Downer EDI Limited
ABN: 97 003 872 848

Condensed Consolidated Financial Report for the half-year ended 31 December 2011

Results for announcement to the market
for the half-year ended 31 December 2011

Appendix 4D

	First half FY2012 $'000	First half FY2011 $'000	% change
Continuing and discontinued operations:			
Revenue from ordinary activities	**3,707,911**	3,273,528	13.3%
Total revenue and other income	**3,715,077**	3,279,961	13.3%
Total revenue and other income including joint ventures	**3,926,103**	3,429,065	14.5%
Earnings before interest and tax (before individually significant item)	**160,350**	132,444	21.1%
Earnings before interest and tax (after individually significant item)	**160,350**	(117,556)	
Profit/(loss) from ordinary activities after tax attributable to members of the parent entity (after individually significant item)	**84,882**	(103,813)	

	First half FY2012 cents	First half FY2011 cents	% change
Basic earnings per share	**18.5**	(32.0)	
Diluted earnings per share	**17.7**	(32.0)	
Net tangible asset backing per ordinary share excluding disposal group	**206.7**	149.6	38.2%

Dividends

No interim dividend will be paid in relation to the half-year ended 31 December 2011.

No interim dividend was paid in relation to the half-year ended 31 December 2010.

	2012	2011	
ROADS			
Redeemable Optionally Adjustable Distributing Securities (ROADS)			
Dividend per ROADS (in Australian cents)	**2.7**	2.7	
New Zealand imputation credit percentage per ROADS	**100%**	100%	
ROADS payment date			
Quarter 1 instalment date	**15/09/2011**	15/09/2010	
Quarter 2 instalment date	**15/12/2011**	15/12/2010	

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

Condensed Consolidated Financial Report
for the half-year ended 31 December 2011

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Directors' Report

The Directors of Downer EDI Limited (Downer EDI) submit the condensed consolidated financial report of the company for the half-year ended 31 December 2011. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors

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

R M Harding	(Chairman, Independent Non-executive Director)
G A Fenn	(Managing Director and Chief Executive Officer)
L Di Bartolomeo	(Independent Non-executive Director)
S A Chaplain	(Independent Non-executive Director)
P S Garling	(Independent Non-executive Director - appointed 24 November 2011)
E A Howell	(Independent Non-executive Director - appointed 16 January 2012)
J S Humphrey	(Independent Non-executive Director)
K G Sanderson	(Independent Non-executive Director - appointed 16 January 2012)
C G Thorne	(Independent Non-executive Director)

Review of operations

Highlights

- Total revenue[1] of $3.9 billion, up 14.5%
- Earnings before interest and tax (EBIT) of $160.4 million, up 21.1%
- Net profit after tax of $85.0 million, up 19.4%
- Operating cash flow of $107.1 million
- Liquidity of $820 million, comprising cash of $222 million and undrawn committed facilities of $598 million
- Work-in-hand of $20 billion
- Safety performance – LTIFR: 0.93 per million hours worked

Financial Performance

Downer reported total revenue of $3.9 billion for the six months to 31 December 2011, 14.5% higher than the previous corresponding period. This growth was driven by Downer Mining which reported a 78.6% increase in revenue to $1.1 billion and Downer Australia which increased revenue by 8.0% to $1.7 billion.

The divisional contributions to Group revenue were: Downer Australia $1.7 billion, Downer New Zealand $411 million, Downer Mining $1.1 billion and Downer Rail $576 million.

Earnings before interest and tax (EBIT) was $160.4 million, 21.1% higher than the previous corresponding period. Net profit after tax (NPAT) was 19.4% higher at $85.0 million.

Downer currently has work-in-hand worth over $20 billion comprising the following divisional contributions: Downer Australia $5.8 billion; Downer New Zealand $2.6 billion; Downer Mining $7.0 billion; and Downer Rail $4.9 billion.

Operating cash flow was $107.1 million after $83.4 million of cash outflows relating to the Waratah train project.

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

Capital Management

During the six month period, Downer financed $112 million in new debt and bonding facilities, refinanced the $260 million Waratah syndicated bonding facility and extended $602 million of existing bilateral facilities.

At 31 December 2011, Downer had gearing (net debt/net debt plus total equity) of 26.9% (36.8% including operating leased plant and equipment) and total available liquidity of $820 million, comprising cash of $222 million and undrawn committed facilities of $598 million.

The Downer Board decided not to declare an interim dividend. Downer will pay the next dividend on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

Governance

Downer appointed three new Non-executive Directors to the Board during the six month period. Philip Garling was appointed a Non-executive Director on 24 November 2011. On 16 December 2011, Downer announced the appointment of Kerry Sanderson AO and Eve Howell as Non-executive Directors, effective 16 January 2012.

Zero Harm

An extremely disappointing aspect of Downer's performance over the past three months has been two workplace fatalities on road maintenance sites, one in Australia and one in New Zealand. Notwithstanding Downer's strong commitment and focus on health and safety, these tragic accidents highlight the risks associated with many of the sectors in which Downer operates and the need to be totally focused on achieving Zero Harm.

Downer's Lost Time Injury Frequency Rate (LTIFR) for the six month period was 0.93 per million hours worked. Industry leaders maintain a LTIFR below one per million hours worked. Downer's Total Recordable Injury Frequency Rate reduced from 7.96 to 7.72 per million hours worked.

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

Operational Highlights

Downer Mining

Downer Mining performed well during the six month period with revenue growth driven by the ramp up of operations at Christmas Creek, Goonyella and Norwich Park. Downer Mining currently has work-in-hand worth $7.0 billion.

Downer Mining's total revenue for the half year was $1.1 billion, 78.6% higher than the previous corresponding period. EBIT was 73.1% higher at $88.0 million with an EBIT margin of 7.8%. Return on Funds Employed (ROFE) rose from 15.4% to 23.6%.

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

- mine infrastructure, drill and blast and load and haul of overburden and ore at Christmas Creek in the East Pilbara region of Western Australia for Fortescue Metals Group. This is a six-year contract that was awarded in August 2010 and is valued at approximately $3 billion;

- load and haul of prestrip material and drill and blast services at Goonyella Riverside Mine, and load and haul of prestrip material at Norwich Park Mine (both in the Bowen Basin, Central Queensland) for BHP Billiton Mitsubishi Alliance. This involves five-year extension and expansion contracts, awarded in July 2010 and jointly valued at approximately $2 billion;

- drill and blast, mine planning, and load and haul of both overburden and coal at Boggabri open-cut coal mine in the Gunnedah Basin, New South Wales for Idemitsu Australia Resources Pty Ltd. This five-year agreement commenced in December 2011 and the value of the contract revenue will depend on the mine's production output, which has yet to be finalised. The base case values revenue at approximately $900 million over the duration of the contract; and

- mine infrastructure, drill and blast, and load and haul of waste and ore for Karara Mining Limited, an incorporated joint venture between Gindalbie Metals Limited and Anshan Iron & Steel Group Corporation (AnSteel), at the Karara Iron Ore Project in Western Australia. The contract commenced in February 2012 and has total estimated revenue of approximately $570 million over the six year contract.

Downer's blasting and tyre management businesses continued to win new contracts and contract extensions and reported solid revenue and earnings growth during the six month period. The underground business also continued to perform well and is actively pursuing new opportunities.

Downer Mining maintained its overarching focus on continuous improvement of its Zero Harm performance. This includes improved safety results as well as being an active part of the solution to climate change through delivering emission reductions for its customers' mining operations.

Downer Mining continues to implement a range of indigenous employment programs, including through successful partnerships with its customers and government authorities.

Downer Rail

Downer Rail's performance in the six month period was solid, although delivery of new locomotives and passenger cars was lower than the prior corresponding period. Downer Rail continues to win the majority of new passenger and locomotive contracts in Australia.

Downer Rail is facing increasing competition from global players and this is putting pressure on both revenue and margins. Downer Rail is implementing a range of efficiency and cost improvement programs to ensure it remains competitive, including initiatives to reduce locomotive manufacturing lead times and costs.

Downer Rail reported $576 million total revenue for the half year, down 13.8% from the previous corresponding period. EBIT was 10% lower at $42.9 million with EBIT margins rising slightly to 7.5%. ROFE fell 9.1 percentage points to 16.0%.

Demand for resources, particularly coal and iron ore, drives demand for Downer Rail's narrow and standard gauge locomotives, however this demand is returning to more sustainable levels. Downer Rail's current major locomotive customers include QR National, Pacific National, SCT, BHP Billiton, Fortescue Metals Group, TasRail and Genesee Wyoming Australia.

In December 2011, Downer Rail (in partnership with Progress Rail USA, a subsidiary of Caterpillar) was awarded a rolling stock supply contract to design, build and deliver 17 new PR22L locomotives for TasRail, Tasmania's State owned rail company. The first new locomotives are expected to be delivered in mid-2013 and the total value of the project is over $60 million.

Downer Rail is also a leading provider and maintainer of passenger rolling stock. In July 2011, Downer (in a joint venture with Bombardier Transportation Australia) was awarded contracts to supply and maintain passenger rail cars for Western Australia's Public Transport Authority. Downer Rail's other passenger customers are Queensland Rail, RailCorp (NSW) and Metro Trains Melbourne.

Yarra Trams, the operator of Melbourne's tram network, continues to operate successfully. The consortium behind Yarra Trams is KDR, a partnership between Downer and Keolis, an international transport solution provider. A Downer Keolis joint venture is also a member of the GoldLinQ Consortium that was the successful proponent to operate the first light rail system on the Gold Coast in Queensland (scheduled to commence in 2014).

Downer Rail currently has work-in-hand worth $4.9 billion.

