# 2013 Annual Report



Downer

This Annual Report includes Downer EDI Limited Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2013. The Annual Report is available on the Downer website www.downergroup.com.

# CONTENTS

The Directors of Downer EDI Limited submit the Annual Financial Report of the Company for the financial year ended 30 June 2013. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

## BOARD OF DIRECTORS

### R M HARDING (64)

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

Mr Harding has held management positions around the world with British Petroleum (BP), including President and General Manager of BP Exploration Australia. Mr Harding is currently a Director of Santos Limited, Roc Oil Company Limited and Transpacific Industries Group Ltd.

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

Mr Harding lives in Sydney.

### G A FENN (48)

*Managing Director and Chief Executive Officer since July 2010*

Mr Fenn has over 20 years' experience in operational and financial management as well as strategic development. He joined Downer in October 2009 as Chief Financial Officer and was appointed Chief Executive Officer in July 2010.

Prior to joining Downer, Mr Fenn had a 14 year career at Qantas Airways Limited during which he held a number of senior roles and was a Member of the Executive Committee for ten years. These roles included Executive General Manager of Strategy and Investments and Executive General Manager – Associated Businesses, responsible for the Airports, Freight, Flight Catering and Qantas Holidays businesses. He was also previously Chairman of Star Track Express and a Director of Australian Air Express.

Mr Fenn holds a Bachelor of Economics from Macquarie University and is a member of the Australian Institute of Chartered Accountants. He worked at KPMG for eight years before he joined Qantas.

Mr Fenn lives in Sydney.

### S A CHAPLAIN (55)

*Independent Non-executive Director since July 2008*

Ms Chaplain is a former investment banker with extensive experience in public and private sector debt financing. She also has considerable experience as a Director of local and state government-owned corporations involved in road, water and port infrastructure.

Ms Chaplain is a director of PanAust Ltd and Chair of KDR Gold Coast Pty Ltd and the Council of St Margaret's Anglican Girls School in Brisbane. Ms Chaplain is a former Director of Coal & Allied Industries Limited and former member of the Board of Taxation.

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

Ms Chaplain lives on the Gold Coast.

### P S GARLING (59)

*Independent Non-executive Director since November 2011*

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

Mr Garling is currently the Chair of Australian Renewable Fuels Limited and a Director of Charter Hall Limited, Networks NSW and Water Polo Australia Limited. Mr Garling is a former Director of DUET Group, of which he was inaugural Chairman for seven years, the Infrastructure Fund of India and is former Chairman of the Asian Giants Infrastructure Fund.

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

Mr Garling lives in Sydney.

### E A HOWELL (67)

*Independent Non-executive Director since January 2012*

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

Ms Howell is currently the Executive Chair of Tangiers Petroleum Limited and a Director of Mermaid Marine Australia Limited, EMR Resources Pty Ltd and the West Australian Ballet.

Ms Howell has previously served on a number of boards, including the Fremantle Port Authority, the Australian Petroleum Production & Exploration Association where she chaired the Environmental Affairs Committee, and as a board member and President of the Australian Mines and Metals Association. She is also a past President of the Australian Society of Exploration Geophysicists, a life member of the Petroleum Club of WA and a distinguished member of the Petroleum Exploration Society of Australia.

Ms Howell holds a Bachelor of Science (with Honours in Geology and Mathematics) from the University of London, an MBA from Edinburgh Business School, and is a Member of the Australian Institute of Company Directors.

Ms Howell lives in Perth.

## J S HUMPHREY (58)

*Independent Non-executive Director since April 2001*

Mr Humphrey is currently the Executive Dean of the Faculty of Law at Queensland University of Technology and a Legal Consultant to King & Wood Mallesons of which he is a former Deputy Chairman, and partner specialising in corporate, mergers and acquisitions and infrastructure project work.

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

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

Mr Humphrey lives in Brisbane.

## K G SANDERSON AO (62)

*Independent Non-executive Director since January 2012*

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

Ms Sanderson is currently the co-chair of the First Murdoch Commission and the Chair of Gold Corporation and a Director of Atlas Iron Limited, St John of God Health Care, Paraplegic Benefit Fund and Senses Australia. Ms Sanderson was appointed to the position of Adjunct Professor in Curtin University Business School in February 2013 (having previously been a member of the Advisory Council) and has previously served as a Director of Austrade, the Australian Wheat Board, the Rio Tinto WA Future Fund and the Western Australian Lands Authority (LandCorp) as well as having served as President of Ports Australia.

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

Ms Sanderson lives in Perth.

## C G THORNE (63)

*Independent Non-executive Director since July 2010*

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

Dr Thorne is a director of Queensland Energy Resources Limited and JK Tech. He is a Fellow of both the Australasian Institute of Mining and Metallurgy and the Australian Academy of Technological Science and Engineering. Dr Thorne also holds directorships with a number of private companies.

Dr Thorne holds Bachelor and Doctoral degrees in Metallurgy from the University of Queensland and is a Graduate of the Australian Institute of Company Directors.

Dr Thorne lives on the Sunshine Coast.

## DIRECTORS' SHAREHOLDINGS

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

| Director | Number of Fully Paid Ordinary Shares | Number of Fully Paid Performance Rights | Number of Fully Paid Performance Options |
|---|---|---|---|
| R M Harding | 9,680 | – | – |
| G A Fenn* | 346,061 | – | – |
| S A Chaplain | 51,170 | – | – |
| P S Garling | 12,100 | – | – |
| E A Howell | – | – | – |
| J S Humphrey | 68,095 | – | – |
| K G Sanderson | – | – | – |
| C G Thorne | 56,486 | – | – |

* Mr Fenn's shareholding comprises 30,769 shares acquired under the Company's accelerated renounceable rights offer and 315,292 shares that have met all vesting conditions being the first tranche of shares in his 2009 grant (64,767 shares) and his sign-on grant that vested on 1 July 2011 (250,525 shares). A further 945,201 shares have been purchased as Mr Fenn's long-term incentive and are held by CPU Share Plans Pty Ltd (Trustee of the Downer EDI Limited Deferred Employee Share Plan). These shares are subject to performance and service period conditions over the period 2012 to 2016. Further details regarding the conditions relating to these restricted shares are outlined in sections 5.4 and 8 of the Remuneration Report.

## COMPANY SECRETARY

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

Mr Peter Tompkins was appointed Company Secretary on 27 July 2011. He has qualifications in law and commerce from Deakin University and is an admitted solicitor in New South Wales. Mr Tompkins joined Downer in 2008 and was appointed General Counsel in 2010.

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

## REVIEW OF OPERATIONS

### PRINCIPAL ACTIVITIES

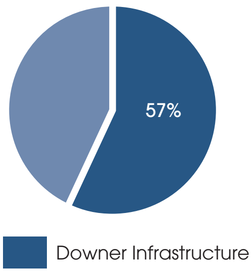
Downer provides comprehensive engineering, construction and asset management services to customers in the Minerals & Metals, Oil & Gas, Power, Transport, Telecommunications, Water and Property sectors. Downer employs approximately 22,000 people primarily in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa.

### DIVISIONAL ACTIVITIES

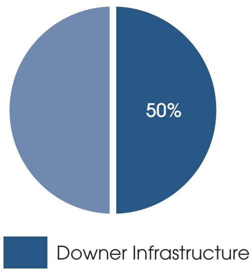
Downer operates through three divisions – Downer Infrastructure, Downer Mining and Downer Rail.

## DOWNER INFRASTRUCTURE

**Total revenue[1] (FY13)**




**EBIT (FY13)**




Downer Infrastructure operates predominantly in Australia and New Zealand and is one of the largest providers of engineering services for critical infrastructure in both countries, employing more than 10,000 people in Australia and more than 4,500 in New Zealand.

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

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

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

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

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

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

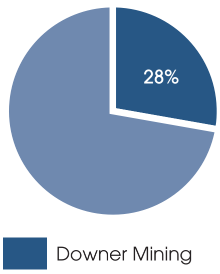
For public sector and industrial water customers in Australia, Downer provides design and construction, operations and maintenance services for water and waste water infrastructure. The New Zealand business offers complete asset lifecycle solutions (design, build, operate and maintain) for municipal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

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

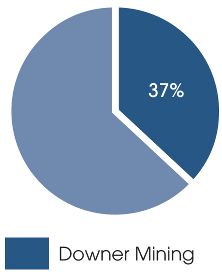
- Mineral Technologies is a leading provider of mineral separation and mineral processing solutions worldwide, delivering a comprehensive range of integrated equipment and services that cost-effectively transform ore bodies into high grade mineral products;
- QCC Resources delivers process and materials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

## DOWNER MINING

**Total revenue[1] (FY13)**




**EBIT (FY13)**




Downer Mining has been delivering contract mining and civil earthmoving services to its customers for over 90 years. It is one of Australia's most diversified mining contractors, employing more than 4,500 people across more than 50 sites in Australia, New Zealand, Papua New Guinea, South America and Southern Africa.

Downer Mining's services include:

- Open-cut mining
  - Downer Mining is one of Australia's largest open-cut mining service contractors, working in a range of commodities including coal, iron ore, gold and base metals. Its capabilities include mine planning and design, mine operation and management, mobile plant maintenance, construction of mine-related infrastructure and crushing.
- Underground mining and exploration drilling
  - Downer Mining's highly skilled and experienced hard rock underground mining team offers services including exploration, resource and de-watering hole drilling, underground diamond drilling, drill rig maintenance and heli-portable rigs.
- Blasting services
  - Downer Blasting Services is a diversified blasting services provider in the Australian mining industry. It provides tailored blasting solutions to over 20 projects across Australia with a fleet of over 50 Mobile

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

Processing Units and four state-of-the-art emulsion-manufacturing facilities. Its capabilities include "down-the-hole" and "rock-on-ground" services, emulsion manufacturing, supply and delivery of bulk explosives and accessories, shotfiring and blast management.

- Tyre management
  - Otraco International provides Off-The-Road tyre management services at over 40 mine sites in Australia, New Zealand, Asia, South America and Southern Africa. Its capabilities include web-based, real-time software solutions, electronic tread-depth and pressure metering, haul road surfacing solutions, distribution and supply of rim and wheel accessories and the repair and maintenance of rims.
- Sustainable development
  - Downer Mining is an industry leader in delivering low emissions mining solutions for its customers. Downer Mining is the largest consumer of renewable fuels in the Australian mining industry. Downer Mining recently launched ReGen, a business that offers complete solutions for mine reclamation and land rehabilitation.

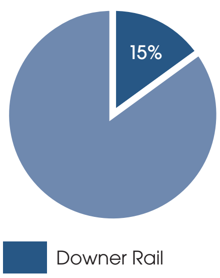
Downer Mining's largest projects as at 30 June 2013 were:

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

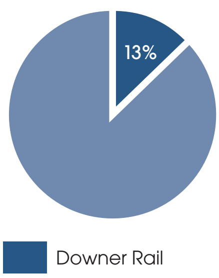
Downer Mining's other key customers include AngloGold Ashanti, Ok Tedi Mining, Solid Energy, Energy Australia (formerly known as TRU Energy) and Wesfarmers Resources.

## DOWNER RAIL

**Total revenue[1] (FY13)**




**EBIT (FY13)**




Downer Rail employs more than 2,000 people and is a leading Australian provider and maintainer of passenger and freight rolling stock. Downer Rail's capabilities also include rail signalling, security and safety solutions for passenger cars, freight wagons, locomotives and light rail.

Downer's key freight rail customers include Pacific National, Aurizon, BHP Billiton, Fortescue Metals Group, Rio Tinto, Genesee & Wyoming, SCT Logistics and CFCLA.

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

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

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

## GROUP FINANCIAL PERFORMANCE

For the year ended 30 June 2013, Downer reported growth in revenue, net profit after tax (NPAT) and earnings before interest and tax (EBIT) and a reduction in net debt and gearing.

## REVENUE

Total revenue[1] for the Group increased by 7.1%, or $607.8 million, to $9.1 billion, including $0.8 billion of contributions from joint ventures.

Revenue growth was driven by Downer Infrastructure, with revenue up 13.1%, or $606.5 million, to $5.2 billion. This was due to strong performances from Australia East's road infrastructure and resources related businesses and New Zealand's telecommunications, transport and Christchurch rebuild projects. Consulting revenue from coal related projects was strong with these projects approaching commissioning phase. Both the Australian and New Zealand general consulting businesses experienced more challenging revenue conditions due to significant competition in the sector coupled with limited work as a result of project deferrals.

Downer Mining increased revenue by 3.7%, or $90.9 million, to $2.6 billion with a solid revenue performance on its key projects. Revenue from these projects offset the revenue lost from the closure of the Norwich Park mine and completion of Millennium and Wambo contracts. Further revenue pressure was experienced by Mining as a result of a number of resource owners reducing contracted overburden removal volumes and reduced ancillary works in an attempt to mitigate the financial effects of falling commodity prices, particularly thermal coal. Blasting revenue also fell as a result of completion of projects and early termination of one contract. This was partially offset by increased tyre services revenue derived from Otraco International's operations in South America and Southern Africa.

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

Downer Rail's revenue (excluding Waratah Train Project (WTP)) decreased by 3.4%, or $30.9 million, to $0.9 billion with performance affected by lower revenue from freight build projects. This was offset by higher activity in the WTP where revenue was driven by increased production rates in both China and Australia. Revenue from other passenger build projects continued to support the business as these projects ramped up during the year. Sale of spare parts also increased on the completion of a number of maintenance contracts.

Revenue from JVs increased by 67.1%, or $304.1 million, to $757.4 million reflecting Downer's increased utilisation of JVs to partner with organisations with complementary skills to deliver customer requirements, for example in establishing gas compression facilities for coal seam gas plants and integrated road asset management solutions.

## EXPENSES

Employee benefits expenses increased by 7.4% to $2.9 billion and represent 36.3% of Downer's cost base. This increase is broadly in line with Group revenue growth and is after impacts of salary increases and restructuring costs associated with efficiency programs and contract completions/variations requiring reduced staffing levels.

Subcontractor costs also increased by 6.6% to $1.7 billion and represent 21.3% of Downer's cost base. This increase accords with the increase in Group revenue and a strategic intent by the Group to retain cost base variability, allowing the various businesses to ramp up or down more quickly via the utilisation of sub-contract labour without imposing a permanent fixed cost structure on the business.

Raw materials and consumables used increased by 5.9% to $1.7 billion and represent 21.7% of Downer's cost base. This effective reduction, when compared with revenue growth, reflects benefits derived through Fit 4 Business procurement initiatives as well as some customers, for example in the telecommunications sector, providing more free issued materials. The strong growth in services is not coupled with the provision of raw materials.

Plant and equipment costs decreased by 4.8% to $1.0 billion and represent 12.2% of Downer's cost base. This largely reflects reduced reliance upon operating leased assets with Downer having elected to directly acquire assets over the past two years where it was believed to be the whole of life owner of the assets coupled with increased utilisation of owned assets and more efficient maintenance practices as Fit 4 Business plant opportunities are leveraged.

Depreciation and amortisation increased by 19.8% to $294.8 million and represents 3.7% of Downer's cost base. This increase reflects the capital investment of approximately $1 billion in mining equipment over the past three years with the business focusing on organic rather than acquisitive growth.

Other expenses, communication, travel, occupancy and professional fees have increased by 11.4% to $446.7 million and represent 5.6% of Downer's cost base.

## EARNINGS

Underlying NPAT for the Group increased 10.3% to $215.4 million and underlying EBIT increased by 6.9% to $370.3 million, with both results driven by the performance of Downer Infrastructure and Downer Mining. Downer Rail's contribution fell as a result of lower freight build contract activity and underperformance of the rail maintenance operations.

Reported net interest decreased by 6.0% to $67.2 million due to lower base interest rates, lower drawn debt balances due to the full repayment of the Singapore Syndicated loan and Works Bonds and reduced funding costs as a result of the early refinancing of the Australian Syndicated Credit Facility.

The effective tax rate (ETR) of 28.9% for the underlying result approximates with the statutory rate of 30% due to the majority of the Group's profits being derived in Australia.

Statutory NPAT was $204.0 million and statutory EBIT was $358.9 million after an individually significant item, being $11.5 million relating to the settlement of a dispute in Singapore (announced on 11 December 2012).

