Downer EDI Limited
ABN: 97 003 872 848

Condensed Consolidated Financial Report for the half-year ended 31 December 2013

Results for announcement to the market
for the half-year ended 31 December 2013

Appendix 4D

	First half FY2014 $'000	First half FY2013 (restated)[i] $'000	% change
Revenue from ordinary activities	**3,757,554**	4,527,087	
Other income	**3,297**	3,440	
Total revenue and other income from ordinary activities	**3,760,851**	4,530,527	(17.0%)
Total revenue including joint ventures and other income	**3,931,119**	4,716,598	(16.7%)
Earnings before interest and tax (after individually significant item)	**160,077**	169,290	(5.4%)
Earnings before interest and tax (before individually significant item)	**160,077**	180,746	(11.4%)
Profit from ordinary activities after tax attributable to members of the parent entity (after individually significant item)	**99,109**	94,042	5.4%
Profit from ordinary activities after tax attributable to members of the parent entity (before individually significant item)	**99,109**	105,498	(6.1%)

[i] *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

	First half FY2014 cents	First half FY2013 cents	% change
Basic earnings per share	**21.8**	21.0	
Diluted earnings per share	**20.8**	20.0	
Net tangible asset backing per ordinary share excluding disposal group	**303.4**	268.1	13.2%

Dividends	**First half FY2014**	First half FY2013
Interim dividend per share (cents)	**11.0**	10.0
Interim franked amount per share (cents)	**7.7**	7.0
Conduit foreign income (CFI)	**30%**	30%
Interim dividend record date	**18/02/2014**	15/03/2013
Interim dividend payable date	**20/03/2014**	15/04/2013
Redeemable Optionally Adjustable Distributing Securities (ROADS)		
Dividend per ROADS (in Australian cents)	**2.2**	1.9
New Zealand imputation credit percentage per ROADS	**100%**	100%
ROADS Quarter 1 instalment payment date	**16/09/2013**	17/09/2012
ROADS Quarter 2 instalment payment date	**16/12/2013**	17/12/2012

Downer EDI's Dividend Reinvestment Plan (DRP) applies to the 2014 interim dividend with zero discount. The share price for the DRP will be calculated as the arithmetic average of the daily volume weighted average price during the 10 trading days commencing on the second trading day after the record date. Shareholders wishing to participate or amend their participation in the DRP will need to provide their election notices to the Company's share registry by 18 February 2014.

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

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for the half-year ended 31 December 2013

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Directors' Report
for the half-year ended 31 December 2013

The Directors of Downer EDI Limited (Downer) submit the condensed consolidated Financial Report of the Company for the half-year ended 31 December 2013. In order to comply with the provisions of the *Corporations Act 2001 (Cth)*, the Directors' Report is set out below:

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)
S A Chaplain	(Independent Non-executive Director)
P S Garling	(Independent Non-executive Director)
E A Howell	(Independent Non-executive Director)
J S Humphrey	(Independent Non-executive Director)
K G Sanderson	(Independent Non-executive Director)
C G Thorne	(Independent Non-executive Director)

REVIEW OF OPERATIONS

PRINCIPAL ACTIVITIES
Downer provides comprehensive engineering, construction and asset management services to customers in the Minerals and Metals, Oil and Gas, Power, Transport, Telecommunications, Water and Property sectors. Downer employs approximately 20,000 people primarily in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa.

DIVISIONAL ACTIVITIES
Downer operates through three divisions – Downer Infrastructure, Downer Mining and Downer Rail.

DOWNER INFRASTRUCTURE

Downer Infrastructure operates predominantly in Australia and New Zealand and is one of the largest providers of engineering services for critical infrastructure in both countries, employing more than 12,000 people in Australia and more than 4,500 in New Zealand.

Downer Infrastructure is one of Australia's leading providers of electrical and instrumentation (E&I) services. It has over 70 years' experience in this field and the services it offers cover the full asset lifecycle including concept development, design, engineering procurement and project management as well as maintenance activities.

Downer Infrastructure's plant and construction capabilities also include civil, structural and mechanical services.

Downer Infrastructure has also been providing engineering, construction, commissioning and maintenance services to the power, transmission and electricity distribution markets for more than 50 years. These services cover the whole lifecycle of customers' assets, from design and planning through to operation and maintenance in areas including transmission lines, substations, distribution and renewable energy.

Downner Infrastructure also offers one of the largest non-government owned road infrastructure services businesses in both Australia and New Zealand, maintaining more than 40,000 kilometres of road in Australia and more than 32,000 kilometres in New Zealand. The road infrastructure market in both countries is evolving from pure road maintenance activity to the provision of efficient road network infrastructure management solutions. Downer has responded successfully to this evolution by investing in technology and forming strategic partnerships, for example with the UK-based company Mouchel. Downer has a vertically integrated model and is a leading producer of asphalt in Australia. Downer's road infrastructure customers include all Australia's State road authorities and the New Zealand Transport Agency.

A substantial portion of revenue in New Zealand is derived from government customers including the New Zealand Transport Agency, local authorities, government-owned businesses and agencies. Downer is a member of the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) that is rebuilding Christchurch's earthquake-damaged roads, sewerage, water supply pipes and parks.

In the Australian telecommunications sector, Downer builds, operates and maintains network and wireless infrastructure for customers including Foxtel, Telstra and the National Broadband Network (NBN). In New Zealand, Downer is a major supplier to New Zealand's three main telecommunication providers – Chorus, Vodafone and Telecom.

For public sector and industrial water customers in Australia, Downer provides design and construction, operations and maintenance services for water and waste water infrastructure. The New Zealand business offers complete asset lifecycle solutions (design, build, operate and maintain) for municipal and industrial water, wastewater treatment plants and reticulation networks.

Downer Infrastructure also operates three subsidiary companies that offer innovative services to customers in the mining and resources sector:

- Mineral Technologies is a leading provider of mineral separation and mineral processing solutions worldwide, delivering a comprehensive range of integrated equipment and services that cost-effectively transform ore bodies into high grade mineral products;
- QCC Resources delivers process and materials handling solutions for all stages of the project lifecycle from initial concept, prefeasibility and feasibility studies, to innovative coal handling preparation plant (CHPP) design and engineering, procurement and construction management (EPCM); and
- Snowden provides consultancy services on a wide range of mineral commodities to customers around the world.

DOWNER MINING

Downer Mining has been delivering contract mining and civil earthmoving services to its customers for over 90 years. It is one of Australia's most diversified mining contractors, employing around 3,800 people across more than 50 sites in Australia, New Zealand, Papua New Guinea, South America and Southern Africa.

Downer Mining's services include:

Open cut and underground mining

- Downer Mining is one of Australia's largest mining service contractors, working in a range of commodities including coal, iron ore, gold and base metals. Its capabilities include mine planning and design, mine operation and management, mobile plant maintenance, construction of mine-related infrastructure and crushing.

Exploration drilling

- Downer Mining's highly skilled and experienced exploration drilling team offers services including exploration, resource and de-watering hole drilling, underground diamond drilling, drill rig maintenance and heli-portable rigs.

Blasting services

- Downer Blasting Services (DBS) is one of the largest blasting services providers in the Australian mining industry. It provides innovative blasting solutions to over 20 projects across Australia with a fleet of over 50 Mobile Processing Units and four state-of-the-art emulsion manufacturing facilities. Its capabilities include down-the-hole and total loading services, emulsion manufacturing, supply and delivery of bulk explosives and accessories, shotfiring and blast management.

Tyre management

- Otraco International provides Off-The-Road tyre management services at over 40 mine sites in Australia, New Zealand, Asia, South America and Southern Africa. Its capabilities include web-based, real-time software solutions, electronic tread-depth and pressure metering, distribution and supply of rim and wheel accessories, and the repair and maintenance of rims.

Mine reclamation and land rehabilitation services

- Downer Mining's mine reclamation and land rehabilitation services business, ReGen, offers the mining industry complete solutions for mine closure, as well as progressive rehabilitation and stand-alone water infrastructure.

Downer Mining's largest projects as at 31 December 2013 were:

- Christmas Creek, Pilbara region of Western Australia (Fortescue Metals Group);
- Goonyella Riverside, Daunia and Blackwater Mines, Bowen Basin, Queensland (BHP Mitsubishi Alliance (BMA));
- Boggabri, Gunnedah Basin, New South Wales (Idemitsu Australia Resources);
- Karara, Mid West region of Western Australia (Karara Mining); and
- Meandu Mine, South East Queensland, (TEC Coal, a wholly owned subsidiary of Stanwell Corporation).

Downer Mining's other key customers include AngloGold Ashanti, Ok Tedi Mining, Solid Energy, EnergyAustralia (formerly known as TRUenergy) and Yancoal Australia.

DOWNER RAIL

Downer Rail employs around 1,800 people and is a leading Australian provider and maintainer of passenger and freight rolling stock. Downer Rail's capabilities also include rail signalling, security and safety solutions for passenger cars, freight wagons, locomotives and light rail.

Downer's key freight rail customers include Pacific National, BHP Billiton, Fortescue Metals Group, SCT Logistics, TasRail and CFCLA.

Downer's passenger rail customers include Sydney Trains (formerly RailCorp, New South Wales), Public Transport Authority (Western Australia), Queensland Rail, MTM (Victoria), and VLine (Victoria).

Downer has formed strategic joint ventures (JVs) with leading technology and knowledge providers to support its growth objectives in the passenger market. These include partnerships with:

- Keolis, one of Europe's leading public transport operators. The Keolis Downer JV operates and maintains Yarra Trams in Melbourne and has signed a contract to operate and maintain the Gold Coast Light Rail fleet (scheduled to commence operations in mid-2014);
- Bombardier, an international rolling stock supplier. The Downer Bombardier JV has been supplying both Queensland Rail and the Public Transport Authority of Western Australia with trains for a number of years and also provides maintenance services for the majority of the Public Transport Authority of Western Australia's fleet; and
- Hitachi, a leading supplier of railway systems. Downer's partnership with Hitachi includes the supply of electric multiple units and electric and diesel tilt trains.

GROUP FINANCIAL PERFORMANCE

For the six months ended 31 December 2013, Downer reported declines in total revenue and earnings before interest and tax (EBIT) compared to the prior corresponding period (pcp). This was primarily due to a reduction in revenue on the Waratah Train Project (WTP) as the project nears completion, the completion of a number of contracts in Downer Mining and Downer Infrastructure and lower revenue across the mining-related consulting businesses.

Despite the decline in total revenue and EBIT the focus on cost reduction, productivity and capital management has delivered an improved net profit after tax (NPAT) result.

Following the adoption of AASB11 Joint Arrangements in the current period, prior period comparatives have been re-stated. Accordingly, certain amounts and subsequent variance analysis disclosed in the following pages are based on the re-stated figures rather than to those disclosed in the consolidated interim financial report as at 31 December 2012.

REVENUE

Total revenue[1] for the Group decreased by 16.7%, or $785.5 million, to $3.9 billion.

All three divisions delivered lower revenue versus the pcp, with Infrastructure down 12.6% to $2.3 billion, Mining down 23.2% to $1.0 billion and Rail (including the WTP) down 19.3% to $0.6 billion. Revenue from equity accounted joint ventures decreased by 8.5% to $170.3 million.

For Downer Infrastructure's Australia business, revenue decreased by 18.0% to $1.8 billion due to the completion of several large contracts in the minerals resources sector across both the East and West regions and substantially lower revenue from the mining-related consulting businesses.

Downer Infrastructure's New Zealand business increased revenue by 11.5% to $535 million.

The reduction in Mining revenue was a result of both contract completions and volume reductions, partially offset by the ramping up of new projects and additional crushing services and tyre management work.