Downer Australia (established from 1 July 2011 by merging the Australian Engineering, Works, Emerging Sectors and CPG Resources businesses)

The establishment of Downer Australia has delivered a range of benefits, including an increased focus on key customers and markets and significantly improved project and risk management practices.

Downer Australia reported total revenue of $1.7 billion for the six month period, an increase of 8.0% on the previous corresponding period. EBIT was 3.0% lower at $58.6 million, primarily due to onerous legacy contracts including the Curragh coal handling and preparation plant (CHPP). EBIT margin was down 0.3 percentage points to 3.5%. ROFE fell 5.7 percentage points to 15.1%.

Downer Australia currently has work-in-hand worth $5.8 billion.

Downer Australia was awarded a number of new projects during the six month period, including:

- an alliance contract with Xstrata Coal for the development of a 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 number of electrical and instrumentation contracts with customers including BHP, Rio Tinto and Fortescue Metals Group; and

- road and rail maintenance and civil construction work across the ACT, New South Wales, Queensland, Tasmania, Victoria and Western Australia.

Following a review of the CPG consultancy businesses, Downer announced on 14 December 2011 that it had signed a Share Sale Agreement with China Architecture Design and Research Group to sell CPG Asia for A$147 million. Completion of the sale is expected around the end of the first quarter of the 2012 calendar year. CPG Australia and CPG New Zealand remain part of the Downer Group.

The review did not include Downer's resource-focused consultancy businesses – Snowden, QCC and Mineral Technologies – which became part of Downer Australia on 1 July 2011. These businesses performed well during the six month period and have a strong pipeline of opportunities.

Downer New Zealand

Downer New Zealand continues to experience very difficult economic conditions, compounded by general uncertainties around ongoing seismic activity around Christchurch. There has been a significant reduction in expenditure by Central and Local governments and the marketplace remains very competitive with pressure on revenue and margins in all sectors.

Total revenue was $411 million, down 4.4% from the previous corresponding period. EBIT was 8.6% lower at $7.8 million and EBIT margin was down slightly to 1.9%. ROFE fell 3.2 percentage points to 16.4%.

Downer New Zealand currently has work-in-hand worth $2.6 billion.

Downer New Zealand is a key member of the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) that will rebuild 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 with Downer expected to carry out approximately 20% of this work.

Downer New Zealand 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.

Waratah Train Project

Information on the Waratah Train Project is provided in Note 1 of the Condensed Consolidated Financial Report for 31 December 2011.

Downer Group Outlook

Downer's operational outlook is strong and Downer confirms its previous full year guidance of underlying EBIT of around $340 million and NPAT of around $180 million.

As a result of the restructure of Reliance Rail, Downer will transfer the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. This transfer will have no impact on cash, equity, net assets or underlying earnings but will negatively impact full year statutory earnings.

Summary of financial results for the half-year ended 31 December 2011

$million (unless otherwise stated)	First half FY2012	Variance to prior corresponding period	
Continuing and discontinued operations:			
Revenue from ordinary activities	**3,707.9**	**434.4**	**13.3%**
Total revenue [1]	**3,926.1**	**497.0**	**14.5%**
Statutory EBIT	**160.4**	**277.9**	**236.4%**
Statutory NPAT attributable to members	**84.9**	**188.7**	**181.8%**
Underlying EBIT [2]	**160.4**	**27.9**	**21.1%**
Underlying EBIT margin (%) [2]	**4.1%**	**0.2 ppts**	
Underlying NPAT attributable to members [2]	**84.9**	**13.7**	**19.2%**
Underlying Effective tax rate (%) [2]	**30.0%**	**3.0 ppts**	
Operating cash flow	**107.1**	**(16.5)**	**(13.3%)**
Underlying ROFE (%) [3]	**17.0%**	**(0.2)ppts**	

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

2. Underlying EBIT, NPAT and Effective tax rate are calculated as the statutory measures adjusted for the effects of any individually significant items, including tax effects.

3. Underlying ROFE is Underlying EBIT (including discontinued operations) divided by average funds employed (AFE) (AFE = Average Net Debt + Average Equity for December 2011 and December 2010).

Revenue

Revenue from ordinary activities totalled $3.7 billion, 13.3% higher than the previous corresponding period. Downer Mining performed particularly well, with revenue rising 78.6% to $1.1 billion. The other divisional contributions to revenue were: Downer Australia $1.7 billion (up 8.0%); Downer New Zealand $411 million (down 4.4%) and Downer Rail $576 million (down 13.8%).

Total revenue, which includes Downer's proportionate share of revenue from non-consolidated joint ventures and associates, increased 14.5% to $3.9 billion.

EBIT

Statutory EBIT was $160.4 million. This compared with a loss of $117.6 million for the previous corresponding period due to a provision of $250 million relating to the Waratah train project. Statutory EBIT was up 21.1% when compared with the prior period's underlying EBIT result of $132.4 million. EBIT margin was 0.2 percentage points higher at 4.1%.

Net interest and tax

Net interest expense for the period was $38.9 million, up 11.5%, reflecting an increase in borrowing rates and an increase in net debt. Tax expense on profit was $36.4 million, reflecting an effective tax rate of 30.0%. Actual tax paid during the year was $9.9 million.

NPAT

Statutory NPAT was $85.0 million. This compared with a loss of $103.8 million for the previous corresponding period, which included the $175 million post-tax provision taken on the Waratah Train Project. Statutory NPAT was 19.4% higher than the prior period's underlying NPAT of $71.2 million.

Balance Sheet

Net assets totalled $1,513 million at 31 December 2011, an increase of $70.7 million compared to June 2011.

Included within total equity is a hedge reserve with a debit balance of $83.4 million. This includes the mark-to-market movements for foreign exchange and interest rate derivative instruments which are subject to hedge accounting as at 31 December 2011 and a debit balance of $72.5 million related to Downer's investment in Reliance Rail. The balance represents Downer's equity-accounted share of the historical movements of Reliance Rail hedge reserves. The hedge reserve is being amortised on a straight-line basis over a 30-year period.

As a result of the restructure of Reliance Rail, Downer will transfer the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. This transfer will have no impact on cash, equity, net assets or underlying earnings but will negatively impact full year statutory earnings.

Gearing (net debt/ net debt plus total equity) was 26.9% at 31 December 2011. Adjusted Net Debt[1] divided by Adjusted EBITDAR[2] was 2.96 times (2.71 times as at June 2011).

Cash flow

Operating cash flow totalled $107.1 million, a $16.5 million reduction on the prior corresponding period. Cash outflows relating to the Waratah train project totalled $83.4 million and so underlying operating cash flow was $190.5 million, which is 119% of EBIT.

Investing cash outflows totalled $148.9 million, primarily comprising $161.1 million in capital expenditure less $18.6 million from the sale of properties and other equipment, including sale and leaseback of plant and equipment.

Financing cash outflows totalled $18.0 million, comprising a $12.4 million reduction in net proceeds from borrowings and $5.5 million dividends paid to ROADS security holders.

Cash on hand at 31 December 2011 totalled $222.1 million, a $66.5 million decrease when compared to 30 June 2011. Total debt facilities, adjusted for the mark-to-market revaluation of relevant hedges and deferred finance charges, at 31 December 2011 were $1,378 million, of which $780 million was drawn ($598 million undrawn). Net debt at 31 December 2011 was $557.6 million, an increase of $65.1 million since 30 June 2011.

Liquidity totalled $820 million, comprising cash of $222 million and undrawn committed facilities of $598 million.

Bid, performance and retention bond facilities available to the Group at 31 December 2011 were $1,141 million of which $960 million was drawn ($181 million undrawn). Analysis of debt and bonding facilities is detailed within Notes 15 and 16 of the Condensed Consolidated Financial Report for 31 December 2011.

Dividends

The Downer Board has decided not to declare an interim dividend. Downer will pay the next dividend on its Redeemable Optionally Adjustable Distributing Securities (ROADS).

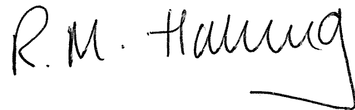
[1] Adjusted net debt is Net Debt plus 6 times operating lease expense on a rolling 12 month basis.
[2] Adjusted EBITDAR is calculated as statutory earnings before interest, tax, depreciation, amortisation and operating lease rental expense on equipment and properties on a rolling 12 month basis.

Auditors' independence declaration

The auditors' independence declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 9.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



R M Harding
Chairman

Sydney, 21 February 2012

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

21 February 2012

Dear Directors

Downer EDI Limited

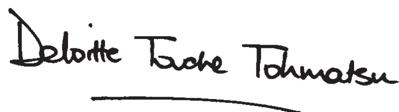
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Downer EDI Limited.