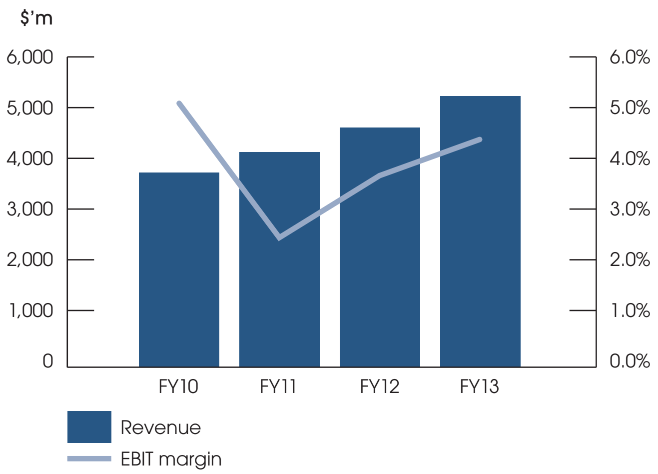
A reconciliation of the underlying result to the statutory result is set out in the table below:

| $'000 | FY13 EBIT | FY13 NPAT |
|---|---|---|
| **Underlying result** | **370,333** | **215,442** |
| Individually Significant Item: | | |
| – Singapore Tunnel provision | (11,456) | (11,456) |
| **Statutory result** | **358,877** | **203,986** |

Underlying NPAT and EBIT 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 ISI relates to an $11.5 million provision for the settlement of an arbitration claim made by SP PowerAssets Ltd in relation to the construction of an electrical services tunnel in Singapore.

## DIVISIONAL FINANCIAL PERFORMANCE

### DOWNER INFRASTRUCTURE




- Total revenue of $5.2 billion, up 13.1%;
- EBIT of $230.3 million, up 33.2%;
- EBIT margin of 4.4%, up 0.7 ppts;
- ROFE of 25.6%, up from 18.6%; and
- Work-in-hand of $9.4 billion.

Downer Infrastructure performed well in the 2013 financial year in a challenging and competitive market. Despite pressure on bid margins, EBIT margins continued to improve, reflecting better contract performance and greater efficiencies from the ongoing focus on reducing costs.

The majority of Downer Infrastructure's work comprises contracts that are valued at less than $30 million and are recurring in nature. This makes the business more resilient through economic cycles.

In Australia, EBIT rose by 28.9% to $184.7 million due to strong performances across most businesses, particularly in the East region. A number of new contracts were won in the road and rail maintenance, electrical and instrumentation, telecommunications and renewable energy sectors.

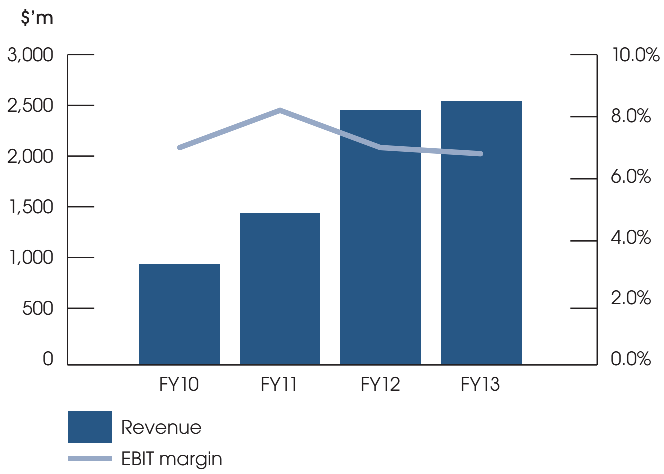
The Australian telecommunications business continued to grow with the awarding of a contract valued at up to $66 million over two years for design and construction services to connect residential multi-dwelling units (MDUs) to the NBN in NSW, Victoria and the ACT and also a contract valued at up to $94 million over two years to roll out the NBN to homes and businesses in northern NSW.

Downer also built on its strong reputation in the renewable energy sector to secure two new wind farm projects, a $70 million contract for engineering work on the Mt Mercer Wind Farm in Victoria and, with consortium partner GE Australia and New Zealand, a $350 million contract for work on stage one of the Boco Rock Wind Farm Project in NSW. Downer's share of this project is approximately $110 million.

In New Zealand, Downer Infrastructure performed strongly with EBIT up 53.9% to $45.6 million. While economic conditions remain challenging, the business achieved significant improvements in both contract performance and the realisation of efficiencies.

Downer Infrastructure New Zealand's major contract wins included a NZ$500 million contract with Chorus to build the Ultra-Fast Broadband network, several road infrastructure projects in Auckland and Wellington and a number of rebuild packages as part of the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) that is rebuilding Christchurch's earthquake-damaged roads, sewerage, water supply pipes and parks.

### DOWNER MINING




- Total revenue of $2.6 billion, up 3.7%;
- EBIT of $174.2 million, up 0.4%;
- EBIT margin of 6.8%, down 0.2 ppts;
- ROFE of 20.3%, down from 22.1%; and
- Work-in-hand of $5.6 billion.

After several years of very strong growth, current market conditions are challenging for Downer Mining with customers reviewing their operations and seeking to reduce costs.

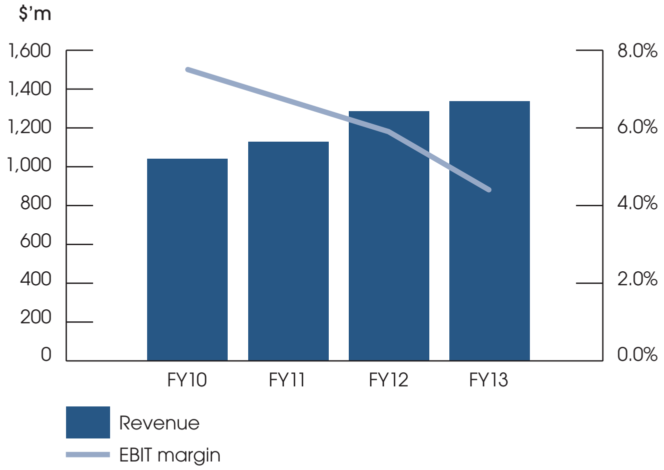
A new, long-term rolling contract was secured during the year with TEC Coal Pty Ltd, a wholly owned subsidiary of Stanwell Corporation Limited, to provide mining services at Meandu Mine in Queensland. The contract commenced in January 2013 and has an initial term of five and a half years.

Activities ramped up at Karara and Boggabri mines during the period and the Mining business maintained a strong focus on operational efficiency and asset utilisation.

Toward the end of the 2013 financial year, Downer Mining was advised of reduced production targets at the Boggabri coal mine in New South Wales, Goonyella Riverside coal mine in Queensland and Christmas Creek iron ore mine in Western Australia. These volume reductions did not have a material impact on Downer Mining's results for the 2013 financial year.

Downer Blasting Services and Otraco International (Downer's tyre management business) both continued to win new contracts and contract extensions. In line with the strategy to expand into overseas markets, Otraco extended its reach into Southern Africa with a new contract at Jwaneng diamond mine in Botswana.

## DOWNER RAIL




- Total revenue of $1.3 billion, up 4.0%;
- EBIT of $59.0 million, down 22.7%;
- EBIT margin of 4.4%, down 1.5 ppts;
- ROFE of 12.5%, down from 17.8%; and
- Work-in-hand of $4.0 billion.

Downer made substantial progress delivering the Waratah Train Project during the year. At 6 August 2013, there were 47 Waratah trains available for passenger service and Downer remains on track to deliver the 78th Waratah train in mid-calendar 2014. The Waratah trains continue to perform well and the Through Life Support maintenance contract is ramping up successfully.

Downer Rail's lower EBIT performance was largely due to a drop in demand for freight locomotives and the transition out of locomotive manufacturing.

In June 2012, Downer announced 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. Ongoing demand for resources, particularly coal and iron ore, is expected to continue to drive demand for Downer Rail's narrow and standard gauge locomotives.

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

## GROUP FINANCIAL POSITION

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

## OPERATING CASH

Operating cash flow was very strong at $452.4 million, up 24.1% on the prior year due to the ongoing rigorous focus on cash and working capital management. This is evidenced by the 22.9% reduction in debtor days which improved by 6.7 days to 22.6 days. This was achieved by working with customers to ensure payment terms were met and disputed claims resolved. It is noted that these working capital improvements were not achieved to the detriment of our suppliers, with creditor days decreasing by 11.1 days to 34.1 days.

Net debt reduced from $368.8 million to $248.9 million and gearing (net debt to net debt plus equity) reduced from 18.6% to 12.0%. When off balance sheet debt is included, gearing reduced from 29.2% to 20.8%.

The operating cash flow after adjusting for the $63.3 million of cash outflows relating to the Waratah Rolling Stock Manufacture (RSM) contract and $39.3 million for the Singapore Tunnel settlement reflects an EBITDA conversion ratio of 94.7% consistent with the previous year and reflecting the continued focus on optimising working capital invested in contracts.

## OPERATING CASH FLOW

| $m | FY13 | FY12 |
|---|---|---|
| EBIT[1] | 370.3 | 346.5 |
| Add: Depreciation & Amortisation | 294.8 | 247.2 |
| **EBITDA[1]** | **665.1** | **593.7** |
| **Operating cash flow** | **452.4** | **364.5** |
| Add: Net interest paid[2] | 60.7 | 69.9 |
| Tax paid | 14.3 | 15.7 |
| Waratah Train Project net cash outflow[3] | 63.3 | 93.0 |
| Singapore Tunnel Settlement | 39.3 | – |
| **Adjusted Operating cash flow[1]** | **630.0** | **543.1** |
| **EBITDA conversion[1]** | **94.7%** | **91.5%** |

## INVESTING CASH

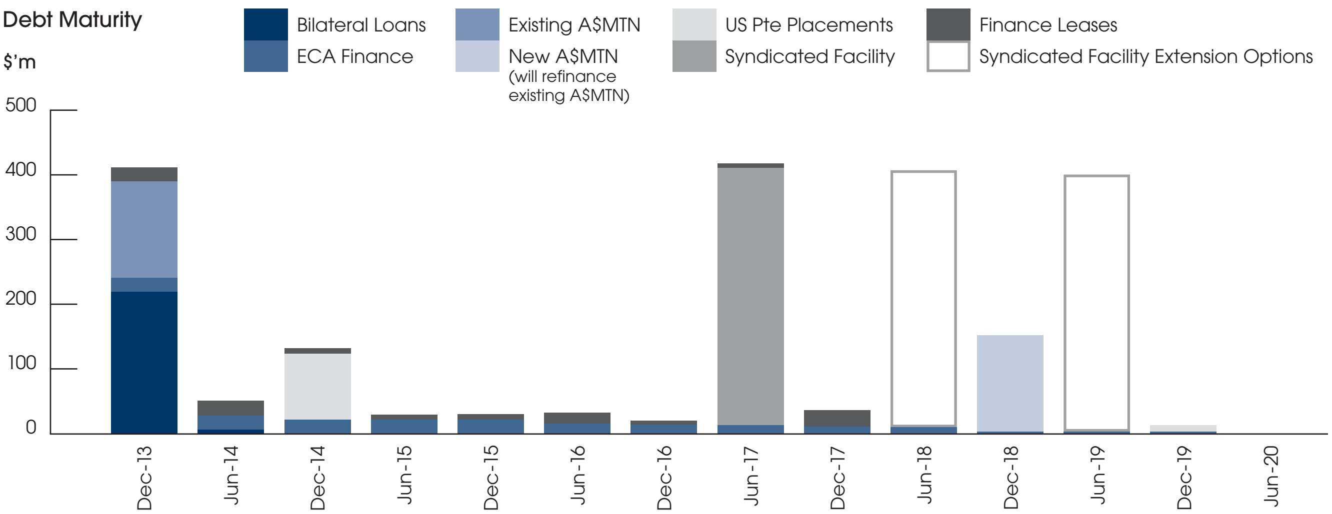
The business continued to invest in capital equipment to support existing contracted operations resulting in net capital of $289.1 million being invested, up 42.4% on the prior year. However, when the proceeds on sale of CPG Asia are excluded from the prior year's investing cash, the net capital invested decreased by 13.0%. This investment principally represents maintenance capital with growth capital, particularly with Downer Mining, being effectively deferred due to resource markets volatility necessitating customers (and thus Downer) to reduce volumes. Furthermore, contract mining customers purchased $54.3 million of equipment from Downer as part of the overall negotiations on mine performance and volume allocations.

1 Numbers are underlying, i.e. excluding Individually Significant Item.
2 Interest and other costs of finance paid minus interest received.
3 Unaudited.

## DEBT AND BONDING

In April 2013, Downer completed the refinancing of its A$ Syndicated Credit Facility. The new $400 million facility was completed with a 20 per cent reduction in funding costs on a drawn basis and 30 per cent on an undrawn basis. This facility also contains two one year extension options permitting Downer to potentially further extend the duration of the Syndicated facility. In May 2013, Downer completed a new $150 million issue of fixed rate senior unsecured Medium Term Notes (MTN), effectively refinancing the notes maturing in October 2013. Following these two transactions, Downer's weighted average debt maturity has been extended.

Downer, having successfully refinanced the Group, has ensured there is sufficient committed debt and bonding headroom available given the challenging economic environment expected in the 2014 financial year.




This enhanced credit position was a catalyst for Fitch Ratings (Fitch) to upgrade Downer's Long-Term Issuer Default Rating (IDR) and senior unsecured rating to "BBB" respectively with a Stable outlook. In its announcement of the upgrade, Fitch stated: "The rating upgrade reflects Downer's improved financial risk profile, earnings diversification, risk and return discipline around the vetting of project bids. Downer has also improved contract formation (risk-sharing arrangement) across its portfolio of projects as is evidenced by its minimal exposure to lump-sum construction risk other than that of the nearly completed Waratah Train Project's rolling stock manufacturing contract."

## BALANCE SHEET

The net assets of Downer increased by 12.9% to $1.8 billion. This increase was substantially reflected in net current assets which increased by $268.3 million reflecting the Group's continued focus on cash conversion coupled with a disciplined approach to capital investment.

Cash and cash equivalents increased by $177 million or 59.7% to $473.7 million, reflecting strong operating cash flow coupled with increased drawn term debt due to the early refinancing of the $150 million MTN which was fully drawn. Correspondingly, trade and other receivables decreased by $157.2 million or 9.8% to $1.4 billion reflecting increased focus on cash collections by all Divisions and the resolution of a number of customer disputes in both Downer Infrastructure and Mining. Debtor days for the Group decreased 6.7 days, from 29.3 to 22.6 days.

As a consequence, the net debt of the Group (gross debt less available cash) was reduced from $368.8 million at 30 June 2012 to $248.9 million at 30 June 2013. This translates to a 35.5% reduction in on balance sheet gearing to 12.0%.

Inventories increased by $67.1 million or 23.7% to $349.9 million. Of this increase, $62.2 million relates to finished goods, being 11 locomotives that have been built to stock to allow contiguous production. With the delays in EMD establishing their Indian manufacturing facility, Downer is working to sell these locomotives in the next 12 months.

Other assets are substantially current prepayments and deposits.

The net value of Property Plant and Equipment (including asset held for sale) increased by $31.6 million principally reflecting the maintenance and investment in mining equipment and components.

Trade and other payables decreased by $178.4 million, or 12.8%, with creditor days decreasing by 11.1 days to 34.1 days. Trade credit represents 51.8% of Downer's liabilities.

Total drawn borrowings of $682.2 million represents 29.1% of Downer's liabilities, increasing by $63.3 million as a result of Downer issuing a new $150 million MTN, net of the principal repayment on other facilities. Current borrowing effectively increased by 31.5% reflecting the $150 million 2009 MTN becoming current as they mature in October 2013.

Other financial liabilities of $66.4 million decreased by $57.3 million and represents 2.8% of Downer's liabilities. It reflects the mark-to-market translations of foreign currency and interest rate derivatives hedging the debt portfolio and WTP project in addition to advances from Joint Ventures. This decrease arose principally as a result of the strengthening of the US$ in the last quarter of 2013.

Provisions of $369.1 million increased by 6.0%, or $21.1 million, and represent 15.7% of Downer's liabilities. Employee provisions (annual leave, long service leave and bonus) made up 77.2% of this balance with the remainder covering return conditions obligation for leased assets and property and warranty obligations.