The Rail division's performance reflects lower revenue from the WTP Rolling Stock Manufacture contract as it nears completion and reduced capital expenditure and maintenance activity across the Australian rail sector.

EXPENSES

Employee benefits expenses decreased by 14.4% to $1.3 billion and represent 36.5% of Downer's cost base. This decrease is broadly in line with Group's total revenue reduction and is after restructuring costs associated with efficiency programs, redundancies and contract completions/variations requiring reduced staffing levels.

Sub-contractor costs also decreased by 15.3% to $0.8 billion and represent 21.6% of Downer's cost base. This decrease accords with the reduction in total revenue and a strategic intent by the Group to retain cost base variability, allowing the various businesses to ramp up or down more quickly via the utilisation of sub-contract labour without imposing a permanent fixed cost structure on the business.

Raw materials and consumables decreased by 26.3% to $0.7 billion and represent 19.9% of Downer's cost base. This reduction reflects benefits derived through Fit 4 Business procurement initiatives as well as some customers, for example in the telecommunications sector, providing more free issued materials.

[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.

Plant and equipment costs decreased by 14.1% to $0.5 billion and represent 12.8% of Downer's cost base. This largely reflects reduced reliance upon operating leased assets, coupled with increased utilisation of owned assets, more efficient maintenance practices as Fit 4 Business plant opportunities are leveraged, and a reduction in scope on some of Downer Mining's contracts.

Depreciation and amortisation decreased by 11.3% to $137.4 million and represents 3.8% of Downer's cost base. This decrease reflects lower capital expenditure in the period compared to the past three years and the sale of mining equipment to customers as part of arrangements to reduce volumes or the sale of equipment deemed surplus to requirements as the business optimises asset utilisation and productivity under various Fit 4 Business initiatives.

Other expenses, communication, travel, occupancy and professional fees have decreased by 18.3% to $199.6 million and represent 5.5% of Downer's cost base.

EARNINGS

Statutory EBIT for the Group decreased by 5.4%, from $169.3 million to $160.1 million, largely due to the reduced levels of activity in Australia.

Downer Infrastructure's EBIT decreased by 14.8% to $87.4 million. EBIT across Downer Infrastructure's Australian businesses decreased by 34.7% as a result of several large contracts finishing and new contracts not yet making a material impact on financial performance, challenging market conditions for the consultancy businesses and a reduction in mining-related capital works in both the East and West. Downer Infrastructure's New Zealand business improved EBIT to $31.2 million.

Downer Mining's EBIT decreased by 7.1% as a result of contract expirations and volume reductions versus the pcp.

Downer Rail's EBIT decreased by 86.5% reflecting reduced capital expenditure and maintenance activity across the Australian rail sector as well as restructuring costs of $10.5 million that have been incurred as the business transforms its operations to reflect current demand levels and the move from manufacturing to asset management.

Corporate costs reduced by $42.4 million, or 65.8%, to $22.1 million. The reduction is due in part to a number of non-recurring costs incurred in the prior comparative half year including $11.5 million to settle the Singapore Tunnel dispute, $6.2 million impairment of the Spiire Australia business and $18.5 million settlement/provision against contractual claims. The further $6.3 million reduction reflects a 20% reduction in corporate headcount and related costs and lower IT transformation costs as the infrastructure transformation program nears completion.

Net finance costs reduced by $8.9 million, or 27.3%, reflecting the lower interest rate environment, the refinancing of debt facilities at lower margins and the overall lower net debt position throughout the period as the business continues its strong focus on cash management.

The effective tax rate of 27.3% compares to 31.2% for the pcp and is due to impairment of goodwill and significant non-deductible expenses (Singapore settlement) in the pcp and non-taxable distributions from joint venture companies and non-taxable Government Research & Development grants.

DIVISIONAL FINANCIAL PERFORMANCE

DOWNER INFRASTRUCTURE

- Total revenue of $2.3 billion, down 12.6%;
- EBIT of $87.4 million, down 14.8%;
- EBIT margin of 3.8%, down 0.1 ppts;
- ROFE of 23.3%, up from 23.1%; and
- Work-in-hand of $10.6 billion.

The reduction in mining related capital works has had a negative impact on the financial performance of Downer Infrastructure.

Downer Infrastructure saw total revenue for the six months decline by 12.6% and EBIT decline by 14.8% due to project completions, either in the period or the previous year, lower overall tender activity in both the East and West regions of Australia, and a more competitive environment for tenders that did come to market.

The effects were more pronounced for Downer Infrastructure's West business as large scale mineral resources projects have finished and not been replaced by secured projects in the Oil & Gas sector (e.g. the Wheatstone LNG E&I contract that will not contribute to the results until late fiscal 2014 or early fiscal 2015). The mining-related consultancy businesses such as Snowden and QCC have had a number of projects deferred or cancelled, whilst Mineral Technologies saw a reduction in production volumes from the peaks seen in the pcp. Downer Infrastructure's East and New Zealand businesses both performed strongly.

Downer Infrastructure has taken action to reduce costs and overheads in response to lower revenue and current market conditions which has somewhat offset the adverse impact on earnings. Redundancy and restructuring costs of $7.0 million were incurred during the period.

During the period, Downer Infrastructure has achieved a substantially higher win rate on a reduced number of market opportunities. In November 2013, the DownerMouchel joint venture was awarded a Stewardship Maintenance Contract (SMC) for the Sydney West Zone road network. The annual value of the contract is approximately $100 million for seven years, with an option for an extension to 10 years. The contract is scheduled to commence on 31 March 2014 and will further strengthen Downer Infrastructure's road infrastructure business. In December 2013, Downer Infrastructure was awarded two E&I packages worth $400 million on the Wheatstone project in Western Australia.

DOWNER MINING

- Total revenue of $1.0 billion, down 23.2%;
- EBIT of $90.1 million, down 7.1%;
- EBIT margin of 8.8%, up 1.5 ppts;
- ROFE of 19.0%, down from 21.3%; and
- Work-in-hand of $5.2 billion.

Following significant growth over the past three years, the market downturn in 2013/14 has provided an opportunity for Downer Mining to focus on productivity improvements and cost efficiencies.

Downer Mining's total revenue declined 23.2% versus the pcp reflecting contracts coming to an end and lower activity across a number of its major contracts as customers sought volume and margin reductions to optimise their operations and cost of production.

The reduction in revenue was partially offset by a mix of cost reduction and productivity improvements and changes in equipment funding from operating to finance leases.

Downer Mining has continued to tender for work and was awarded a 4.5 year mining services contract with Roy Hill Iron Ore Pty Ltd in the period.

DOWNER RAIL

- Total revenue of $0.6 billion, down 19.3%;
- EBIT of $4.6 million, down 86.5%;
- EBIT margin of 0.8%, down 3.9 ppts;
- ROFE of 6.0%, down from 14.4%; and
- Work-in-hand of $3.8 billion.

Downer Rail's total revenue was down $140.6 million, or 19.3%, to $0.6 billion. This reduction includes $99 million related to the WTP Rolling Stock Manufacture contract as it nears completion and $56 million related to both locomotive rolling stock deliveries and maintenance as customers respond to lower investment in the mining sector and benefit from their own initiatives to improve utilisation of their fleets. This was offset by a $14 million increase in revenue from the Waratah Through Life Support (TLS) contract as more trains entered service.

EBIT was down 86.5% to $4.6 million. This was mainly due to significantly reduced locomotive deliveries and maintenance activity. In addition, $10.5 million of restructuring costs were incurred in the period as the business transforms from manufacturing to asset management and reintegrates the WTP into the core business.

Downer Rail has reduced its permanent head count by over 300 full time employees during the period which will provide positive earnings momentum for the second half of the 2014 financial year.

The final Waratah train (Set 78) departed China in January 2014 and is expected to be presented to Transport for NSW for Practical Completion in May 2014. There are currently 67 Waratah trains available for passenger service and they are performing well on the Sydney network.

GROUP FINANCIAL POSITION

Funding, liquidity and capital are managed at Group level, with Divisions focused on working capital and operating cash flow management. The following financial position commentary relates to the Downer Group.

OPERATING CASH

Operating cash flow was very strong at $280.3 million, up 54.9% on the pcp, due to the ongoing rigorous focus on cash and working capital management and the turnaround in the WTP with $28.1 million net inflow in the period compared to an outflow of $69.9 million in the pcp.

Net debt reduced from $242.7 million (June 2013) to $169.7 million and gearing (net debt to net debt plus equity) reduced from 11.7% (June 2013) to 8.2%. When off-balance sheet debt is included (based on the present value of operating lease commitments), gearing reduced from 20.6% to 16.2%.

Operating cash flow, after adjusting for the $28.1 million of cash inflows relating to the Waratah contract and interest and tax payments, reflects an EBITDA conversion ratio of 98.8%.

OPERATING CASH FLOW

Operating cash flow ($'m)	HY14	HY13[1]
EBIT	160.1	169.3
Add: Depreciation & Amortisation	137.4	154.9
EBITDA	**297.5**	**324.2**
Operating cash flow	**280.3**	**181.0**
Add: Net interest paid[2]	25.4	32.8
Tax Paid	16.4	9.8
Waratah Train Project net cash (inflow)/outflow[3]	(28.1)	69.9
Singapore Tunnel settlement	-	7.8
Adjusted Operating cash flow	**294.0**	**301.2**
EBITDA conversion	**98.8%**	**92.9%**

[1] HY13 EBIT and EBITDA have been restated following the adoption of AASB 11 Joint Arrangements
[2] Interest and other costs of finance paid minus interest received
[3] Unaudited

INVESTING CASH

The business continued to invest in capital equipment to support existing contracted operations resulting in net capital of $163.8 million being invested, down 25.7% on the pcp. This investment principally represents maintenance capital.

DEBT AND BONDING

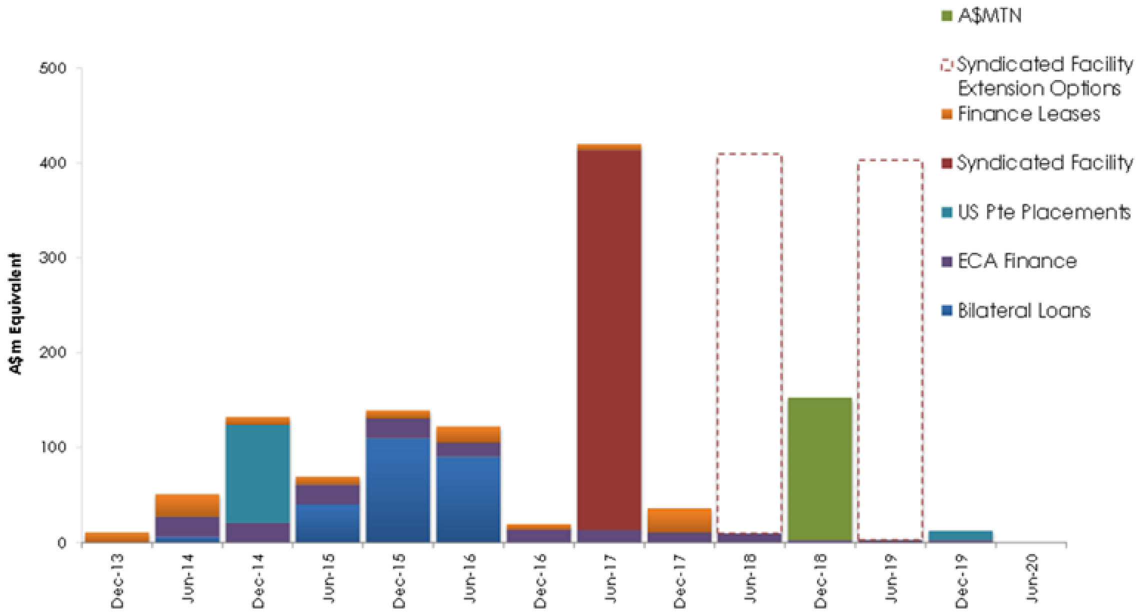
Following the establishment of a Common Terms Deed (CTD) in April 2013 (when the A$400 million syndicated loan facility was closed), work has continued to convert existing bilateral bank facilities onto the CTD.