As lead audit partner for the review of the consolidated financial report of Downer EDI Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully



DELOITTE TOUCHE TOHMATSU

A V Griffiths
Partner
Chartered Accountants

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

We have reviewed the accompanying half-year financial report of Downer EDI Limited, which comprises the condensed statement of financial position as at 31 December 2011, and the condensed income statement, the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 12 to 51.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Downer EDI Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Auditor's Independence Declaration

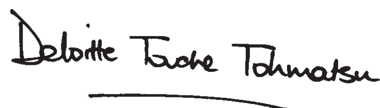
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Downer EDI Limited, would be in the same terms if given to the directors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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

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



DELOITTE TOUCHE TOHMATSU

A V Griffiths
Partner
Chartered Accountants

Sydney, 21 February 2012

Condensed consolidated income statement
for the half-year ended 31 December 2011

	Note	Consolidated	
		First half FY2012 $'000	First half FY2011 $'000
From continuing operations			
Revenue from ordinary activities	3(a)	**3,616,741**	3,176,190
Finance income	3(a)	**3,243**	3,968
Other income	3(a)	**3,888**	2,467
Total revenue		**3,623,872**	3,182,625
Employee benefits expense [1]	3(b)	**(1,256,250)**	(1,038,171)
Raw materials and consumables used [1]		**(747,478)**	(842,540)
Subcontractor costs [1]		**(633,855)**	(639,184)
Plant and equipment costs [1]		**(549,692)**	(289,392)
Communication expenses		**(31,894)**	(26,143)
Occupancy costs		**(56,475)**	(48,072)
Professional fees		**(13,307)**	(20,124)
Travel and accommodation expenses		**(50,746)**	(34,310)
Other expenses from ordinary activities		**(27,376)**	(35,333)
Depreciation and amortisation	3(b)	**(119,052)**	(95,230)
Finance costs	3(b)	**(41,366)**	(38,369)
Share of net profit of joint venture entities and associates	7	**30,363**	13,795
Individually significant item	4	**-**	(250,000)
		(3,497,128)	(3,343,073)
Profit/(loss) before income tax from continuing operations		**126,744**	(160,448)
Income tax (expense)/benefit		**(37,429)**	50,687
Profit/(loss) after income tax from continuing operations		**89,315**	(109,761)
Profit/(loss) from continuing operations attributable to:			
Non-controlling interest		**4**	(21)
Members of the parent entity		**89,311**	(109,740)
Profit/(loss) for the period from continuing operations		**89,315**	(109,761)
Discontinued operations			
(Loss)/profit from discontinued operations	17	**(4,325)**	5,950
Profit/(loss) for the period		**84,990**	(103,811)
Profit/(loss) for the period that is attributable to:			
Non-controlling interest		**108**	2
Members of the parent entity		**84,882**	(103,813)
Total profit/(loss) for the period		**84,990**	(103,811)
Earnings per share (cents)			
Basic earnings/(loss) per share			
- From continuing operations	6	**19.5**	(33.7)
- From discontinued operations		**(1.0)**	1.7
		18.5	(32.0)
Diluted earnings/(loss) per share			
- From continuing operations	6	**18.7**	(33.7)
- From discontinued operations		**(1.0)**	1.7
		17.7	(32.0)

[1] The December 2010 balance has been restated to better reflect costs incurred. There has been no impact on the profit before income tax as a result of these changes.

The condensed consolidated income statement should be read in conjunction with the accompanying notes on pages 18 to 50.

Condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2011

	Consolidated	
	First half FY2012 $'000	First half FY2011 $'000
Profit/(loss) after income tax	**84,990**	(103,811)
Other comprehensive income		
- Exchange differences arising on translation of foreign operations	**(1,881)**	(17,829)
- Net gain on available-for-sale investments taken to equity	**-**	2,207
- Net loss on cross currency interest rate swaps taken to equity	**(8,469)**	(2,412)
- Net (loss)/gain on foreign currency forward contracts taken to equity	**(1,522)**	6,771
- Amortisation on share of reserves from associates	**1,318**	1,401
- Income tax relating to components of other comprehensive income	**2,928**	(1,586)
Other comprehensive expense included in equity	**(7,626)**	(11,448)
Total comprehensive income/(loss) for the period	**77,364**	(115,259)
Total comprehensive income/(loss) for the period that is attributable to:		
Non-controlling interest	**108**	2
Members of the parent entity	**77,256**	(115,261)
Total comprehensive income/(loss) for the period	**77,364**	(115,259)

The condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 18 to 50.

Condensed consolidated statement of financial position

As at 31 December 2011

	Note	Consolidated December 2011 $'000	June 2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**211,188**	288,575
Inventories		**259,114**	192,568
Trade and other receivables		**1,358,532**	1,312,998
Other financial assets		**3,857**	6,078
Current tax assets		**13,765**	14,312
Other assets		**68,938**	40,961
Non-current assets classified as held for sale		**1,417**	-
Assets classified as disposal group	17	**137,122**	-
Total current assets		**2,053,933**	1,855,492
Non-current assets			
Trade and other receivables		**2,427**	-
Equity-accounted investments		**53,088**	37,354
Other financial assets		**16,296**	30,977
Property, plant and equipment		**1,051,986**	1,055,015
Intangible assets	8	**594,990**	589,195
Deferred tax assets		**109,771**	137,949
Other assets		**4,294**	4,684
Total non-current assets		**1,832,852**	1,855,174
Total assets		**3,886,785**	3,710,666
LIABILITIES			
Current liabilities			
Trade and other payables		**1,179,357**	1,117,726
Borrowings	15	**281,116**	165,121
Provisions		**259,719**	239,659
Current tax liabilities		**380**	3,866
Other financial liabilities		**74,816**	74,629
Liabilities directly associated with assets classified as disposal group	17	**39,943**	-
Total current liabilities		**1,835,331**	1,601,001
Non-current liabilities			
Trade and other payables		**4,246**	2,812
Borrowings	15	**447,329**	567,665
Provisions		**30,802**	18,809
Deferred tax liabilities		**4,334**	6,279
Other financial liabilities		**51,645**	71,715
Total non-current liabilities		**538,356**	667,280
Total liabilities		**2,373,687**	2,268,281
Net assets		**1,513,098**	1,442,385
EQUITY			
Issued capital	10	**1,425,854**	1,423,897
Reserves	11	**(123,689)**	(121,581)
Equity amounts relating to assets classified as disposal group	17	**(8,507)**	-
Retained earnings		**219,395**	139,969
Parent interests		**1,513,053**	1,442,285
Non-controlling interest		**45**	100
Total equity		**1,513,098**	1,442,385

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 18 to 50.

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2011

$'000	Issued capital	Hedge reserve (Note 11)	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	**-**	**-**	**-**	**-**	**84,882**	**84,882**	**108**	**84,990**
Exchange differences arising on translation of foreign operations	**-**	**-**	**(1,881)**	**-**	**-**	**(1,881)**	**-**	**(1,881)**
Net loss on foreign currency forward contracts	**-**	**(1,522)**	**-**	**-**	**-**	**(1,522)**		**(1,522)**
Net loss on cross currency interest rate swaps	**-**	**(8,469)**	**-**	**-**	**-**	**(8,469)**	**-**	**(8,469)**
Amortisation on share of reserves from associates	**-**	**1,318**	**-**	**-**	**-**	**1,318**	**-**	**1,318**
Income tax relating to components of other comprehensive income	**-**	**2,928**	**-**	**-**	**-**	**2,928**	**-**	**2,928**
Total comprehensive income for the period	**-**	**(5,745)**	**(1,881)**	**-**	**84,882**	**77,256**	**108**	**77,364**
Vested executive incentive shares transactions	**1,957**	**-**	**-**	**(1,957)**	**-**	**-**	**-**	**-**
Share-based transactions during the period	**-**	**-**	**-**	**(1,488)**	**-**	**(1,488)**	**-**	**(1,488)**
Income tax relating to share-based transactions during the period	**-**	**-**	**-**	**456**	**-**	**456**	**-**	**456**
Payment of dividends [1]	**-**	**-**	**-**	**-**	**(5,456)**	**(5,456)**	**(163)**	**(5,619)**
Balance at 31 December 2011	**1,425,854**	**(83,418)**	**(60,564)**	**11,786**	**219,395**	**1,513,053**	**45**	**1,513,098**

[1] Payment of dividends relates to ROADS dividends paid during the financial period and dividends paid to non-controlling interest in CPG Asia.

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 18 to 50.

Condensed consolidated statement of changes in equity - *continued*

for the half-year ended 31 December 2011

$'000	Issued capital	Available-for-sale investment reserve	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	**Attributable to owners of the parent**	Non-controlling interest	**Total**
Balance at 1 July 2010	1,118,675	(2,816)	(84,642)	(39,945)	19,510	231,974	**1,242,756**	95	**1,242,851**
Loss after income tax	-	-	-	-	-	(103,813)	**(103,813)**	2	**(103,811)**
Exchange differences arising on translation of foreign operations	-	-	-	(17,829)	-	-	**(17,829)**	-	**(17,829)**
Net gain on available-for-sale investments	-	2,207	-	-	-	-	**2,207**	-	**2,207**
Net gain on foreign currency forward contracts [1]	-	-	6,771	-	-	-	**6,771**	-	**6,771**
Net loss on cross currency interest rate swaps	-	-	(2,412)	-	-	-	**(2,412)**	-	**(2,412)**
Amortisation on share of reserves from associates	-	-	1,401	-	-	-	**1,401**	-	**1,401**
Income tax relating to components of other comprehensive income	-	(397)	(1,189)	-	-	-	**(1,586)**	-	**(1,586)**
Total comprehensive loss for the period	-	1,810	4,571	(17,829)	-	(103,813)	**(115,261)**	2	**(115,259)**
Contributions of equity (net of transaction costs) [2]	27,601	-	-	-	-	-	**27,601**	-	**27,601**
Share-based transactions during the period	-	-	-	-	(3,393)	-	**(3,393)**	-	**(3,393)**
Income tax relating to share-based transactions during the period	-	-	-	-	2,643	-	**2,643**	-	**2,643**
Payment of dividends [3]	-	-	-	-	-	(58,979)	**(58,979)**	-	**(58,979)**
Balance at 31 December 2010	1,146,276	(1,006)	(80,071)	(57,774)	18,760	69,182	**1,095,367**	97	**1,095,464**

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

[2] Contributions of equity relate to shares issued as a result of Employee Share Plan and Dividend Re-investment Plan operable for the 2010 Final Dividend.

[3] Payment of dividends relates to 2010 final dividend and ROADS dividends paid during the financial period.

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 18 to 50.