Shareholder equity increased due to $20.9 million of capital being raised via the DRP. Net foreign currency gains of $13.3 million returned the hedge reserve to a small surplus and the translation of foreign operations (principally Downer Infrastructure's New Zealand business) benefited from the devaluation of the A$ against the NZ$ reducing the foreign currency translation reserve by $17.0 million.

## CAPITAL MANAGEMENT

With Downer having made substantial progress rebuilding its balance sheet, in February 2013 the Downer Board elected to recommence the distribution of dividends on its ordinary shares electing a "cents per share" policy rather than a fixed payout ratio. This allows Downer to set a modest expectation that can be achieved in terms of available capital and franking credits. Once Downer returns to an Australian tax paying position, a fixed payout ratio policy will be reassessed.

On the strength of the full year result the Downer Board resolved to pay a partially franked (70%) final dividend of 11.0 cents per share with the unfranked amount to be paid from Conduit Foreign Income, payable on 24 September 2013 to shareholders on the register at 20 August 2013. The Company's Dividend Reinvestment Plan will operate for this dividend with no discount. This followed the partially franked (70%) interim dividend of 10 cents per share declared on 14 February 2013, bringing the total payout to 21.0 cents per share.

The Board also determined to continue to pay a fully imputed dividend on the ROADS security, which having been reset on 17 June 2013 has a yield of 6.82 per cent per annum payable quarterly in arrears, with the next payment due on 15 September 2013. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 4.91 per cent per annum for the next 12 months.

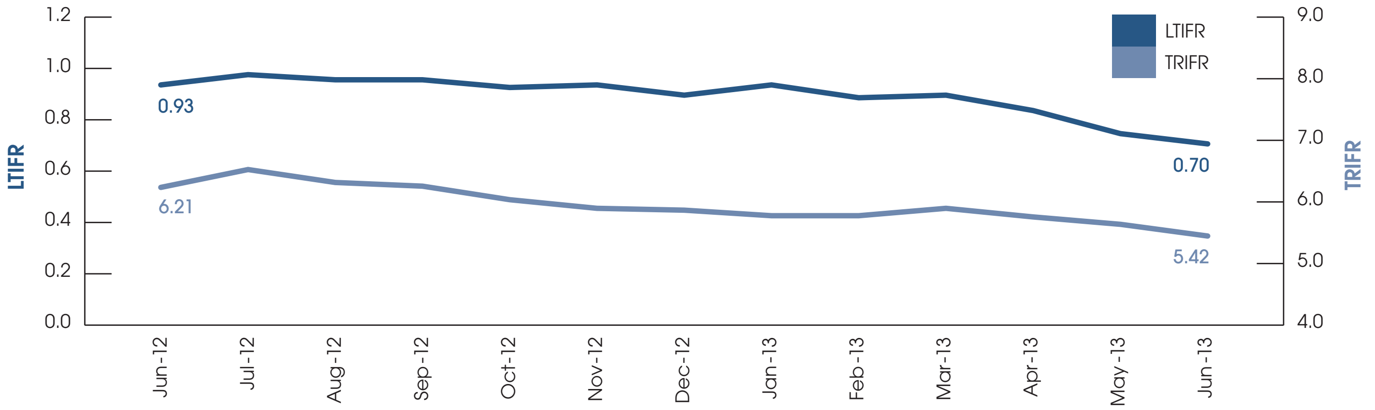
## ZERO HARM

The health and safety of Downer's people is the Company's first priority. Downer's goal of Zero Harm requires continuous improvement to achieve zero work-related injuries and environmental incidents. Downer has improved the Zero Harm culture in recent years. This has included the implementation of systems to identify foreseeable hazards and to manage the risks associated with them. These systems go beyond safety management to incorporate safety culture and safety leadership.

Regrettably, despite the efforts to keep its people safe, Downer suffered a workplace fatality in New Zealand in October 2012. Downer has intensified its focus on critical risks and incidents that have the potential to cause serious injury. This includes a focus on 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 Lost Time Injury Frequency Rate (LTIFR) was 0.70 at 30 June 2013, down from 0.93 at 30 June 2012 and remaining below one incident per million hours worked. Total Recordable Injury Frequency Rate (TRIFR) reduced from 6.21 to 5.42 per million hours worked. 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.

Downer Group Safety Performance
(12-month rolling frequency rates)



## GROUP BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

Downer's key business strategies in recent years have focused on transforming the business and Downer intends to continue focusing on these strategies in future financial years. The specific strategic objectives, Downer's prospects of achieving them and the risks that could adversely affect their achievement are set out in the table below.

| Strategic Objective | Prospects | Risks |
|---|---|---|
| Maintain focus on Zero Harm. | The health and safety of Downer's people is the Company's first priority and Downer has improved its health and safety performance in recent years, as monitored through the measure of Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR). Downer will seek to improve its health and safety performance continuously to achieve its goal of zero work-related injuries and environmental incidents. | Downer's activities can result in harm to people and the environment. Downer has sought to mitigate this risk by assessing, understanding and mitigating the "critical risks" facing Downer and implementing Downer's Cardinal Rules which provide direction and guidance on these critical risks. |
| Finalise delivery of the manufacturing phase of the Waratah Train Project. | There are now 47 Waratah trains available for passenger service and the production rate and quality are at the levels required to deliver the 78th Waratah train in mid-calendar 2014 in accordance with the revised delivery schedule. Downer is working to achieve the revised forecast cost to complete the manufacturing phase of the project. | At 30 June 2013 there remained $41 million in the general project contingency. Failure to deliver the project within the remaining contingency would adversely affect Downer's financial performance.<br>Downer has sought to mitigate this risk by ensuring management conducts regular schedule sensitivity and risk analysis to monitor key metrics and identify potential issues early. In addition, a supply chain review has been conducted to gain assurance over the ability of key suppliers to deliver against the schedule. |
| Strengthen the foundations of Downer's business. | Downer will continue to pursue initiatives to strengthen the foundations of its business. These include: | The achievement of these strategic objectives may be affected by macro-economic risks including China's slowing growth, volatile commodity prices, reduced capital expenditure in the Australian resources sector and increasing overseas competition. Downer will continue to manage its exposure to these risks by implementing: |
| | – Enhancing management capability to improve operational and financial performance; | – A succession planning process for all leadership roles and a leadership development program; |
| | – Maintaining industry and geographical diversification to achieve greater resilience through economic cycles; | – Growth and development strategies to diversify revenue sources, including through joint ventures; |
| | – Continuing to improve tender, contract and project risk management processes; and | – Rigorous tender, contract and project risk policies and procedures consistently across the Group; and |
| | – Improving the balance sheet and capital management. | – A successful refinancing of the Group, reducing net debt and gearing and delivering consistently strong cash flow. These achievements, combined with significantly improved risk and project management processes, were important factors in Fitch Ratings' decision to upgrade Downer's credit rating in June 2013 to "BBB" with Stable outlook. |

| Strategic Objective | Prospects | Risks |
|---|---|---|
| Drive growth in core markets with key customers. | Downner intends to pursue growth in core markets with key customers through strategies which include: | The achievement of these strategic objectives may be affected by macro-economic risks including China's slowing growth, volatile commodity prices, reduced capital expenditure in the Australian resources sector, insourcing by key customers (e.g. rolling stock maintenance and mining services) and increasing overseas competition. Downer will continue to manage its exposure to these risks through: |
| | – Continuous improvement of the Company's engagement with customers, including working with them constructively to reduce costs and improve productivity; | – Ongoing analysis of markets, customers and competitors to understand potential impacts and determine necessary action; |
| | – Leveraging "cross-selling" opportunities; | – Continuing to drive benefits from the establishment of Downer Infrastructure and enhancement of Downer's Customer Relationship Management (CRM) tools; |
| | – Developing and growing Asset Management capabilities; | – Forming strategic partnerships and joint ventures with leading technology and knowledge providers; |
| | – Focusing more closely on forward revenue opportunities, including large LNG projects and the outsourcing of road maintenance by State Governments; | – Forming strategic partnerships and joint ventures with leading technology and knowledge providers and enhancing Downer's CRM; |
| | – Expanding into overseas markets selectively through existing customer relationships; | – Rigorous review of all overseas opportunities; |
| | – Continuing to grow Downer Rail's locomotive and passenger train maintenance businesses to replace revenue streams at the conclusion of the Waratah Train Project and other build contracts; and | – Engaging with customers and ongoing improvement in best practice maintenance programs to improve fleet reliability; and |
| | – Continuing to achieve production and cost efficiencies in the mining services business. | – Continued focus on Downer's Fit 4 Business program (refer below), and plant efficiency to achieve value for money outcomes for key customers. |
| Simplify, consolidate and enable the Downer business. | The establishment of Downer Infrastructure in May 2012 was an important part of this strategic objective and it has enabled Downer to leverage its existing expertise more broadly and capitalise on growth opportunities. Downer Infrastructure achieved a 13.1 per cent increase in revenue in the 2013 financial year.<br>Downer's Fit 4 Business program is also a key driver of this strategy. The program has achieved \$250 million in gross benefits over the past three financial years and is now targeting an additional \$250 million in gross benefits in the 2014 and 2015 financial years. | Failure to achieve its Fit 4 Business targets would adversely impact Downer's future financial performance. Downer has a dedicated Fit 4 Business team that will continue to drive initiatives to reduce costs and improve productivity across the Group. |

Downer has various risk management policies and procedures in place to enable the identification, assessment and mitigation of risks that arise through its activities. These include tender, contracting, project, interest rate, foreign exchange and credit risks. For further information in relation to Downer's risk management framework, refer to page 124 of the Corporate Governance Statement.

## OUTLOOK

It is expected that the 2014 financial year will be characterised by a reduction in new major capital works in the resources sector, a greater emphasis by mining customers on optimising their volumes and costs of production and budgetary pressure on the level of Government expenditure on road and rail maintenance. As a result, there is a higher level of uncertainty in revenue for the 2014 financial year than in the prior year.

The Company's short-term focus is on securing our revenue base for the 2014 financial year and continuing to drive down costs through improved project execution and our Fit 4 Business program.

For the 2014 financial year, Downer is targeting a flat NPAT of around $215 million.

## CHANGES IN STATE OF AFFAIRS

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

## SUBSEQUENT EVENTS

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

## ENVIRONMENTAL

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

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

## DIVIDENDS

In respect of the financial year ended 30 June 2013, the Board:

– declared a partially franked (70%) interim dividend of 10.0 cents per share, with the unfranked amount paid from Conduit Foreign Income (CFI) that was paid on 15 April 2013 to shareholders on the register at 15 March 2013; and
– declared a partially franked (70%) final dividend of 11.0 cents per share, with the unfranked amount to be paid from CFI, payable on 24 September 2013 to shareholders on the register at 20 August 2013.

The Company's Dividend Reinvestment Plan will operate for this dividend with zero discount.

As detailed in the Directors' Report for the 2012 financial year, the Board did not resolve to pay an interim or final dividend for the 2012 financial year.

## EMPLOYEE DISCOUNT SHARE PLAN (ESP)

No shares were issued under the terms of the ESP during the 2013 financial year (2012: Nil). Further details about the employee discount share plan are disclosed in Note 36 to the financial statements.

There are no performance rights or performance options outstanding.

## INDEMNIFICATION OF OFFICERS AND AUDITORS

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

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

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

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

## DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of Board Committees) held during the 2013 financial year and the number of meetings attended by each Director (while they were a Director or Board Committee member). During the year, nine Board meetings, three Audit Committee meetings, two Risk Committee meetings, three Audit and Risk Committee meetings[1], four Remuneration Committee meetings, three Zero Harm Committee meetings and two Nominations and Corporate Governance Committee meetings were held. In addition, 25 ad hoc meetings (attended by various Directors) were held in relation to various matters including tender review and contract review.

| | Board | | Audit Committee | | Risk Committee | | Audit and Risk Committee | |
|---|---|---|---|---|---|---|---|---|
| Director | Held* | Attended | Held* | Attended | Held* | Attended | Held* | Attended |
| R M Harding | 10 | 10 | – | – | 2 | 2 | – | – |
| G A Fenn | 10 | 10 | – | – | 2 | 2 | – | – |
| S A Chaplain | 10 | 10 | 3 | 3 | 2 | 1 | 3 | 3 |
| L Di Bartolomeo | 3 | 3 | – | – | 2 | 2 | – | – |
| P S Garling | 10 | 10 | – | – | 2 | 1 | 3 | 3 |
| E A Howell | 10 | 10 | – | – | 2 | 2 | – | – |
| J S Humphrey | 10 | 8 | 3 | 1 | 2 | 1 | 3 | 3 |
| K G Sanderson | 10 | 10 | 3 | 3 | 2 | 2 | 3 | 3 |
| C G Thorne | 10 | 10 | 3 | 2 | 2 | 2 | 3 | 3 |

| | Remuneration Committee | | Zero Harm Committee | | Nominations and Corporate Governance Committee | |
|---|---|---|---|---|---|---|
| Director | Held* | Attended | Held* | Attended | Held* | Attended |
| R M Harding | 4 | 4 | 2 | 2 | 3 | 3 |
| G A Fenn | – | – | 3 | 3 | – | – |
| S A Chaplain | 2 | 2 | 1 | 1 | 3 | 3 |
| L Di Bartolomeo | 1 | 1 | – | – | 1 | 1 |
| P S Garling | 4 | 4 | 2 | 2 | – | – |
| E A Howell | – | – | 3 | 3 | – | – |
| J S Humphrey | 2 | 1 | – | – | 3 | 2 |
| K G Sanderson | 2 | 2 | – | – | 3 | 3 |
| C G Thorne | – | – | 3 | 3 | – | – |

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

1 At the 20 November 2012 Board meeting, the Board resolved to merge the Audit and Risk Committees into a single Audit and Risk Committee.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles). The consolidated entity's corporate governance statement is set out at page 119 of this Annual Report.

## NON-AUDIT SERVICES

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

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

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

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

A copy of the auditor's independence declaration is set out on page 41 of this Annual Report.

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

| | June 2013 $ | June 2012 $ |
|---|---|---|
| **Non-audit services** | | |
| Tax services | **268,439** | 252,225 |
| Audit related services | **119,002** | 70,000 |
| Sustainability assurance | **100,000** | – |
| Due diligence and other non-audit services | **1,452,254** | 1,186,205 |
| | **1,939,695** | 1,508,430 |

## ROUNDING OF AMOUNTS

The Company is of a kind referred to in *ASIC Class Order 98/100*, dated 10 July 1998, and in accordance with that class order, amounts in the Directors' Report and the Financial Report have, unless otherwise stated, been rounded off to the nearest thousand dollars.

## REMUNERATION REPORT – (AUDITED)

The Remuneration Report provides information about the remuneration arrangements for key management personnel (KMP), which includes Non-executive Directors and the Groups' most senior executives, for the year to 30 June 2013. Reference to executives in this Report means KMPs who are not Non-executive Directors.

The Report covers the following matters:

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

### SUMMARY OF CHANGES TO REMUNERATION POLICY

Downer further refined remuneration policy during the period. The refinement considered Company strategy, reward plans based on performance measurement and stakeholder feedback. There have been two key changes to the policy and these are noted in the relevant sections of this report and are summarised below:

- Conversion of the long-term incentive plan (LTIP) to a performance rights structure from the previous restricted share approach; and
- Introduction of STI payment deferral for the 2014 performance year onwards.

