Downer EDI Limited
ABN: 97 003 872 848

Condensed Consolidated Financial Report for the half-year ended 31 December 2012

Results for announcement to the market
for the half-year ended 31 December 2012

Appendix 4D

Continuing and discontinued operations:	First half FY2013 $'000	First half FY2012 $'000	% change
Revenue from ordinary activities - continuing operations	**4,368,666**	3,616,741	
Revenue from ordinary activities - discontinued operations	**-**	91,170	
Total revenue from ordinary activities	**4,368,666**	3,707,911	17.8%
Total revenue and other income	**4,372,106**	3,711,795	17.8%
Total revenue including joint ventures and other income	**4,716,598**	3,922,821	20.2%
Earnings before interest and tax (after individually significant item)	**169,298**	160,350	5.6%
Earnings before interest and tax (before individually significant item)	**180,754**	160,350	12.7%
Profit from ordinary activities after tax attributable to members of the parent entity (after individually significant item)	**94,042**	84,882	10.8%
Profit from ordinary activities after tax attributable to members of the parent entity (before individually significant item)	**105,498**	84,882	24.3%

	First half FY2013 cents	First half FY2012 cents	% change
Basic earnings per share	**21.0**	18.5	
Diluted earnings per share	**20.0**	17.8	
Net tangible asset backing per ordinary share excluding disposal group	**268.1**	206.7	29.7%

Dividends	First half FY2013	First half FY2012
Interim dividend per share (cents)	**10.0**	-
Interim franked amount per share (cents)	**7.0**	-
Conduit foreign income (CFI)	**30%**	-
Interim dividend record date	**15/03/2013**	-
Interim dividend payable date	**15/04/2013**	-
Redeemable Optionally Adjustable Distributing Securities (ROADS)		
Dividend per ROADS (in Australian cents)	**1.9**	2.7
New Zealand imputation credit percentage per ROADS	**100%**	100%
ROADS Quarter 1 instalment payment date	**17/09/2012**	15/09/2011
ROADS Quarter 2 instalment payment date	**17/12/2012**	15/12/2011

Downer EDI's Dividend Reinvestment Plan (DRP) applies to the 2013 interim dividend. 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, less a discount of 2.0%. 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 15 March 2013.

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

Condensed Consolidated Financial Report
for the half-year ended 31 December 2012

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Directors' Report

The Directors of Downer EDI Limited (Downer) submit the condensed consolidated financial report of the company for the half-year ended 31 December 2012. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors

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

R M Harding	(Chairman, Independent Non-executive Director)
G A Fenn	(Managing Director and Chief Executive Officer)
L Di Bartolomeo	(Independent Non-executive Director, resigned on 7 November 2012)
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

Highlights

- Total revenue[1] of $4.7 billion, up 20.2%
- Underlying[2] earnings before interest and tax (EBIT) of $180.8 million, up 12.7%
- Underlying[2] net profit after tax (NPAT) of $105.5 million, up 24.1%
- Operating cash flow of $184.0 million
- Liquidity of $841.7 million, comprising cash of $214.9 million and undrawn committed facilities of $626.8 million
- Work-in-hand of $18.9 billion
- Safety performance – LTIFR: 0.77 per million hours worked

Financial Performance

Downer reported total revenue of $4.7 billion for the six months to 31 December 2012, 20.2% higher than the previous corresponding period. Each of Downer's three divisions – Infrastructure, Mining and Rail – reported revenue growth. In Australia, Downer Infrastructure's revenue rose 25.6% to $2.2 billion while in New Zealand revenue rose 16.7% to 480.0 million. Downer Mining's revenue rose 17.8% to $1.3 billion and Downer Rail's revenue rose 27.0% to $729.6 million.

The Group's underlying EBIT was $180.8 million, 12.7% higher than the previous corresponding period. Underlying NPAT was 24.1% higher at $105.5 million.

Statutory EBIT was $169.3 million after an individually significant item, $11.5 million relating to the settlement of a dispute in Singapore (announced on 11 December 2012). Statutory NPAT was $94.0 million.

Downer currently has work-in-hand worth $18.9 billion comprising the following divisional contributions: Downer Infrastructure $8.1 billion; Downer Mining $6.2 billion; and Downer Rail $4.6 billion.

Operating cash flow was $184.0 million, up 71.8% from the previous corresponding period.

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

2 Underlying EBIT and NPAT are considered a more appropriate measure of Downer's performance than 'statutory' results, because the statutory results include an Individually Significant Item ("ISI") that is unlikely to be recurrent. The Singapore Tunnel provision relates to the settlement of an arbitration claim commenced by SP PowerAssets Limited (SPPA) in 2009. The claim relates to a contract awarded to Downer in 2003 for the construction of an electrical services tunnel in Singapore. Under the settlement, Downer will pay SPPA a total of $39.3 million, of which $27.8 million was already held against the claim.

Capital Management

During the six month period, Downer closed $292.1 million in new financings ($142.1 million of debt, $150.0 million of bonding), repaid Works bonds of NZ$150.0 million and rolled over $177.0 million in bilateral debt facilities.

At 31 December 2012, Downer had gearing (net debt/net debt plus total equity) of 19.7% (28.3% including operating leased plant and equipment) and total available liquidity of $841.7 million, comprising cash of $214.9 million and undrawn committed facilities of $626.8 million.

The Downer Board has declared a partially franked (70%) interim dividend of 10 cents per share, payable on 15 April 2013 to shareholders on the register at 15 March 2013. The company's Dividend Reinvestment Plan will operate for this dividend with a discount of 2.0%.

Governance

Mr Lucio Di Bartolomeo retired as a Non-executive Director following Downer's Annual General Meeting on 7 November 2012 after serving on the Downer Board for six years.

Zero Harm

Zero Harm means sustaining a work environment which supports the health and safety of Downer's people, environmental sustainability and the interests of the communities in which Downer operates. Success in achieving Zero Harm is fundamental to the company's future and remains the highest priority for the Group.

Downer's Lost Time Injury Frequency Rate (LTIFR) for the period of 0.77 remained below one incident per million hours worked and Total Recordable Injury Frequency Rate (TRIFR) reduced from 7.72 to 5.49 per million hours worked. Regrettably, despite our efforts to keep our people safe, there was a workplace fatality in New Zealand in October 2012.

The company has intensified its focus on critical risks and incidents that have the potential to cause serious injuries. This includes a focus on our Cardinal Rules that provide direction and guidance on these critical risks. There is an increased focus across the Group on assessing, understanding and mitigating critical risks associated with plant-pedestrian interface, energy isolation, working at heights, working near suspended loads and maintaining and enforcing exclusion zones. In addition, working groups have been established within each Downer division to identify local and site based issues.

Downer's goal is to continue to sustain its LTIFR below one and to reduce TRIFR below five by the end of the 2014 financial year. To achieve these results, Downer will focus on visible and active leadership, development of culture, capability and implemented management systems.