The Group completed the refinancing of a number of existing facilities over the past six months for a total value of $920 million with the key objectives of extending tenor and reduced pricing, reflecting both the improvement in overall global credit market conditions and ongoing strengthening of Downer's credit metrics. The breakdown of these facilities is as follows:

- Bank loan facilities - $228 million
- Bank bonding facilities - $442 million
- Insurance company bonding facilities - $250 million

At 31 December 2013, Downer had liquidity of $1.0 billion, including cash of $364 million and available facilities of $647 million.

Downer's updated debt maturity profile is shown below with debt duration extended from 2.5 years to 2.7 years over the past 6 months.



BALANCE SHEET

The net assets of Downer increased by 3.9% to $1.9 billion. This increase was primarily due to the reduction in net debt reflecting the Group's continued focus on cash conversion coupled with a disciplined approach to capital investment.

Cash and cash equivalents decreased by $116.4 million or 24.2% to $363.5 million, reflecting continuing focus on cash management. Trade and other receivables decreased by $215.9 million or 14.2% to $1.3 billion reflecting a decrease in revenue, increased focus on cash collections by all Divisions and the resolution of a number of customer disputes in both Downer Infrastructure and Mining. Debtor days for the Group decreased by 2.7 days, from 24.2 to 21.5 days.

As a consequence, the net debt of the Group (gross debt less available cash) was reduced from $242.7 million at 30 June 2013 to $169.7 million at 31 December 2013. This translates to a 29.9% reduction in on balance sheet gearing to 8.2%.

Inventories increased by $58.8 million or 16.8% to $408.7 million, as a result of higher tyre stocks level in Mining and bitumen stock levels in New Zealand in preparation for the current surfacing season.

Other assets are substantially current prepayments and deposits.

The net value of Property Plant and Equipment (including asset held for sale) increased by $17.3 million principally reflecting the maintenance and investment in mining equipment and components less depreciation.

Trade and other payables decreased by $110.0 million, or 8.6%, reflecting a lower cost base due to decrease in revenue. Creditor days increased by 4.4 days from 32.5 to 36.9 days, which is well within Downer's terms of trade. Trade and other payables represent 57.0% of Downer's total liabilities.

Total drawn borrowings of $496.5 million represents 24.2% of Downer's total liabilities and has decreased by $185.7 million as a result of debt repayments made and lower funding requirements from the Divisions. Current borrowing effectively decreased by 34.5% after the $150 million 2009 MTN matured in October 2013.

Other financial liabilities of $63.5 million decreased by $2.9 million and represents 3.1% of Downer's total liabilities. The decrease reflects the mark-to-market translations of foreign currency and interest rate derivatives hedging the debt portfolio and WTP project in addition to lower advances from Joint Ventures. This decrease arose principally as a result of the strengthening of the US$ in the last quarter of 2013.

Provisions of $308.2 million decreased by 16.5%, or $60.9 million, and represent 15.0% of Downer's total liabilities. The decrease is mainly due to payments of leave liabilities and 2012/13 short term incentive bonus provided at June 2013. Employee provisions (annual leave, long service leave) made up 57.4% of this balance with the remainder covering return conditions obligation for leased assets and property and warranty obligations.

Shareholder equity increased due to $5.6 million of capital being raised via the DRP. Net foreign currency gains of $18.1 million returned the hedge reserve to a small surplus and the translation of foreign operations (principally Downer Infrastructure's New Zealand business).

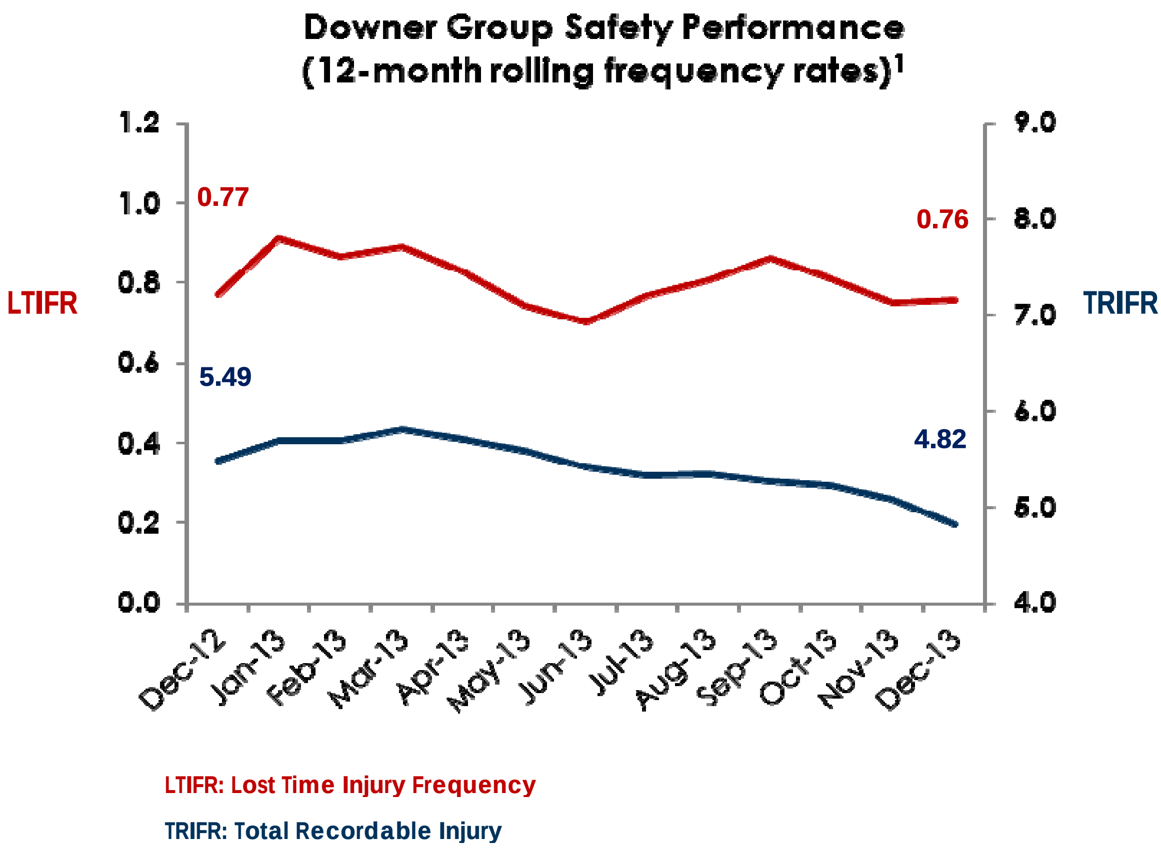
DIVIDENDS

The Downer Board resolved to pay a partially franked (70%) interim dividend of 11.0 cents per share (10.0 cents per share pcp) with the unfranked amount to be paid from Conduit Foreign Income, payable on 20 March 2014 to shareholders on the register at 18 February 2014. The Company's Dividend Reinvestment Plan will operate for this dividend with no discount.

The Board also determined to continue to pay a fully imputed dividend on the ROADS security, which having been reset on 17 June 2013 has a yield of 6.82% per annum payable quarterly in arrears, with the next payment due on 17 March 2014. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 4.91% per annum for the next 12 months.

ZERO HARM

Downer's Lost Time Injury Frequency Rate of 0.76 remained below one incident per million hours worked for the year and Total Recordable Injury Frequency Rate reduced from 5.49 to 4.82 per million hours worked. Over the period the Company intensified its focus on critical risks that have the potential to cause serious injuries.



[1] Safety rates published are unaudited.

Auditor's independence declaration

The auditor's independence declaration, as required under Section 307C of the Corporations Act 2001, is set out on page 12.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

R.M. Harding

R M Harding
Chairman

Sydney, 4 February 2014

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The Board of Directors
Downer EDI Limited
Level 2, 39 Delhi Road
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4 February 2014

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 2013, 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

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
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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 2013, and the condensed statement of profit or loss, the condensed statement of other 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 15 to 57.

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 2013 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.

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 2013 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

Sydney, 4 February 2014

Condensed consolidated statement of profit or loss
for the half-year ended 31 December 2013

	Note	Consolidated First half FY2014 $'000	Consolidated First half FY2013 (restated)[i] $'000
Revenue from ordinary activities	3(a)	**3,757,554**	4,527,087
Other income	3(a)	**3,297**	3,440
Total revenue	2	**3,760,851**	4,530,527
Employee benefits expense	3(b)	**(1,316,001)**	(1,537,363)
Raw materials and consumables used		**(716,233)**	(972,150)
Subcontractor costs		**(778,909)**	(919,478)
Plant and equipment costs		**(460,608)**	(536,501)
Communication expenses		**(43,508)**	(50,126)
Occupancy costs		**(65,491)**	(63,548)
Professional fees		**(13,923)**	(17,663)
Travel and accommodation expenses		**(56,871)**	(65,949)
Other expenses from ordinary activities		**(19,849)**	(47,134)
Depreciation and amortisation	3(b)	**(137,401)**	(154,935)
Share of net profit of joint ventures and associates	7	**8,020**	15,066
Individually significant item	4	**-**	(11,456)
		(3,600,774)	(4,361,237)
Earnings before interest and tax		**160,077**	169,290
Finance income	3(c)	**3,531**	2,672
Finance costs	3(c)	**(27,278)**	(35,324)
		(23,747)	(32,652)
Profit before income tax		**136,330**	136,638
Income tax expense		**(37,218)**	(42,591)
Profit after income tax		**99,112**	94,047

[i] *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

The condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes on pages 22 to 56.

Condensed consolidated statement of profit or loss - *continued*
for the half-year ended 31 December 2013

		Consolidated	
	Note	**First half FY2014 $'000**	First half FY2013 $'000
Profit for the period that is attributable to:			
- Non-controlling interest		**3**	5
- Members of the parent entity		**99,109**	94,042
Profit for the period		**99,112**	94,047
Earnings per share (cents)			
- Basic earnings per share	6	**21.8**	21.0
- Diluted earnings per share	6	**20.8**	20.0

The condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes on pages 22 to 56.

Condensed consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2013

	Consolidated	
	First half FY2014 $'000	First half FY2013 $'000
Profit for the period	**99,112**	94,047
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
- Exchange differences arising on translation of foreign operations	**18,071**	2,930
- Net (loss)/gain on foreign currency forward contracts taken to equity	**(958)**	8,126
- Net gain/(loss) on cross currency interest rate swaps taken to equity	**106**	(895)
- Income tax relating to components of other comprehensive income	**240**	(2,169)
Other comprehensive income for the period (net of tax)	**17,459**	7,992
Total comprehensive income for the period	**116,571**	102,039
Total comprehensive income for the period that is attributable to:		
- Non-controlling interest	**3**	5
- Members of the parent entity	**116,568**	102,034
Total comprehensive income for the period	**116,571**	102,039

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 22 to 56.