## 1. REMUNERATION POLICY, PRINCIPLES AND PRACTICES

### 1.1 NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

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

### 1.2 EXECUTIVE REMUNERATION POLICY

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

| Policy | Practices aligned with policy |
|---|---|
| Retain experienced, proven performers, and those considered to have high potential for succession | – Provide remuneration that is internally fair;<br>– Ensure remuneration is competitive with the external market; and<br>– Defer a significant part of pay contingent on continuing service and sustained performance. |
| Focus performance | – Provide a substantial component of pay contingent on performance against targets;<br>– Focus attention on the most important drivers of value by linking pay to their achievement; and<br>– Require profitability to reach an acceptable level before any bonus payments can be made. |
| Provide a Zero Harm environment | – Incorporate "Zero Harm" for our employees, contractors, communities and the environment as a significant component of reward. |
| Manage risk | – Encourage sustainability by balancing incentives for achieving both short-term and longer-term results, staggering the testing of performance for incentive awards, and deferring equity based reward vesting after performance has been initially tested;<br>– Set stretch targets that finely balance returns with reasonable but not excessive risk taking and cap maximum incentive payments;<br>– Do not provide significant "cliff" reward vesting that may encourage excessive risk taking as a performance threshold is approached;<br>– Diversify risk and limit the prospects of unintended consequences from focusing on just one measure in both short-term and long-term incentive plans;<br>– Stagger vesting of deferred STI payments from 2014 to encourage retention and allow forfeiture of rewards that are the result of misconduct or material adjustments;<br>– Retain full Board discretion to vary incentive payments in the event of excessive risk taking;<br>– Stagger testing of performance at the end of the financial year (STIs) and calendar year long-term incentives (LTIs) to encourage retention, encourage performance sustainability and reduce the chance of excessive risk taking to maximise reward at one testing time; and<br>– Restrict trading of vested equity rewards to ensure compliance with the Company's Securities Trading Policy. |
| Align executive interests with those of shareholders | – Provide that a significant proportion of pay is delivered as equity so part of executive reward is linked to shareholder value performance;<br>– Maintain a guideline minimum shareholding requirement for the Managing Director;<br>– Encourage holding of shares after vesting via a trading restriction for all executives; and<br>– Prohibit hedging of unvested equity and equity subject to a trading lock to ensure alignment with shareholder outcomes. |
| Attract experienced, proven performers | – Provide a total remuneration opportunity sufficient to attract proven and experienced executives from secure positions in other companies. |

## 2. RELATIONSHIP BETWEEN REMUNERATION POLICY AND COMPANY PERFORMANCE

### 2.1 COMPANY STRATEGY AND REMUNERATION

Downer's business strategy includes:

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

The Company's remuneration policy complements this strategy by:

- Incorporating company-wide performance requirements for both STI and LTI reward vesting to encourage cross-divisional co-operation;
- Incorporating performance metrics that focus on cash flow to reduce working capital and debt exposure;
- Setting earnings before interest and tax (EBIT) with STI performance and gateway requirements based on effective application of funds employed to run the business for better capital efficiency;
- Employing Free Cash Flow (FFO) as the cash measure for the STI to provide more emphasis on control of capital expenditure;
- Emphasis on Zero Harm measures in the STI; and
- Encouraging the development of our people to help maintain a sustainable supply of talent.

### 2.2 REMUNERATION LINKED TO PERFORMANCE

The link to performance is provided by:

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

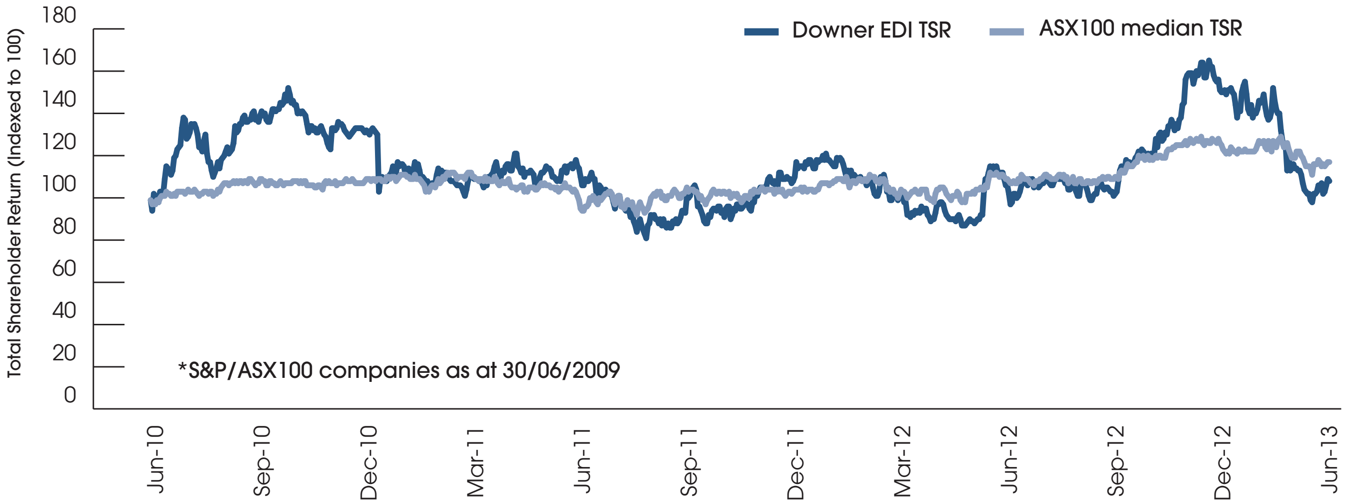
Downer measures performance on the following key corporate measures:

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

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

The following graph shows the Company's performance compared to the median performance of the ASX100 over the three year period to 30 June 2013.

**Downer EDI TSR compared to ASX100 median***



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

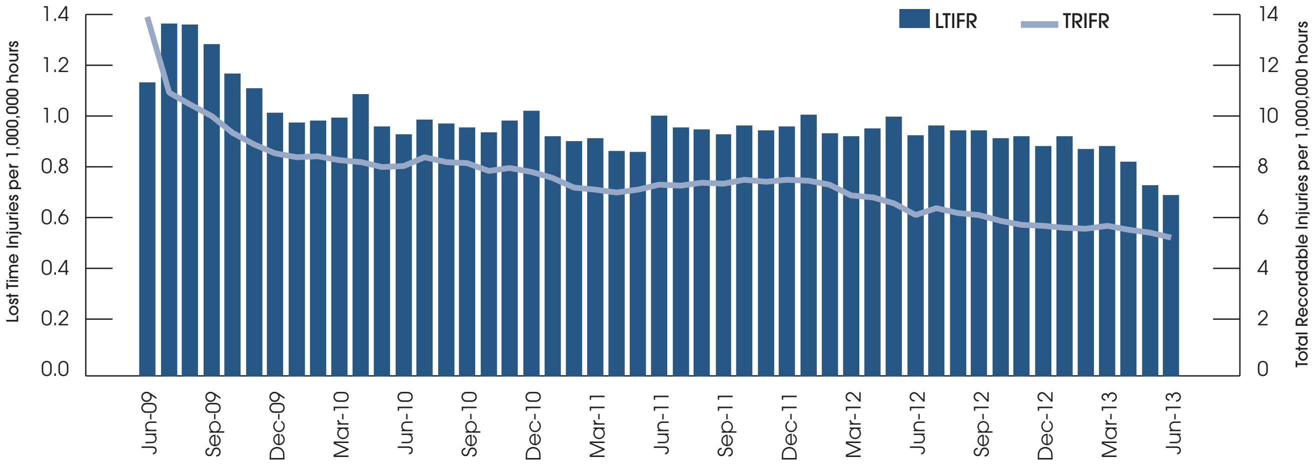
| Continuing and discontinued operations: | 2009 $'000 | 2010 $'000 | 2011 $'000 | 2012 $'000 | 2013 $'000 |
|---|---|---|---|---|---|
| Total revenue and other income | 5,849,657 | 5,826,664 | 6,641,847 | 8,071,333 | **8,375,014** |
| Share of sales revenue from joint venture entities and associates | 73,578 | 211,168 | 319,077 | 453,236 | **757,352** |
| Total revenue including joint ventures and associates and other income(i) | 5,923,235 | 6,037,832 | 6,960,924 | 8,524,569 | **9,132,366** |
| Earnings before interest and tax – continuing operations | 304,799 | 53,362 | 3,648 | 261,202 | **358,877** |
| Earnings before interest and tax – discontinued operations | – | – | 22,015 | 3,002 | **–** |
| Total earnings before interest and tax | 304,799 | 53,362 | 25,663 | 264,204 | **358,877** |
| Net interest expense | (45,774) | (51,295) | (64,309) | (71,531) | **(67,188)** |
| Income tax (expense)/benefit | (69,649) | 985 | 10,946 | (79,778) | **(87,703)** |
| Net profit/(loss) after tax | 189,376 | 3,052 | (27,700) | 112,895 | **203,986** |
| Total earnings before interest and tax | 304,799 | 53,362 | 25,663 | 264,204 | **358,877** |
| Individually significant items | – | 260,000 | 266,573 | 82,279 | **11,456** |
| Earnings before interest and tax (before individually significant items)(ii) | 304,799 | 313,362 | 292,236 | 346,483 | **370,333** |
| Operating cash flow | 336,464 | 204,266 | 185,625 | 364,471 | **452,370** |
| Investing cash flow | (321,016) | (144,396) | (319,573) | (202,990) | **(289,069)** |
| Free cash flow | 15,448 | 59,870 | (133,948) | 161,481 | **163,301** |
| Share price at start of the year(iii) | 6.87 | 5.59 | 3.48 | 3.70 | **3.13** |
| Share price at end of the year | 5.59 | 3.60 | 3.70 | 3.13 | **3.59** |
| Interim dividend (cents per share) | 13.0 | 13.1 | – | – | **10.0** |
| Final dividend (cents per share) | 16.0 | 16.0 | – | – | **11.0** |
| Total Shareholder Return | (14%) | (30%) | 6% | (15%) | **21%** |
| Basic earnings/(loss) (cents per share) | 54.4 | (2.4) | (10.5) | 23.7 | **45.7** |
| Earnings per share growth (%) | 14% | (104%) | (338%) | 326% | **93%** |
| Earnings growth rate (%) | 14% | (98%) | (1,008%) | 508% | **81%** |

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

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

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

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



## 3. THE BOARD'S ROLE IN REMUNERATION

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

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

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

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

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

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

## 4. DESCRIPTION OF NON-EXECUTIVE DIRECTOR REMUNERATION

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

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

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

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

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

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

## 5. DESCRIPTION OF EXECUTIVE REMUNERATION

### 5.1 EXECUTIVE REMUNERATION STRUCTURE

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

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

In order for maximum STIs to be awarded, performance must achieve a stretch goal that is a clear margin above the planned budget for the period. This enables the Company to attract and retain better performing executives, and ensures pay outcomes are better aligned with shareholder returns.

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

| Executive position | Target STI % of fixed remuneration | Maximum STI % of fixed remuneration* | Maximum LTI % of fixed remuneration | Maximum total performance based pay as % of fixed remuneration |
|---|---|---|---|---|
| Managing Director | 75 | 100 | 100 | 200 |
| Executives appointed prior to 2011 | 75 | 100 | 75 | 175 |
| Executives appointed from 2011 | 56.25 | 75 | 50 | 125 |

* Prior to the application of any individual performance modifier (IPM), which is described in section 5.3.2 below.

The proportions of STI to LTI take into account:

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

## 5.2 FIXED REMUNERATION

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

The level of remuneration is set to be able to retain proven performers and when necessary to attract the most suitable external candidates from secure employment elsewhere.

Remuneration is benchmarked against a peer group of direct competitors and a general industry peer group. While market levels of remuneration are monitored on a regular basis, there is no contractual requirement or expectation that any adjustments will be made.

Only one KMP received an adjustment in the 2012 year.

A general adjustment of 4 per cent was made to executive fixed remuneration in 2013, other than as outlined below. This was consistent with the general adjustment for other employees of the Downer group.

The fixed remuneration for the Chief Executive Officer was increased to $2,000,000 per annum. This is the first increase for Mr Fenn since his appointment in July 2010. The increase recognised that Mr Fenn's initial fixed remuneration of $1,800,000 per annum reflected that the role was his first as Chief Executive Officer and the proven strong performance and leadership of Mr Fenn in guiding and transforming the Company through a challenging period since his appointment.

The fixed remuneration for the Chief Financial Officer was increased to $980,000 per annum. This is the first increase for Mr Fletcher since his appointment in July 2010. The increase recognises Mr Fletcher's strong performance in stabilising the Company's financial position and his demonstrated strong leadership and significant positive impact on company value.

The Board considered the remuneration adjustments of Mr Fenn and Mr Fletcher to be reasonable given their proven and established economic value to the Company, the expectation that no further adjustments will be made in the 2014 financial year, and that the adjustments reflect appropriate market positioning.

No KMP will receive an adjustment as part of the annual salary review for the 2014 year.

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

## 5.3 SHORT-TERM INCENTIVE

### 5.3.1 STI OVERVIEW

The STI plan provides for an annual payment that varies with annual performance. This has been applied to performance measured over the Company's financial year to 30 June 2013.

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

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

The 2013 STI payment is made in cash after finalisation of the annual audited results. No part of the 2013 STI is deferred. As set out in section 5.3.4 and 5.3.5 below, the Board has resolved to introduce STI deferral from 2014.

### 5.3.2 HOW STI PAYMENTS ARE ASSESSED

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

### 5.3.3 STI PERFORMANCE REQUIREMENTS

Overall Company performance is assessed on Company EBIT, FFO, Zero Harm and a measure of people development. The move to FFO in 2012 and increased weighting on cash has delivered a strong focus on operating cash and capital expenditure and was retained for 2013. It is expected there will be refinements in the overall measures and weightings from year to year in order to better align with Company performance.

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

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

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

| Measure | Target |
|---|---|
| **Safety** | |
| TRIFR (total recordable injury frequency rate) | Achieve a set reduction in the TRIFR at level of responsibility. Award pro rates linearly. It is calculated as the number of recordable injuries x 1,000,000/the hours worked in 12 months. |
| LTIFR (lost time injury frequency rate) | Achieve a LTIFR level below a threshold level for area of responsibility. LTIFR is calculated as the number of lost time injuries x 1,000,000/the hours worked in 12 months. |
| **Environmental** | |
| Sustainable development | Based on implementation of energy savings plans with an annualised savings target. |

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

People measures include targets for the completion of development and career reviews and succession plans.

Weightings applied to the 2013 STI scorecard measures for all executives, including the Managing Director, are set out in the table below.

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

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

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

### 5.3.4 STI TABULAR SUMMARY

The following table outlines the major features of the 2013 STI plan.

| | |
|---|---|
| Purpose of STI plan | – Focus performance on drivers of shareholder value over 12 month period;<br>– Improve "Zero Harm" and people related results; and<br>– Ensure a part of remuneration costs varies with the Company's 12 month performance. |
| Minimum performance "gateway" before any payments can be made | Achievement of a gateway based on budgeted EBIT for the division applicable to the executive, i.e. the Company EBIT for the Managing Director and corporate executives and division EBIT for divisional heads. |
| Maximum STI that can be earned | – KMP appointed pre 2011: up to 100 per cent of fixed remuneration; and<br>– KMP appointed from 2011: up to 75 per cent of fixed remuneration. |
| Percentage of STI that can be earned on achieving target expectations | 75 per cent of the maximum. For an executive to receive more, performance in excess of target expectations will be required. |
| Individual performance modifier (IPM) | – An IPM may be applied based on an executive's individual key performance indicators and relative performance; and<br>– Moderate individual performance may result in an IPM of less than 1 or outstanding performance may result in an IPM greater than 1. The IPM must average 1 across all participants. |
| Discretion to vary payments | The Board, in its discretion, may vary STI payments by up to + or – 100 per cent from the payment applicable to the level of performance achieved, up to the maximum for that executive. |
| Performance period | 1 July 2012 to 30 June 2013. |
| Performance assessed | August 2013, following audit of financial statements. |
| Additional service period after performance period for payment to be made | None.<br>Deferral requiring additional service will commence from 2014. |
| Payment timing | September 2013.<br>Deferral of part of the STI payments will commence in 2014. |
| Form of payment | Cash.<br>From 2014, deferred components will be paid in share rights. |
| Performance requirements | Group and divisional EBIT, FFO, Zero Harm and people measures. |
| New recruits | New executives (either new starts or promoted employees) are eligible to participate in the STI in the year in which they commence in their position with a pro-rata entitlement. |
| Terminating executives | There is no STI entitlement where an executive's employment terminates prior to the end of the financial year. |

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

Other than as stated in section 7.1 below there have been no variations from policy during this financial year.

### 5.3.5 INTRODUCTION OF STI DEFERRAL FOR 2014

The Board has resolved to introduce deferral as part of the short term incentive (STI) structure, commencing from the 2014 financial year. This decision was taken to:

- Strengthen retention, especially for the company's best performers, while continuing to weight pay towards performance;
- Increase the alignment between executives' interests and those of shareholders through payment of a portion of STI awards in equity;
- Manage risk through the provision of deferred rewards that can be forfeited in the event of a material misstatement of financial results; and
- Focus on performance sustainability through deferring reward value in company shares, so that only through sustained performance can the original STI value be realised or enhanced.

Accordingly the Board will introduce a policy where 50 per cent of the award is paid at the time of award and the remaining 50 per cent of the award earned is deferred over two years.