Operational Highlights

Downner Infrastructure

In Australia, Downer Infrastructure reported total revenue of $2.2 billion for the six months, an increase of 25.6% compared with the previous corresponding period. EBIT was 50.9% higher at $86.2 million and the EBIT margin was 4.0%, up from 3.3%. Return on Funds Employed (ROFE) rose from 13.3% to 23.9%. Downer Infrastructure in Australia has work-in-hand of $5.5 billion.

Downer Infrastructure was awarded a number of new projects in Australia during the period, including:

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

- a number of electrical and instrumentation contracts with customers including BHP, Rio Tinto and FMG;

- a contract for design and construction services to connect flats and units to the National Broadband Network (NBN). The contract is valued at up to $66 million and covers a range of different sized residential multi-dwelling units (MDUs) over the next two years in NSW, Victoria and the ACT; and

- a $70 million contract with Meridian Energy Australia for engineering work on the Mt Mercer Wind Farm, located 30 kilometres south of Ballarat, Victoria. Downer will conduct balance of plant work which includes the design and construction of the electrical and civil works including the wind farm sub-station, 33kV collector system, internal road network, crane hardstands and wind turbine foundations.

On 22 January 2013, Downer announced it had been awarded new rail infrastructure work in New South Wales valued at more than $90 million. Transport for NSW awarded Downer the Gosford Passing Loops Project, which is one of four projects that form part of the broader Northern Sydney Freight Corridor Program. Downer will be responsible for the design and construction of two new passing rail loops between Gosford and Narara with the works expected to be completed in mid-2015.

In New Zealand, Downer Infrastructure continued the improved performance reported in the second half of 2012. Revenue rose by 16.7% to $480.0 million and EBIT more than doubled to $16.4 million. EBIT margin improved from 1.9% to 3.4% while ROFE rose from 6.0% to 21.2%. Downer New Zealand has work-in-hand of $2.6 billion.

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

Downer continues to work with Chorus, New Zealand's largest telecommunications utility provider, to install ultrafast broadband (UFB). The telecommunications team is also working with Chorus and Vodafone on the Rural Broadband Initiative.

Downer Mining

Downer Mining's revenue of $1.3 billion for the six months was 17.8% higher than the previous corresponding period. EBIT increased by 10.3% to $97.1 million while EBIT margin was down slightly, from 7.8% to 7.3%. ROFE was 21.3%, down from 23.6%. Downer Mining currently has work-in-hand of $6.2 billion.

Downer Mining continues to win new contracts. On 11 July 2012, Downer announced it had been awarded a long-term rolling contract with TEC Coal Pty Ltd, a wholly owned subsidiary of Stanwell Corporation Limited, to provide mining services at Meandu Mine in South East Queensland. The contract commenced in January 2013, has an initial term of five and a half years and has a value in the range of $600 million to $800 million.

Downer's blasting and tyre management businesses continued to win new contracts and contract extensions during the period and reported solid revenue and earnings growth.

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

- Christmas Creek, Pilbara, WA (Fortescue Metals Group): mine infrastructure, drill and blast services and load and haul of overburden and iron ore. This is a six-year contract awarded in August 2010 and valued at approximately $3 billion;

- Goonyella Riverside, Bowen Basin, QLD (BHP Mitsubishi Alliance (BMA)): load and haul of prestrip material and drill and blast services. Initially this was a five-year contract, beginning in July 2010 and valued at $2 billion, for the supply of contract mining services at both Goonyella Riverside and Norwich Park. In April 2012, BMA announced it would cease production at Norwich Park indefinitely. Since then, Downer's Norwich Park fleet has been redeployed to other BMA mines;

- Boggabri, Gunnedah Basin, NSW (Idemitsu Australia Resources): drill and blast, mine planning and load and haul of both overburden and coal. This five-year agreement commenced in December 2011, with base case revenue valued at approximately $900 million over the duration of the contract; and

- Karara, Mid West region, WA (Karara Iron Ore Project): mine infrastructure, drill and blast services and load and haul of waste and ore. This contract commenced in February 2012 and has total estimated revenue of approximately $570 million over six years.

Downer Rail

Downer Rail reported revenue of $729.6 million for the six months, 27.0% higher than the previous corresponding period. Revenue growth was driven by the Waratah Train Project, the Sunlander project and deliveries of locomotives to BHP Billiton Iron Ore and Fortescue Metals Group. EBIT was down from $42.9 million to $34.2 million. EBIT margin was 4.7%, down from 7.5% and ROFE was 14.4%, down from 16.0%. Downer Rail currently has work-in-hand of $4.6 billion.

Downer Rail is undergoing significant change as it transitions out of locomotive manufacturing to focus on whole-of-life asset management.

In June 2012, Downer announced that it had signed a new five year agreement with Electro-Motive Diesel (EMD). Downer and EMD, which is owned by Progress Rail, a Caterpillar company, have worked together for more than six decades supplying and maintaining locomotives in Australia. Under the new agreement, EMD will manufacture all locomotives for the Australian market with Downer continuing to sell EMD locomotives and after-market products, including spare parts.

Downer Rail continues to service its passenger rail customers, including RailCorp (NSW), Public Transport Authority (WA), Queensland Rail, MTM (Victoria) and VLine (Victoria). In December 2012, Downer was awarded a $41 million extension order from Perth Transport Authority for the manufacture of seven "B" Series passenger trains.

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

Waratah Train Project

Information on the Waratah Train Project is provided in Note 1 of the Condensed Consolidated Financial Report for 31 December 2012.

Downer Group Outlook

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

Auditors' independence declaration

The auditor's independence declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 6.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

R M Harding
Chairman

Sydney, 14 February 2013

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

14 February 2013

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 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the 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
Partner
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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 2012, 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 9 to 43.

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 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Downer EDI Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 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, 14 February 2013

Condensed consolidated statement of profit or loss
for the half-year ended 31 December 2012

		Consolidated	
		First half FY2013	First half FY2012[i]
	Note	**$'000**	$'000
From continuing operations			
Revenue from ordinary activities	3(a)	**4,368,666**	3,616,741
Other income	3(a)	**3,440**	3,884
Total revenue	2	**4,372,106**	3,620,625
Employee benefits expense[ii]	3(b)	**(1,498,280)**	(1,288,867)
Raw materials and consumables used		**(963,221)**	(747,478)
Subcontractor costs[ii]		**(851,533)**	(666,717)
Plant and equipment costs[ii]		**(518,552)**	(475,895)
Communication expenses		**(49,309)**	(31,894)
Occupancy costs		**(61,821)**	(56,475)
Professional fees		**(17,270)**	(13,372)
Travel and accommodation expenses [ii]		**(60,960)**	(59,064)
Other expenses from ordinary activities		**(46,331)**	(27,382)
Depreciation and amortisation	3(b)	**(154,821)**	(119,052)
Share of net profit of joint ventures entities and associates	7	**30,746**	30,363
Individually significant item	4	**(11,456)**	-
		(4,202,808)	(3,455,833)
Earnings before interest and tax		**169,298**	164,792
Finance income	3(c)	**2,652**	3,243
Finance costs	3(c)	**(35,312)**	(42,188)
		(32,660)	(38,945)
Profit before income tax from continuing operations		**136,638**	125,847
Income tax expense		**(42,591)**	(40,012)
Profit after income tax from continuing operations		**94,047**	85,835
Discontinued operations			
- Loss from discontinued operations		**-**	(845)
Profit for the period		**94,047**	84,990

(i) Prior period balances have been re-presented to reflect the inclusion of Downer Singapore Pte Ltd as part of continuing operations following the completion of the disposal of CPG Asia at 30 April 2012.