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2011

	Note	Consolidated First half FY2012 $'000	Consolidated First half FY2011 $'000
Cash flows from operating activities			
Receipts from customers		**4,003,786**	3,754,313
Distributions from equity-accounted investments		**16,957**	4,535
Dividends received from external entities		**18**	4
Payments to suppliers and employees		**(3,868,398)**	(3,596,051)
Interest received		**3,021**	3,761
Interest and other costs of finance paid		**(38,427)**	(35,552)
Income tax paid		**(9,861)**	(7,414)
Net cash flows from operating activities		**107,096**	123,596
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**12,596**	25,542
Payments for property, plant and equipment		**(161,065)**	(221,848)
Proceeds from sale and leaseback of plant and equipment		**5,957**	59,465
Payments for intangible assets	8	**(1,510)**	(563)
Receipts from/(payments for) investments		**3,038**	(492)
(Advances to)/ repayments from joint ventures		**(6,879)**	96
Payments for businesses acquired		**(1,000)**	-
Net cash flows used in investing activities		**(148,863)**	(137,800)
Cash flows from financing activities			
Proceeds from borrowings		**902,266**	461,746
Repayments of borrowings		**(914,634)**	(458,774)
Proceeds from issue of equity securities		**-**	79
Dividends paid	5	**(5,456)**	(38,952)
Dividend paid to non-controlling interest		**(163)**	-
Net cash flow used in financing activities		**(17,987)**	(35,901)
Net decrease in cash and cash equivalents		**(59,754)**	(50,105)
Cash and cash equivalents at the beginning of the period		**282,232**	378,382
Effect of exchange rate changes		**(1,033)**	(10,465)
Cash and cash equivalents at the end of the period	12	**221,445**	317,812

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 18 to 50.

Notes to the condensed consolidated financial statements
for the half-year ended 31 December 2011

Note 1. Summary of accounting policies

Statement of Compliance

These condensed consolidated financial statements represent the consolidated results of Downer EDI Limited (ABN 97 003 872 848) ("Downer"). The condensed consolidated half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the condensed consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS') and AASB 134 *Interim Financial Reporting* and Interpretations, and comply with other requirements of the law.

This half-year Financial Report does not include all of the notes that would normally be included in an Annual Financial Report and should be read in conjunction with the 2011 Annual Report.

The condensed consolidated financial statements were authorised for issue by the Directors on 21 February 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 condensed consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies and methods of computation in the preparation of the half-year Financial Report are consistent with those adopted and disclosed in Downer's Annual Report for the financial year ended 30 June 2011.

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

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

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

Note 1. Summary of accounting policies - *continued*

Application of critical judgements and key sources of estimation uncertainty

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

Revenue recognition

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

A fundamental condition for being able to estimate profit recognition based on percentage of completion is that project revenues and project costs can be reliably estimated. This reliability is based on such factors as compliance with the Group’s system for project control and that project management has the necessary skills. Project control also includes a number of estimates and assessments that depend on the experience and knowledge of project management in respect of project control, industrial relations, risk management, training and the prior management of 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 variations are recognised in revenue, assumptions are made regarding the probability that customers will approve variations and the amount of revenue arising from variations. In respect of costs, key assumptions regarding costs to complete contracts may include estimation of labour, technical costs, impact of delays and productivity. Changes in these estimation methods could have a material impact on the financial statements of Downer.

Capitalisation of tender/bid costs

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

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

Key contracts and suppliers

A number of contracts that Downer enters into are long-term contracts with recurring revenues but are terminable on short notice for convenience. There is a risk that key contracts may not be renewed, may be renewed on less favourable terms or may be cancelled. Similarly, where Downer is reliant on one or a small set of key suppliers to provide goods and services, the performance of these suppliers will impact Downer’s ability to complete projects and earn profits. In addition, there are particular suppliers with whom Downer has a long-term relationship 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 a world market. Management judgement is therefore required to estimate the impact of loss of key contracts and suppliers on future earnings supporting existing goodwill and intangible assets.

Note 1. Summary of accounting policies - *continued*

Waratah train project

The new Waratah Train Project (WTP) team has made a number of significant changes to the program design and focus over the past six to nine months. They 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 key assumptions in relation to the revised program.

The provision reflects the revised program (Master Program Schedule 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 interiors fully installed and have been used as test trains. These will be returned to CRC to be retrofitted to the required standard and will be available for Practical Completion (PC) in late 2013;
2. Trains 3 to 9 (the initial recovery phase) 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 2010);
3. Trains 10 to 14 have been built by CRC and are currently within the production facility at Cardiff. The construction of these trains has been 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 re-work. The program schedule has been adjusted so that this additional work can be carried out at Cardiff efficiently;
4. Trains 15 to 42 are to be built using a flow-line process that has been implemented in the interior fit-out shop in CRC. Process and design improvements in the bodyshell shop have resulted in the body shells having been built to tighter tolerances that further aids the efficiency of interior installation. These trains are of a higher quality, with significantly reduced re-work and with design changes as a result of testing and development included in the base build. These trains are scheduled to be completed at Cardiff which has recently implemented four new flow lines with four stations, replacing the previous two flow-lines with eight stations. WTP has established a goal of zero re-work from Train 26 from CRC (expected ex CRC in May 2012); and
5. Trains 43 to 78 are scheduled to be built based on a second major configuration freeze following implementation of further design improvements for simpler assembly and higher quality of the passenger areas in the interior fit-out shop. Increased output from CRC will be required to match the targeted delivery program. Investment in two additional flow-lines has been provided by CRC to support the required increase in output. Further acceleration of the flow-lines in Cardiff will also be required although the planning for the reduction in flow-line pulse from five days to four days has already been completed and demonstrated as achievable well within the timescales allowed for in the program.

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

- Since 30 June 2011, 6 trains have been presented to RailCorp, received PC and are available for passenger service;
- On 20 February 2012, the 7th Waratah train received PC from RailCorp;
- The ‘initial recovery phase’ for these first seven trains has had an adverse impact on the program schedule in the second half of FY2012. The current delivery schedule provides for the delivery of 5 more trains to RailCorp prior to the end of FY2012 and a further 14 trains (a total of 26 trains) by the end of calendar year 2012; and
- The program initiatives still enable Train 78 to be delivered to RailCorp and enter passenger service before the end of FY2014.

In relation to future train performance, the Director General of Transport for New South Wales has the ability to reassess the reliability performance at the PC of Train 17.

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

Note 1. Summary of accounting policies - *continued*

Key assumptions underpinning the manufacturing program include:
- Implementation of Lean Manufacturing initiatives in China (jointly with CRC) and Cardiff will continue to improve the quality and production rates and be evidenced by 30 June 2012;
- Investments by Downer (copper bed welder and tooling) at CRC and investments by CRC with additional resources and flow lines will increase production rates from 16 cars a month to initially 20 cars a month by the middle of 2012;
- Improved quality from CRC will result in more efficient production rates and reduced labour hours at Cardiff. This is being evidenced during work on Train 15 in February 2012;
- Ongoing commitment to the resolution of minor defects on trains to enable presentation to RailCorp for PC;
- The re-design of the remaining components and assemblies to achieve the estimated production rates and required quality levels in the bodyshell and interior fit-out shops in China for Train 15 onwards (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;
- 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;
- 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 is assumed to 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 FCAC assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature; and
- An accelerated delivery cadence is accepted by RailCorp.

The FCAC provides for liquidated damages in line with the revised delivery program with no specific contingency for Liquidated Damages (LDs). The general contingency held within the FCAC totals ~$70 million.

Cost Category	June 11 Estimate $m	Change $m	Dec 11 Estimate $m
Materials and Sub-Contracted Components	1,034	13	1,047
Labour	300	3	303
Engineering Services	148	8	156
Transport, Logistics and Procurement	172	(8)	164
Project Management	126	10	136
Insurance, Bonding and Finance	92	(33)	59
Forecast Liquidated Damages (LDs)	150	20	170
Manufacturing Delay Account (MDA) interest receivable	(117)	13	(104)
Other Costs	87	(2)	85
General Contingency	90	(20)	70
Total FCAC	**2,082**	**4**	**2,086**
Revenue	**1,652**	**4**	**1,656**
FCAC (Loss)	**(430)**	**-**	**(430)**

Note 1. Summary of accounting policies - *continued*

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 16 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.
- It is assumed that any materials obsolescence associated with value engineering (or investments in Supplier tooling) will be offset by additional savings in scheduling (e.g. LD's) or in manufacturing cost reductions from Cardiff.

The program has implemented a number of specific business controls 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 Product (and associated re-work programs), Stainless Steel and Flooring. The impact of these areas remains work in progress and whilst representing some additional risk to the total materials cost, it is still too early to specifically identify expected cost. It is our belief that these cost risks are 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 three year build time frame and that there are no latent defects or quality issues in any parts or designs provided. Should any latent defects manifest through the build or testing phase, it is assumed that they will be rectified at the supplier's cost with no significant delays to the manufacturing schedule. Where we have identified Suppliers with inherent risks in quality, the programme has implemented secondary sourcing strategies to address the supply chain and cost risks. 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.

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

Labour

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

Included within the Cardiff labour in the FCAC is allowance for the significant rework of Trains 1 to 14 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 tradesmen are available to perform this transferred scope of work and that they will be paid ordinary rates pursuant to the Enterprise Bargaining Agreements that are in force. No provision has been made in the FCAC for the potential future redundancy costs associated with making Cardiff staff redundant at the completion of this project on the assumption that all staff will be redeployed.

Note 1. Summary of accounting policies - *continued*

Engineering Services

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

Transport, Logistics and Procurement

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

The FCAC provides 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. Additionally, an Advanced Loss of Profits (ALOP) insurance policy has been in place for all transport to Train 72. This policy is currently under review.

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.

During the period to December, the FCAC cost has been decreased by $8.0 million largely due to cost savings forecast in labour associated with fulfillment of the procurement function and the retirement of risk on logistics / shipping costs previously anticipated based upon early trains.

