	G A Fenn J S Humphrey

The names of members of each committee, the number of meetings and the attendances by each of the members of the various committees to which they are appointed are set out in the Directors' Report on page 8.

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

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

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

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE – CONTINUED

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

The Committee's responsibilities include:

– assessing the skills and competencies required on the Board;
– assessing the extent to which the required skills are represented on the Board;
– establishing processes for the review of the performance of individual Directors and the Board as a whole;
– establishing processes for identifying suitable candidates for appointment to the Board; and
– recommending the engagement of nominated persons as Directors.

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

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

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

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

The Board is currently undertaking an externally facilitated review of its performance and that of its Committees. The review includes written surveys and interviews. The Board will discuss the results of the review at a Board meeting.

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

Directors are given an induction briefing by the Company Secretary and an induction pack containing information about Downer and its business, Board and Committee charters and Downer group policies. New Directors also meet with key senior executives to gain an insight into the Company's business operations and the Downer group structure.

Directors are encouraged to continually build on their exposure to the Company's business and a formal program of Director site visits has been in place since 2009.

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

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

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Downer strives to attain the highest standards of behaviour and business ethics when engaging in corporate activity. The Downer Standards of Business Conduct sets the ethical tone and standards of the Company and deals with matters such as:

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

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

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

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

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

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

DIVERSITY AT DOWNER

Downer formalised its practices in a Diversity and Inclusiveness Policy in July 2011, that sets out the diversity strategy for Downer, which has a particular focus on gender, age and cultural diversity. Downer also has established a Diversity and Inclusiveness Committee made up of senior executives across the Group which meets on a regular basis.

Prior to the adoption of the Diversity and Inclusiveness Policy, Downer has reported on diversity in its annual Sustainability Report since 2009.

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

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING – CONTINUED

ASX DIVERSITY RECOMMENDATIONS – DIVERSITY STATEMENT

This diversity statement outlines Downer's performance throughout 2012 with respect to gender diversity and specifically includes:

– details of Downer's key gender representation metrics;
– an overview of the gender diversity initiatives undertaken by Downer throughout 2012; and
– an outline of Downer's measurable gender diversity objectives for 2013.

GENDER REPRESENTATION METRICS

As at 30 June 2012, the gender representation metrics were as follows:

– three of the eight non-executive directors on the Downer Board are women;
– women currently make up six per cent of Senior Management/Executive roles; and
– women constitute approximately 11 per cent of Downer's workforce.

LOOKING BACK: FY 2012 MEASURABLE OBJECTIVES

Objective	Outcome
Improve the gender balance of the Downer Board.	During 2012, Downer appointed two women to its Board as Non-executive Directors resulting in a total of three female Board members.
Increase the number of new female Senior Management/ Executive appointments.	The number of women holding Senior Management/Executive roles remained static at 6 per cent.
Increase the number of female applicants and female recruitment across all roles in Downer.	The number of females recruited by Downer increased by 2 per cent, while the number of applicants decreased by 1 per cent.
To undertake a review of the issues facing women in the workplace at Downer so that structured consultative processes, initiatives, policies and support programs can be established.	A gender diversity survey was sent to over 2,000 women across all roles in Australia and New Zealand, of which 1,150 women participated. The analysis of the findings of the survey has resulted in the recommendation of a number of gender related initiatives and programs, and the formation of focus groups to further analyse the findings and ensure that those initiatives and programs are prioritised appropriately.
Continue to promote awareness and understanding of the importance of diversity and inclusiveness at a Senior Executive/Management level.	Diversity and inclusiveness was established as a standing agenda item at the monthly executive committee meeting attended by Downer's most senior executives. The executive committee considers and endorses recommendations made by Downer's Diversity and Inclusiveness Committee and monitors the status of diversity and inclusiveness issues as well as the progress made on initiatives and programs.
Increase awareness of Indigenous and Torres Strait Islander affairs.	Downer has developed an Indigenous and Torres Strait Islander Affairs strategy for the Group covering matters such as governance, stakeholder engagement, social investment, business partnerships and indigenous employment.
Increase the number of Indigenous and Torres Strait Islander employees across the Group.	The number of Indigenous and Torres Strait Islander employees has increased by approximately 200 since 2010/2011.