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

The condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes on pages 16 to 42.

Condensed consolidated statement of profit or loss - *continued*
for the half-year ended 31 December 2012

	Note	Consolidated First half FY2013 $'000	Consolidated First half FY2012 $'000
Profit from continuing operations attributable to:			
- Non-controlling interest		**5**	4
- Members of the parent entity		**94,042**	85,831
Profit for the period from continuing operations		**94,047**	85,835
Profit for the period that is attributable to:			
- Non-controlling interest		**5**	108
- Members of the parent entity		**94,042**	84,882
Total profit for the period		**94,047**	84,990
Earnings per share (cents)			
Basic earnings/(loss) per share			
- From continuing operations	6	**21.0**	18.7
- From discontinued operations	6	**-**	(0.2)
		21.0	18.5
Diluted earnings/(loss) per share			
- From continuing operations	6	**20.0**	18.0
- From discontinued operations	6	**-**	(0.2)
		20.0	17.8

The condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes on pages 16 to 42.

Condensed consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2012

	Consolidated	
	First half FY2013 $'000	First half FY2012 $'000
Profit for the period	**94,047**	84,990
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
- Amortisation on share of reserves from associates	**-**	1,318
Items that may be reclassified subsequently to profit or loss		
- Exchange differences arising on translation of foreign operations	**2,930**	(1,881)
- Net gain/(loss) on foreign currency forward contracts taken to equity	**8,126**	(1,522)
- Net loss on cross currency interest rate swaps taken to equity	**(895)**	(8,469)
- Income tax relating to components of other comprehensive income	**(2,169)**	2,928
Other comprehensive income for the period (net of tax)	**7,992**	(7,626)
Total comprehensive income for the period	**102,039**	77,364
Total comprehensive income for the period that is attributable to:		
- Non-controlling interest	**5**	108
- Members of the parent entity	**102,034**	77,256
Total comprehensive income for the period	**102,039**	77,364

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 16 to 42.

Condensed consolidated statement of financial position
As at 31 December 2012

	Note	Consolidated December 2012 $'000	June 2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents	12	**214,946**	296,691
Trade and other receivables		**1,573,534**	1,598,414
Other financial assets		**12,221**	14,211
Inventories		**305,187**	282,738
Current tax assets		**16,069**	13,765
Other assets		**41,717**	48,969
Total current assets		**2,163,674**	2,254,788
Non-current assets			
Trade and other receivables		**1,514**	1,922
Equity-accounted investments		**60,708**	60,893
Property, plant and equipment		**1,207,370**	1,133,470
Intangible assets	8	**567,842**	577,651
Other financial assets		**6,645**	7,794
Deferred tax assets		**42,020**	71,271
Other assets		**431**	3,553
Total non-current assets		**1,886,530**	1,856,554
Total assets		**4,050,204**	4,111,342
LIABILITIES			
Current liabilities			
Trade and other payables		**1,296,335**	1,388,995
Borrowings	13	**226,312**	180,938
Other financial liabilities		**45,937**	77,532
Provisions		**322,588**	332,450
Current tax payables		**-**	3,926
Total current liabilities		**1,891,172**	1,983,841
Non-current liabilities			
Trade and other payables		**5,862**	3,955
Borrowings	13	**361,845**	437,972
Other financial liabilities		**47,418**	46,112
Provisions		**16,174**	15,612
Deferred tax liabilities		**9,310**	6,150
Total non-current liabilities		**440,609**	509,801
Total liabilities		**2,331,781**	2,493,642
Net assets		**1,718,423**	1,617,700
EQUITY			
Issued capital	10	**1,428,028**	1,427,730
Reserves	11	**(41,590)**	(51,752)
Retained earnings		**332,002**	241,737
Parent interests		**1,718,440**	1,617,715
Non-controlling interest		**(17)**	(15)
Total equity		**1,718,423**	1,617,700

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 16 to 42.

Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2012

$'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 16 to 42.

Condensed consolidated statement of changes in equity - *continued*

for the half-year ended 31 December 2012

$'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 2011	1,423,897	(77,673)	(58,683)	14,775	139,969	**1,442,285**	100	**1,442,385**
Profit for the period	-	-	-	-	84,882	**84,882**	108	**84,990**
Exchange differences arising on translation of foreign operations	-	-	(1,881)	-	-	**(1,881)**	-	**(1,881)**
Net loss on foreign currency forward contracts	-	(1,522)	-	-	-	**(1,522)**	-	**(1,522)**
Net loss on cross currency interest rate swaps	-	(8,469)	-	-	-	**(8,469)**	-	**(8,469)**
Amortisation on share of reserves from associates	-	1,318	-	-	-	**1,318**	-	**1,318**
Income tax relating to components of other comprehensive income	-	2,928	-	-	-	**2,928**	-	**2,928**
Total comprehensive income for the period	-	(5,745)	(1,881)	-	84,882	**77,256**	108	**77,364**
Vested executive incentive shares transactions	1,957	-	-	(1,957)	-	**-**	-	**-**
Share-based transactions during the period	-	-	-	(1,488)	-	**(1,488)**	-	**(1,488)**
Income tax relating to share-based transactions during the period	-	-	-	456	-	**456**	-	**456**
Payment of dividends [i]	-	-	-	-	(5,456)	**(5,456)**	(163)	**(5,619)**
Balance at 31 December 2011	1,425,854	(83,418)	(60,564)	11,786	219,395	**1,513,053**	45	**1,513,098**

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

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 16 to 42.

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2012

	Note	Consolidated First half FY2013 $'000	Consolidated First half FY2012 $'000
Cash flows from operating activities			
Receipts from customers		**4,877,369**	4,003,786
Distributions from equity-accounted investments		**31,021**	16,957
Dividends received from external entities		**5**	18
Payments to suppliers and employees		**(4,681,831)**	(3,868,398)
Interest received		**2,851**	3,021
Interest and other costs of finance paid		**(35,617)**	(38,427)
Income tax paid		**(9,813)**	(9,861)
Net cash flows from operating activities		**183,985**	107,096
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**9,451**	12,596
Payments for property, plant and equipment		**(227,211)**	(161,065)
Proceeds from sale and leaseback of plant and equipment		**-**	5,957
Payments for intangible assets	8	**(1,039)**	(1,510)
(Payments for)/receipts from investments		**(65)**	3,038
Repayments from/(advances to) joint ventures		**60**	(6,879)
Divestment cost paid on disposal of subsidiary		**(2,357)**	-
Payments for businesses acquired	9	**-**	(1,000)
Net cash flows used in investing activities		**(221,161)**	(148,863)
Cash flows from financing activities			
Proceeds from borrowings		**1,918,180**	902,266
Repayments of borrowings		**(1,961,898)**	(914,634)
Dividends paid	5	**(3,777)**	(5,456)
Dividend paid to non-controlling interest		**(7)**	(163)
Net cash flow used in financing activities		**(47,502)**	(17,987)
Net decrease in cash and cash equivalents		**(84,678)**	(59,754)
Cash and cash equivalents at the beginning of the period		**296,689**	282,232
Effect of exchange rate changes		**2,924**	(1,033)
Cash and cash equivalents at the end of the period	12	**214,935**	221,445

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 16 to 42.