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.

During the period to December, the FCAC cost has been increased by $10.0 million to reflect investments in key areas:

- China based resources to assist the management and mitigation of key delivery and production risks from our manufacturing partner, CRC;
- Project management resources to more effectively lead and drive key delivery areas of the project;
- Specialist consultants (Lean Manufacturing) to assist acceleration of the program and to mitigate risk of inefficient or mis-managed production; and
- General cost prolongation for the initial phase of the program.

Note 1. Summary of accounting policies - *continued*

Insurance, Bonding & 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 RSM phase insurance have been managed to create a $1.0 million reduction based on current re-estimations of costs. 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 31 December 2011. Financing costs also include the cost of hedging the foreign exchange risk associated with foreign denominated costs included within the FCAC. It is noted that approximately 85 per cent of the foreign currency costs were hedged at inception of the Rolling Stock Manufacture (RSM) contract.

The foreign currency equivalent of A$181.1 million is currently unhedged. At current exchange rates at 31 December 2011, this represents a foreign exchange opportunity of $35.5 million not historically reflected in the FCAC. This benefit booked in the FCAC at 31 December 2011 creates an offset against increases in forecast liquidated damages, MDA interest decreases and bonding increases associated with MPS11.

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 has had an adverse impact on the program schedule in the second half of FY2012. However the revised program takes this into account as well as the new agreement reached with CRC and the new processes implemented at Cardiff. The delay extends partially through the year with a corresponding increase in LDs of $20.0 million.

The projected LDs of $170 million represent an approximate delay of 13 months for every train to be delivered, which is consistent with the entry into passenger service of Train 1 in June 2011, compared to the original contract delivery date of Train 1 of April 2010 (after allowing for the three month grace period). Forecast LDs assume a relaxation of the delivery cadence between trains (initially 15 days moving to 10 days). This has been demonstrated with the acceptance process between Trains 3 and 4 and again between Trains 5 and 6. There is now an agreement with RailCorp and the Department of Transport that supports the intent to accelerate the rate at which trains are accepted into service and discussions will continue on this in coming months.

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. The current FCAC position has restated the anticipated MDA interest based upon a combination of actual deposit rates of 4.5% 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%.

This has had a negative impact on the December FCAC position by some $27 million, offset by a $12 million MDA gain from additional delays on Trains 8-15 and from reassessment of the timing of the drawdown of progress claims. An additional $2 million improvement is as a result of the requirement to maintain $12.5 million within the MDA until 2018 as part of the Reliance Rail restructure.

Note 1. Summary of accounting policies - *continued*

General Contingency

The FCAC no longer includes a specific contingency for additional LDs. Any slippage in the revised delivery program will be required to be funded from the general contingency. A general contingency of $70 million is now included in the FCAC to cover unforeseen events or cost variations that may arise over the life of a program of this size and complexity.

The FCAC discussed above does not rely on any recovery from claims submitted or other commercial actions which may be available to Downer from either RailCorp or from Suppliers.

Similarly, if the project experiences incremental delays beyond December 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 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 (RSM Contract);
- Construct a maintenance facility at Auburn (the Maintenance Facility Contract), NSW 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.

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

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

The balance of the funding is a $357 million senior, secured committed bank debt facility (Bank Facility), which was raised in December 2006 with scheduled drawdowns over 18 months to commence in February 2012. This facility remained undrawn at 31 December 2011.

The $357 million Bank Facility is subject to Reliance Rail lodging drawdown notices over the next 18 months and the banks providing funding in line with their commitment. The first drawdown notice for $2.4 million was lodged by Reliance Rail on 21 February 2012. The first drawdown date is 27 February 2012.

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

Note 1. Summary of accounting policies - *continued*

The Auditor's Report in respect of Reliance Rail's financial statements for the year ended 30 June 2011 included an "Emphasis of Matter", which outlined the uncertainties relating to Reliance Rail's ability to refinance its borrowings when they fall due, the first of which is between September 2016 - 2018. The opinion considered it appropriate for the financial statements to be prepared on a "Going Concern" basis at that date.

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

Reliance Rail's funding arrangements are on a non-recourse basis to Downer and except as set out in Note 13 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 million in 2018 in Reliance Rail in return for 100 per cent of the equity, subject to certain conditions precedent being achieved. As stated above, Reliance Rail's remaining debt funding of $357 million is still subject to Reliance Rail lodging drawdown notices over the next 18 months and the banks providing funding in line with their commitment.

As a result of the restructure of Reliance Rail, Downer will transfer the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. This transfer will have no impact on cash, equity, net assets or underlying earnings but will negatively impact full year statutory earnings.

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

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

- A pre-tax accounting loss of between $450-$500 million, which includes the write-off of the $72.5 million currently reflected in Hedge Reserves; and
- A negative cash impact of between $300-$350 million, which would be payable over several years as sub-contractor 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;
- Downer ceases to manufacture trains and ceases testing and commissioning activities;
- Approximately 40 per cent of all currently committed purchase orders could be mitigated by suppliers;
- All current Work In Progress (WIP) and future payments to suppliers (approximately 60 per cent of current committed purchase orders) will be written off assuming no recoveries;
- No provision has been made for redundancy costs on the assumption that all permanent staff will be redeployed;
- All foreign exchange contracts are closed out at current market rates;
- All performance bonds issued to Reliance Rail are returned to Downer;
- 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.

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

Note 1. Summary of accounting policies - *continued*

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. Key assumptions requiring Management's judgement include projected cash flows, growth rate estimates, discount rates, gross margin, working capital and capital expenditure.

Annual leave and long service leave

The provision is calculated using expected future increases in wages and salary rates including on-costs and expected settlement dates based on staff turnover history and is discounted using the rates attaching to Australian Government bonds at balance date 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 on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

Note 1. Summary of accounting policies - *continued*

Environmental risk and regulation

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

New accounting standards and interpretations

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

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- *AASB 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 2013;
- *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 1053 Application of Tiers of Australian Accounting Standards* effective 1 January 2013;
- *AASB 10 Consolidated Financial Statements* effective 1 January 2013;
- *AASB 11 Joint Arrangements* effective 1 January 2013;
- *AASB 12 Disclosure of Involvement with 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; and
- *AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* effective 1 January 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 aggregated operating segments determined by the similarity of the services provided, as these are the sources of the Group's major risks and have the greatest effect on the rates of return. The operating segments identified within the Group are outlined below:

Downer Australia: Downer Australia is the aggregation of several operating segments, 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.

Note 2. Segment information - *continued*

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as the Group accounting policies disclosed in the Company's 2011 Annual Report. Inter-entity sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods.

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

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

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

	First half FY2012 $'000
Rendering of services	**29,155**
Mining services	**340,254**
	369,409

The above customer did not contribute 10% or more to the Group's revenue in the prior corresponding period.

No other single customer contributed 10% or more to the Group's revenue for first half FY2012 or for first half FY2011.

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

Note 2. Segment information - *continued*

	Total revenue [i]		Share of sales revenue in joint venture entities and associates		Total revenue including joint ventures and associates	
	First half FY2012 $'000	First half FY2011 $'000	**First half FY2012 $'000**	First half FY2011 $'000	**First half FY2012 $'000**	First half FY2011 $'000
Continuing operations						
By business segment						
Downer Australia	**1,620,473**	1,548,303	**75,767**	22,083	**1,696,240**	1,570,386
Mining	**1,097,456**	594,579	**35,429**	39,596	**1,132,885**	634,175
Rail	**479,155**	583,297	**96,508**	84,244	**575,663**	667,541
Downer New Zealand	**408,838**	427,736	**2,624**	2,559	**411,462**	430,295
Consulting	**29,143**	30,155	**-**	-	**29,143**	30,155
Inter-segment sales	**(12,043)**	(5,339)	**-**	-	**(12,043)**	(5,339)
Subtotal	**3,623,022**	3,178,731	**210,328**	148,482	**3,833,350**	3,327,213
Unallocated	**850**	3,894	**-**	-	**850**	3,894
Total - continuing operations	**3,623,872**	3,182,625	**210,328**	148,482	**3,834,200**	3,331,107
Discontinued operations						
CPG Asia	**91,205**	97,336	**698**	622	**91,903**	97,958
Total - including discontinued	**3,715,077**	3,279,961	**211,026**	149,104	**3,926,103**	3,429,065

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

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

Note 2. Segment information - *continued*

Continuing operations	Note	Segment results First half FY2012 $'000	Segment results First half FY2011 $'000
By business segment			
Downer Australia		**58,585**	60,366
Mining		**87,981**	50,830
Rail		**42,892**	47,664
Downer New Zealand		**7,778**	8,508
Consulting		**(1,464)**	(9,325)
Total reported segment income		**195,772**	158,043
Unallocated:			
Provision for Waratah train project	4	-	(250,000)
Other		**(30,905)**	(34,090)
Total unallocated		**(30,905)**	(284,090)
Interest revenue	3(a)	**3,243**	3,968
Interest expense	3(b)	**(41,366)**	(38,369)
Net interest expense		**(38,123)**	(34,401)
Profit/(loss) before income tax from continuing operations		**126,744**	(160,448)
Income tax (expense)/benefit		**(37,429)**	50,687
Net profit/(loss) after tax from continuing operations		**89,315**	(109,761)
Discontinued operations			
Reported (loss)/income - CPG Asia		**(4,517)**	8,491
Net interest expense		**(813)**	(524)
(Loss)/profit before income tax from discontinued operations		**(5,330)**	7,967
Income tax benefit/(expense)		**1,005**	(2,017)
Net (loss)/profit after tax from discontinued operations		**(4,325)**	5,950
Total net profit/(loss) after tax		**84,990**	(103,811)