Condensed consolidated statement of financial position

As at 31 December 2013

	Note	Consolidated December 2013 $'000	June 2013 (restated)[i] $'000
ASSETS			
Current assets			
Cash and cash equivalents	11	**363,525**	479,878
Trade and other receivables		**1,298,396**	1,516,562
Other financial assets		**17,961**	24,918
Inventories		**408,694**	349,880
Current tax assets		**5,775**	13,765
Other assets		**37,081**	45,391
Assets classified as held for sale		**-**	14,289
Total current assets		**2,131,432**	2,444,683
Non-current assets			
Trade and other receivables		**3,286**	999
Equity-accounted investments		**46,152**	52,911
Property, plant and equipment		**1,182,467**	1,150,830
Intangible assets	8	**578,200**	571,773
Other financial assets		**7,203**	9,624
Deferred tax assets		**511**	5,830
Other assets		**2,999**	3,134
Total non-current assets		**1,820,818**	1,795,101
Total assets		**3,952,250**	4,239,784
LIABILITIES			
Current liabilities			
Trade and other payables		**1,167,538**	1,276,751
Borrowings	12	**155,921**	237,946
Other financial liabilities		**60,811**	38,713
Provisions		**269,494**	326,099
Current tax payables		**7,647**	10,623
Total current liabilities		**1,661,411**	1,890,132
Non-current liabilities			
Trade and other payables		**4,776**	5,578
Borrowings	12	**340,546**	444,256
Other financial liabilities		**2,690**	27,664
Provisions		**38,703**	43,017
Deferred tax liabilities		**6,855**	2,563
Total non-current liabilities		**393,570**	523,078
Total liabilities		**2,054,981**	2,413,210
Net assets		**1,897,269**	1,826,574
EQUITY			
Issued capital	10	**1,454,535**	1,448,927
Reserves		**632**	(17,461)
Retained earnings		**442,114**	395,123
Parent interests		**1,897,281**	1,826,589
Non-controlling interest		**(12)**	(15)
Total equity		**1,897,269**	1,826,574

[i] *Certain amounts shown here do not correspond to the consolidated annual financial report as at 30 June 2013 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 22 to 56.

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2013

$'000	Issued capital	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 2013	**1,448,927**	**1,746**	**(33,157)**	**13,950**	**395,123**	**1,826,589**	**(15)**	**1,826,574**
Profit for the period	**-**	**-**	**-**	**-**	**99,109**	**99,109**	**3**	**99,112**
Exchange differences arising on translation of foreign operations	**-**	**-**	**18,071**	**-**	**-**	**18,071**	**-**	**18,071**
Net loss on foreign currency forward contracts	**-**	**(958)**	**-**	**-**	**-**	**(958)**	**-**	**(958)**
Net gain on cross currency interest rate swaps	**-**	**106**	**-**	**-**	**-**	**106**	**-**	**106**
Income tax relating to components of other comprehensive income	**-**	**240**	**-**	**-**	**-**	**240**	**-**	**240**
Total comprehensive income for the period	**-**	**(612)**	**18,071**	**-**	**99,109**	**116,568**	**3**	**116,571**
Issue of shares under dividend reinvestment plan	**5,608**	**-**	**-**	**-**	**-**	**5,608**	**-**	**5,608**
Share-based transactions during the period	**-**	**-**	**-**	**1,756**	**-**	**1,756**	**-**	**1,756**
Income tax relating to share-based transactions during the period	**-**	**-**	**-**	**(1,122)**	**-**	**(1,122)**	**-**	**(1,122)**
Payment of dividends [(i)]	**-**	**-**	**-**	**-**	**(52,118)**	**(52,118)**	**-**	**(52,118)**
Balance at 31 December 2013	**1,454,535**	**1,134**	**(15,086)**	**14,584**	**442,114**	**1,897,281**	**(12)**	**1,897,269**

[(i)] Payment of dividend relates to the 2013 final dividend, and $4.4m 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 22 to 56.

Condensed consolidated statement of changes in equity - *continued*

for the half-year ended 31 December 2013

$'000	Issued capital	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 2012	1,427,730	(11,594)	(50,123)	9,965	241,737	**1,617,715**	(15)	**1,617,700**
Profit for the period	-	-	-	-	94,042	**94,042**	5	**94,047**
Exchange differences arising on translation of foreign operations	-	-	2,930	-	-	**2,930**	-	**2,930**
Net gain on foreign currency forward contracts	-	8,126	-	-	-	**8,126**	-	**8,126**
Net loss on cross currency interest rate swaps	-	(895)	-	-	-	**(895)**	-	**(895)**
Income tax relating to components of other comprehensive income	-	(2,169)	-	-	-	**(2,169)**	-	**(2,169)**
Total comprehensive income for the period	-	5,062	2,930	-	94,042	**102,034**	5	**102,039**
Vested executive incentive shares transactions	298	-	-	(298)	-	**-**	-	**-**
Share-based transactions during the period	-	-	-	2,335	-	**2,335**	-	**2,335**
Income tax relating to share-based transactions during the period	-	-	-	133	-	**133**	-	**133**
Payment of dividends [(i)]	-	-	-	-	(3,777)	**(3,777)**	(7)	**(3,784)**
Balance at 31 December 2012	1,428,028	(6,532)	(47,193)	12,135	332,002	**1,718,440**	(17)	**1,718,423**

[(i)] Payment of dividends relates to ROADS dividends paid during the financial period and dividends paid to non-controlling interest in Downer Infrastructure New Zealand.

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 22 to 56.

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2013

	Note	Consolidated First half FY2014 $'000	First half FY2013 (restated)[(i)] $'000
Cash flows from operating activities			
Receipts from customers		**4,419,421**	5,003,818
Distributions from equity-accounted investments		**13,451**	21,162
Dividends received from external entities		**-**	5
Payments to suppliers and employees		**(4,110,802)**	(4,801,454)
Interest received		**3,332**	2,871
Interest and other costs of finance paid		**(28,709)**	(35,629)
Income tax paid		**(16,360)**	(9,813)
Net cash flows from operating activities		**280,333**	180,960
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**15,270**	10,167
Payments for property, plant and equipment		**(171,639)**	(227,204)
Payments for intangible assets	8	**(4,434)**	(1,039)
Receipts from/(payments for) investments		**1,342**	(65)
(Advances to)/repayments from joint ventures		**(1,481)**	60
Divestment cost paid on disposal of subsidiary		**-**	(2,357)
Payments for businesses acquired		**(2,847)**	-
Net cash flows used in investing activities		**(163,789)**	(220,438)
Cash flows from financing activities			
Proceeds from borrowings		**817,500**	1,918,180
Repayments of borrowings		**(1,008,717)**	(1,961,898)
Dividends paid		**(46,510)**	(3,777)
Dividend paid to non-controlling interest		**-**	(7)
		(237,727)	(47,502)
Net decrease in cash and cash equivalents		**(121,183)**	(86,980)
Cash and cash equivalents at the beginning of the period[(ii)]		**479,878**	306,385
Effect of exchange rate changes		**4,830**	2,924
Cash and cash equivalents at the end of the period	11	**363,525**	222,329

(i) *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

(ii) *Cash and cash equivalents at the beginning of the period shown here do not correspond to the consolidated annual financial report as at 30 June 2013 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 22 to 56.

Notes to the condensed consolidated financial statements
for the half-year ended 31 December 2013

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* (Cth) 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 2013 Annual Report.

The condensed consolidated financial statements were authorised for issue by the Directors on 4 February 2014.

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 2013, except in relation to the relevant amendments and their effects on the current period or prior periods as described below.

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that when there is a change in accounting policy, the revised policy is applied retrospectively as if the new accounting policy had always been applied. Therefore certain amounts shown in the consolidated half-year Financial Report as at 31 December 2013 do not correspond to the consolidated Financial Report as at 30 June 2013 or to the consolidated half-year Financial Report as at 31 December 2012. Adjustments to these previously disclosed amounts have been reflected as detailed in Note 17: Impact of the change in accounting policy on adoption of AASB 11 *Joint Arrangements*.

The Group has changed its accounting policies as a result of new and amended accounting standards which became effective for annual reporting periods beginning on or after 1 January 2013. AASB 10 *Consolidated Financial Statements* (AASB 10) affected the Group's principles of consolidation and AASB 11 *Joint Arrangements* (AASB 11) resulted in the Group changing its accounting for some joint arrangements from the equity method to proportionate consolidation.

Other new and amended accounting standards that apply for the first time in its annual reporting period commencing 1 July 2013 include:

- AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*;
- AASB 2012-10 *Amendments to Australian Accounting Standards Guidance and other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period;
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*;
- AASB 119 *Employee Benefits* (September 2011) and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011);
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*; and

Note 1. Summary of accounting policies - *continued*

- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.*

While these standards introduced new disclosure requirements, they did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

Basis of consolidation

AASB 10 establishes a revised control model that applies to all entities. It replaces the consolidation requirements in AASB 127 *Consolidated and Separate Financial Statements* and AASB Interpretation 112 *Consolidation – Special Purpose Entities*. The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes additional application guidance. Under AASB 10, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has reassessed its consolidation conclusions in light of the new control principles in AASB 10 and concluded that no changes are required. Accordingly, the adoption of AASB 10 has not resulted in any adjustments to the carrying amounts in the financial statements.

Change in accounting policy: Investment in joint arrangements

AASB 11 replaces AASB 131 *Interests in Joint Ventures* and AASB Interpretation 113 *Jointly - Controlled Entities – Non-monetary Contributions by Venturers*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, AASB 11 removes the option to account for jointly-controlled entities using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations for liabilities are accounted for by recognising the share of those assets and liabilities. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method.

The adoption of AASB 11 has resulted in the Group changing its accounting policy to distinguish between accounting for joint arrangements as either a joint operation or as a joint venture. As a joint operation the Group accounts for its right to the underlying assets and obligations for liabilities by recognising the share of those assets and liabilities. As a joint venture the Group accounts for its interests using the equity method, where the interests are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

The adoption of AASB 11 has resulted in the Group determining that some joint arrangements that were previously accounted for using the equity method are to be accounted for as joint operations. As required by AASB 11, the change in policy has been applied retrospectively and, as a consequence, adjustments were recognised in the statement of financial position as of 1 July 2012. The Group has derecognised its related investments in joint ventures at the beginning of the earliest period presented being 1 July 2012, and has recognised the carrying amounts of the assets and liabilities under proportionate consolidation. The change in accounting policy had no impact on the Group's net assets, items of equity, profit for the period and earnings per share.

The effect of the change in accounting policy on individual line items in the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of financial position is shown in more detail in Note 17: Impact of the change in accounting policy on adoption of AASB 11 *Joint Arrangements*.

Change in accounting policy: fair value measurement

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Note 1. Summary of accounting policies - *continued*

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities has changed on transition to AASB 13, largely due to incorporating credit risk into the valuation.

As required under AASB 13, the change to the fair value of the derivative liabilities is applied prospectively, in the same way as a change in an accounting estimate. As a consequence comparative amounts have not been restated.

Accounting estimates and judgements

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.

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.

Note 1. Summary of accounting policies - *continued*

Judgement is exercised by Management in determining whether it is probable that the contract will be awarded. An error in judgement may result in capitalised tender/bid costs being recognised in the statement of profit or loss 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 an international market. Management judgement is therefore required to estimate the impact of loss of key contracts and suppliers on future earnings supporting existing goodwill and intangible assets.

Waratah train project

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

During the half year to 31 December 2013, the project has continued to make significant progress toward completion. The last train has undergone construction in China and departed from CRC on 20 January 2014 and was shipped from China on 29 January 2014. As at 3 February 2014, 67 trains have received Practical Completion (PC) and operate on the Sydney Rail network in passenger service. The current expectation is that Set 78 will be presented for PC during May 2014.

The achievement of program compliance has resulted in an additional $20.0 million of general contingency being utilised since 30 June 2013. The Forecast Cost At Completion (FCAC) reflected a general contingency of $21 million at 31 December 2013.