MOVING FORWARD: FY13 MEASURABLE OBJECTIVES

As part of Downer's ongoing commitment to the regular review and updating of its measurable objectives, Downer has re-affirmed its objectives for 2013:

– continue to incrementally increase the number of women holding Senior Management/Executive positions;
– continue to improve recruitment processes to increase the number of female applicants across all roles in Downer;
– continue to review, evaluate and assess the initiatives, policies and programs that have been or are in the process of being implemented to ensure such initiatives, policies and programs remain relevant to the issues facing women in the Downer workforce; and
– continue to promote awareness and an understanding of Indigenous and Torres Strait Islander affairs by implementing the Indigenous and Torres Strait Islander Affairs strategy at the Group level.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

The Audit Committee assists the Board to fulfil its responsibility relating to the quality and integrity of the accounting, auditing and reporting practices of the Company and its role includes a particular focus on the qualitative aspects of financial reporting to shareholders.

The Audit Committee is structured so that it:

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

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

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

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

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

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The Company's Disclosure Policy sets out processes which assist the Company to ensure that all investors have equal and timely access to material information about the Company and that Company announcements are factual and presented in a clear and balanced way. A copy of the Disclosure Policy is available on the Downer website at **www.downergroup.com**.

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

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

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Downer empowers its shareholders by:

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

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

The Company publishes corporate information on its website (**www.downergroup.com**), including Annual and Half Year Reports, ASX announcements and media releases.

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

Downer's external auditor attends the Company's AGMs and is available to answer any questions which shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

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

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

Downer has a risk management function to monitor risk and uses external consultants to assist with the ongoing review of risk management across the Downer Group. Downer has also established principles for the Company to follow to ensure that contract formation and contract management processes are maintained and improved.

Management reports regularly to the Board on the effectiveness of Downer's management of its material business risks. The Board regularly reviews the effectiveness of the Company's systems for the management of material business risks and the implementation of these systems.

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

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK – CONTINUED

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

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

The Board receives assurances from the Group CEO and the Group CFO that the declaration provided in accordance with section 295A of the *Corporations Act 2001* (Cth) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

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

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

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

Remuneration of the Group CEO, executive directors and non-executive directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

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

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

The maximum aggregate fee approved by shareholders that can be paid to Non-executive Directors is $2.0 million per annum. This cap was approved by shareholders on 30 October 2008. Further details about remuneration paid to Non-executive Directors are set out in the Remuneration Report at page 10.

The Company's previous Constitution allowed for retiring Non-executive Directors to receive a retiring allowance, subject to the limitations set out in the *Corporations Act 2001* (Cth). Consistent with the ASX Principles, the right to retirement benefits was frozen in 2005. However, because remuneration arrangements for some Non-executive Directors were in place prior to 2005, information about any payments has been fully provided in the financial statements where such retirement benefits have been paid. Directors entitled to a retirement benefit were paid a reduced fee and once a director's accumulated reduction in base fees has reached the value of the retirement benefit, the applicable base fee reverts to the general fee level. This has been applied to Mr Humphrey from 1 July 2009. The retirement benefit has not been offered to Non-executive Directors appointed subsequently.

Non-executive Directors do not participate in any equity incentive schemes.

The remuneration structure for Executive Directors and senior executives is designed to achieve a balance between fixed and variable remuneration taking into account the performance of the individual and the performance of the Company. Executive Directors receive payment of equity-based remuneration as short and long-term incentives.

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

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report at page 10 and details of Downer shares beneficially owned by Directors are provided in the Directors' Report at page 4.

DOWNER SHAREHOLDERS

Downer had 23,157 ordinary shareholders as at 30 June 2012.

The largest shareholder, National Nominees Ltd, holds 21.49% of the 429,100,296 fully paid ordinary shares issued at that date. Downer has 20,599 shareholders with registered addresses in Australia.

SECURITIES EXCHANGE LISTING

Downer is listed on the Australian Securities Exchange (ASX) under the 'Downer EDI' market call code 3965, with ASX code DOW, and is secondary listed on the New Zealand Exchange with the ticker code DOW NZ.

COMPANY INFORMATION

The Company's website **www.downergroup.com** offers comprehensive information about Downer and its services. The site also contains news releases and announcements to the ASX, financial presentations, Annual Reports, Half Year Reports and company newsletters. Downer printed communications for shareholders include the Annual Report which is available on request.

DIVIDENDS

Dividends are determined by the Board having regard to a range of circumstances within the business operations of Downer including operating profit and capital requirements. The level of franking on dividends is dependent on the level of taxes to be paid to the Australian Taxation Office.

International shareholders can use Computershare's Global Payments System to receive dividend payments in the currency of their choice at a nominal cost to the shareholder.

DIVIDEND REINVESTMENT PLAN

Downer's Dividend Reinvestment Plan (DRP) is a mechanism to allow shareholders to increase their shareholding in the Company without the usual costs associated with share acquisitions, such as brokerage. Details of the DRP are available from the company's website or the Easy Update website at www.computershare.com.au/easyupdate/dow. The DRP is currently suspended.