Reconciliation of segment net operating profit from continuing operations to net profit/(loss) after tax from continuing operations:

	Note	First half FY2012 $'000	First half FY2011 $'000
Segment net operating profit		**195,772**	158,043
Provision for Waratah train project	4	-	(250,000)
Gain on property sales		-	1,850
Settlement/provision for customer contracts		**2,111**	(5,710)
Restructuring costs		**(2,074)**	(4,994)
Corporate costs		**(30,942)**	(25,236)
Total unallocated		**(30,905)**	(284,090)
Interest revenue		**3,243**	3,968
Interest expense		**(41,366)**	(38,369)
Total profit/(loss) before income tax from continuing operations		**126,744**	(160,448)
Income tax (expense)/benefit		**(37,429)**	50,687
Total net profit/(loss) after tax from continuing operations		**89,315**	(109,761)

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

Note 3. Profit from ordinary activities - continuing operations

	Note	Consolidated	
		First half FY2012 $'000	First half FY2011 $'000
a) Revenue			
Sales revenue			
Rendering of services		**1,898,501**	1,845,461
Mining services		**1,078,662**	584,402
Construction contracts		**512,729**	640,713
Sale of goods		**120,337**	96,217
Other revenue			
Other revenue		**2,313**	5,588
Rental income		**4,197**	3,805
Dividends			
Other entities		**2**	4
		3,616,741	3,176,190
Interest revenue			
Other loans and receivables	2	**3,243**	3,968
Other income			
Net gain on disposal of property, plant and equipment		**3,855**	2,467
Net foreign exchange gains		**33**	-
Total other income		**3,888**	2,467
Total revenue and other income		**3,623,872**	3,182,625
Share of sales revenue from joint venture entities and associates	2	**210,328**	148,482
Total revenue and other income including joint ventures and associates		**3,834,200**	3,331,107

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

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

	Note	Consolidated	
		First half FY2012 $'000	First half FY2011 $'000
b) Operating expenses			
Finance costs on liabilities carried at amortised cost:			
Interest expense		**37,669**	36,633
Finance lease expense		**3,697**	1,736
Total finance costs	2	**41,366**	38,369
Depreciation and amortisation of non-current assets:			
Plant and equipment		**106,331**	90,118
Buildings		**1,029**	1,274
Amortisation of leased assets		**9,149**	2,746
Total depreciation		**116,509**	94,138
Amortisation of intellectual property/software	8	**2,543**	1,092
Total depreciation and amortisation		**119,052**	95,230
Operating lease expenses related to land and buildings		**31,796**	29,267
Operating lease expenses related to plant and equipment		**115,026**	50,400
Total operating lease expenses		**146,822**	79,667
Employee benefits expense:			
Defined contribution plans		**66,084**	54,503
Share-based transactions		**(1,488)**	2,528
Other employee benefits		**1,191,654**	981,140
Total employee benefits expense		**1,256,250**	1,038,171

Note 4. Individually significant item

	Consolidated	
	First half FY2012 $'000	First half FY2011 $'000
The following material item is relevant to an understanding of the Group's financial performance:		
- Provision for Waratah train project (Note 1)	**-**	250,000
	-	250,000

Provision for Waratah train project

On 27 January 2011, the Group announced a $250.0 million pre-tax provision on the Waratah Rolling Stock Manufacture (RSM) train project following a full review of the project. The review undertaken revealed that the tendered estimates did not sufficiently provide for the full extent of the design development and approval, material supply and time-related project overhead costs being incurred during the procurement and manufacturing phases of the contract. The provision represents the best professional estimate of the forward forecast cost to complete for a project of this size and complexity at this stage of completion. The key elements of the provision have been identified in Note 1.

Note 5. Dividends

a) Ordinary shares

No interim dividend will be paid in relation to the half-year ended 31 December 2011.

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

b) Redeemable Optionally Adjustable

Distributing Securities (ROADS)	**Quarter 1 2012**	**Quarter 2 2012**			**Total 2012**
Dividend per ROADS (in Australian cents)	**1.38**	**1.34**			**2.72**
New Zealand imputation credit percentage	**100%**	**100%**			**100%**
Cost (in A$'000)	**2,769**	**2,687**			**5,456**
Payment date	**15/09/2011**	**15/12/2011**			

	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	15/09/2010	15/12/2010	15/03/2011	15/06/2011	

Notes to the condensed consolidated financial statements - *continued*

for the half-year ended 31 December 2011

Note 6. Earnings per share

	First half FY2012 Cents per share	First half FY2011 Cents per share
Basic earnings per share (EPS)		
- Continuing operations	**19.5**	(33.7)
- Discontinued operations	**(1.0)**	1.7
	18.5	(32.0)

	Continuing operations	**Discontinued operations**
2011		
Profit/(loss) attributable to members of the parent entity ($'000)	**89,311**	**(4,429)**
Adjustment to reflect ROADS dividends paid ($'000)	**(5,456)**	**-**
Profit/(loss) attributable to members of the parent entity used in calculating EPS ($'000)	**83,855**	**(4,429)**
Weighted average number of ordinary shares (WANOS) on issue (000's)	**429,100**	**429,100**
Earnings per share (cents per share)	**19.5**	**(1.0)**

	Continuing operations	Discontinued operations
2010		
(Loss)/profit attributable to members of the parent entity ($'000)	(109,740)	5,927
Adjustment to reflect ROADS dividends paid ($'000)	(5,212)	-
(Loss)/profit attributable to members of the parent entity used in calculating EPS ($'000)	(114,952)	5,927
Weighted average number of ordinary shares (WANOS) on issue (000's)	340,172	340,172
Earnings per share (cents per share)	(33.7)	1.7

Note 6. Earnings per share - *continued*

	First half FY2012 Cents per share	First half FY2011 Cents per share
Diluted earnings per share (EPS)		
- Continuing operations	**18.7**	(33.7)
- Discontinued operations	**(1.0)**	1.7
	17.7	(32.0)

	Continuing operations	**Discontinued operations**
2011		
Profit/(loss) attributable to members of the parent entity used in calculating EPS ($'000)	**89,311**	**(4,429)**
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)]	**48,814**	**48,814**
WANOS used in the calculation of EPS (000's)	**477,914**	**477,914**
Earnings per share (cents per share)[(ii)]	**18.7**	**(1.0)**

(i) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the period end. 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 ($152.3 million), divided by the market price of the Company's ordinary shares ($3.20) discounted by 2.5 per cent according to the ROADS contract terms.

(ii) At 31 December 2011, the ROADS are deemed anti-dilutive; hence diluted EPS for discontinued operations remained at (1.0) cents per share.

	Continuing operations	Discontinued operations
2010		
(Loss)/profit attributable to members of the parent entity used in calculating EPS ($'000)	(109,740)	5,927
Weighted average number of ordinary shares (WANOS) on issue (000's)	340,172	340,172
WANOS adjustment to reflect potential dilution for ROADS (000's)[(i)]	33,890	33,890
WANOS used in the calculation of EPS (000's)	374,062	374,062
Earnings per share (cents per share)[(ii)]	(33.7)	1.7

(i) The WANOS adjustment is the value of ROADS which could potentially be converted into ordinary shares at the period end. 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 ($151.7 million), divided by the market price of the Company’s ordinary shares ($4.59), discounted by 2.5 per cent according to the ROADS contract terms.

(ii) At 31 December 2010, the ROADS are deemed anti-dilutive; hence diluted EPS for continuing operations remained at (33.7) cents per share.

Notes to the condensed consolidated financial statements - *continued*
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Note 7. Joint ventures and associate entities

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

Name of entity	Principal activity	Country of incorporation	Ownership interest December 2011 %	Ownership interest December 2010 %
Joint ventures				
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
Bitumen Importers Australia Joint Venture	Construction of bitumen storage facility	Australia	**50**	50
Bitumen Importers Australia Pty Ltd	Bitumen importer	Australia	**50**	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco Ltd	Emulsion plant	New Zealand	**50**	50
John Holland EDI Joint Venture	Research reactor	Australia	**40**	40
MPE Facilities Management Sdn Bhd	Facilities management consultancy service	Malaysia	**50**	50
Roche Thiess Linfox Mining and Earthworks Pty Ltd	Contract mining; civil works and plant hire	Australia	**44**	44
SIP Jiacheng Property Development Co Ltd	Property development	China	**-**	50
DownerMouchel (i)	Road maintenance	Australia	**50**	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
Dust-A-Side Australia Ptv Ltd (ii)	Dust suppression to mine industry	Australia	**50**	-
Clough Downer Joint Venture (ii)	Gas compression facilities and pipelines	Australia	**50**	-

(i) 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.

(ii) Joint venture interests were invested in Dust-A-Side Australia Pty Ltd and Clough Downer joint ventures during the first half of the financial year.

Name of entity	Principal activity	Country of incorporation	Ownership interest December 2011 %	Ownership interest December 2010 %
Associates				
Clyde Babcock Hitachi (Australia) Pty Ltd	Refurbishment, construction and maintenance of boilers	Australia	**27**	27
D'axis Planners & Consultants Co. Ltd	Master planning and consulting service	China	**40**	40
Reliance Rail Pty Ltd	Rail manufacturing and	Australia	**49**	49
KDR Victoria Pty Ltd	Operation of Yarra Trams and Melbourne tram network	Australia	**49**	49
KDR Gold Coast Pty Ltd	Operations and maintenance for Gold Coast Rapid Transit Project	Australia	**49**	-

Note 7. Joint ventures and associate entities - *continued*

	Consolidated	
	First half FY2012 $'000	First half FY2011 $'000
Share of net profit of joint ventures entities and associates:		
- Continuing operations	**30,363**	13,795
- Discontinued operations	**282**	175
	30,645	13,970

Reliance Rail Pty Ltd

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

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

On 6 February 2012, the New South Wales Government announced it had agreed to invest $175 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 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. The first drawdown notice for $2.4 million was lodged by Reliance Rail on 21 February 2012. The first drawdown date is 27 February 2012.