The first payment will be in cash after finalisation of the annual audited results. The payment of the deferred portion of the award will be in the form of two tranches of share rights, each to the value of 25 per cent of the award.

The share rights represent an entitlement to shares, subject to the satisfaction of a continued employment condition. The first tranche will vest one year following award and the second tranche will vest two years following award, provided an executive remains employed by the Group at the time of vesting. No dividend entitlements are attached to the share rights during the vesting period.

Where an executive ceases employment with the Group prior to the vesting date, the share rights will be forfeited. However, the Board has retained the discretion to vest deferred awards, in the form of shares or cash, in their ordinary course where the executive is judged to be a good leaver.

In implementing this policy, the Board needed to address two important issues:

– A desire to encourage executives to hold shares in the Company while noting the important requirement of executives to comply with the Company's Securities Trading Policy which, in the interest of good corporate governance, restricts the ability of executives to deal in the Company's securities; and
– Contractual obligations to KMP within their current employment contracts to deliver short-term incentives as a single lump sum cash payment following the end of the performance year.

The Board determined that the deferred arrangement should encourage executive share ownership, and not adversely impact executives who have to meet their taxation obligations arising from the vesting of the share rights. Accordingly, in order to reduce this impact, any share rights that vest will be settled in shares net of applicable tax.

The Board considered current executive contractual entitlements to receive their STI payments in cash with no deferral. To address the initial loss of value that will be experienced by executives through the introduction of deferral, the full cash element will be retained in the first year of operation through a one-off transitional payment of 50 per cent of the award. In return, executives will surrender their contractual rights that prescribe a 100 per cent cash STI which will allow for application of the new STI policy.

## 5.4 LONG-TERM INCENTIVE

### 5.4.1 LTI OVERVIEW

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

The payment is in the form of performance rights. The performance rights do not have any dividend entitlements or voting rights. If all the vesting requirements are satisfied, the performance rights will vest and the executives will receive cash or shares in the Company.

For prior years' plans, for which payment is in the form of restricted shares held in trust until vesting, dividends on shares are held in trust and distributed to executives after all vesting conditions have been met, net of applicable taxes.

The 2013 LTI will represent an entitlement to performance rights to ordinary shares exercisable subject to satisfaction of both a performance condition and a continued employment condition. Grants will be in two equal tranches, with each tranche subject to an independent performance requirement. The performance requirements for both tranches will share two common features:

– Once minimum performance conditions are met, the proportion of performance rights that qualifies for vesting commences at 0 per cent and gradually increases pro rata with performance. This approach avoids "cliff" vesting, where a large proportion of reward either vests or does not vest either side of a minimum performance requirement. This approach is intended to reduce the incentive for excessive risk taking; and
– The maximum reward is capped at a "stretch" performance level that is considered attainable without excessive risk taking.

Performance for the 2013 LTI grants will be measured over the three year period to 31 December 2015. The Board is of the view that with STI assessed at the end of the financial year, assessing LTI at the end of the calendar year reduces risk because:

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

The proportion of performance rights that can vest will be calculated in February 2016, but executives will be required to remain in service until 31 December 2016 (or, but for payment in lieu of notice, would have remained in service until 31 December 2016) to be eligible to receive any shares.

Where an executive ceases employment with the Group prior to the vesting date, the rights will be forfeited. However, the Board will retain the discretion to retain executives in the plan in certain circumstances such as the death, total and permanent disability or retirement of an executive. In these circumstances, the Board will also retain the discretion to vest awards in the form of cash.

After vesting, any shares will remain subject to a trading restriction that is governed by the Company's Securities Trading Policy.

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

### 5.4.2 PERFORMANCE REQUIREMENTS

One tranche of performance rights in the 2013 LTI grant will qualify for vesting subject to performance relative to other companies, while the other tranche of performance rights will qualify for vesting subject to an absolute performance requirement.

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

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

The comparator group for the 2013 LTI grant will be the companies, excluding financial services companies, in the ASX100 index as at the start of the performance period on 1 January 2013. Consideration was given to using a smaller group of direct competitors for customers, however:

- limiting the comparator group to a small number of direct competitors could result in very volatile outcomes from period to period; and
- management's strong focus on improving the Company's ranking among ASX100 companies has become embedded in Company culture, so reinforcing this rather than trying to dislodge it with another focus was considered desirable.

The absolute performance requirement applicable to the other tranche of performance rights will be based on Earnings per Share (EPS) growth over the three year performance period to 31 December 2015. The EPS measure conforms to *AASB 133 Earnings per Share* and is externally audited.

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

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

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

A review of the LTI structure will be undertaken in advance of the 2014 plan.

### 5.4.3 POST-VESTING SHAREHOLDING GUIDELINE

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

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

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

### 5.4.4 CHANGES FROM PRIOR PERIOD

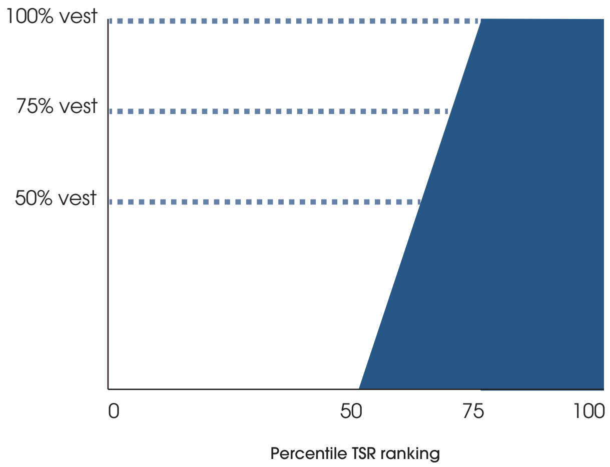
The 2013 LTI plan will be converted to a performance rights structure from the previous restricted share approach. The measures and vesting conditions from the 2012 LTI plan will be retained. The Board will have full discretion in relation to grants up to the maximum of the LTI for each executive.

### 5.4.5 LTI TABULAR SUMMARY

The following table outlines the major features of the 2013 LTI plan.

| | |
|---|---|
| Purpose of LTI plan | – Focus performance on drivers of shareholder value over three year period;<br>– Manage risk by countering any tendency to over-emphasise short-term performance to the detriment of longer-term growth and sustainability; and<br>– Ensure a part of remuneration costs varies with the Company's longer-term performance. |
| Maximum value of equity that can be granted | – Managing Director: 100 per cent of fixed remuneration;<br>– KMP appointed pre-2011: 75 per cent of fixed remuneration; and<br>– KMP appointed from 2011: 50 per cent of fixed remuneration. |
| Performance period | 1 January 2013 to 31 December 2015. |
| Performance assessed | February 2016. |
| Additional service period after performance period for shares to vest | Performance rights for which the relevant performance vesting condition is satisfied will not vest unless executives remain employed with the Group on 31 December 2016. |
| Performance rights vest | 1 January 2017. |
| Form of award and payment | Performance rights. |
| Performance conditions | There will be two performance conditions. Each applies to half the performance rights granted to each executive.<br><br>**Relative TSR**<br>The relative TSR performance condition will be based on the Company's TSR performance relative to the TSR of companies comprising the ASX100 index, excluding financial services companies, at the start of the performance period, measured over the three years to 31 December 2015.<br><br>The performance vesting scale that will apply to the performance rights subject to the relative TSR test is shown in tabular and graphic forms below: |

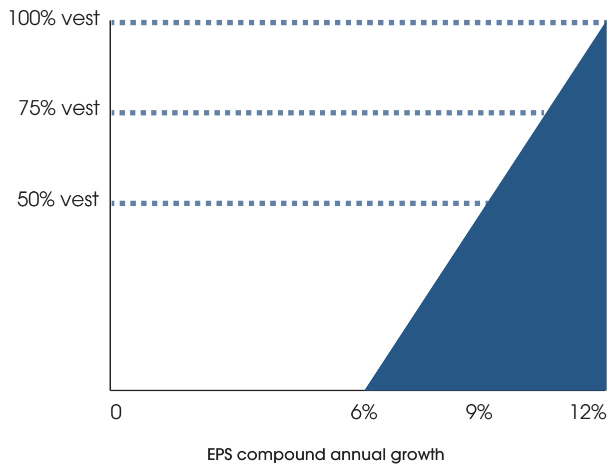
| Downer EDI Limited's TSR ranking | Percentage of performance rights subject to TSR condition that qualify for vesting |
|---|---|
| 50th percentile or less | Zero per cent |
| Above 50th and below 75th percentile | Pro rata so that 4 per cent of the performance rights in the tranche will vest for every 1 per cent increase between the 50th percentile and 75th percentile |
| 75th percentile and above | 100 per cent |



**EPS growth**
The EPS growth performance condition will be based on the Company's compound annual EPS growth over the three years to 31 December 2015.

The performance vesting scale that will apply to the performance rights subject to the EPS growth test is shown in tabular and graphic forms below:

| Downer EDI Limited's EPS compound annual growth | Percentage of performance rights subject to EPS condition that qualify for vesting |
|---|---|
| <6 per cent | Zero per cent |
| 6 per cent to <12 per cent | Pro rata so that 16.7 per cent of the performance rights in the tranche will vest for every 1 per cent increase in EPS growth between 6 per cent and 12 per cent |
| 12 per cent or more | 100 per cent |




| | |
|---|---|
| How performance rights and shares are acquired | The rights will be issued by the Company and held by the participant subject to the satisfaction of the vesting conditions.<br>If the rights vest, executives can exercise them to receive shares that are normally acquired on-market. |
| Treatment of dividends and voting rights on performance rights | Performance rights will not have voting rights or accrue dividends. |
| Restriction on hedging | Hedging of entitlements under the plan by executives will not be permitted. |
| Restriction on trading | Vested shares arising from the rights may only be traded with the approval of the Remuneration Committee. Approval requires that trading comply with the Company's Securities Trading Policy. |
| New recruits | New executives (either new starts or promoted employees) will be eligible to participate in the LTI on the first grant date applicable to all executives after they commence in their position. An additional pro-rata entitlement if their employment commenced after the grant date in the prior calendar year may be made on a discretionary basis. |
| Terminating executives | Where an executive ceases employment with the Group prior to the vesting date, the rights will be forfeited. However, the Board will retain the discretion to retain executives in the plan in certain circumstances such as the death, total and permanent disability or retirement of an executive. In these circumstances, the Board will also retain the discretion to vest awards in the form of cash. |
| Change of control | On the occurrence of a change of control event, and providing at least 12 months of the grant's performance period have elapsed, unvested performance rights pro rated with the elapsed service period are tested for vesting with performance against the relevant relative TSR or EPS growth requirements for that relevant period. Vesting will occur to the extent the performance conditions are met. Performance rights that have already been tested, have met performance requirements and are subject to the completion of the service condition, fully vest. |

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

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

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

### 6.1 DIRECTORS AND EXECUTIVES

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

| | |
|---|---|
| R M Harding | (Chairman) |
| G A Fenn | (Managing Director and Chief Executive Officer) |
| S A Chaplain | |
| L Di Bartolomeo | (Retired 7 November 2012) |
| P S Garling | |
| E A Howell | |
| J S Humphrey | |
| K G Sanderson AO | |
| C G Thorne | |

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

| | |
|---|---|
| P H Borden | (Chief Executive Officer – Downer Rail to 11 April 2013) |
| D A Cattell | (Chief Executive Officer – Downer Infrastructure) |
| K J Fletcher | (Chief Financial Officer) |
| D J Overall | (Chief Executive Officer – Downer Mining) |
| R A Spicer | (Chief Executive Officer – Downer Rail from 12 April 2013) |

### 6.2 REMUNERATION RECEIVED IN RELATION TO THE 2013 FINANCIAL YEAR

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

The table below lists the remuneration actually received in relation to the 2013 financial year, comprising fixed remuneration, STIs relating to 2013 and the value of LTI grants that vested during the 2013 financial year. This information differs to that provided in the statutory remuneration table at section 6.3 which has been prepared in accordance with accounting standards.

| | Fixed remuneration[1] $ | Bonus paid or payable in respect of current year $ | Other benefits $ | Total cash payments $ | Equity that vested during 2013[2] $ | Total remuneration received $ |
|---|---|---|---|---|---|---|
| **Non-executive Directors** | | | | | | |
| R M Harding | 408,750 | – | – | 408,750 | – | 408,750 |
| S A Chaplain | 201,650 | – | – | 201,650 | – | 201,650 |
| L Di Bartolomeo | 63,534 | – | – | 63,534 | – | 63,534 |
| J S Humphrey | 163,500 | – | – | 163,500 | – | 163,500 |
| P S Garling | 174,074 | – | – | 174,074 | – | 174,074 |
| E A Howell | 171,675 | – | – | 171,675 | – | 171,675 |
| K G Sanderson | 163,500 | – | – | 163,500 | – | 163,500 |
| C G Thorne | 179,850 | – | – | 179,850 | – | 179,850 |
| **KMP executives** | | | | | | |
| G A Fenn | 2,020,717 | 1,523,100 | – | 3,543,817 | – | 3,543,817 |
| P H Borden[4] | 630,014 | 281,408 | – | 911,422 | – | 911,422 |
| D A Cattell[3] | 1,599,157 | 1,129,336 | 1,560,000 | 4,288,493 | 134,509 | 4,423,002 |
| K J Fletcher | 981,309 | 781,880 | – | 1,763,189 | – | 1,763,189 |
| D J Overall | 1,273,094 | 1,082,000 | – | 2,355,094 | 50,969 | 2,406,063 |
| R A Spicer[4] | 197,588 | 99,514 | – | 297,102 | – | 297,102 |
| | **8,228,412** | **4,897,238** | **1,560,000** | **14,685,650** | **185,478** | **14,871,128** |

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

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

3 D A Cattell: Other benefits represents a retention payment made on completion of his fixed term contract on 1 January 2013.

4 Amounts represent the payments relating to the period during which the individuals were key management personnel (KMP). R A Spicer became a KMP upon appointment as Chief Executive Officer – Downer Rail on 12 April 2013. Mr Spicer's package comprises total fixed remuneration of $800,000 per annum, a living away from home allowance and short-term and long-term incentives.

## 6.3 REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

| 2013 | Short-term employee benefits | | | Post-employment benefits | | | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees $ | Bonus paid or payable in respect of current year $ | Non-monetary $ | Super-annuation $ | Other benefits $ | Subtotal $ | Share-based payment trans-actions[2] $ | Total $ |
| **Non-executive Directors** | | | | | | | | |
| R M Harding | 383,750 | – | – | 25,000 | – | 408,750 | – | 408,750 |
| S A Chaplain[3] | 185,000 | – | – | 16,650 | – | 201,650 | – | 201,650 |
| L Di Bartolomeo[4] | 58,288 | – | – | 5,246 | – | 63,534 | – | 63,534 |
| J S Humphrey | 150,000 | – | – | 13,500 | – | 163,500 | – | 163,500 |
| P S Garling[5] | 159,701 | – | – | 14,373 | – | 174,074 | – | 174,074 |
| E A Howell[6] | 157,500 | – | – | 14,175 | – | 171,675 | – | 171,675 |
| K G Sanderson AO | 150,000 | – | – | 13,500 | – | 163,500 | – | 163,500 |
| C G Thorne[7] | 165,000 | – | – | 14,850 | – | 179,850 | – | 179,850 |
| **KMP executives** | | | | | | | | |
| G A Fenn | 1,878,530 | 1,523,100 | 125,717 | 16,470 | – | 3,543,817 | 578,880 | 4,122,697 |
| P H Borden[1,8] | 531,770 | 281,408 | 80,093 | 18,151 | – | 911,422 | 94,375 | 1,005,797 |
| D A Cattell[9] | 1,535,000 | 1,129,336 | 39,157 | 25,000 | 873,182 | 3,601,675 | (76,460) | 3,525,215 |
| K J Fletcher | 939,212 | 781,880 | 17,097 | 25,000 | – | 1,763,189 | 122,194 | 1,885,383 |
| D J Overall | 1,226,030 | 1,082,000 | 25,094 | 21,970 | – | 2,355,094 | 241,560 | 2,596,654 |
| R A Spicer[1,8] | 171,347 | 99,514 | 22,627 | 3,614 | – | 297,102 | – | 297,102 |
| | **7,691,128** | **4,897,238** | **309,785** | **227,499** | **873,182** | **13,998,832** | **960,549** | **14,959,381** |

1 Amounts represent the payments relating to the period during which the individuals were key management personnel (KMP). R A Spicer became a KMP upon appointment as Chief Executive Officer – Downer Rail on 12 April 2013. Mr Spicer's package comprises total fixed remuneration of $800,000 per annum, a living away from home allowance and short-term and long-term incentives.