Notes to the condensed consolidated financial statements
for the half-year ended 31 December 2012

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 2012 Annual Report.

The condensed consolidated financial statements were authorised for issue by the Directors on 14 February 2013.

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 2012, except for the recognition of research and development tax incentive as Government Grant revenue in accordance with *AASB 120 Accounting for Government Grants and Disclosure of Government Assistance.*

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

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

Note 1. Summary of accounting policies - *continued*

Application of critical judgements and key sources of estimation uncertainty

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

Revenue recognition

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

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

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

Capitalisation of tender/bid costs

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

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

Note 1. Summary of accounting policies - *continued*

Waratah train project

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

The WTP team has continued to implement changes to the program over the past six months. Importantly, the WTP team continues to estimate future events; make key assumptions in relation to the revised program and drive change within the project to ensure project compliance within the financial parameters established.

During the half year ended 31 December 2012, the project has made considerable progress against the primary goal of program certainty. The current Master Program Schedule (MPS11) and all significant milestones within the program have largely been achieved within the reporting period. Since 30 June 2012, 18 trains have been presented to RailCorp and received PC. There are currently 28 trains available for passenger service.

The achievement of program compliance has however resulted in the incurrence of additional cost. The December 2012 half year Forecast Cost At Completion (FCAC) has resulted in consumption of $13.0 million of the general contingency, which reduced the general contingency to $51.0 million.

Key assumptions underpinning the manufacturing program include:

- The four day TAKT time implemented in April 2012 at Cardiff has successfully operated through the balance of calendar year 2012. A three day TAKT time trial commenced in December 2012 and will be followed by acceleration to a three day TAKT time in February 2013. On this schedule, the program would complete with PC Set 78 before the end of FY2014;
- The program will recover the six weeks lag to schedule resulting from resource shortages in the early stages of flow-line implementation in Cardiff;
- Continued refinement of Lean Manufacturing initiatives in China (jointly with CRC) and Cardiff will continue to improve the quality and production rates evidenced by three trains being manufactured in each of June and July 2012 in CRC;
- Production acceleration from CRC from a rate of 14-16 cars a month to 24 cars per month was achieved in May 2012 and has been maintained during the period to December 2012. This production rate will continue through the balance of the program;
- Improved quality from CRC is maintained, which has already resulted in more efficient production rates and reduced labour hours at Cardiff. Quality achieved on Train 24 continues to improve through the build completion of Train 42 and improvement will continue to progress slowly through the completion of the production build. The benchmark for quality, with less than 1,000 man hours rework in Cardiff per Set, excluding Glass Reinforced Plastic (GRP) rework, will remain across the project period;
- The continuing progressive implementation of process and component re-designs to achieve the estimated production rates and required quality levels in the bodyshell and interior fit-out shops in China (VE programs);
- CRC continues to deploy the requisite number of resources to the interior fit-out shop in Changchun with the appropriate skill and experience to achieve the required productivity and quality in trains;
- All parties continue to honour their contractual obligations;
- That RailCorp and Reliance Rail continue to adopt a reasonable industry approach to the acceptance of trains for passenger service through the manufacture phase of the WTP (including supporting documentation) and the required track access will be made available to allow the project to achieve reliability and growth targets. The process of achieving PC has been streamlined during the half year period resulting in the PC of trains at an accelerated rate over the contractual terms provided. This provides high confidence that the acceptance and PC of trains will be consistent with the eight and eventually six day acceptance cycles driven by the production TAKT time improvements;
- That the majority of monies held in the Manufacturing Delay Account (MDA) are paid to Downer upon achievement of contracted milestones, and that interest that accrues on the MDA is to be paid when Train 78 is delivered to Reliance Rail, together with the balance of the MDA ($12.5 million) that will be retained in the MDA to meet Downer’s contingency funding obligation until 2018 as part of the Reliance Rail restructure. MDA interest receivable in the FCAC assumes that the funds are invested at arm’s length interest rates available for deposits of this term, size and nature from December 2012 with an APRA regulated financial institution; and
- An accelerated delivery cadence continues to be accepted by RailCorp.

Note 1. Summary of accounting policies - *continued*

Based on the program assumptions, the FCAC for 31 December 2012 by major cost category is detailed in the table below.

Cost Category	June 12 Estimate $m	Change $m	Dec 12 Estimate $m
Materials and Sub-Contracted Components	1,053	15	1,068
Labour	325	(3)	322
Engineering Services	156	-	156
Transport, Logistics and Procurement	166	2	168
Project Management	137	-	137
Insurance, Bonding and Finance	55	(5)	50
Forecast Liquidated Damages (LDs)	175	(1)	174
Manufacturing Delay Account interest receivable	(101)	6	(95)
Other Costs	88	-	88
General Contingency	64	(13)	51
Total FCAC Costs	**2,118**	**1**	**2,119**
Revenue	**1,688**	**1**	**1,689**
FCAC Profit (Loss)	**(430)**	**-**	**(430)**

<u>Materials and Sub-Contracted Component</u>

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

The materials forecast reflects the following assumptions:

- Current yield and scrap rates based upon experience contained within the existing bill of material (BOM) and based upon the initial history of the build through 46 completed trains from CRC. For example, the BOM assumes a 20 per cent loss on stainless steel while cutting, due to scrappage;
- Estimated costs of materials' obsolescence based upon known engineering changes and other design changes and design faults;
- No specific allowance has been made for variation to these yield assumptions, obsolete parts or materials associated with future engineering changes or potential improvements to the yield associated with value engineering proposed to be undertaken; and
- It is assumed that any materials' obsolescence associated with value engineering (or investments in supplier tooling) will be offset by additional savings in manufacturing cost reductions from Cardiff.

The forecast cost of materials and sub-contracted components has increased by $15.0 million from June 2012. The management of materials is a significant focus for the WTP team. The increasing cost of materials largely reflects the complexity of the production model across multiple geographic locations; the variations to design during the course of the build phase and the change in scope between China and Cardiff during the production phase.

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

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

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

Note 1. Summary of accounting policies - *continued*

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

Labour

Labour includes manpower costs sub-contracted with CRC in China and those incurred directly by Downer at Cardiff. CRC has committed to maintain the increased labour within the interior fit-out shop to allow them to meet the agreed cadence and delivery dates and will continue to satisfy their obligations.

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

The December 2012 FCAC reflects a decrease in total labour cost of $2.8 million. This is as a result of reduction in Cardiff production and test hours (approximately 120,000 hours, incurred and forecast) due to improved labour force productivity; improved quality from China and successful implementation of three day TAKT time.