As a result of the restructure, Downer will transfer the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. This transfer will have no impact on cash, equity, net assets or underlying earnings but will negatively impact full year statutory earnings.

	Consolidated	
	December 2011 $'000	June 2011 $'000
Movement in 49% investment in Reliance Rail		
Equity-accounted amount of investment at the beginning of the financial period/year	**-**	-
Share of reserve movements	**-**	-
Share of profit/(loss) recognised for the period	**-**	-
Allowance against investment	**-**	-
Equity-accounted amount of investment at the end of the financial period/year	**-**	-
Unaudited summarised financial position of Reliance Rail		
Current assets	**901,396**	1,085,427
Non-current assets	**1,189,042**	995,924
Total assets	**2,090,438**	2,081,351
Current liabilities	**109,196**	116,153
Non-current liabilities	**2,275,152**	2,007,549
Total liabilities	**2,384,348**	2,123,702
Net liabilities	**293,910**	42,351
Group's share of associate's net liabilities	**144,016**	20,752

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2011

Note 8. Intangible assets

December 2011	**Consolidated**		
$'000	**Goodwill**	**Intellectual Property/ Software**	**Total**
At 1 July 2011			
Cost	**618,053**	**85,166**	**703,219**
Accumulated amortisation and impairment	**(51,770)**	**(62,254)**	**(114,024)**
Net book value	**566,283**	**22,912**	**589,195**
Period ended 31 December 2011			
Purchases	**-**	**1,510**	**1,510**
Additions of goodwill [(i)]	**1,000**	**-**	**1,000**
Reclassifications at net book value [(ii)]	**-**	**37,698**	**37,698**
Amortisation expense (Note 3(b))	**-**	**(2,543)**	**(2,543)**
Net foreign currency exchange differences	**(479)**	**(268)**	**(747)**
Transfer to non-current assets held for sale	**(31,123)**	**-**	**(31,123)**
Closing net book value	**535,681**	**59,309**	**594,990**
At 31 December 2011			
Cost	**587,451**	**124,106**	**711,557**
Accumulated amortisation and impairment	**(51,770)**	**(64,797)**	**(116,567)**
Closing net book value	**535,681**	**59,309**	**594,990**

[(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.

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

June 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	-	(2,448)	(2,448)
Impairment	(9,770)	-	(9,770)
Net foreign currency exchange differences at net book value	(5,573)	114	(5,459)
Closing net book value	566,283	22,912	589,195
At 30 June 2011			
Cost	618,053	85,166	703,219
Accumulated amortisation and impairment	(51,770)	(62,254)	(114,024)
Closing net book value	566,283	22,912	589,195

Notes to the condensed consolidated financial statements - *continued*

for the half-year ended 31 December 2011

Note 9. Acquisition of businesses

During the financial period, there was an addition of goodwill 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 reporting period ended 31 December 2011.

Note 10. Issued capital

	Consolidated	
	December 2011 $'000	June 2011 $'000
Ordinary shares:		
429,100,296 ordinary shares (June 2011: 429,100,296)	**1,278,564**	1,278,564
Unvested executive incentive shares:		
6,484,592 ordinary shares (June 2011: 6,844,719)	**(31,313)**	(33,270)
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (June 2011: 200,000,000)	**178,603**	178,603
	1,425,854	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			
	December 2011		June 2011	
Fully paid ordinary share capital	**000's**	**$'000**	000's	$'000
Balance at the beginning of financial period/year	**429,100**	**1,278,564**	336,582	978,960
Issue of shares through Dividend Reinvestment Plan elections	**-**	**-**	4,712	20,027
Issue of shares under terms of Employee Share Plan (i)	**-**	**-**	1,884	7,574
Issue of shares under renounceable entitlement offer (ii)	**-**	**-**	85,922	279,307
Payment of share issue costs	**-**	**-**	-	(7,304)
Balance at the end of financial period/year	**429,100**	**1,278,564**	429,100	1,278,564

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

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

	Consolidated			
	December 2011		June 2011	
Unvested executive incentive shares	**000's**	**$'000**	000's	$'000
Balance at the beginning of financial period/year	**6,845**	**(33,270)**	7,892	(38,888)
Vested executive incentive shares transactions	**(360)**	**1,957**	(1,047)	5,618
Balance at the end of financial period/year	**6,485**	**(31,313)**	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 meet. Otherwise, excess dividends are returned to the Company or used to acquire additional shares on the market for Employee Equity plans.

Note 10. Issued capital - *continued*

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

ROADS are perpetual, redeemable, exchangeable preference shares, due to be refinanced on the reset date of 15 June 2012. On that date, Downer EDI Ltd has the following options:

- To redeem the securities at par value;
- Redeem or exchange into ordinary shares of Downer EDI Limited at a 2.5 per cent discount to the weighted average sale price of ordinary shares traded on the Australian Securities Exchange during the 20 business days immediately preceding the date of exchange;
- Step up and convert the securities to perpetual debt; or
- Re-market the securities with amended terms to existing ROADS holders.

The Group will consider these options and advise the market once a decision has been reached.

Note 11. Reserves

	Consolidated	
	December 2011 $'000	June 2011 $'000
Hedge reserve	**(83,418)**	(77,673)
Foreign currency translation reserve	**(60,564)**	(58,683)
Employee benefits reserve	**11,786**	14,775
	(132,196)	(121,581)
Adjustment for amounts recognised directly in equity relating to assets classified as disposal group held for sale (refer Note 17)	**8,507**	-
	(123,689)	(121,581)

Hedge reserve

The hedge reserve includes a debit balance of $72.5 million representing the equity-accounted share of the historical movements of Reliance Rail's hedge reserve. The hedge reserve is being amortised on a straight line basis over 30 years, being the contracted term of the Waratah Public-Private Partnership (PPP) Through-Life Support contract. In the current period, $1.3 million has been amortised and reflected as an expense in the income statement (refer Note 1).

As a result of the Reliance Rail restructure, Downer will transfer the equity accounted Reliance Rail hedge reserve of $72.5 million via the income statement to retained earnings. This transfer will have no impact on cash, equity, net assets or underlying earnings but will negatively impact full year statutory earnings.

Note 12. Reconciliation of cash and cash equivalents

	Consolidated	
For the purpose of the statement of cash flows, cash and cash equivalents comprises:	**December 2011 $'000**	December 2010 $'000
Cash	**207,970**	318,031
Short-term deposits	**3,218**	4,511
	211,188	322,542
Cash balances included in disposal group held for sale	**10,928**	**-**
Bank overdrafts	**(671)**	(4,730)
Total cash and cash equivalents	**221,445**	317,812

Note 13. Contingent liabilities

	Consolidated	
	December 2011 $'000	June 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	**960,087**	848,715

In the ordinary course of business:

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

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

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

iv) Group companies have the normal contractor's liability in relation to services and construction contracts. This liability may include claims, disputes and/or litigation by or against Group companies and/or joint venture arrangements in which the Group has an interest. The Group is currently managing a number of claims/disputes in relation to contracts, the most significant of which are:

- A claim by SP PowerAssets Ltd ("SPP") in relation to the construction of an electrical services tunnel in Singapore ("Project");
- A claim by CECA France in relation to a commercial dispute over a bitumen additive purchase contract; 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 relation to the SP PowerAssets Ltd ("SPP") claim, SPP claims reimbursement of S$85 million paid to Downer for completion of the Project under a 'supplementary agreement' signed in 2006. The Project was completed in 2009. SPP also claim interest plus legal costs. The Group is defending the claim and an arbitration hearing will take place in Singapore during March 2012. Attempts to resolve the dispute via mediation have been unsuccessful to date.

The Group's position is that SPP is not entitled to any reimbursement on the basis that the original contract for the Project (valued at approximately S$65 million) was frustrated and that the Group is entitled to retain amounts paid by SPP under a 'cost plus' arrangement. More specifically, the Group's position is that there were intervening third party events (namely orders issued by the Land Transit Authority) which made the original contract impossible to perform as contemplated by the original contract.

A separate High Court action in Singapore has also been commenced by the Group in relation to the dispute seeking declaratory relief in relation to the claim made by SPP.

The parties exchanged their first round of witness statements and expert reports in January 2012 with a further exchange due at the end of February 2012. The parties' respective experts must also meet and prepare a joint report by the end of February 2012.

The Company is vigorously defending the action 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.

Note 13. Contingent liabilities - *continued*

vi) Former Managing Director Stephen Gillies has received an initial award of $7.4 million including costs and interest. The basis of this award is currently being appealed and is expected to be heard in March 2012. The Directors are of the opinion that the current provision of $8.0 million raised against this matter is sufficient.

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

viii) Downer EDI previously disclosed provisions in relation to Ramu Highway, Sembawang, Port Botany Terminal and Laverton Power Station disputes in relation to contracts. All these historical disputes have been settled during the first half of the current financial year. These did not have a material impact on the consolidated income statement as a result of the settlements.

ix) 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 14. Subsequent events

Reliance Rail update

On 6 February 2012, the Group announced that the NSW Government had reached an agreement with Reliance Rail, the Group and other Reliance Rail shareholders, financial guarantors and other parties to restructure the financing of Reliance Rail.

Under the terms of the agreement, the NSW Government agreed to invest $175 million in 2018 in Reliance Rail, in return for 100 percent of Reliance Rail equity. In addition, 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.

Reliance Rail's remaining debt funding of $357 million is still subject to Reliance Rail lodging drawdown notices over the next 18 months and the banks providing funding in line with their commitments.