2 Represents the value of vested and unvested equity expensed during the period including reversal for forfeited equity incentives and the probability of the incentives vesting, in accordance with *AASB 2 Share-based Payments*, related to grants made to the executive, as outlined in section 6.5.2. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in sections 5.4.1 and 5.4.2.

3 S A Chaplain: Comprised of $150,000 Board fee and $35,000 Audit Committee and Audit and Risk Committee chair fee following the merge of these two committees on 1 January 2013.

4 L Di Bartolomeo: Comprised of $52,989 Board fee and $5,299 Remuneration Committee chair fee.

5 P S Garling: Comprised of $150,000 Board fee and $9,701 Remuneration Committee chair fee.

6 E A Howell: Comprised of $150,000 Board fee and $7,500 Zero Harm Committee chair fee.

7 C G Thorne: Comprised of $150,000 Board fee, $7,500 Risk Committee chair fee and $7,500 Zero Harm Committee chair fee both from 1 July 2012 to 31 December 2012.

8 Due to the nature of the Downer business, non-monetary benefits include living away from home expenses.

9 D A Cattell: Other benefits represents the accrual of the cash retention benefit paid on 1 January 2013 ($377,544) and payable at the end of Mr Cattell's fixed term contract on 1 July 2014 ($495,638), being nine months' fixed remuneration.

| 2012 | Short-term employee benefits | | | Post-employment benefits | | | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees $ | Bonus paid or payable in respect of current year $ | Non-monetary $ | Super-annuation $ | Other benefits $ | Subtotal $ | Share-based payment trans-actions[2] $ | Total $ |
| **Non-executive Directors** | | | | | | | | |
| R M Harding | 375,000 | – | – | 33,750 | – | 408,750 | – | 408,750 |
| S A Chaplain[3] | 167,488 | – | – | 34,162 | – | 201,650 | – | 201,650 |
| L Di Bartolomeo[4] | 165,000 | – | – | 14,850 | – | 179,850 | – | 179,850 |
| J S Humphrey | 150,000 | – | – | 13,500 | – | 163,500 | – | 163,500 |
| P S Garling | 90,489 | – | – | 8,144 | – | 98,633 | – | 98,633 |
| E A Howell[1] | 68,818 | – | – | 6,194 | – | 75,012 | – | 75,012 |
| K G Sanderson AO[1] | 68,818 | – | – | 6,194 | – | 75,012 | – | 75,012 |
| C G Thorne[5] | 180,000 | – | – | 16,200 | – | 196,200 | – | 196,200 |
| **KMP executives** | | | | | | | | |
| G Fenn | 1,679,225 | 1,319,400 | 129,927 | 15,775 | – | 3,144,327 | 538,421 | 3,682,748 |
| P Borden[6] | 625,000 | 395,500 | 66,108 | 25,000 | – | 1,111,608 | 71,297 | 1,182,905 |
| C Bruyn | 608,264 | 450,200 | 45,533 | 11,753 | – | 1,115,750 | 153,178 | 1,268,928 |
| D Cattell[7] | 1,475,000 | 942,200 | 119,821 | 25,000 | 631,579 | 3,193,600 | 635,839 | 3,829,439 |
| K Fletcher | 775,000 | 703,700 | 14,238 | 25,000 | – | 1,517,938 | 147,419 | 1,665,357 |
| D Overall | 1,184,224 | 1,150,800 | 22,931 | 15,775 | – | 2,373,730 | 202,846 | 2,576,576 |
| | **7,612,326** | **4,961,800** | **398,558** | **251,297** | **631,579** | **13,855,560** | **1,749,000** | **15,604,560** |

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

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

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

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

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

6 P H Borden: Due to the nature of the Downer business, non-monetary benefits include living away from home expenses.

7 D A Cattell: Other benefits represents the accrual of cash benefits payable at the end of Mr Cattell's fixed term contract.

### 6.4 PERFORMANCE RELATED REMUNERATION

The table below lists the proportions of remuneration paid during the year ended 30 June 2013 that are performance and non-performance related.

| | Performance Related | Non-Performance Related |
|---|---|---|
| **KMP executives** | | |
| G A Fenn[1] | 51% | 49% |
| P H Borden[1] | 37% | 63% |
| D A Cattell[1] | 30% | 70% |
| K J Fletcher[1] | 48% | 52% |
| D J Overall[1] | 51% | 49% |
| R A Spicer[1] | 33% | 67% |

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

Weightings applied to the 2013 STI scorecard measures for executives are set out below:

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

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

| Measure | Target |
|---|---|
| **Safety** | |
| TRIFR (total recordable injury frequency rate) | Achieve a set reduction in the TRIFR at level of responsibility. Award pro rates linearly. |
| LTIFR (lost time injury frequency rate) | Achieve a set reduction in the LTIFR at level of responsibility. |
| **Environmental** | |
| Sustainable development | Based on implementation of energy savings plans with an annualised savings target. |

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

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

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

| | EBIT[1] | Free cash flow[1] | Zero Harm | People |
|---|---|---|---|---|
| Weighting of scorecard element | 30% | 30% | 30% | 10% |
| Per cent performance of the element weighting achieved | 19.8% | 25.5% | 17.3% | 10% |

1 EBIT and Free Cash Flow figures exclude the performance of R A Spicer who was assessed on a Waratah Train Project scorecard for the 2013 year.

The following table shows the STIs that were earned during the year ended 30 June 2013 due to the achievement of the relevant performance targets.

| | Short-term Incentive in respect of 2013 financial year | |
|---|---|---|
| | Paid % | Forfeited % |
| **KMP executives** | | |
| G A Fenn | 76% | 24% |
| P H Borden | 53% | 47% |
| D A Cattell | 72% | 28% |
| K J Fletcher | 80% | 20% |
| D J Overall | 87% | 13% |
| R A Spicer | 76% | 24% |

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

| Relevant executives | Relevant LTI measure | Performance outcome | % LTI tranche that vested |
|---|---|---|---|
| G A Fenn, D A Cattell, D J Overall | 2009 plan – tranche 3<br><br>Percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a three year period. | Actual performance ranked at the 39th percentile. | Zero per cent became provisionally qualified. The shares were forfeited. |
| G A Fenn, P H Borden, D A Cattell, K J Fletcher, D J Overall | 2010 plan<br><br>TRS tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a three year period.<br><br>EPS tranche – compound annual earnings per share growth against absolute targets over a three year period. | Actual performance ranked at the 14th percentile.<br><br>Actual performance was negative 21.6%. | Zero per cent became provisionally qualified. The shares were forfeited.<br><br>Zero per cent became provisionally qualified. The shares were forfeited. |

## 6.5 SHARE-BASED PAYMENTS

### 6.5.1 OPTIONS AND RIGHTS

No performance options were granted or exercised during the year ended 30 June 2013.

As outlined in section 5.4.1, the LTI plan for the 2013 calendar year will be in the form of performance rights. Relief from certain regulatory requirements was applied for and has been received from the Australian Securities and Investments Commission. While the Board intends to make grants to KMP under the plan, no performance rights have been issued during the period.

### 6.5.2 RESTRICTED SHARES

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

| | 2008 Plan | | | 2009 Plan | | | 2010 Plan | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares (share price hurdle)[1] | % vested | % forfeited | Number of shares[2] | % vested | % forfeited | Number of shares[3] | % vested | % forfeited |
| **KMP executives** | | | | | | | | | |
| G A Fenn | – | – | – | 444,825 | – | 15% | 95,410 | – | 100% |
| P H Borden | – | – | – | – | – | – | 31,803 | – | 100% |
| D A Cattell | 387,500 | 9% | 0% | 291,451 | – | 33% | 143,115 | – | 100% |
| K J Fletcher | – | – | – | – | – | – | 77,309 | – | 100% |
| D J Overall | 270,000 | 5% | 0% | 145,726 | – | 33% | 71,558 | – | 100% |
| R A Spicer | – | – | – | – | – | – | – | – | – |

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

2 Grant date 1 April 2009 except for G A Fenn (332,258 30 June 2009, 112,567 27 January 2010).

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

| | 2011 Plan | | | 2012 Plan | | |
|---|---|---|---|---|---|---|
| | Number of shares[1] | % vested | % forfeited | Number of shares[2] | % vested | % forfeited |
| **KMP executives** | | | | | | |
| G A Fenn | 480,205 | – | – | 464,996 | – | – |
| P H Borden | 86,704 | – | – | 83,958 | – | – |
| D A Cattell | – | – | – | – | – | – |
| K J Fletcher | 160,068 | – | – | 154,999 | – | – |
| D J Overall | 180,077 | – | – | 232,498 | – | – |
| R A Spicer | – | – | – | – | – | – |

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

2 Grant date 22 June 2012. The fair value of shares granted was $3.23 per share.

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

| | Maximum number of shares for the vesting year | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| **KMP executives** | | | |
| G A Fenn | – | 480,205 | 464,996 |
| P H Borden | – | 86,704 | 83,958 |
| D A Cattell | – | – | – |
| K J Fletcher | – | 160,068 | 154,999 |
| D J Overall | – | 210,077 | 232,498 |
| R A Spicer | – | – | – |

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

| | Maximum value of shares for the vesting year ($) | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| **KMP executives** | | | |
| G A Fenn | 713,498 | 521,354 | 163,012 |
| P H Borden | 128,827 | 94,134 | 29,433 |
| D A Cattell | – | – | – |
| K J Fletcher | 253,353 | 173,783 | 54,337 |
| D J Overall | 308,314 | 236,260 | 81,506 |
| R A Spicer | – | – | – |

### 6.6 REMUNERATION CONSULTANTS

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

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

## 7. KEY TERMS OF EMPLOYMENT CONTRACTS

### 7.1 NOTICE AND TERMINATION PAYMENTS

All executives are on contracts with no fixed end date, other than D A Cattell who is on a fixed term contract that ends on 1 July 2014 and R A Spicer who is on a fixed term contract that ends on 13 April 2017. The following table captures the notice periods applicable to termination of the employment of executives.

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

There has been one variation from policy during this financial year:

– A fixed term contractual arrangement was entered into on 5 October 2012 with D A Cattell to ensure management continuity during the integration of the Downer Infrastructure business. That contract ends on 1 July 2014. Subject to legislative requirements, Mr Cattell will be entitled to the following benefits at the end of the contract period: statutory leave entitlements, and a cash payment equal to nine months' fixed remuneration ("Cash Payment") representing target performance for the 2014 STI Plan. Should performance exceed target, an amount greater than the Cash Payment may be made in accordance with the terms of the STI Plan. If Mr Cattell's employment is terminated prior to the end date, there will be no entitlement to the Cash Payment. Further, as a result of these entitlements, Mr Cattell is not eligible to receive grants under any LTI plans.

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

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

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

Mr Fenn's remuneration comprises fixed and variable components.

Mr Fenn's fixed remuneration was reviewed during the year and was increased from $1.8 million per annum to $2.0 million per annum. This amount includes superannuation contributions and non-cash benefits and excludes Mr Fenn's home telephone rental and call costs, home internet costs and medical health, life and salary continuance insurance. Mr Fenn may also be accompanied by his wife when travelling on business, at the Chairman's discretion. There was no such travel during the year. It is reviewable annually in accordance with Downer's policies.

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

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

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

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

In the event of a change of control, providing at least 12 months of a grant's performance period have elapsed, unvested shares and performance rights pro rated with the elapsed service period are tested for vesting with performance against the relevant hurdles for that period and vest, as appropriate. Shares that have already been tested, have met performance requirements and are subject to the completion of the service condition, fully vest.

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

Mr Fenn can resign:

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

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

Downer can terminate Mr Fenn's employment:

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

(b) by providing 12 months' written notice.

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

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

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

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

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

## 8. LEGACY EQUITY-BASED REMUNERATION PLANS

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

– 2012 executive share plan;
– 2011 executive share plan;
– 2010 executive share plan; and
– 2009 executive share plan.

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

| Plan name | Type of award | Performance requirements | Re-test | Service requirements | Vesting schedule |
|---|---|---|---|---|---|
| 2012 executive share plans and 2011 executive share plans | Grant of restricted shares delivered in two equal tranches | Tranche One: Percentile ranking of Downer's TSR relative to the constituents of the ASX100 (excluding the financial sector) as at the beginning of the performance test period.<br><br>Tranche Two: EPS annual compound growth to be within 6 per cent to 12 per cent.<br><br>The performance period for both tranches is three years. | There is no re-test. | The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December in the final year of the performance period for which the performance condition is satisfied. | Tranche One: The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its TSR peer group, the ASX100. Shares vest pro rata between the median and 75th percentile. That is, 4 per cent of the shares vest at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile.<br><br>Tranche Two: Pro rata from 6 per cent to 12 per cent EPS growth such that 16.67 per cent of the restricted shares in the tranche vest for every 1 per cent increase in EPS growth between 6 per cent and 12 per cent. |

| Plan name | Type of award | Performance requirements | Re-test | Service requirements | Vesting schedule |
|---|---|---|---|---|---|
| 2010 executive share plan | Grant of restricted shares delivered in two equal tranches | Tranche One: Percentile ranking of Downer's TSR relative to the constituents of the ASX100 (excluding the financial sector) as at the beginning of the performance test period.<br><br>Tranche Two: EPS annual compound growth to be within 6 per cent to 12 per cent.<br><br>The performance period for both tranches is three years. | There is no re-test. | The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December in the final year of the performance period for which the performance condition is satisfied. | Tranche One: The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its TSR peer group, the ASX100. Shares vest pro rata between the median and 75th percentile. That is, 4 per cent of the shares vest at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile.<br><br>Tranche Two: Pro rata from 6 per cent to 12 per cent EPS growth such that 16.67 per cent of the restricted shares in the tranche vest for every 1 per cent increase in EPS growth between 6 per cent and 12 per cent. |

| Plan name | Type of award | Performance requirements | Re-test | Service requirements | Vesting schedule |
|---|---|---|---|---|---|
| 2009 executive share plan | Grant of restricted shares delivered in three equal tranches | Percentile ranking of Downer's TSR relative to the constituents of the ASX100 as at the beginning of the performance test period. Initial performance periods for the three tranches are 1, 2 and 3 years, respectively. | Shares that do not meet the initial relative TSR test are subject to a single re-test 12 months after the first test. If the performance hurdles are met at the re-test, the awards will vest. Shares that do not meet the re-test are forfeited. | The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December in the final year of the performance period for which the performance condition is satisfied. | The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its TSR peer group, the ASX100. Shares vest pro rata between the median and 75th percentile. That is, 4 per cent of the shares vest at the 51st percentile, 8 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile. |

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

On behalf of the Directors

R.M. Harding

R M Harding
Chairman

Sydney, 6 August 2013

Deloitte.