Key assumptions underpinning the completion of the program include:

- No material stock shortages are experienced during the final stages of production in Cardiff;
- The Customs book in China will be closed with no further costs at conclusion of the program;
- Suppliers contracts/disputes are closed within Management's estimates;
- All parties continue to honour their contractual obligations;
- That Sydney Trains and Reliance Rail continue to adopt a reasonable industry approach to the acceptance of trains for passenger service;
- No provision associated with potential future redundancy in Cardiff on the assumption that all staff will be redeployed;
- The insurance proceeds are expected to cover the majority of the costs to replace the train that suffered significant corrosion damage during transit in the prior financial year;
- No specific allowance has been made for potential future legal claims against Downer in relation to this project; and
- 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 once Train 78 achieves PC, together with the balance of the MDA ($12.5 million) that will be retained in the MDA to meet Downer's contingency funding obligation until 2018 as part of the Reliance Rail restructure. MDA interest receivable in the FCAC assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature with an APRA regulated financial institution.

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2013

Note 1. Summary of accounting policies - *continued*

Based on the program assumptions, the FCAC for 31 December 2013 by major cost category is detailed in the table below.

Cost Category	June 13 Estimate $m	Change $m	December 13 Estimate $m
Materials and Sub-Contracted Components	1,074	1	1,075
Labour	323	2	325
Engineering Services	156	2	158
Transport, Logistics and Procurement	169	7	176
Project Management	137	4	141
Insurance, Bonding and Finance	51	2	53
Forecast Liquidated Damages (LDs)	176	1	177
Manufacturing Delay Account interest receivable	(96)	4	(92)
Other Costs	88	(2)	86
General Contingency	41	(20)	21
Total FCAC Costs	**2,119**	**1**	**2,120**
Revenue	**1,689**	**1**	**1,690**
FCAC (Loss)	**(430)**	**-**	**(430)**

Materials and Sub-Contracted Components
The FCAC assumes that all current suppliers remain solvent and that there are no latent defects or quality issues in any parts or designs provided. Should any latent defects manifest, it is assumed that they will be rectified at the supplier's cost.

While Downer currently has a potential right of recovery of LDs from materials suppliers, the FCAC does not assume recovery of these amounts at this stage. Similarly, the FCAC does not assume any potential increases in materials costs associated with potential suppliers' claims.

Labour
Labour includes manpower costs sub-contracted with CRC in China and those incurred directly by Downer at Cardiff.

The forecast cost of labour has increased by $2.0 million from June 2013 following changes to production plans in Cardiff to ensure compliance with the train delivery schedule. Cost saving strategies are in place to contain labour costs. No provision associated with potential future redundancy in Cardiff is contemplated on the assumption that all staff will be redeployed.

Engineering Services
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.

Since June 2013, the FCAC cost for logistics and procurement has increased by $7.0 million due to the decisions taken to expedite ships and parts from China to Cardiff in order to minimise the impact of late deliveries on labour in Cardiff and the overall cost of liquidated damages to the project. In addition, the warehouse lease in China was extended beyond what was expected in June 2013 due in part to the delay in obtaining consent from China Customs to scrap damaged materials.

Note 1. Summary of accounting policies - *continued*

Project Management
Project Management includes all support activities to complete the program, including allowance for travel, housing and expatriate benefits related to the Waratah team.

The forecast cost of project management has increased by $4.0 million from June 2013. The increase is mainly due to the delayed integration of the Waratah project team and the cost of redundancies.

There will be significant attention in the coming months on the demobilisation of resources in all locations within the project. The regulatory and labour environment in China is complex. The management of demobilisation will require exacting execution to ensure the project is closed out effectively. In Australia, it will be critical to retain key resources within the Group while managing the cost expectations within the FCAC.

Insurance, Bonding and Finance
Insurance includes the costs incurred to insure property, liability and people for the full duration of the program.

Financing costs includes cost of bonding and the cost of hedging the foreign exchange risk associated with foreign denominated costs included within the FCAC.

All PC Bonds for Trains one to 67 have been returned and future forecast bonding costs are reflective of an expectation that all PC Bonds will be returned 30 days after PC is obtained.

In the prior financial year, one of the trains suffered significant corrosion damage during transit and an insurance claim was submitted. Significant progress has been made in the financial period with respect to the completion of the insurance claim. The insurer has formally confirmed that the train is a “Total Constructive Loss” and a replacement train is being manufactured to meet the original program for the damaged train.

Forecast Liquidated Damages (LDs)
Forecast LDs are based on a formula that broadly approximates to $220,000 per train per month the train is not in service.

The projected LDs of $177.0 million represent an approximate delay of 13 months for every train to be delivered. It is currently anticipated that the last train will be delivered only eight months after the original contract delivery date of September 2013.

The December 2013 FCAC has valued LDs on the basis of the deterministic schedule targeted by the WTP team.

Manufacture Delay Account (MDA)
The MDA reflects the contractual arrangement between Downer and Reliance Rail under which milestone payments are paid to Downer in accordance with the actual delivery schedule achieved. To the extent that 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.

The $4.0 million variation from the June 2013 forecast are due to lower funds held on account as claims have been accelerated, coupled with a decrease in interest rates from the June 2013 forecast assumptions.

General Contingency
A general contingency of $21.0 million is included in the FCAC to cover unforeseen events or cost variations that may arise over the life of the program. The general contingency has reduced by $20.0 million since 30 June 2013 to fund the above category movements.

A detailed risk management plan has been developed to address commercial issues and remaining project risks. Management continue to assess the quantum of the contingency and considered the level of contingency being appropriate to cover risks that may arise or likely cost extensions that will result from the realisation of risks for the remainder of the program. To the extent that these risks do not materialise, the contingency level may be reduced. It is considered premature to release any general contingency at 31 December 2013 and further assessment will be made once Train 78 is delivered.

Note 1. Summary of accounting policies - *continued*

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

Recovery of deferred tax assets

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

Income taxes

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

Environmental risk and regulation

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

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.

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

- *AASB 9 Financial Instruments* (December 2009), AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9,* AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 8 and Transition Disclosure,* AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2017;

Note 1. Summary of accounting policies - *continued*

- *AASB 9 Financial Instruments* (December 2010), *AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010),* AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 8 and Transition Disclosure*, AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2017;
- *AASB 2012-3 Amendments to Australian Accounting Standards Disclosure – offsetting Financial Assets and Liabilities (Amendments to AASB 132)* effective for annual periods beginning on or after 1 January 2014;
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* effective for annual periods beginning on or after 1 January 2014;
- AASB 1031 *Materiality* (2013) effective for annual periods beginning on or after 1 January 2014;
- AASB 2013-3 *Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets* effective for annual periods beginning on or after 1 January 2014;
- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* effective for annual periods beginning on or after 1 January 2014; and
- Interpretation 21 *Levies* effective for annual periods beginning on or after 1 January 2014.

Note 2. Segment information

Identification of reportable segments

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

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

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

Downer Infrastructure Australia: Downer Infrastructure Australia is the combination of several cash generating units, generally across geographical groupings. Downer Infrastructure Australia provides a full suite of engineering, construction and project management services in the public and private infrastructure industries. The industries in which Downer Infrastructure 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.

Downer Infrastructure 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.

Downer 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.

Downer 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.

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 Group's 2013 Annual Report, except for the new and amended accounting standards detailed in Note 1: Summary of accounting policies.

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) Interest income and finance cost;
(b) Corporate charges comprise non-segmental expenses such as head office expenses; and
(c) Income tax expense.

Information about major customers
There is no single customer that contributed 10% or more to the Group's revenue for both the first half of FY2014 and FY2013.

	Total revenue[ii]		**Share of sales revenue in joint ventures and associates**		**Total revenue including joint ventures and associates**	
	First half FY2014	First half FY2013 (restated)[i]	**First half FY2014**	First half FY2013 (restated)[i]	**First half FY2014**	First half FY2013
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By business segment						
Downer Infrastructure Australia	**1,751,924**	2,127,239	**25,526**	40,041	**1,777,450**	2,167,280
Downer Infrastructure New Zealand	**531,602**	477,299	**3,406**	2,702	**535,008**	480,001
Downer Mining	**995,587**	1,294,531	**28,951**	39,956	**1,024,538**	1,334,487
Downer Rail	**476,688**	626,273	**112,385**	103,372	**589,073**	729,645
Inter-segment sales	**(3,309)**	(3,642)	**-**	-	**(3,309)**	(3,642)
Subtotal	**3,752,492**	4,521,700	**170,268**	186,071	**3,922,760**	4,707,771
Unallocated	**8,359**	8,827	**-**	-	**8,359**	8,827
Total	**3,760,851**	4,530,527	**170,268**	186,071	**3,931,119**	4,716,598

(i) *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

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

Note 2. Segment information - *continued*

	Note	Segment results First half FY2014 $'000	First half FY2013 (restated)[i] $'000
By business segment			
Downer Infrastructure Australia		**56,231**	86,177
Downer Infrastructure New Zealand		**31,182**	16,366
Downer Mining		**90,133**	97,052
Downer Rail		**4,616**	34,223
Total operating segment results		**182,162**	233,818
Unallocated		**(22,085)**	(64,528)
Interest income	3(c)	**3,531**	2,672
Interest expense	3(c)	**(27,278)**	(35,324)
Net interest expense		**(23,747)**	(32,652)
Profit before income tax		**136,330**	136,638
Income tax expense		**(37,218)**	(42,591)
Net profit after tax		**99,112**	94,047

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

	Note	First half FY2014 $'000	First half FY2013 (restated)[i] $'000
Segment net operating profit		**182,162**	233,818
Unallocated:			
Individually significant item	4	**-**	(11,456)
Impairment of goodwill	8	**-**	(6,224)
Provision/settlement of contractual claims		**-**	(18,502)
Government grant	3(a)	**7,907**	8,595
Redundancy costs		**(758)**	(553)
Corporate costs		**(26,132)**	(30,510)
IT transformation costs		**(3,102)**	(5,878)
Total unallocated		**(22,085)**	(64,528)
Interest income	3(c)	**3,531**	2,672
Interest expense	3(c)	**(27,278)**	(35,324)
Total profit before income tax		**136,330**	136,638
Income tax expense		**(37,218)**	(42,591)
Total net profit after tax		**99,112**	94,047

[i] *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

Note 3. Profit from ordinary activities

	Note	Consolidated First half FY2014 $'000	Consolidated First half FY2013 (restated)[i] $'000
a) Revenue			
Sales revenue			
Rendering of services		**2,016,807**	2,377,033
Mining services		**972,989**	1,270,855
Construction contracts		**627,201**	724,960
Sale of goods		**125,887**	132,293
Other revenue			
Other revenue		**2,298**	7,187
Rental income		**4,465**	6,159
Government grant	2	**7,907**	8,595
Dividends			
Other entities		**-**	5
		3,757,554	4,527,087
Other income			
Net gain on disposal of property, plant and equipment		**3,297**	3,440
Total other income		**3,297**	3,440
Total revenue and other income		**3,760,851**	4,530,527
Share of sales revenue from joint venture entities and associates	2	**170,268**	186,071
Total revenue including joint ventures and associates and other income		**3,931,119**	4,716,598

[i] *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

Note 3. Profit from ordinary activities - *continued*

	Note	Consolidated First half FY2014 $'000	Consolidated First half FY2013 (restated)[i] $'000
b) Operating expenses			
Depreciation and amortisation of non-current assets:			
- Plant and equipment		**117,244**	133,240
- Buildings		**1,604**	1,376
- Amortisation of leased assets		**12,371**	14,401
Total depreciation		**131,219**	149,017
Amortisation of intellectual property/software	8	**6,182**	5,918
Total depreciation and amortisation		**137,401**	154,935
Operating lease expenses related to land and buildings		**36,346**	35,313
Operating lease expenses related to plant and equipment [ii]		**102,774**	124,294
Total operating lease expenses		**139,120**	159,607
Employee benefits expense:			
- Defined contribution plans		**68,421**	84,101
- Share-based transactions		**1,756**	2,335
- Employee benefits		**1,227,562**	1,445,238
- Redundancy costs		**18,262**	5,689
Total employee benefits expense		**1,316,001**	1,537,363
c) Finance income and costs			
Finance income			
Interest income	2	**3,531**	2,672
Finance costs			
Finance costs on liabilities carried at amortised cost:			
- Interest expense		**23,565**	30,516
- Finance lease expense		**3,713**	4,808
Total interest and finance lease expense	2	**27,278**	35,324

(i) *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

(ii) Operating lease expenses do not include expenses relating to maintenance, insurance and taxes of $7.9 million (December 2012: $6.3 million).