Notes to the condensed consolidated financial statements - *continued*
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Note 15. Borrowings

	Consolidated	
	December 2011 $'000	June 2011 $'000
Current		
Secured - at amortised cost:		
- Finance lease liabilities	**24,122**	16,995
- Hire purchase liabilities	**3,302**	2,206
- Supplier finance	**15,829**	5,127
	43,253	24,328
Unsecured - at amortised cost:		
- Bank loans	**101,553**	112,374
- Bank overdrafts	**671**	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	**114,225**	-
- Deferred finance charges	**(4,469)**	(5,669)
	237,863	140,793
Total current borrowings	**281,116**	165,121
Non-current		
Secured - at amortised cost:		
- Finance lease liabilities	**71,575**	79,242
- Hire purchase liabilities	**2,741**	4,889
	74,316	84,131
Unsecured - at amortised cost:		
- Bank loans	**37,428**	22,809
- USD notes	**75,802**	71,688
- Works NZ Bonds	**-**	116,081
- AUD medium term notes (2009-1)	**73,101**	79,743
- AUD medium term notes (2009-2)	**151,625**	152,063
- AUD medium term notes (2010-1)	**37,800**	44,100
- Deferred finance charges	**(2,743)**	(2,950)
	373,013	483,534
Total non-current borrowings	**447,329**	567,665
Total borrowings	**728,445**	732,786

Note 16. Financing facilities

Unutilised facilities

At 31 December 2011, the consolidated entity had the following facilities that were not utilised at balance date:

	Consolidated	
	2011	2010
	$'000	$'000
Syndicated bank loan facilities	**420,000**	420,000
Bilateral bank loan and overdraft facilities	**177,691**	207,075
Total unutilised loan facilities	**597,691**	627,075
Syndicated bank bonding facilities	**-**	7,214
Bilateral bank and insurance company bonding facilities	**181,242**	250,881
Total unutilised bonding facilities	**181,242**	258,095

Bank loans

Syndicated bank loan facilities

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

Bilateral bank loans and overdrafts

Bank loans and overdrafts are unsecured, and subject to certain Group guarantees and have varying maturity dates of up to 1 year. Included in bank loans are amounts of $46.0 million, which are supported by export credit guarantees, amortise through even semi-annual instalments and mature in April 2016 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 guarantees. The notes mature in various tranches in 2014 and 2019. The USD principal and interest have been fully hedged against the Australian dollar.

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 $86.4 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 $50.4 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 ($114.2 million equivalent). The bonds are subject to certain Group guarantees. The bonds mature in September 2012.

Finance lease facilities

The Group leases certain equipment under finance leases. The average lease term is approximately 3 years. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rates underlying all rentals under finance leases are fixed at respective contract dates with a weighted average rate of 8.1 per cent per annum (30 June 2011: 8.1 per cent).

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 into 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 the insurance premiums that have been paid.

Note 16. 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 certain non-financial covenants, and maintain minimum levels of subsidiaries that are guarantors under various facilities.

The main financial covenants to which the Group is subject are net worth, interest service coverage and debt to capitalisation. In addition, the Group's standard credit platform contains restrictions on the Group including that it is required to observe certain customary undertakings including but not limited to:

i) Maintenance of authorisation;
ii) Compliance with laws;
iii) Disposal of assets;
iv) Negative pledge (subject to certain "carve-outs");
v) Change of business;
vi) Non-guarantor subsidiaries incurring financial indebtness; and
vii) Maintenance of the guarantor group.

Covenant testing is undertaken monthly and reported to the Board. Reporting of financial covenant compliance to financiers occurs twice yearly for the rolling 12 month periods to 30 June and 31 December. The Group was in compliance with its financial covenants as at 31 December 2011.

Bonding

The Group has $1,141.3 million of bank guarantee and insurance bond facilities to support its contracting activities. $547.3 million of these facilities are provided to the Group on a committed basis and $594.0 million on an uncommitted basis. Under both committed and uncommitted facilities, the financial institution being requested to provide the guarantee/bond has the discretion as to whether to issue the instrument depending on factors such as the form of the guarantee/bond, the underlying contract of work being undertaken by the Group and potential concentration limits the financial institution may have on the industry where the work is being conducted. Furthermore, in the case of uncommitted facilities, the financier has the discretion to cancel any unutilised balance of a facility at any time or to suspend utilisation of the facility for a given period. The Group’s committed facilities have varying maturity dates, which range from June 2012 to December 2014 and June 2012 to December 2012 for uncommitted facilities.

The Group's facilities are provided by a number of different banks and insurance companies on an unsecured basis and are subject to certain Group guarantees. $960.1 million of these facilities were utilised as at 31 December 2011 with $181.2 million unutilised as at that date. $260.0 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 for a further three year term. As with all performance bonds, the risk being assumed by the relevant financier under these bonds is Downer credit risk rather than project specific risk. The Group has the flexibility in respect of committed facility amounts of $91.1 million (shown as part of the unutilised bilateral bank loan facilities) that can, at the request of the Group, also be utilised for bonding purposes.

Refinancing requirements

Where existing facilities either approach or reach maturity, Downer will seek to refinance those facilities. Downer’s earnings profile, credit rating, state of the economy, and other factors may influence the outcome of the refinancing 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 also demand more stringent terms (including increased pricing) on debt and bonding facilities to reflect the higher credit risk profile.

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Note 16. Financing facilities - *continued*

Gearing ratio
The consolidated entity monitors its gearing ratio determined as the ratio of net debt to total capitalisation. As at 31 December 2011 and 30 June 2011, the gearing ratios were as follows:

	Consolidated	
	December 2011 $'000	June 2011 $'000
Current borrowings	**281,116**	165,121
Non-current borrowings	**447,329**	567,665
Gross debt [(i)]	**728,445**	732,786
Adjustment for the mark to market of derivatives and deferred finance charges	**51,294**	48,286
Adjusted gross debt	**779,739**	781,072
Less: cash and cash equivalents (including cash balances held as part of disposal group)	**(222,116)**	(288,575)
Net debt	**557,623**	492,497
Equity [(ii)]	**1,513,098**	1,442,385
Total capitalisation (Net debt + Equity)	**2,070,721**	1,934,882
Gearing ratio [(iii)]	**26.9%**	25.5%
Off balance sheet debt		
Operating leases [(iv)]	**322,696**	241,299
Gearing ratio (including off balance sheet debt)	**36.8%**	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 31 December 2011 discounted at 10 per cent p.a. (discount rate prescribed by the loan covenant) was $322.7 million (June 2011: $241.3 million).

Note 17. Discontinued operations and disposal group

CPG Asia disposal group

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 to CAG for $147.0 million. The sale of CPG Asia is subject to customary conditions precedent being met, including regulatory approvals and there being no material adverse changes to the business prior to completion, which is scheduled to take place around the end of the first quarter of 2012.

For the purposes of these financial statements, the CPG Asia business is classified as a discontinued operation and disposal group held for sale. The results of the discontinued operations included in the consolidated statement of comprehensive income are set out below. The comparative profit and cashflows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period, and the net assets of the disposal group have been separately disclosed in the statement of financial position.

Results of discontinued operations

	First half FY2012 $'000	First half FY2011 $'000
Revenue	**91,205**	97,336
Expenses	**(96,535)**	(89,369)
(Loss)/profit before income tax	**(5,330)**	7,967
Income tax benefit/(expense)	**1,005**	(2,017)
Net trading (loss)/profit from discontinued operations	**(4,325)**	5,950
(Loss)/profit for the period that is attributable to:		
Non-controlling interest	**104**	23
Members of the parent entity	**(4,429)**	5,927
Total (loss)/profit for the period	**(4,325)**	5,950

Cashflows from discontinued operations

	First half FY2012 $'000	First half FY2011 $'000
Net cash (used in)/from operating activities	**(8,622)**	2,103
Net cash from/(used in) investing activities	**3,031**	(1,086)
Net cash from/(used in) financing activities	**622**	(10,077)
Net cash outflows	**(4,969)**	(9,060)

Note 17. Discontinued operations and disposal group - *continued*

Net assets of disposal group held for sale	**December 2011 $'000**
ASSETS	
Current assets	
Cash and cash equivalents	**10,928**
Trade and other receivables	**72,993**
Other financial assets	**25**
Other assets	**4,494**
Total current assets	**88,440**
Non-current assets	
Equity-accounted investments	**699**
Property, plant and equipment	**2,468**
Intangible assets	**31,123**
Other financial assets	**13,777**
Deferred tax assets	**615**
Total non-current assets	**48,682**
Total assets	**137,122**
LIABILITIES	
Current liabilities	
Trade and other payables	**34,384**
Provisions	**1,665**
Current tax liabilities	**3,440**
Total current liabilities	**39,489**
Non-current liabilities	
Provisions	**343**
Deferred tax liabilities	**111**
Total non-current liabilities	**454**
Total liabilities	**39,943**
Net assets	**97,179**

Amounts recognised directly in equity relating to assets classified as disposal group held for sale

Foreign currency translation reserve	**(8,519)**
Hedge reserve	**12**
	(8,507)

The proposed sale of CPG Asia is subject to certain conditions precedent (such as regulatory approval). On completion, the sale agreements provide for various purchase price adjustments which will be determined at the completion date. These will impact the net assets of the disposal group disclosed above.

Furthermore, the Group will incur transaction costs associated with completion of the transaction and derecognise the equity balances held by the Group in relation to the disposal group.

Directors' Declaration
for the half-year ended 31 December 2011

In the opinion of the Directors of Downer EDI Limited:

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

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

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

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

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

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

On behalf of the Directors

R M Harding
Chairman

Sydney, 21 February 2012