Engineering Services

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

Transport, Logistics and Procurement

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

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

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

Since June 2012, the FCAC cost for logistics and procurement has increased by $2.0 million. The cost extensions within the FCAC continue the trend over the past year for progressive increases in transactional logistics costs.

Project Management

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

During the period to December 2012, the FCAC estimates have been maintained for project management costs. The cost position for Project Management resources is consistent with the current schedule position.

Note 1. Summary of accounting policies - *continued*

There will be significant attention in the coming six months on the establishment of a robust demobilisation plan for 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

This includes the actual costs incurred to insure property, liability and people for the full duration of the program. This insurance cost was fully contracted at inception of the program and costs associated with the extension of the Rolling Stock Manufacture (RSM) phase.

The cost of bonding reflected in the FCAC assumes a market rate being applied to the outstanding bond value through to completion of the project and that existing committed bonding facilities will be rolled on substantially similar terms to those in place at 30 June 2012. All PC Bonds for Sets one to 28 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. It is currently anticipated that these bonds will progressively reduce in early 2013 as the risks of program compliance are progressively retired.

Financing costs also include the cost of hedging the foreign exchange risk associated with foreign denominated costs included within the FCAC. In February 2012 a series of foreign currency hedges were put in place which substantially covered the risk relating to USD, EUR, CNY and KRW having recognised the foreign exchange benefit in the December 2011 FCAC. A further foreign currency hedge was secured in August 2012 for an additional USD 10.0 million.

Since June 2012, the FCAC cost has been decreased by $5.0 million reflecting close management of these financial costs.

Forecast Liquidated Damages (LDs)

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

The projected LDs of $174.0 million represent an approximate delay of 13 months for every train to be delivered, which is consistent with the entry into passenger service of the first train in June 2011, compared to the original contract delivery date of April 2010 (after allowing for the three month grace period). Forecast LDs assume a relaxation of the delivery cadence between trains which has been progressively demonstrated over the acceptance process. There is now an understanding with RailCorp and Transport for NSW that supports the intent to accelerate the rate at which trains are accepted into service and discussions will continue on this going forward.

The December 2012 FCAC has valued LD’s on the basis of the deterministic schedule targeted by the WTP team which results in a $1.0 million reduction compared to the position at 30 June 2012. The reduction in LD’s is reflective of the high levels of compliance to the current delivery program.

The FCAC no longer includes a specific contingency for additional LDs. Any program slippage against MPS11 beyond FY2014 will be required to be funded from the general contingency.

Note 1. Summary of accounting policies - *continued*

Manufacture Delay Account (MDA)

The MDA reflects the contractual arrangement between Downer, the RSM and Reliance Rail under which milestone payments are paid to Downer in accordance with the actual delivery schedule achieved. To the extent that monies are not paid to Downer due to late delivery and/or missed performance milestones, monies are held by Reliance Rail in the MDA. Monies held in the MDA are paid to Downer upon achievement of contract milestones. Interest, which accrues on the MDA, is to be paid to Downer when Train 78 is delivered to Reliance Rail, together with the balance of the MDA. MDA interest receivable has been shown as a cost offset in the FCAC. This estimate assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature. At 31 December 2012, the FCAC position has restated the anticipated MDA interest based upon a combination of actual deposit rates achieved by Reliance Rail and anticipated longer term deposits for cash balances in excess of three monthly cash requirements of the project. At December 2012, the impact of the delays in implementing an appropriate investment strategy and the effect of reduced interest rates has had a negative impact on the FCAC position by $6.0 million.

General Contingency

A general contingency of $51.0 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 in the period by an amount of $13.0 million to fund the above category movements.

The level of contingency is appropriate given the improvement in the project during recent months. The contingency is sufficient to cover risks that may arise or cost extensions that will result from the realisation of risks over the duration of the program.

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

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

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.

Note 1. Summary of accounting policies - *continued*

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

New accounting standards and interpretations

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

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

– *AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* effective 1 July 2012.

Note 1. Summary of accounting policies - *continued*

The adoption of these amendments and interpretations did not have any impact on the financial position or performance of the Group. However, the application of *AASB 2011-9* has resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements.

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

- *AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2015;
- *AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2015;
- *AASB 10 Consolidated Financial Statements* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 11 Joint Arrangements* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 12 Disclosure of Interest in Other Entities* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 13 Fair Value Measurement* and related *AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 119 Employee Benefits* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 127 Consolidated and Separate Financial Statements* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 128 Investments in Associates and Joint Ventures* effective for annual reporting periods beginning on or after1 January 2013;
- *AASB 2011-4 Amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements* effective for annual reporting periods beginning on or after 1 July 2013;
- *AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements* effective for annual periods beginning on or after 1 January 2013;
- *AASB 2012-2 Amendments to Australian Accounting Standards Disclosure – offsetting Financial Assets and Liabilities (Amendments to AASB 7)* effective for annual periods beginning on or after 1 January 2013;
- *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 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 cycle* effective for annual periods beginning on or after 1 January 2013;
- *AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory effective date of AASB 9 and Transition Disclosure* effective for annual periods beginning on or after 1 January 2013; and
- *AABS2012-7 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* effective for annual periods beginning on or after 1 July 2013.

Note 2. Segment information

Identification of reportable segments

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

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

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

Downer 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 2012 Annual Report.

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

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

(a) In the current period, the Group recognised a $11.5 million provision referable to the Singapore Tunnel dispute. This provision is not included in the measure of segment profit and loss as it is not expected to recur. The details of the provision expense is separately disclosed as an "Individually significant item" in the condensed consolidated statement of profit or loss and as discussed in Note 4;
(b) Interest income and finance cost;
(c) Corporate charges comprise non-segmental expenses such as head office expenses; and
(d) Income tax expense.

Information about major customers
There is no single customer that contributed 10% or more to the Group’s revenue in the first half of FY2013. Sales arising from Group's largest customer in the first half of FY2012 are related to rendering of services and mining services totalling $29.2 million and $340.3 million respectively.

	Total revenue[i]		**Share of sales revenue in joint venture entities and associates**		**Total revenue including joint ventures and associates**	
	First half FY2013 $'000	First half FY2012[ii] $'000	**First half FY2013 $'000**	First half FY2012 $'000	**First half FY2013 $'000**	First half FY2012 $'000
Continuing operations						
By business segment						
Downer Infrastructure Australia	**1,968,818**	1,649,489	**198,462**	75,767	**2,167,280**	1,725,256
Downer Infrastructure New Zealand	**477,299**	408,725	**2,702**	2,624	**480,001**	411,349
Downer Mining	**1,294,531**	1,097,451	**39,956**	35,429	**1,334,487**	1,132,880
Downer Rail	**626,273**	477,935	**103,372**	96,508	**729,645**	574,443
Inter-segment sales	**(3,642)**	(13,363)	**-**	-	**(3,642)**	(13,363)
Subtotal	**4,363,279**	3,620,237	**344,492**	210,328	**4,707,771**	3,830,565
Unallocated	**8,827**	388	**-**	-	**8,827**	388
Total - continuing operations	**4,372,106**	3,620,625	**344,492**	210,328	**4,716,598**	3,830,953
Discontinued operations						
CPG Asia	**-**	91,170	**-**	698	**-**	91,868
Total - including discontinued operations	**4,372,106**	3,711,795	**344,492**	211,026	**4,716,598**	3,922,821

(i) 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.
(ii) First half FY2012 revenue balances have been restated to reflect the exclusion of interest revenue.