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2013

Note 4. Individually significant item

	Consolidated	
	First half FY2014 $'000	First half FY2013 $'000
The following material item is relevant to an understanding of the Group's financial performance:		
- Provision referable to Singapore Tunnel dispute	**-**	11,456
	-	11,456

Prior Year

Provision referable to Singapore Tunnel dispute

The provision related to a dispute with SP PowerAssets Ltd in relation to the construction of an electrical services tunnel. A settlement was reached between the parties in December 2012. A provision of $11.5 million was taken up in the prior period to cover the settlement outcome.

Note 5. Dividends

a) Ordinary shares

	Interim 2014	Final 2013	Interim 2013
Dividend per share (in Australian cents)	**11.0**	11.0	10.0
Franking percentage	**70%**	70%	70%
Cost (in $'000)	**47,821**	47,675	42,910
Payment date	**20/03/2014**	24/09/2013	15/04/2013
Dividend record date	**18/02/2014**	20/08/2013	15/03/2013

The interim 2014 dividend has not been declared at the reporting date and therefore is not reflected in the financial statements.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

	Quarter 1 2014	**Quarter 2 2014**			**Total 2014**
Dividend per ROADS (in Australian cents)	**1.09**	**1.13**			**2.22**
New Zealand imputation credit percentage	**100%**	**100%**			**100%**
Cost (in A$'000)	**2,181**	**2,262**			**4,443**
Payment date	**16/09/2013**	**16/12/2013**			

	Quarter 1 2013	Quarter 2 2013	Quarter 3 2013	Quarter 4 2013	Total 2013
Dividend per ROADS (in Australian cents)	0.95	0.94	0.95	1.00	3.84
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'000)	1,895	1,882	1,904	2,002	7,683
Payment date	17/09/2012	17/12/2012	15/03/2013	17/06/2013	

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2013

Note 6. Earnings per share

	First half FY2014 Cents per share	First half FY2013 Cents per share
Earnings per share (EPS)		
- Basic earnings per share	**21.8**	21.0
- Diluted earnings per share	**20.8**	20.0

	First half FY2014	First half FY2013
Basic earnings per share		
Profit attributable to members of the parent entity ($'000)	**99,109**	94,042
Adjustment to reflect ROADS dividends paid ($'000)	**(4,443)**	(3,777)
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**94,666**	90,265
Weighted average number of ordinary shares (WANOS) on issue (000's)	**434,115**	429,100
Earnings per share (cents per share)	**21.8**	21.0

	First half FY2014	First half FY2013
Diluted earnings/(loss) per share		
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**99,109**	94,042
Weighted average number of ordinary shares (WANOS) on issue (000's)	**434,115**	429,100
WANOS adjustment to reflect potential dilution for ROADS (000's)[(i)]	**42,299**	40,121
WANOS used in the calculation of EPS (000's)	**476,414**	469,221
Earnings per share (cents per share)	**20.8**	20.0

(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 which is $184.2 million (December 2012: $158.4 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2013 to 31 December 2013 discounted by 2.5 per cent according to the ROADS contract terms, which is $4.36 (December 2012: $4.05).

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2013

Note 7. Joint arrangements and associate entities

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

Name of joint operation	Principal activity	Country of incorporation	Ownership interest December 2013 %	Ownership interest December 2012 %
BPL Downer Joint Venture	Building construction	Singapore	**50**	50
CMC and Downer Joint Venture	Road construction	Australia	**50**	50
CDJV Construction Pty Ltd (i)	Employment of labour force deployed in Clough Downer	Australia	**50**	50
Clough Downer Joint Venture (i)	Gas compression facilities and pipelines	Australia	**50**	50
Dampier Highway Joint Venture	Highway construction and design	Australia	**50**	50
Downer Clough Joint Venture	Ammonium nitrate production	Australia	**50**	50
Downer Contech Joint Venture (iii)	Construction	Fiji	**-**	50
Downer Daracon Joint Venture	Construction	Australia	**50**	50
Downer CSS Joint Venture(ii)	Telecommunications	Thailand	**60**	60
Downer Electrical GHD JV(ii)	Traffic control infrastructure	Australia	**90**	90
Downer EDI Works Pty Ltd & Leighton Contractors Pty Ltd	Design and construction of rail works	Australia	**50**	-
DownerMouchel (i)(iv)	Road maintenance	Australia	**60**	60
DownerMouchel Services Pty Ltd	Employment of labour force deployed in DownerMouchel in NSW	Australia	**50**	-
John Holland EDI Joint Venture (i)	Research reactor	Australia	**40**	40
LD&C Joint Venture	Design and construction of pipes and structures	Australia	**37.5**	-
Leighton Works Joint Venture	Road construction	New Zealand	**50**	50
Roche Thiess Linfox Joint Venture	Contract mining; civil works and plant hire	Australia	**44**	44
Synergy Joint Venture (i)	Road and pavement construction	Australia	**33**	33
Thiess Downer EDI Works	Construction of coast to coast railway	Australia	**25**	25
Yokogawa Downer Joint Venture	Refurbishment of power station	Australia	**50**	50
York Civil Pty Ltd and Downer EDI Engineering Pty Ltd Joint Venture	Construction of water pump station	Australia	**50**	50

(i) Following the adoption of AASB 11 *Joint Arrangements*, these Joint Arrangements previously classified as Joint Controlled Entities are now classified as Joint Operations.

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

(iii) Joint Operation was de-registered during the financial period.

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

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

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

Name of entity	Principal activity	Country of incorporation	Ownership interest December 2013 %	Ownership interest December 2012 %
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
Dust-A-Side Australia Pty Ltd(i)	Dust suppression to mine industry	Australia	**-**	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco Limited	Emulsion plant	New Zealand	**50**	50
Green Vision Recycling Limited	Recycling	New Zealand	**33**	33
RTL Mining and Earthworks Pty Ltd	Contract mining; civil works and plant hire	Australia	**44**	44
Stockton Alliance Limited	Mine operations	New Zealand	**50**	50
Works Infrastructure Cortex Resources Joint Venture Limited (ii)	Construction of bulk coal handling equipment	New Zealand	**-**	50
Associates				
Clyde Babcock Hitachi (Australia) Pty Ltd	Refurbishment, construction and maintenance of boilers	Australia	**27**	27
KDR Victoria Pty Ltd	Operation of Yarra Trams and Melbourne tram network	Australia	**49**	49
KDR Gold Coast Pty Ltd (iii)	Operations and maintenance for Gold Coast Rapid Transit Project	Australia	**49**	49
Keolis Downer Pty Ltd	Operation of passenger transportation	Australia	**49**	-
Reliance Rail Pty Ltd	Rail manufacturing and maintenance	Australia	**49**	49

All joint ventures have a statutory reporting date of 30 June unless stated below.

(i) Joint venture interest was disposed of during the financial period.

(ii) Works Infrastructure Cortex Resources Joint Venture Limited is classified as a controlled entity during the financial period.

(iii) KDR Gold Coast Pty Ltd has a 31 December statutory reporting date. The statutory reporting date differs to the Group as it is aligned with the joint venture partners' reporting date.

	Consolidated First half FY2014 $'000	Consolidated First half FY2013 (restated)(i) $'000
Share of net profit of joint ventures and associates	**8,020**	15,066

(i) *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

Note 8. Intangible assets

December 2013	Consolidated		
$'000	Goodwill	Intellectual Property/ Software	Total
At 1 July 2013			
Cost	**590,799**	**138,680**	**729,479**
Accumulated amortisation and impairment	**(75,994)**	**(81,712)**	**(157,706)**
Net book value	**514,805**	**56,968**	**571,773**
Period ended 31 December 2013			
Purchases	**-**	**4,434**	**4,434**
Acquisition of businesses (Note 9)	**3,223**	**-**	**3,223**
Reclassifications at net book value	**-**	**1,381**	**1,381**
Amortisation expense (Note 3(b))	**-**	**(6,182)**	**(6,182)**
Net foreign currency exchange differences	**3,228**	**343**	**3,571**
Closing net book value	**521,256**	**56,944**	**578,200**
At 31 December 2013			
Cost	**597,250**	**144,838**	**742,088**
Accumulated amortisation and impairment	**(75,994)**	**(87,894)**	**(163,888)**
Closing net book value	**521,256**	**56,944**	**578,200**

June 2013	Consolidated		
$'000	Goodwill	Intellectual Property / Software	Total
At 1 July 2012			
Cost	588,358	128,879	717,237
Accumulated amortisation	(69,770)	(69,816)	(139,586)
Net book value	518,588	59,063	577,651
Year ended 30 June 2013			
Purchases	-	5,344	5,344
Reclassifications at net book value	-	3,897	3,897
Amortisation expense	-	(11,401)	(11,401)
Impairment (i)	(6,224)	-	(6,224)
Net foreign currency exchange differences at net book value	2,441	65	2,506
Closing net book value	514,805	56,968	571,773
At 30 June 2013			
Cost	590,799	138,680	729,479
Accumulated amortisation and impairment	(75,994)	(81,712)	(157,706)
Closing net book value	514,805	56,968	571,773

(i) Impairment of Spiire Australia's Goodwill following impairment testing performed by management.

Note 9. Acquisition of businesses

Half-year ended 31 December 2013

a) Summary of acquisitions

Name of business acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition $'000
Scarriff	Pipeline maintenance	1/07/2013	100	4,037

The Group acquired the business of Scarriff Pipelines and business assets of Scarriff Construction (collectively known as “Scarriff”) to provide a broader market offering of the Group's water maintenance services.

Total consideration for this acquisition was $4.0 million. The initial accounting for the acquisition has only been provisionally determined, as the necessary market valuations and other calculations had not been finalised.

At the date of the acquisition the net asset value of Scarriff was $0.8 million, resulting in a $3.2 million goodwill being recognised. The goodwill represents the benefit of expected synergies; the expected revenue growth; the future market development and the assembled workforce of Scarriff. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Half-year ended 31 December 2012

The Group did not acquire any businesses during the financial period ended 31 December 2012.