SHARE REGISTRY

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

Level 5
115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

Tel: 1300 556 161 (within Australia)
+61 3 9415 4000 (outside Australia)

Fax: 1300 534 987 (within Australia)
+61 3 9473 2408 (outside Australia)

www.computershare.com

Shareholders must give their holder number (SRN/HIN) when making inquiries. This number is recorded on issuer sponsored and CHESS statements.

UPDATING YOUR SHAREHOLDER DETAILS

Shareholders can update their details (including bank accounts, DRP elections, tax file number and email addresses) online at www.computershare.com.au/easyupdate/dow.

Shareholders will require their holder number (SRN/HIN) and postcode to access this site.

TAX FILE NUMBER INFORMATION

Providing your tax file number to Downer is not compulsory. However, for shareholders who have not supplied their tax file number, Downer is required to deduct tax at the top marginal rate plus Medicare levy from unfranked dividends paid to investors residing in Australia. For more information please contact Computershare.

LOST ISSUER SPONSORED STATEMENT

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

ANNUAL REPORT MAILING LIST

Shareholders must elect to receive a Downer Annual Report by writing to Computershare Investor Services Pty Ltd at the address provided. Alternatively shareholders may choose to receive this publication electronically.

CHANGE OF ADDRESS

So that we can keep you informed, and protect your interests in Downer, it is important that you inform Computershare of any change of your registered address.

AUDITOR

Deloitte Touche Tohmatsu
Level 3, 225 George Street
SYDNEY NSW 2000

REGISTERED OFFICE AND PRINCIPAL ADMINISTRATION OFFICE

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AUSTRALIAN SECURITIES EXCHANGE INFORMATION AS AT 30 JUNE 2012

Number of holders of equity securities

ORDINARY SHARE CAPITAL

429,100,296 fully paid listed ordinary shares were held by 23,157 shareholders. All issued ordinary shares carry one vote per share.

SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders of Downer as at 30 June 2012.

Shareholders	Ordinary shares held	% of issued shares
JCP Investment Partners Ltd	30,986,090	7.22
Dimensional Fund Advisors LP	21,455,380	5.00

DISTRIBUTION OF HOLDERS OF QUOTED EQUITY SECURITIES

Shareholder distribution of quoted equity securities as at 30 June 2012.

Range of holdings	Number of shareholders	Shareholders %	Ordinary shares held	Shares %
1 - 1,000	13,000	56.1	5,792,991	1.35
1,001 - 5,000	7,948	34.3	18,392,423	4.29
5,001 - 10,000	1,316	5.7	9,316,497	2.17
10,001 - 100,000	828	3.6	18,572,127	4.33
100,001 and over	65	0.3	377,026,258	87.86
Total	23,157	100.0	429,100,296	100.00
Holding less than a marketable parcel of shares	1,305			

TWENTY LARGEST SHAREHOLDERS

Downer's twenty largest shareholders of ordinary fully paid shares as at 30 June 2012.

Shareholders	Shares held	% of issued shares
National Nominees Limited	92,192,959	21.49
J P Morgan Nominees Australia Limited	86.951.980	20.26
HSBC Custody Nominees (Australia) Limited	74,323,092	17.32
Citicorp Nominees Pty Ltd	26,998,932	6.29
JP Morgan Nominees Australia Limited – Cash Income A/C	20,356,876	4.74
Cogent Nominees Pty Ltd	19,173,258	4.47
HSBC Custody Nominees (Australia) Limited – NT-Comnwlth Super Corp A/C	9,949,943	2.32
Citicorp Nominees Pty Ltd – Colonial First State Inv A/C	8,790,835	2.05
CPU Share Plans Pty Ltd	8,149,914	1.90
AMP Life Ltd	4,233,577	0.99
Cogent Nominees Pty Limited – SMP Accounts	3,449,027	0.80
Cogent Nominees Pty Limited – DRP	2,783,750	0.65
Queensland Investment Corporation	2,448,015	0.57
Argo Investments Ltd	2,392,527	0.56
HSBC Custody Nominees (Australia) Ltd – A/C 3	1,636,546	0.38
Masfen Securities Ltd	1,171,647	0.27
Sandhurst Trustees Ltd – Harper Bernays Ltd	916,944	0.21
Mr Barry Sydney Patterson + Mrs Glenice Margaret Patterson	891,642	0.21
Suncorp Custodian Services Pty Limited – SGAEAT	807,948	0.19
Woodross Nominees Pty Ltd	514,691	0.12
Total for top 20 shareholders	368,134,103	85.79

ON-MARKET BUY-BACK

There is no current on-market buy-back.

DOWNER GROUP OFFICE

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