Note 2. Segment information - *continued*

		Segment results	
Continuing operations	**Note**	**First half FY2013 $'000**	First half FY2012 $'000
By business segment			
Downer Infrastructure Australia		**86,185**	57,121
Downer Infrastructure New Zealand		**16,366**	7,778
Downer Mining		**97,052**	87,981
Downer Rail		**34,223**	42,892
Total reported segment results		**233,826**	195,772
Unallocated		**(64,528)**	(30,980)
Interest income	3(c)	**2,652**	3,243
Interest expense	3(c)	**(35,312)**	(42,188)
Net interest expense		**(32,660)**	(38,945)
Profit before income tax from continuing operations		**136,638**	125,847
Income tax expense		**(42,591)**	(40,012)
Net profit after tax from continuing operations		**94,047**	85,835
Discontinued operations			
Reported result - CPG Asia		**-**	(4,442)
Net interest income		**-**	9
Loss before income tax from discontinued operations		**-**	(4,433)
Income tax benefit		**-**	3,588
Net loss after tax from discontinued operations		**-**	(845)
Total net profit after tax		**94,047**	84,990

Reconciliation of segment net operating profit from continuing operations to net profit after tax from continuing operations:

Segment net operating profit from continuing operations		**233,826**	195,772
Unallocated:			
Provision referable to Singapore Tunnel dispute	4	**(11,456)**	-
Impairment of goodwill	8	**(6,224)**	-
(Provision)/settlement for customer contracts		**(14,836)**	2,111
Government grant	3(a)	**8,595**	-
Restructuring costs		**(553)**	(2,074)
Corporate costs		**(40,054)**	(31,017)
Total unallocated		**(64,528)**	(30,980)
Interest income		**2,652**	3,243
Interest expense		**(35,312)**	(42,188)
Total profit before income tax from continuing operations		**136,638**	125,847
Income tax expense		**(42,591)**	(40,012)
Total net profit after tax from continuing operations		**94,047**	85,835

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2012

Note 3. Profit from ordinary activities - continuing operations

	Note	Consolidated First half FY2013 $'000	Consolidated First half FY2012 $'000
a) Revenue			
Sales revenue			
Rendering of services		**2,332,490**	1,898,501
Mining services		**1,270,855**	1,078,662
Construction contracts		**611,130**	512,729
Sale of goods		**132,293**	120,337
Other revenue			
Other revenue		**7,139**	2,313
Rental income		**6,159**	4,197
Government grant [(i)]	2	**8,595**	-
Dividends			
Other entities		**5**	2
		4,368,666	3,616,741
Other income			
Net gain on disposal of property, plant and equipment		**3,440**	3,851
Net foreign exchange gains		**-**	33
Total other income		**3,440**	3,884
Total revenue and other income		**4,372,106**	3,620,625
Share of sales revenue from joint venture entities and associates	2	**344,492**	210,328
Total revenue including joint ventures and associates and other income		**4,716,598**	3,830,953

[(i)] In the current financial period, the Group applied *AASB 120 Accounting for Government grants and disclosure of Government assistance* in relation to research and development tax incentive received by the Group. Prior period disclosures have not been re-stated as the impact to the Financial Report is not material.

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2012

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

	Note	Consolidated First half FY2013 $'000	Consolidated First half FY2012 $'000
b) Operating expenses			
Depreciation and amortisation of non-current assets:			
- Plant and equipment		**133,126**	106,331
- Buildings		**1,376**	1,029
- Amortisation of leased assets		**14,401**	9,149
Total depreciation		**148,903**	116,509
Amortisation of intellectual property/software	8	**5,918**	2,543
Total depreciation and amortisation		**154,821**	119,052
Operating lease expenses related to land and buildings		**35,313**	31,796
Operating lease expenses related to plant and equipment (i)		**124,294**	112,127
Total operating lease expenses		**159,607**	143,923
Employee benefits expense:			
- Defined contribution plans		**80,874**	67,621
- Share-based transactions		**2,335**	(1,488)
- Employee benefits		**1,415,071**	1,222,734
Total employee benefits expense		**1,498,280**	1,288,867
c) Finance income and costs			
Finance income			
Interest income	2	**2,652**	3,243
Finance costs			
Finance costs on liabilities carried at amortised cost:			
- Interest expense		**30,504**	38,491
- Finance lease expense		**4,808**	3,697
Total interest and finance lease expense	2	**35,312**	42,188

(i) Operating lease expenses do not include expenses relating to maintenance, insurance and taxes of $6.3 million (December 2011: $2.9 million). The prior period has been restated to be comparable with the current period.

Note 4. Individually significant item

	Consolidated	
	First half FY2013 $'000	First half FY2012 $'000
The following material item is relevant to an understanding of the Group's financial performance:		
- Provision referable to Singapore Tunnel dispute	**11,456**	-

Provision referable to Singapore Tunnel dispute

Note 14(x) details 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 during the period to cover the settlement outcome.

Note 5. Dividends

a) Ordinary shares

	Interim 2013
Dividend per share (in Australian cents)	**10.0**
Franking percentage	**70% franked**
Cost (in $'000)	**42,910**
Payment date	**15/04/2013**
Dividend record date	**15/03/2013**

The interim 2013 dividend has not been declared at the reporting date and therefore is not reflected in the financial statements.

No interim or final dividend was paid in relation to the financial year ended 30 June 2012.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

	Quarter 1 2013	**Quarter 2 2013**			**Total 2013**
Dividend per ROADS (in Australian cents)	**0.95**	**0.94**			**1.89**
New Zealand imputation credit percentage	**100%**	**100%**			**100%**
Cost (in A$'000)	**1,895**	**1,882**			**3,777**
Payment date	**17/09/2012**	**17/12/2012**			

	Quarter 1 2012	Quarter 2 2012	Quarter 3 2012	Quarter 4 2012	Total 2012
Dividend per ROADS (in Australian cents)	1.38	1.34	1.39	1.39	5.50
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'000)	2,769	2,687	2,778	2,764	10,998
Payment date	15/09/2011	15/12/2011	15/03/2012	15/06/2012	

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2012

Note 6. Earnings per share

	First half FY2013 Cents per share	First half FY2012 Cents per share
Basic earnings/(loss) per share (EPS)		
- Continuing operations	**21.0**	18.7
- Discontinued operations	**-**	(0.2)
	21.0	18.5

	Continuing operations	**Discontinued operations**
2013		
Profit attributable to members of the parent entity ($'000)	**94,042**	**-**
Adjustment to reflect ROADS dividends paid ($'000)	**(3,777)**	**-**
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**90,265**	**-**
Weighted average number of ordinary shares (WANOS) on issue (000's)	**429,100**	**-**
Earnings per share (cents per share)	**21.0**	**-**