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

6 August 2013

Dear Directors

**DOWNER EDI LIMITED**

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

As lead audit partner for the audit of the financial report of Downer EDI Limited for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **From continuing operations** | | | |
| Revenue from ordinary activities | 3(a) | **8,370,151** | 7,915,413 |
| Other income | 3(a) | **4,863** | 5,053 |
| **Total revenue** | 2 | **8,375,014** | 7,920,466 |
| Employee benefits expense | 3(b) | **(2,910,974)** | (2,711,332) |
| Raw materials and consumables used | | **(1,735,777)** | (1,638,502) |
| Subcontractor costs | | **(1,706,120)** | (1,600,039) |
| Plant and equipment costs | | **(976,538)** | (1,025,943) |
| Communication expenses | | **(89,021)** | (67,234) |
| Occupancy costs | | **(128,505)** | (118,915) |
| Professional fees | | **(28,710)** | (32,298) |
| Travel and accommodation expenses | | **(122,301)** | (125,788) |
| Other expenses from ordinary activities | | **(78,139)** | (56,792) |
| Depreciation and amortisation | 3(b) | **(294,801)** | (245,995) |
| Share of net profit of joint venture entities and associates | 15(b) | **66,205** | 45,853 |
| Individually significant items | 4 | **(11,456)** | (82,279) |
| | | **(8,016,137)** | (7,659,264) |
| **Earnings before interest and tax** | | **358,877** | 261,202 |
| Finance income | 3(c) | **4,712** | 10,746 |
| Finance costs | 3(c) | **(71,900)** | (82,257) |
| | | **(67,188)** | (71,511) |
| **Profit before income tax from continuing operations** | | **291,689** | 189,691 |
| Income tax expense | 5(a) | **(87,703)** | (82,176) |
| **Profit after income tax from continuing operations** | | **203,986** | 107,515 |
| **Discontinued operations** | | | |
| – Profit from discontinued operations | | **–** | 5,380 |
| **Profit for the year** | | **203,986** | 112,895 |

The consolidated statement of profit or loss should be read in conjunction with the accompanying notes on pages 49 to 114.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS – CONTINUED
FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Profit from continuing operations attributable to:** | | | |
| – Non-controlling interest | | **7** | 11 |
| – Members of the parent entity | | **203,979** | 107,504 |
| **Profit for the year from continuing operations** | | **203,986** | 107,515 |
| **Profit for the year that is attributable to:** | | | |
| – Non-controlling interest | | **7** | 129 |
| – Members of the parent entity | | **203,979** | 112,766 |
| **Total profit for the year** | | **203,986** | 112,895 |
| **Earnings per share (cents)** | | | |
| Basic earnings per share | | | |
| – From continuing operations | 7 | **45.7** | 22.5 |
| – From discontinued operations | 7 | **–** | 1.2 |
| | | **45.7** | 23.7 |
| Diluted earnings per share | | | |
| – From continuing operations | 7 | **43.1** | 22.4 |
| – From discontinued operations | 7 | **–** | 1.1 |
| | | **43.1** | 23.5 |

The consolidated statement of profit or loss should be read in conjunction with the accompanying notes on pages 49 to 114.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| **Profit after income tax** | **203,986** | 112,895 |
| **Other comprehensive income** | | |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| – Amortisation of share of reserves from associates | **–** | 1,253 |
| – Derecognition of share of reserves from associates | **–** | 72,540 |
| **Items that may be reclassified subsequently to profit or loss** | | |
| – Exchange differences arising on translation of foreign operations | **16,966** | 5,070 |
| – Net gain/(loss) on foreign currency forward contracts taken to equity | **18,212** | (1,186) |
| – Net gain/(loss) on cross currency interest rate swaps taken to equity | **846** | (9,599) |
| – Income tax relating to components of other comprehensive income | **(5,718)** | 3,079 |
| **Other comprehensive income for the year (net of tax)** | **30,306** | 71,157 |
| **Total comprehensive income for the year** | **234,292** | 184,052 |
| **Total comprehensive income for the year that is attributable to:** | | |
| – Non-controlling interest | **7** | 129 |
| – Members of the parent entity | **234,285** | 183,923 |
| **Total comprehensive income for the year** | **234,292** | 184,052 |

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 49 to 114.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **473,733** | 296,691 |
| Trade and other receivables | 10 | **1,441,242** | 1,598,414 |
| Other financial assets | 11 | **24,918** | 14,211 |
| Inventories | 12 | **349,880** | 282,738 |
| Current tax assets | 13 | **13,765** | 13,765 |
| Other assets | 14 | **43,763** | 48,969 |
| Assets classified as held for sale | 16 | **14,289** | – |
| **Total current assets** | | **2,361,590** | 2,254,788 |
| **Non-current assets** | | | |
| Trade and other receivables | 10 | **999** | 1,922 |
| Equity-accounted investments | 15(b) | **68,245** | 60,893 |
| Property, plant and equipment | 16 | **1,150,827** | 1,133,470 |
| Intangible assets | 17 | **571,773** | 577,651 |
| Other financial assets | 11 | **9,624** | 7,794 |
| Deferred tax assets | 13(a) | **5,830** | 71,271 |
| Other assets | 14 | **3,134** | 3,553 |
| **Total non-current assets** | | **1,810,432** | 1,856,554 |
| **Total assets** | | **4,172,022** | 4,111,342 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **1,209,001** | 1,388,995 |
| Borrowings | 19 | **237,934** | 180,938 |
| Other financial liabilities | 21 | **38,713** | 77,532 |
| Provisions | 22 | **326,099** | 332,450 |
| Current tax liabilities | 23 | **10,623** | 3,926 |
| **Total current liabilities** | | **1,822,370** | 1,983,841 |
| **Non-current liabilities** | | | |
| Trade and other payables | 18 | **5,578** | 3,955 |
| Borrowings | 19 | **444,256** | 437,972 |
| Other financial liabilities | 21 | **27,664** | 46,112 |
| Provisions | 22 | **43,017** | 15,612 |
| Deferred tax liabilities | 23(a) | **2,563** | 6,150 |
| **Total non-current liabilities** | | **523,078** | 509,801 |
| **Total liabilities** | | **2,345,448** | 2,493,642 |
| **Net assets** | | **1,826,574** | 1,617,700 |
| **EQUITY** | | | |
| Issued capital | 24 | **1,448,927** | 1,427,730 |
| Reserves | 25 | **(17,461)** | (51,752) |
| Retained earnings | | **395,123** | 241,737 |
| **Parent interests** | | **1,826,589** | 1,617,715 |
| Non-controlling interest | | **(15)** | (15) |
| **Total equity** | | **1,826,574** | 1,617,700 |

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 49 to 114.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

**2013**

| $'000 | Issued capital | Hedge reserve | Foreign currency translation reserve | Employee benefits reserve | Retained earnings | Attributable to owners of the parent | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 July 2012 | 1,427,730 | (11,594) | (50,123) | 9,965 | 241,737 | 1,617,715 | (15) | 1,617,700 |
| Profit after income tax | – | – | – | – | 203,979 | 203,979 | 7 | 203,986 |
| Exchange differences arising on translation of foreign operations | – | – | 16,966 | – | – | 16,966 | – | 16,966 |
| Net gain on foreign currency forward contracts | – | 18,212 | – | – | – | 18,212 | – | 18,212 |
| Net gain on cross currency interest rate swaps | – | 846 | – | – | – | 846 | – | 846 |
| Income tax relating to components of other comprehensive income | – | (5,718) | – | – | – | (5,718) | – | (5,718) |
| **Total comprehensive income for the year** | – | 13,340 | 16,966 | – | 203,979 | 234,285 | 7 | 234,292 |
| Contributions of equity(i) | 20,899 | – | – | – | – | 20,899 | – | 20,899 |
| Vested executive incentive shares transactions | 298 | – | – | (298) | – | – | – | – |
| Share-based transactions during the year | – | – | – | 3,532 | – | 3,532 | – | 3,532 |
| Income tax relating to share-based transactions during the year | – | – | – | 751 | – | 751 | – | 751 |
| Payment of dividends(ii) | – | – | – | – | (50,593) | (50,593) | (7) | (50,600) |
| **Balance at 30 June 2013** | 1,448,927 | 1,746 | (33,157) | 13,950 | 395,123 | 1,826,589 | (15) | 1,826,574 |

(i) Contributions of equity relate to shares issued as a result of Dividend Re-investment Plan.

(ii) Payment of dividends relates to 2013 interim dividend, ROADS dividends paid and dividends paid to non-controlling interest in Downer Infrastructure New Zealand during the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 49 to 114.

## 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 after income tax | – | – | – | – | 112,766 | **112,766** | 129 | **112,895** |
| Exchange differences arising on translation of foreign operations | – | – | 5,070 | – | – | **5,070** | – | **5,070** |
| Net loss on foreign currency forward contracts | – | (1,186) | – | – | – | **(1,186)** | – | **(1,186)** |
| Net loss on cross currency interest rate swaps | – | (9,599) | – | – | – | **(9,599)** | – | **(9,599)** |
| Amortisation on share of reserves from associates | – | 1,253 | – | – | – | **1,253** | – | **1,253** |
| Derecognition of share of reserves from associates | – | 72,540 | – | – | – | **72,540** | – | **72,540** |
| Income tax relating to components of other comprehensive income | – | 3,079 | – | – | – | **3,079** | – | **3,079** |
| **Total comprehensive income for the year** | – | 66,087 | 5,070 | – | 112,766 | **183,923** | 129 | **184,052** |
| Vested executive incentive shares transactions | 3,833 | – | – | (3,833) | – | **–** | – | **–** |
| Share-based transactions during the year | – | – | – | 2,237 | – | **2,237** | – | **2,237** |
| Income tax relating to share-based transactions during the year | – | – | – | (3,214) | – | **(3,214)** | – | **(3,214)** |
| Payment of dividends[(i)] | – | – | – | – | (10,998) | **(10,998)** | (163) | **(11,161)** |
| Amounts derecognised on disposal of subsidiary | – | (8) | 3,490 | – | – | **3,482** | (81) | **3,401** |
| **Balance at 30 June 2012** | 1,427,730 | (11,594) | (50,123) | 9,965 | 241,737 | **1,617,715** | (15) | **1,617,700** |

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

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 49 to 114.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **9,449,096** | 8,584,764 |
| Distributions from equity-accounted investments | 15(b) | **58,731** | 24,281 |
| Dividends received from external entities | | **7** | 11 |
| Payments to suppliers and employees | | **(8,980,478)** | (8,158,966) |
| Interest received | | **8,581** | 6,914 |
| Interest and other costs of finance paid | | **(69,240)** | (76,860) |
| Income tax paid | | **(14,327)** | (15,673) |
| **Net cash inflow from operating activities** | 28(c) | **452,370** | 364,471 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | **66,879** | 38,119 |
| Payments for property, plant and equipment | | **(350,340)** | (373,990) |
| Proceeds from sale and leaseback of plant and equipment | | **–** | 5,976 |
| Payments for intangible assets (software) | | **(5,344)** | (6,575) |
| (Payments)/receipts from investments | | **(1,335)** | 4,027 |
| Repayments from joint ventures | | **4,028** | 1,261 |
| Advances to other entities | | **(600)** | – |
| Divestment cost paid on disposal of subsidiary | 27 | **(2,357)** | – |
| Proceeds from sale of businesses | 27 | **–** | 129,192 |
| Payments for businesses acquired | 26 | **–** | (1,000) |
| **Net cash used in investing activities** | | **(289,069)** | (202,990) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **3,798,391** | 2,320,430 |
| Repayments of borrowings | | **(3,759,584)** | (2,463,159) |
| Proceeds from joint ventures | | **–** | 4,000 |
| Dividends paid | | **(29,694)** | (10,998) |
| Dividends paid to non-controlling interest | | **(7)** | (163) |
| **Net cash inflow/(used in) financing activities** | | **9,106** | (149,890) |
| **Net increase in cash and cash equivalents** | | **172,407** | 11,591 |
| Cash and cash equivalents at the beginning of the year | | **296,689** | 282,232 |
| Effect of exchange rate changes | | **4,637** | 2,866 |
| **Cash and cash equivalents at the end of the year** | 28(a) | **473,733** | 296,689 |

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 49 to 114.

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

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

The Financial Report was authorised for issue by the Directors on 6 August 2013.

### ROUNDING OF AMOUNTS

Downer is a company of the kind referred to in *ASIC Class Order 98/100*, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the Financial Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

### BASIS OF PREPARATION

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

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

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

### APPLICATION OF CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

#### REVENUE RECOGNITION

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

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

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

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### 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 costs 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 statement of profit or loss in the following financial year.

### KEY CONTRACTS AND SUPPLIERS

A number of contracts that Downer enters into are long-term contracts with recurring revenues but are terminable on short notice for convenience. There is a risk that such key contracts may not be renewed, may be renewed on less favourable terms or may be cancelled. Similarly, where Downer is reliant on one or a small set of key suppliers to provide goods and services, the performance of these suppliers may impact Downer's ability to complete projects and earn profits. In addition, there are particular suppliers with whom Downer has a long-term relationship that support Downer's business activities. A change in relationship with these suppliers could negatively impact Downer's future financial performance. Downer also has a large capital equipment fleet, which is subject to the availability of major spares such as tyres for mining equipment. New contracts often require the acquisition of new equipment and the timing of purchases is dependent upon availability from suppliers in an international market. Management judgement is therefore required to estimate the impact of the loss of key contracts and suppliers on future earnings, supporting existing goodwill and intangible assets.

### WARATAH TRAIN PROJECT

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

The WTP team has continued to implement changes to the program over the past 12 months. 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 year ended 30 June 2013, the project has continued to make considerable progress against the program milestones and achieve certainty against program schedule and cost. The current Master Program Schedule (MPS11) and all significant milestones within the program have largely been achieved within the reporting period. Since 31 December 2012, 24 trains have been presented to RailCorp and received Practical Completion (PC). As at 6 August 2013, there were 47 trains available for passenger service.

The achievement of program compliance has resulted in an additional $10.0 million of general contingency being utilised since 31 December 2012. The Forecast Cost At Completion (FCAC) reflected a general contingency of $40.6 million at 30 June 2013.

Key assumptions underpinning the manufacturing program include:

- The three day TAKT (the time which passes before each occasion that the flow-line is pulsed) time continues to be successfully delivered at Cardiff. On this schedule, the program would complete with PC of Set 78 around the end of FY2014;
- Production rate of 24 cars per month will continue through the balance of the program;
- CRC continues to deploy the requisite number of resources in Changchun with the appropriate skill and experience to achieve the required productivity and quality in trains;
- No material stock shortages are experienced during the final stages of production;
- The Customs book in China continues to operate with no unexpected disallowances at conclusion of the program which will impact the production schedule;
- 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. The process of achieving PC has been streamlined resulting in three trains achieving PC in the last week of June 2013, an accelerated rate over the contractual terms provided; and
- That the majority of monies held in the Manufacturing Delay Account (MDA) are paid to Downer upon achievement of contracted milestones, and that interest that accrues on the MDA is to be paid 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 with an APRA regulated financial institution.

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### WARATAH TRAIN PROJECT – CONTINUED

Based on the program assumptions, the FCAC for 30 June 2013 by major cost category is detailed in the table below.

| Cost Category | Dec 12 Estimate $m | Change $m | Jun 13 Estimate $m |
|---|---|---|---|
| Materials and Sub-Contracted Components | 1,068 | 6 | 1,074 |
| Labour | 322 | 1 | 323 |
| Engineering Services | 156 | – | 156 |
| Transport, Logistics and Procurement | 168 | 1 | 169 |
| Project Management | 137 | – | 137 |
| Insurance, Bonding and Finance | 50 | 1 | 51 |
| Forecast Liquidated Damages (LDs) | 174 | 2 | 176 |
| Manufacturing Delay Account interest receivable | (95) | (1) | (96) |
| Other Costs | 88 | – | 88 |
| General Contingency | 51 | (10) | 41 |
| **Total FCAC Costs** | **2,119** | **–** | **2,119** |
| **Revenue** | **1,689** | **–** | **1,689** |
| **FCAC (Loss)** | **(430)** | **–** | **(430)** |

**Materials and Sub-Contracted Components**
This cost category represents approximately 50 per cent of the total FCAC and is largely contracted and committed.

The materials forecast reflects the following assumptions:

- Current yield and scrap rates based upon experience contained within the existing bill of material (BOM) and based upon the initial history of the build through 62 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 $6.0 million from December 2012. 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 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.

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.

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### WARATAH TRAIN PROJECT – CONTINUED

#### 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 it to meet the agreed cadence and delivery dates and will continue to satisfy its 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.

#### Engineering Services

The FCAC assumes that the Engineering resource reduces during the program as the trains reach a steady state of production and delivery. The FCAC does not provide for any significant delays in the program due to failures in service that require substantial engineering redesign. In addition to these labour costs, the Engineering Services FCAC includes a $7.5 million provision for an estimated weight penalty.

#### Transport, Logistics and Procurement

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

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

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

Since December 2012, the FCAC cost for logistics and procurement has increased by $1.0 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 and stage of the project and have been indexed for expected inflation.

The FCAC estimates have been maintained for project management costs. The cost position for Project Management resources is consistent with the current schedule position.

There will be significant attention in the coming 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 2013. All PC Bonds for Trains 1 to 43 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 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.

During the financial year, one of the train sets suffered significant corrosion damage during transit and an insurance claim was submitted under the project's specific Marine transit policy. Insurers have agreed indemnity with quantification expected to materially cover the cost of the replacement train set. Insurers are currently reviewing the claim however are expected to confirm the total constructive loss of this set.

#### Forecast Liquidated Damages (LDs)

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

The projected LDs of $176.0 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 accelerated rate at which trains are accepted into service and this will continue going forward.