Note 10. Issued capital

	Consolidated	
	December 2013 $'000	June 2013 $'000
Ordinary shares:		
434,734,970 ordinary shares (June 2013: 433,409,429)	**1,305,071**	1,299,463
Unvested executive incentive shares:		
6,038,698 ordinary shares (June 2013: 6,038,698)	**(29,139)**	(29,139)
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (June 2013: 200,000,000)	**178,603**	178,603
	1,454,535	1,448,927

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 2013		June 2013	
Fully paid ordinary share capital	**000's**	**$'000**	000's	$'000
Balance at the beginning of the financial period/year	**433,409**	**1,299,463**	429,100	1,278,564
Issue of shares through Dividend Reinvestment Plan elections	**1,326**	**5,608**	4,309	20,899
Balance at the end of financial period/year	**434,735**	**1,305,071**	433,409	1,299,463

	Consolidated			
	December 2013		June 2013	
Unvested executive incentive shares	**000's**	**$'000**	000's	$'000
Balance at the beginning of the financial period/year	**6,039**	**(29,139)**	6,116	(29,437)
Vested executive incentive shares transactions	**-**	**-**	(77)	298
Balance at the end of financial period/year	**6,039**	**(29,139)**	6,039	(29,139)

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*

Redeemable Optionally Adjustable Distributing Securities (ROADS)	Consolidated			
	December 2013		June 2013	
	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. In accordance with the terms of the ROADS preference shares, the dividend rate for the one year commencing 15 June 2013 is 6.82 per cent per annum which is equivalent to one year swap rate on 17 June 2013 plus the Step-up margin of 4.05 per cent per annum.

Note 11. Reconciliation of cash and cash equivalents

	Consolidated	
	December 2013	December 2012 (Restated)[(i)]
For the purpose of the statement of cash flows, cash and cash equivalents comprises:	**$'000**	$'000
Cash	**315,124**	148,629
Short-term deposits	**48,401**	73,790
	363,525	222,419
Bank overdrafts	**-**	(90)
Total cash and cash equivalents	**363,525**	222,329

(i) *Certain amounts shown here do not correspond to the consolidated interim financial report as at 31 December 2012 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

Note 12. Borrowings

	Note	Consolidated December 2013 $'000	Consolidated June 2013 (Restated)[i] $'000
Current			
Secured - at amortised cost:			
- Finance lease liabilities		**34,081**	38,037
- Hire purchase liabilities		**2,017**	2,286
- Supplier finance		**-**	5,733
		36,098	46,056
Unsecured - at amortised cost:			
- Bank loans		**17,890**	17,843
- Bank overdrafts		**-**	12
- AUD medium term notes (2009-1)		**13,283**	13,283
- AUD medium term notes (2009-2)		**-**	150,310
- AUD medium term notes (2010-1)		**12,600**	12,600
- USD notes		**78,475**	-
- Deferred finance charges		**(2,425)**	(2,158)
		119,823	191,890
Total current borrowings	15	**155,921**	237,946
Non-current			
Secured - at amortised cost:			
- Finance lease liabilities		**73,457**	80,850
- Hire purchase liabilities		**2,730**	3,214
		76,187	84,064
Unsecured - at amortised cost:			
- Bank loans		**53,106**	61,387
- USD notes		**7,848**	83,270
- AUD medium term notes (2009-1)		**46,535**	53,177
- AUD medium term notes (2010-1)		**12,600**	18,900
- AUD medium term notes (2013-1)		**150,000**	150,000
- Deferred finance charges		**(5,730)**	(6,542)
		264,359	360,192
Total non-current borrowings	15	**340,546**	444,256
Total borrowings		**496,467**	682,202

(i) *Certain amounts shown here do not correspond to the consolidated annual financial report as at 30 June 2013 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

Note 13. Contingent liabilities

	Consolidated	
	December 2013 $'000	June 2013 $'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	**956,193**	918,942

In the ordinary course of business:

i) The Group is called upon to give guarantees and indemnities to counterparties, relating to the performance of contractual and financial obligations (including for controlled entities and related parties). Other than as noted above, these guarantees and indemnities are indeterminable in amount.

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

iii) The Group is subject to product liability and or litigation/claims in relation to performance obligations for specific contracts, such liability includes the potential costs to carry out rectification works by the Group. Provision is made for the potential costs of carrying out rectification works based on known claims and previous claims history. However, as the ultimate outcome of these claims cannot be reliably determined at the date of this report, contingent liability may exist for any amounts that ultimately become payable in excess of current provisioning levels.

iv) The Group has entered into various partnerships and joint ventures under which the controlled entity could ultimately be jointly and severally liable for the obligations of the partnership or joint venture.

v) The Group carries the normal contractor's/consultant's liability in relation to services and construction contracts (for example, liability relating to professional advice, design, completion, workmanship, and damage), as well as liability for personal injury/property damage. This liability may include claims, disputes and/or litigation/arbitration by or against Group companies and/or joint venture arrangements in which the Group has an interest. The Group is currently managing a number of arbitration/litigation matters in relation to services and construction contracts as well as in relation to personal injury and property damage claims. Some New Zealand entities in the Group have been named as co-defendants in several proceedings with projects associated with the "weather tight" homes issue in New Zealand.

vi) Ground subsidence at the Waratah Train Maintenance Facility ('AMF'), located on Manchester Road, Auburn has been identified. The design and construction of the AMF formed part of the Waratah Train Project, with Reliance Rail contracting Downer to design and build the AMF. In turn, Downer subcontracted this work to John Holland Pty Ltd. The design and construction of the areas in which subsidence has been observed formed part of the subcontractor's design and construct obligations. Investigations into the causes of the subsidence, the cost of remediation and operational impacts are ongoing. While it is too early to reliably estimate the total cost of the remediation, in the opinion of the Directors, there is no material exposure to either Downer EDI Rail Pty Limited or Downer EDI PPP Maintenance Pty Limited arising from the subsidence, based on the fact that there are a range of recovery options being pursued.

Note 13. Contingent liabilities - continued

vii) On 10 February 2011, the Group announced that IMF (Australia) Ltd (IMF) proposed to fund claims of certain current and former Downer shareholders against Downer. IMF alleged misleading and deceptive conduct and breaches by Downer of its continuous disclosure obligations. The allegations by IMF were in connection with the Group's $190 million impairment to the Waratah Train Project announced on 1 June 2010.

On 30 July 2013, Downer announced that it had been invited to enter into discussions, on a without prejudice basis, with Slater & Gordon Lawyers (lawyers for a proposed class of shareholders who acquired ordinary Downer securities between 25 February 2010 and 31 May 2010, inclusive), failing which Slater & Gordon Lawyers advised that they were instructed to commence legal proceedings.

Slater & Gordon has also advised that it reserves its position in relation to a second claim arising out of the second impairment to the Waratah Train Project announced on 27 January 2011, although no basis for this position has been provided. In the event that any proceedings are commenced by IMF, the claims will be vigorously defended. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

viii) A subsidiary of Downer, Snowden Mining Industry Consultants Inc (an entity incorporated in Canada) ('Snowden') has been served with a class action claim issued out of the Ontario Superior Court, Canada. There are two other named defendants and the quantum claimed against all defendants is CAD $60 million plus unspecified damages. The claim by the plaintiffs arises out of disclosures made by Pretium Resources Inc, in relation to its Brucejack Project, being a gold reserve located in British Columbia. Pretium is the first named defendant. Snowden was one of Pretium's advisors for the project. Based on currently available information, the Directors are of the view that there is no material exposure to Snowden. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

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

At the date of this report there is no matter or circumstance that has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

(a) The Group's operations in future financial years;
(b) The results of those operations in future financial years; or
(c) The Group's state of affairs in future financial years.

Note 15. Financing facilities

Unutilised facilities

At 31 December 2013, the consolidated entity had the following facilities that were not utilised at balance date:

	Consolidated	
	December 2013 $'000	June 2013 $'000
Syndicated bank loan facility	**400,000**	400,000
Bilateral bank loan and overdraft facilities	**247,176**	221,246
Total unutilised loan facilities	**647,176**	621,246
Bilateral bank and insurance company bonding facilities	**404,856**	458,539
Total unutilised bonding facilities	**404,856**	458,539

Bank loans

Syndicated bank loan facility

The syndicated loan facility, totalling A$400 million, is unsecured, has a maturity date of April 2017 and with options to extend the tenor for a further one year period exercisable at the first and second anniversary date of the facility, subject to the agreement of the lenders and the borrower. The facility is subject to certain Group guarantees.

Bilateral bank loan and overdraft facilities

These facilities are unsecured, are subject to certain Group guarantees and excluding those supported by guarantees from Export Credit Agencies, are due for annual renewal through to 2016. Included in bank loans are amounts of $69.7 million in aggregate, which are supported by Export Credit Agency guarantees and which amortise through even semi-annual instalments and with final maturity dates of May 2017, April 2018 and July 2019.

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 September and October 2014 and September 2019. The USD principal and interest have been fully hedged against the Australian dollar.

AUD Medium Term Notes (MTNs)

The Group has the following MTNs on issue: Series 2009-1 amortises through even semi-annual instalments, until the final maturity date of April 2018 and has a balance of $59.8 million; Series 2010-1 amortises through even semi-annual instalments until the final maturity date of September 2015 and has a balance of $25.2 million; and Series 2013-1 for an amount of $150.0 million and which has a bullet maturity date of November 2018. The MTNs are subject to certain Group guarantees.

Finance lease facilities

The Group funds certain of its equipment under finance leases which amortise over periods of up to five years. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rates which are implicit in the rentals are fixed at lease commencement dates and have a weighted average of 6.45 per cent per annum (June 2013: 6.6 per cent per annum).

Hire purchase and lease facilities

Hire purchase facilities are secured by the specific assets financed.

Note 15. Financing facilities - *continued*

Covenants on financing facilities
The Group's financing facilities contain undertakings including an obligation to comply at all times with financial covenants which require the Group to operate within certain financial ratio levels as well as ensuring that subsidiaries that contribute minimum threshold amounts of Group EBIT and Group Total Tangible Assets are guarantors under various facilities.

The main financial covenants which the Group is subject to are Net Worth, Interest Service Coverage and Debt to Capitalisation.

Financial covenants testing is undertaken and reported to the Board on a monthly basis. Reporting of financial covenants to financiers occurs semi-annually for the rolling 12 month periods to 30 June and 31 December. The Group was in compliance with all its financial covenants as at 31 December 2013.

Bonding
The Group has $1,361.0 million of bank guarantee and insurance bond facilities to support its contracting activities. $570.8 million of these facilities are provided to the Group on a committed basis and $790.2 million on an uncommitted basis. Under both committed and uncommitted facilities, the financial institution being requested to provide the guarantee/bond has the discretion as to whether to issue the instrument depending on factors such as the form of the guarantee/bond, the underlying contract of work being undertaken and potential concentration limits the financial institution may have on the project or industry where the work is being conducted. Furthermore, in the case of uncommitted facilities, the financier has the discretion to cancel any unutilised balance of a facility at any time or to suspend utilisation of the facility for a given period.

The Group's facilities are provided by a number of different banks and insurance companies on an unsecured basis and are subject to certain Group guarantees. $956.2 million of these facilities were utilised as at 31 December 2013 with $404.8 million unutilised. $180.2 million of the current committed facilities relates to a syndicated bonding facility referable to the Waratah Train Project and which matures in December 2014. Excluding this syndicated facility, the Group's other facilities have varying maturity dates which range from February 2014 to December 2015.

As with all performance bonds, the risk being assumed under these bonds is Downer credit risk rather than project specific risk.

The Group has the flexibility in respect of certain committed facility amounts (shown as part of the unutilised bilateral bank loan facilities) which can, at the request of the Group, also be utilised for bonding purposes.

Refinancing requirements
Where existing facilities approach maturity, the Group will seek to renegotiate with existing and new financiers to extend the maturity date of those facilities. The Group’s earnings profile, credit rating, state of the economy, conditions in financial markets and other factors may influence the outcome of those negotiations.