	Continuing operations	Discontinued operations
2012		
Profit/(loss) attributable to members of the parent entity ($'000)	85,831	(949)
Adjustment to reflect ROADS dividends paid ($'000)	(5,456)	-
Profit/(loss) attributable to members of the parent entity used in calculating EPS ($'000)	80,375	(949)
Weighted average number of ordinary shares (WANOS) on issue (000's)	429,100	429,100
Earnings/(loss) per share (cents per share)	18.7	(0.2)

Note 6. Earnings per share - *continued*

	First half FY2013 Cents per share	First half FY2012 Cents per share
Diluted earnings/(loss) per share (EPS)		
- Continuing operations	**20.0**	18.0
- Discontinued operations	**-**	(0.2)
	20.0	17.8

	Continuing operations	**Discontinued operations**
2013		
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**94,042**	**-**
Weighted average number of ordinary shares (WANOS) on issue (000's)	**429,100**	**-**
WANOS adjustment to reflect potential dilution for ROADS (000's)(i)	**40,121**	**-**
WANOS used in the calculation of EPS (000's)	**469,221**	**-**
Earnings per share (cents per share)	**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 ($158.4 million), divided by the market price of the Company's ordinary shares ($4.05) discounted by 2.5 per cent according to the ROADS contract terms.

	Continuing operations	Discontinued operations
2012		
Profit/(loss) attributable to members of the parent entity used in calculating EPS ($'000)	85,831	(949)
Weighted average number of ordinary shares (WANOS) on issue (000's)	429,100	429,100
WANOS adjustment to reflect potential dilution for ROADS (000's)(i)	48,814	48,814
WANOS used in the calculation of EPS (000's)	477,914	477,914
Earnings/(loss) per share (cents per share)	18.0	(0.2)

(i) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the period end. It is calculated based on the issued value of ROADS in New Zealand dollars converted to Australian dollars at the spot rate prevailing at the reporting date ($152.3 million), divided by the market price of the Company's ordinary shares ($3.20) discounted by 2.5 per cent according to the ROADS contract terms.

Note 7. Joint ventures and associate entities

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

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

(i) Joint venture disposed in the second half of FY2012 as part of the CPG Asia disposal.

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

(iii) Associate entity disposed in the second half of FY2012 as part of the CPG Asia disposal.

	Consolidated First half FY2013 $'000	Consolidated First half FY2012 $'000
Share of net profit of joint ventures entities and associates:		
- Continuing operations	**30,746**	30,363
- Discontinued operations	**-**	282
	30,746	30,645

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2012

Note 8. Intangible assets

December 2012

$'000	Consolidated Goodwill	Intellectual Property/ Software	Total
At 1 July 2012			
Cost	**588,358**	**128,879**	**717,237**
Accumulated amortisation and impairment	**(69,770)**	**(69,816)**	**(139,586)**
Net book value	**518,588**	**59,063**	**577,651**
Period ended 31 December 2012			
Purchases	**-**	**1,039**	**1,039**
Reclassifications at net book value	**-**	**942**	**942**
Amortisation expense (Note 3(b))	**-**	**(5,918)**	**(5,918)**
Impairment	**(6,224)**	**-**	**(6,224)**
Net foreign currency exchange differences	**355**	**(3)**	**352**
Closing net book value	**512,719**	**55,123**	**567,842**
At 31 December 2012			
Cost	**588,713**	**132,168**	**720,881**
Accumulated amortisation and impairment	**(75,994)**	**(77,045)**	**(153,039)**
Closing net book value	**512,719**	**55,123**	**567,842**

June 2012

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

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

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

Note 9. Acquisition of businesses

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

Half-year ended 31 December 2011
During the prior financial period, there was an addition of goodwill of $1.0 million representing deferred contingent consideration in relation to the purchase of the business assets of Corke Instrumentation Engineering, originally acquired in financial year ended 30 June 2009. There were no acquisitions of controlling interest in any businesses during the financial reporting period ended 31 December 2011.

Note 10. Issued capital

	Consolidated	
	December 2012 $'000	June 2012 $'000
Ordinary shares:		
429,100,296 ordinary shares (June 2012: 429,100,296)	**1,278,564**	1,278,564
Unvested executive incentive shares:		
6,038,698 ordinary shares (June 2012: 6,115,960)	**(29,139)**	(29,437)
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (June 2012: 200,000,000)	**178,603**	178,603
	1,428,028	1,427,730

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 2012		June 2012	
Fully paid ordinary share capital	**000's**	**$'000**	000's	$'000
Balance at the beginning and end of financial period/year	**429,100**	**1,278,564**	429,100	1,278,564

	Consolidated			
	December 2012		June 2012	
Unvested executive incentive shares	**000's**	**$'000**	000's	$'000
Balance at the beginning of financial period/year	**6,116**	**(29,437)**	6,845	(33,270)
Vested executive incentive shares transactions	**(77)**	**298**	(729)	3,833
Balance at the end of financial period/year	**6,039**	**(29,139)**	6,116	(29,437)

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust under the Long Term Incentive (LTI) plan. Dividends from the unvested executive incentive shares accrue to the benefit of executives from the time they are purchased up until when vesting occurs or until the shares are forfeited. From the 2011 LTI plan onwards, no dividends will be distributed on shares held in trust during the performance measurement and service periods. Accumulated dividends will be paid out to executives after all vesting conditions have been meet. Otherwise, excess dividends are returned to the Company or used to acquire additional shares on the market for Employee Equity plans.

Note 10. Issued capital - *continued*

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

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

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

Note 11. Reserves

	Consolidated	
	December 2012 $'000	June 2012 $'000
Hedge reserve	**(6,532)**	(11,594)
Foreign currency translation reserve	**(47,193)**	(50,123)
Employee benefits reserve	**12,135**	9,965
	(41,590)	(51,752)

Note 12. Reconciliation of cash and cash equivalents

	Consolidated	
For the purpose of the statement of cash flows, cash and cash equivalents comprises:	**December 2012 $'000**	December 2011 $'000
Cash	**141,156**	207,970
Short-term deposits	**73,790**	3,218
	214,946	211,188
Cash balances included in disposal group held for sale	**-**	10,928
Bank overdrafts	**(11)**	(671)
Total cash and cash equivalents	**214,935**	221,445