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

Note 15. 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 2013 and 30 June 2013, the ratio was as follows:

		Consolidated	
		December 2013	June 2013 (Restated)[i]
	Note	**$'000**	$'000
Current borrowings	12	**155,921**	237,946
Non-current borrowings	12	**340,546**	444,256
Gross debt [ii]		**496,467**	682,202
Adjustment for the mark to market of debt related derivatives and deferred finance charges		**36,720**	40,416
Adjusted gross debt		**533,187**	722,618
Less: cash and cash equivalents		**(363,525)**	(479,878)
Net debt		**169,662**	242,740
Equity [iii]		**1,897,269**	1,826,574
Total capitalisation (Net debt + Equity)		**2,066,931**	2,069,314
Gearing ratio [iv]		**8.2%**	11.7%
Off balance sheet debt			
Operating leases [v]		**198,050**	231,820
Gearing ratio (including off balance sheet debt)		**16.2%**	20.6%

(i) *Certain amounts shown here do not correspond to the consolidated annual financial report as at 30 June 2013 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

(ii) Gross debt is defined as all borrowings.

(iii) Equity consists of all capital and reserves.

(iv) Net debt/Total capitalisation.

(v) 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 2013 discounted at 10 per cent per annum (discount rate prescribed by the loan covenant) was $198.1 million (June 2013: $231.8 million).

Note 16. Financial Instruments

Fair value of financial instruments

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

	Carrying amount		Fair value	
	December 2013	June 2013 (restated)(ii)	**December 2013**	June 2013 (restated)(ii)
	$'000	$'000	**$'000**	$'000
Total borrowings (i)	**384,182**	557,815	**401,289**	562,149

(i) Total borrowings exclude finance leases and hire purchase liabilities.

(ii) *Certain amounts shown here do not correspond to the consolidated annual financial report as at 30 June 2013 and reflect adjustments made as detailed in Note 17: Impact on Group's historical financial statements on adoption of AASB 11 Joint Arrangements.*

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:
- Financial assets/liabilities at fair value through profit or loss (FVTPL)
- Derivative financial instruments

Fair value measurements

(a) Fair value hierarchy
AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

Recognised fair value measurements
The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2013. Comparative information for non-financial assets has not been provided as permitted by the transitional provisions of the new rules.

Note 16. Financial Instruments - *continued*

(a) Fair value hierarchy - continued

At 31 December 2013 $'000	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets in designated cash flow hedge accounting relationships				
Foreign currency forward contracts	-	8,189	-	8,189
Financial assets in designated fair value hedge accounting relationships				
Fair value commodity hedges	-	75	-	75
Financial assets at fair value through profit or loss				
Unquoted equity investments	-	-	5,047	5,047
Derivatives	-	29	-	29
Total financial assets	-	8,293	5,047	13,340
Financial liabilities				
Financial liabilities in designated cash flow hedge accounting relationships				
Foreign currency forward contracts	-	1,913	-	1,913
Cross currency and interest rate swaps	-	28,565	-	28,565
Financial liabilities at fair value through profit or loss				
Derivatives	-	2,905	-	2,905
Total financial liabilities	-	33,383	-	33,383

Note 16. Financial Instruments - *continued*

(a) Fair value hierarchy - continued

At 30 June 2013 **$'000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets in designated cash flow hedge accounting relationships				
Foreign currency forward contracts	-	14,108	-	14,108
Financial assets at fair value through profit or loss				
Unquoted equity investments	-	-	6,458	6,458
Derivatives	-	350	-	350
Total financial assets	-	14,458	6,458	20,916
Financial liabilities				
Financial liabilities in designated cash flow hedge accounting relationships				
Foreign currency forward contracts	-	1,599	-	1,599
Cross currency and interest rate swaps	-	32,026	-	32,026
Financial liabilities in designated fair value hedge accounting relationships				
Fair value commodity hedges	-	63	-	63
Financial liabilities at fair value through profit or loss				
Derivatives	-	197	-	197
Total financial liabilities	-	33,885	-	33,885

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements refer to Note 16 (c) and (d).

The Group’s policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Note 16. Financial Instruments - *continued*

(b) Valuation techniques used to derive Level 2 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This is the case for unlisted equity securities.

Specific valuation techniques used to value financial instruments include:
- The use of quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates prevailing at the balance sheet date; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) Fair value measurements using significant unobservable inputs (Level 3)

The fair values of listed investments are determined on an active market valuation basis using observable market data such as current bid prices. The fair values of unlisted investments are determined by the use of internal valuation techniques using discounted cash flows. Where practical the valuations incorporate observable market data. Assumptions are generally required with regard to future expected revenues and discount rates.

(d) Reconciliation of Level 3 fair value measurements of financial assets

	Fair value through profit or loss	
	December 2013	June 2013
	Unquoted equity investments $'000	
Opening balance	**6,458**	5,188
Purchases	**-**	1,400
Other	**(1,411)**	(130)
Closing balance	**5,047**	6,458

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

17. Impact on Group's historical financial statements on adoption of AASB 11 *Joint arrangements*

As a result of the adoption of AASB 11 *Joint arrangements*, certain amounts previously disclosed in the Group historical financial statements have been adjusted to reflect the retrospective impact of the change in accounting policy adopted from 1 July 2013.

The following tables summarise the adjustment made to the Group's condensed consolidated statement of profit or loss and condensed consolidated statement of cash flows for the period ended 31 December 2012, and to the Group's condensed consolidated statement of financial position as at 30 June 2013.

Impact on condensed consolidated statement of profit or loss

	Consolidated		
	First half FY2013 $'000	Change in accounting policy $'000	**First half FY2013 restated $'000**
Revenue from ordinary activities	4,368,666	158,421	**4,527,087**
Other income	3,440	-	**3,440**
Total revenue	4,372,106	158,421	**4,530,527**
Employee benefits expense	(1,498,280)	(39,083)	**(1,537,363)**
Raw materials and consumables used	(963,221)	(8,929)	**(972,150)**
Subcontractor costs	(851,533)	(67,945)	**(919,478)**
Plant and equipment costs	(518,552)	(17,949)	**(536,501)**
Communication expenses	(49,309)	(817)	**(50,126)**
Occupancy costs	(61,821)	(1,727)	**(63,548)**
Professional fees	(17,270)	(393)	**(17,663)**
Travel and accommodation expenses	(60,960)	(4,989)	**(65,949)**
Other expenses from ordinary activities	(46,331)	(803)	**(47,134)**
Depreciation and amortisation	(154,821)	(114)	**(154,935)**
Share of net profit of joint ventures and associates	30,746	(15,680)	**15,066**
Individually significant item	(11,456)	-	**(11,456)**
	(4,202,808)	(158,429)	**(4,361,237)**
Earnings before interest and tax	169,298	(8)	**169,290**
Finance income	2,652	20	**2,672**
Finance costs	(35,312)	(12)	**(35,324)**
	(32,660)	8	**(32,652)**
Profit before income tax	136,638	-	**136,638**
Income tax expense	(42,591)	-	**(42,591)**
Profit after income tax	94,047	-	**94,047**

17. Impact on Group's historical financial statements on adoption of AASB 11 *Joint arrangements* - *continued*

Impact on condensed consolidated statement of profit or loss - *continued*

	Consolidated		
	First half FY2013 $'000	Change in accounting policy $'000	**First half FY2013 restated $'000**
Profit for the period that is attributable to:			
- Non-controlling interest	5	-	**5**
- Members of the parent entity	94,042	-	**94,042**
Profit for the period	94,047	-	**94,047**
Earnings per share (cents)			
- Basic earnings per share	21.0	-	**21.0**
- Diluted earnings per share	20.0	-	**20.0**

17. Impact on Group's historical financial statements on adoption of AASB 11 *Joint arrangements* - *continued*

Impact on condensed consolidated statement of financial position

	Consolidated		
	June 2013 $'000	Change in accounting policy $'000	**June 2013 restated $'000**
ASSETS			
Current assets			
Cash and cash equivalents	473,733	6,145	**479,878**
Trade and other receivables	1,441,242	75,320	**1,516,562**
Other financial assets	24,918	-	**24,918**
Inventories	349,880	-	**349,880**
Current tax assets	13,765	-	**13,765**
Other assets	43,763	1,628	**45,391**
Assets classified as held for sale	14,289	-	**14,289**
Total current assets	2,361,590	83,093	**2,444,683**
Non-current assets			
Trade and other receivables	999	-	**999**
Equity-accounted investments	68,245	(15,334)	**52,911**
Property, plant and equipment	1,150,827	3	**1,150,830**
Intangible assets	571,773	-	**571,773**
Other financial assets	9,624	-	**9,624**
Deferred tax assets	5,830	-	**5,830**
Other assets	3,134	-	**3,134**
Total non-current assets	1,810,432	(15,331)	**1,795,101**
Total assets	4,172,022	67,762	**4,239,784**
LIABILITIES			
Current liabilities			
Trade and other payables	1,209,001	67,750	**1,276,751**
Borrowings	237,934	12	**237,946**
Other financial liabilities	38,713	-	**38,713**
Provisions	326,099	-	**326,099**
Current tax payables	10,623	-	**10,623**
Total current liabilities	1,822,370	67,762	**1,890,132**
Non-current liabilities			
Trade and other payables	5,578	-	**5,578**
Borrowings	444,256	-	**444,256**
Other financial liabilities	27,664	-	**27,664**
Provisions	43,017	-	**43,017**
Deferred tax liabilities	2,563	-	**2,563**
Total non-current liabilities	523,078	-	**523,078**
Total liabilities	2,345,448	67,762	**2,413,210**
Net assets	1,826,574	-	**1,826,574**
EQUITY			
Issued capital	1,448,927	-	**1,448,927**
Reserves	(17,461)	-	**(17,461)**
Retained earnings	395,123	-	**395,123**
Parent interests	1,826,589	-	**1,826,589**
Non-controlling interest	(15)	-	**(15)**
Total equity	1,826,574	-	**1,826,574**

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2013

17. Impact on Group's historical financial statements on adoption of AASB 11 *Joint arrangements* - *continued*

Impact on condensed consolidated statement of cash flow

	Consolidated		
	First half FY2013 $'000	Change in accounting policy $'000	**First half FY2013 restated $'000**
Cash flows from operating activities			
Receipts from customers	4,877,369	126,449	**5,003,818**
Distributions from equity-accounted investments	31,021	(9,859)	**21,162**
Dividends received from external entities	5	-	**5**
Payments to suppliers and employees	(4,681,831)	(119,623)	**(4,801,454)**
Interest received	2,851	20	**2,871**
Interest and other costs of finance paid	(35,617)	(12)	**(35,629)**
Income tax paid	(9,813)	-	**(9,813)**
Net cash flows from operating activities	183,985	(3,025)	**180,960**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	9,451	716	**10,167**
Payments for property, plant and equipment	(227,211)	7	**(227,204)**
Payments for intangible assets	(1,039)	-	**(1,039)**
Payments for investments	(65)	-	**(65)**
Repayments from joint ventures	60	-	**60**
Divestment cost paid on disposal of subsidiary	(2,357)	-	**(2,357)**
Net cash flows used in investing activities	(221,161)	723	**(220,438)**
Cash flows from financing activities			
Proceeds from borrowings	1,918,180	-	**1,918,180**
Repayments of borrowings	(1,961,898)	-	**(1,961,898)**
Dividends paid	(3,777)	-	**(3,777)**
Dividend paid to non-controlling interest	(7)	-	**(7)**
Net cash flow used in financing activities	(47,502)	-	**(47,502)**
Net decrease in cash and cash equivalents	(84,678)	(2,302)	**(86,980)**
Cash and cash equivalents at the beginning of the period	296,689	9,696	**306,385**
Effect of exchange rate changes	2,924	-	**2,924**
Cash and cash equivalents at the end of the period	214,935	7,394	**222,329**

Directors' Declaration
for the half-year ended 31 December 2013

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* (Cth); 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* (Cth).

On behalf of the Directors

R M Harding
Chairman

Sydney, 4 February 2014