Note 13. Borrowings

	Note	Consolidated December 2012 $'000	June 2012 $'000
Current			
Secured - at amortised cost:			
- Finance lease liabilities		**32,447**	21,472
- Hire purchase liabilities		**1,968**	3,236
- Supplier finance		**-**	6,332
		34,415	31,040
Unsecured - at amortised cost:			
- Bank loans		**17,741**	10,160
- Bank overdrafts		**11**	2
- AUD medium term notes (2009-1)		**13,283**	13,283
- AUD medium term notes (2009-2)		**150,748**	-
- AUD medium term notes (2010-1)		**12,600**	12,600
- Works NZ Bonds		**-**	117,527
- Deferred finance charges		**(2,486)**	(3,674)
		191,897	149,898
Total current borrowings	16	**226,312**	180,938
Non-current			
Secured - at amortised cost:			
- Finance lease liabilities		**133,930**	78,533
- Hire purchase liabilities		**3,032**	3,048
		136,962	81,581
Unsecured - at amortised cost:			
- Bank loans		**69,669**	32,930
- USD notes		**74,031**	76,185
- AUD medium term notes (2009-1)		**59,818**	66,460
- AUD medium term notes (2009-2)		**-**	151,186
- AUD medium term notes (2010-1)		**25,200**	31,500
- Deferred finance charges		**(3,835)**	(1,870)
		224,883	356,391
Total non-current borrowings	16	**361,845**	437,972
Total borrowings		**588,157**	618,910

Note 14. Contingent liabilities

	Consolidated	
	December 2012 $'000	June 2012 $'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	**954,008**	966,193

In the ordinary course of business:

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

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

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

- A claim by Alstom Limited (Alstom) in relation to construction of the Playford B Power Station; and
- Some entities in the Group have been named as co-defendants in several proceedings with projects associated with the "weathertight" homes issue in New Zealand.

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

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

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

The judgment has been appealed by Alstom and the Directors are of the opinion that disclosure of any further information related to this claim would be prejudicial to the interests of the Group.

Note 14. Contingent liabilities- *continued*

vii) Former Managing Director Stephen Gillies received an initial award from the New South Wales Supreme Court in the sum of $7.8 million, including costs and interest. An appeal by the Group was heard by the Court of Appeal in May 2012 and on 18 October 2012 a decision was handed down. The Court of Appeal held that Mr Gillies had engaged in serious misconduct, which disentitled Mr Gillies from receiving certain termination payments. The judgment is currently the subject of a special leave application for appeal to the High Court of Australia by Mr Gillies and the Directors are of the opinion that the current provision raised against this matter is sufficient.

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

ix) 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.

x) The Group previously disclosed a provision in relation to a dispute with SP PowerAssets Ltd concerning the construction of a cable tunnel in Singapore. In December 2012 the parties executed a deed of settlement. In accordance with the settlement, Downer paid a total of SGD50.0 million (A$39.3 million) and all legal actions between the parties were discontinued with mutual releases provided. A provision of $11.5 million has been recognised during the period and is separately discussed in Note 4.

Note 15. Subsequent events

At the date of this report there is no matter or circumstance that has arisen since 31 December 2012 that has significantly affected, or may significantly affect:

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

Note 16. Financing facilities

Unutilised facilities

At 31 December 2012, the consolidated entity had the following facilities that were not utilised at balance date:

	Consolidated	
	December 2012 $'000	June 2012 $'000
Syndicated bank loan facility	**420,000**	420,000
Bilateral bank loan and overdraft facilities	**206,775**	173,525
Total unutilised loan facilities	**626,775**	593,525
Total unutilised bilateral bank and insurance company bonding facilities	**447,896**	327,930

Bank loans

Syndicated bank loan facility

The Syndicated bank loan is unsecured, is subject to certain Group guarantees and with a three year tranche $294.0 million maturing in November 2013 and a four year tranche $126.0 million maturing in November 2014.

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 in the 2014 financial year. Included in bank loans are amounts of $86.2 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 2014 and 2019. The USD principal and interest have been fully hedged against the Australian dollar.

AUD Medium Term Notes (MTNs)

During 2009 and 2010, three tranches of unsecured MTNs were issued. Series 2009-1 amortises through even semi-annual instalments, until the final maturity date of April 2018 and has a current balance of $73.1 million; Series 2009-2 for $150.0 million matures on a bullet basis in October 2013; Series 2010-1 amortises through even semi-annual instalments until the final maturity date of September 2015 and has a current balance of $37.8 million. The MTNs were subject to certain Group guarantees.

Works New Zealand Bonds

The Bonds were repaid in full on 17 September 2012.

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 6.8 per cent per annum (June 2012: 7.6 per cent per annum).

Hire purchase and lease facilities

Hire purchase facilities are secured by the specific assets financed.

Supplier Finance

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

Note 16. Financing facilities - *continued*

Covenants on financing facilities

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

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

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

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

Bonding

The Group has $1,401.9 million of bank guarantee and insurance bond facilities to support its contracting activities. $520.8 million of these facilities are provided to the Group on a committed basis and $881.1 million on an uncommitted basis. Under both committed and uncommitted facilities, the financial institution being requested to provide the guarantee/bond has the discretion as to whether to issue the bonding instrument depending on factors such as the form of the guarantee/bond, the underlying contract of work being undertaken and potential concentration limits the financial institution may have on the industry where the work is being conducted. Furthermore, in the case of uncommitted facilities, the financier has the discretion to cancel any unutilised balance of a facility at any time or to suspend utilisation of the facility for a given period. The Group’s committed facilities have varying maturity dates which range from June 2013 to December 2014 and for uncommitted facilities from June 2013 to December 2013 .

The Group's facilities are provided by a number of different banks and insurance companies on an unsecured basis and are subject to certain Group guarantees. $954.0 million of these facilities were utilised as at 31 December 2012 with $447.9 million unutilised as at that date. $230.5 million of the current committed facilities is made up of a syndicated bonding facility referable to the Waratah Train Project. 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 committed facility amounts of $118.5 million (shown as part of the unutilised bilateral bank loan facilities) which can, at the request of the Group, also be utilised for bonding purposes.

Refinancing requirements

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

Credit 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 16. Financing facilities - *continued*

Gearing ratio

The consolidated entity monitors its gearing ratio determined as the ratio of net debt to total capitalisation. As at 31 December 2012 and 30 June 2012, the ratio was as follows:

		Consolidated	
	Note	**December 2012 $'000**	June 2012 $'000
Current borrowings	13	**226,312**	180,938
Non-current borrowings	13	**361,845**	437,972
Gross debt [(i)]		**588,157**	618,910
Adjustment for the mark to market of debt related derivatives and deferred finance charges		**49,666**	46,545
Adjusted gross debt		**637,823**	665,455
Less: cash and cash equivalents		**(214,946)**	(296,691)
Net debt		**422,877**	368,764
Equity [(ii)]		**1,718,423**	1,617,700
Total capitalisation (Net debt + Equity)		**2,141,300**	1,986,464
Gearing ratio [(iii)]		**19.7%**	18.6%
<u>Off balance sheet debt</u>			
Operating leases [(iv)]		**255,149**	298,994
Gearing ratio (including off balance sheet debt)		**28.3%**	29.2%

(i) Gross debt is defined as all borrowings.

(ii) Equity consists of all capital and reserves.

(iii) Net debt/Total capitalisation.

(iv) The Group enters into operating leases with respect to plant and equipment (excluding real property) utilised in its businesses. The present value of these leases at 31 December 2012 discounted at 10 per cent per annum (discount rate prescribed by the loan covenant) was $255.1 million (June 2012: $299.0 million).

Directors' Declaration
for the half-year ended 31 December 2012

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

R M Harding
Chairman

Sydney, 14 February 2013