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

The FCAC no longer includes a specific contingency for additional LDs. Any material 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 and Reliance Rail under which milestone payments are paid to Downer in accordance with the actual delivery schedule achieved. To the extent that monies are not paid to Downer due to late delivery and/or missed performance milestones, monies are held by Reliance Rail in the MDA. Monies held in the MDA are paid to Downer upon achievement of contract milestones. Interest, which accrues on the MDA, is to be paid to Downer when Train 78 is delivered to Reliance Rail, together with the balance of the MDA. MDA interest receivable has been shown as a cost offset in the FCAC. This estimate assumes that the funds are invested at arm's length interest rates available for deposits of this term, size and nature. The 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.

**General Contingency**
A general contingency of $40.6 million is included in the FCAC to cover unforeseen events or cost variations that may arise over the life of the program. The general contingency has reduced by $10.0 million since 31 December 2012 to fund the above category movements.

The level of contingency is considered appropriate given the improvement in the project during recent months. The contingency is considered sufficient to cover likely risks that may arise or likely 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. An impairment loss of $6.2 million was recognised in the current year in respect of goodwill related to Spiire Australia (2012: $8.7 million). A further loss of $9.3 million was recognised in the prior financial year relating to Downer Asia following an assessment of the future performance of those businesses. Key assumptions requiring Management's judgement include projected cash flows, growth rate estimates, discount rates, gross margin, working capital and capital expenditure.

### 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 to maturity of the related liabilities.

### RECOVERY OF DEFERRED TAX ASSETS

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

### INCOME TAXES

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

### ENVIRONMENTAL RISK AND REGULATION

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

### SIGNIFICANT ACCOUNTING POLICIES

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

### PRINCIPLES OF CONSOLIDATION

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

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

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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

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

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

### REVENUE RECOGNITION

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

### RENDERING OF SERVICES

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

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

### MINING SERVICES CONTRACTS

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

### CONSTRUCTION CONTRACTS

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

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

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

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

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

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

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

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

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### SALE OF GOODS

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

### OTHER REVENUE

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

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

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

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

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

### FINANCE AND BORROWING COSTS

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

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

### GOODS AND SERVICES TAX

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

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

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

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

### INCOME TAX

### CURRENT TAX

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

### DEFERRED TAX

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

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

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

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

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

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### CURRENT AND DEFERRED TAX FOR THE YEAR

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

### TAX CONSOLIDATION

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

### CASH AND CASH EQUIVALENTS

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

### RECEIVABLES

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

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

### INVENTORIES

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

### FINANCIAL ASSETS

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

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

### INVESTMENTS IN ASSOCIATES

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

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

### AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

### LOANS AND RECEIVABLES

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

### FAIR VALUE THROUGH PROFIT OR LOSS INVESTMENTS

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

### NON-CURRENT ASSETS HELD FOR SALE

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

### JOINT VENTURES

#### JOINTLY CONTROLLED ASSETS AND OPERATIONS

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

#### JOINTLY CONTROLLED ENTITIES

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

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

### LEASES

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

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

### FINANCE LEASES

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

### OPERATING LEASES

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

### INTANGIBLE ASSETS

### GOODWILL

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

### INTELLECTUAL PROPERTY

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

### SOFTWARE

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

### AMORTISATION

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

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

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### IMPAIRMENT OF ASSETS

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

### PAYABLES

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

### BORROWINGS

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

### DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

### FAIR VALUE HEDGES

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

### CASH FLOW HEDGES

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

### EMBEDDED DERIVATIVES

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

### EMPLOYEE BENEFITS

Liabilities are incurred for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, redundancy and sick leave vesting to employees and are recognised in respect of employees' services up to the end of the reporting period. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs, such as workers compensation insurance, superannuation and payroll tax. The liability for long-term benefits is measured at the present value of estimated future payments to be made in respect of services provided by employees up to the end of the reporting period. In determining the liability for these employee entitlements, consideration has been given to estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on staff turnover history. The provision is discounted using the Australian State Government bonds rates which most closely match the terms to maturity of the provision.

### BONUS PLANS

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

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

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

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### PROVISIONS

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

### DECOMMISSIONING AND RESTORATION

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

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

### WARRANTY

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

### ONEROUS CONTRACTS

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

### FOREIGN CURRENCY

### FOREIGN CURRENCY TRANSACTIONS

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

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

### FOREIGN OPERATIONS

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

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

### FINANCIAL INSTRUMENTS

### DEBT AND EQUITY INSTRUMENTS

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

### TRANSACTION COSTS OF EQUITY INSTRUMENTS

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

### INTEREST AND DIVIDENDS

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

### DIVIDENDS

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

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### SHARE-BASED TRANSACTIONS

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

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

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

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

### SHARE CAPITAL

#### ORDINARY SHARES

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

#### TREASURY SHARES

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

### ACCOUNTING FOR FINANCIAL GUARANTEE CONTRACTS

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

### EARNINGS PER SHARE (EPS)

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

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

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

### OPERATING SEGMENTS

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

### 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.

## NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

### 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.

The adoption of this amendment and interpretation 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 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, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 11 Joint Arrangements, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 12 Disclosure of Interest in Other Entities, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* 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, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 127 Separate Financial Statements, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* effective for annual reporting periods beginning on or after 1 January 2013;
- *AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* effective for annual reporting periods beginning on or after 1 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 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
- *AASB 2012-10 Amendments to Australian Accounting Standards – transition guidance and other amendments* effective for annual periods beginning on or after 1 January 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 is 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.

### ACCOUNTING POLICIES AND INTER-SEGMENT TRANSACTIONS

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

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

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

(a) In the current year, the Group recognised an $11.5 million provision referable to the Singapore Tunnel dispute. In the prior year, the Group recognised $72.5 million pre-tax derecognition of hedge reserve relating to the Group's investment in Reliance Rail; $33.6 million pre-tax profit on CPG Asia disposal; $18.0 million pre-tax impairment of goodwill; $20.0 million pre-tax provision referable to the Singapore Tunnel dispute and $5.3 million pre-tax provision referable to Stephen Gillies litigation that are not included in the measure of segment profit or loss. The details of the provision charge and impairment of assets are separately disclosed as "Individually significant items" in the 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 per cent or more to the Group's revenue in FY13. Sales arising from the Group's largest customer in FY12 are related to rendering of services and mining services totalling $45.2 million and $780.7 million respectively.

## NOTE 2. SEGMENT INFORMATION – CONTINUED

| | Total revenue[i] | | Share of sales revenue in joint venture entities and associates | | Total revenue including joint ventures and associates | |
|---|---|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Continuing operations by business segment** | | | | | | |
| Downer Infrastructure Australia | **3,737,665** | 3,539,022 | **465,662** | 177,541 | **4,203,327** | 3,716,563 |
| Downer Infrastructure New Zealand | **1,033,216** | 913,124 | **6,104** | 6,503 | **1,039,320** | 919,627 |
| Downer Mining | **2,472,205** | 2,388,680 | **79,740** | 72,411 | **2,551,945** | 2,461,091 |
| Downer Rail | **1,129,896** | 1,088,676 | **205,846** | 195,718 | **1,335,742** | 1,284,394 |
| Inter-segment sales | **(8,547)** | (9,414) | **–** | – | **(8,547)** | (9,414) |
| Subtotal | **8,364,435** | 7,920,088 | **757,352** | 452,173 | **9,121,787** | 8,372,261 |
| Unallocated | **10,579** | 378 | **–** | – | **10,579** | 378 |
| **Total – continuing operations** | **8,375,014** | 7,920,466 | **757,352** | 452,173 | **9,132,366** | 8,372,639 |
| **Discontinued operations** | | | | | | |
| CPG Asia | **–** | 150,867 | **–** | 1,063 | **–** | 151,930 |
| **Total – including discontinued operations** | **8,375,014** | 8,071,333 | **757,352** | 453,236 | **9,132,366** | 8,524,569 |

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

## NOTE 2. SEGMENT INFORMATION – CONTINUED

| | Note | Segment results 2013 $'000 | Segment results 2012 $'000 |
|---|---|---|---|
| **Continuing operations by business segment** | | | |
| Downer Infrastructure Australia | | **184,749** | 143,309 |
| Downer Infrastructure New Zealand | | **45,589** | 29,620 |
| Downer Mining | | **174,225** | 173,505 |
| Downer Rail | | **59,021** | 76,377 |
| **Total reported segment results** | | **463,584** | 422,811 |
| Unallocated | | **(104,707)** | (161,609) |
| Interest income | 3(c) | **4,712** | 10,746 |
| Interest expense | 3(c) | **(71,900)** | (82,257) |
| Net interest expense | | **(67,188)** | (71,511) |
| **Profit before income tax from continuing operations** | | **291,689** | 189,691 |
| Income tax expense | 5 | **(87,703)** | (82,176) |
| **Net profit after tax from continuing operations** | | **203,986** | 107,515 |
| **Discontinued operations** | | | |
| Reported result – CPG Asia | | **–** | 3,002 |
| Net interest expense | | **–** | (20) |
| **Profit before income tax from discontinued operations** | | **–** | 2,982 |
| Income tax benefit | | **–** | 2,398 |
| **Net profit after tax from discontinued operations** | | **–** | 5,380 |
| **Total net profit after tax** | | **203,986** | 112,895 |
| Reconciliation of segment net operating profit from continuing operations to net profit after tax from continuing operations: | | | |
| **Segment net operating profit from continuing operations** | | **463,584** | 422,811 |
| **Unallocated:** | | | |
| Individually significant items | 4 | **(11,456)** | (82,279) |
| Impairment of goodwill | 17 | **(6,224)** | – |
| Provision settlement for customer contracts | | **(15,251)** | (6,086) |
| Government grant | 3(a) | **10,302** | – |
| Restructuring costs | | **(1,516)** | (2,229) |
| Corporate costs | | **(70,651)** | (65,554) |
| IT transformation costs | | **(9,911)** | (5,461) |
| **Total unallocated** | | **(104,707)** | (161,609) |
| **Earnings before interest and tax** | | **358,877** | 261,202 |
| Interest income | 3(c) | **4,712** | 10,746 |
| Interest expense | 3(c) | **(71,900)** | (82,257) |
| **Total profit before income tax from continuing operations** | | **291,689** | 189,691 |
| Income tax expense | 5 | **(87,703)** | (82,176) |
| **Total net profit after tax from continuing operations** | | **203,986** | 107,515 |

## NOTE 2. SEGMENT INFORMATION – CONTINUED

| | Segment assets | | Segment liabilities | | Carrying value of equity-accounted investments | |
|---|---|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **By business segment** | | | | | | |
| Downer Infrastructure Australia | **1,244,789** | 1,374,189 | **583,717** | 683,953 | **24,642** | 14,862 |
| Downer Infrastructure New Zealand | **410,982** | 324,030 | **173,273** | 261,820 | **2,327** | 2,379 |
| Downer Mining | **1,243,559** | 1,365,969 | **567,646** | 588,724 | **17,297** | 10,254 |
| Downer Rail | **958,263** | 932,556 | **409,103** | 467,782 | **23,979** | 33,398 |
| Total | **3,857,593** | 3,996,744 | **1,733,739** | 2,002,279 | **68,245** | 60,893 |
| Unallocated | **314,429** | 114,598 | **611,709** | 491,363 | **–** | – |
| **Total** | **4,172,022** | 4,111,342 | **2,345,448** | 2,493,642 | **68,245** | 60,893 |

| | Share of net profit of equity-accounted investments | | Depreciation and amortisation | | Acquisition of segment assets | |
|---|---|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Continuing operations by business segment** | | | | | | |
| Downer Infrastructure Australia | **41,284** | 16,039 | **41,846** | 46,816 | **83,670** | 50,315 |
| Downer Infrastructure New Zealand | **356** | 621 | **21,994** | 21,930 | **20,813** | 16,238 |
| Downer Mining | **13,225** | 16,389 | **215,295** | 165,460 | **246,280** | 314,653 |
| Downer Rail | **11,340** | 12,804 | **7,889** | 7,598 | **9,382** | 11,655 |
| Total | **66,205** | 45,853 | **287,024** | 241,804 | **360,145** | 392,861 |
| Unallocated | **–** | – | **7,777** | 4,191 | **7,097** | 12,663 |
| **Total – continuing operations** | **66,205** | 45,853 | **294,801** | 245,995 | **367,242** | 405,524 |
| **Discontinued operations** | | | | | | |
| CPG Asia | **–** | 383 | **–** | 1,173 | **–** | 905 |
| **Total – including discontinued operations** | **66,205** | 46,236 | **294,801** | 247,168 | **367,242** | 406,429 |

## NOTE 2. SEGMENT INFORMATION – CONTINUED

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

| | Total revenue[(i)] | | Segment assets | | Acquisition of segment assets | |
|---|---|---|---|---|---|---|
| | **2013 $'000** | **2012 $'000** | **2013 $'000** | **2012 $'000** | **2013 $'000** | **2012 $'000** |
| **By geographic locations Continuing operations** | | | | | | |
| Australia | **7,248,608** | 6,889,317 | **3,707,255** | 3,649,898 | **342,652** | 383,165 |
| Pacific | **1,063,336** | 940,282 | **419,829** | 406,933 | **20,971** | 16,339 |
| Asia | **11,822** | 23,779 | **10,426** | 17,958 | **7** | 760 |
| Other | **51,248** | 67,088 | **34,512** | 36,553 | **3,612** | 5,260 |
| **Total – continuing operations** | **8,375,014** | 7,920,466 | **4,172,022** | 4,111,342 | **367,242** | 405,524 |
| **Discontinued operations** | | | | | | |
| North East Asia | **–** | 5,641 | **–** | – | **–** | – |
| South East Asia | **–** | 142,751 | **–** | – | **–** | 905 |
| Other | **–** | 2,475 | **–** | – | **–** | – |
| **Total – including discontinued** | **8,375,014** | 8,071,333 | **4,172,022** | 4,111,342 | **367,242** | 406,429 |

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

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

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| **a) Revenue** | | | |
| **Sales revenue** | | | |
| Rendering of services | | **4,558,773** | 4,127,711 |
| Mining services | | **2,423,830** | 2,351,195 |
| Construction contracts | | **1,111,235** | 1,162,168 |
| Sale of goods | | **248,949** | 262,832 |
| **Other revenue** | | | |
| Other revenue | | **7,932** | 2,938 |
| Rental income | | **9,123** | 8,565 |
| Government grant(i) | 2 | **10,302** | – |
| **Dividends** | | | |
| Other entities | | **7** | 4 |
| | | **8,370,151** | 7,915,413 |
| **Other income** | | | |
| Net gain on disposal of property, plant and equipment | | **4,863** | 5,053 |
| Total other income | | **4,863** | 5,053 |
| | | | |
| **Total revenue and other income** | | **8,375,014** | 7,920,466 |
| Share of sales revenue from joint venture entities and associates | 2 | **757,352** | 452,173 |
| **Total revenue including joint ventures and associates and other income** | | **9,132,366** | 8,372,639 |

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

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

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| **b) Operating expenses** | | | |
| Cost of goods sold | | **189,407** | 201,673 |
| Net foreign exchange losses | | **3,122** | 1,113 |
| Net loss on disposal of business | | **2,111** | – |
| Depreciation and amortisation of non-current assets: | | | |
| – Plant and equipment | 16 | **251,739** | 220,542 |
| – Buildings | 16 | **2,769** | 2,319 |
| – Amortisation of leased assets | 16 | **28,892** | 17,079 |
| Total depreciation | | **283,400** | 239,940 |
| Amortisation of intellectual property/software | 17 | **11,401** | 6,055 |
| Total depreciation and amortisation | | **294,801** | 245,995 |
| Doubtful debts | | **2,877** | 3,316 |
| Operating lease expenses relating to land and buildings | | **72,894** | 66,376 |
| Operating lease expenses relating to plant and equipment(i) | | **241,588** | 231,683 |
| Total operating lease expenses | | **314,482** | 298,059 |
| Employee benefits expense: | | | |
| – Defined contribution plans | | **162,769** | 152,422 |
| – Share-based transactions | | **3,532** | 2,154 |
| – Employee benefits | | **2,744,673** | 2,556,756 |
| Total employee benefits expense | | **2,910,974** | 2,711,332 |
| **c) Finance income and costs** | | | |
| **Finance income** | | | |
| Interest income | 2 | **4,712** | 10,746 |
| **Finance costs** | | | |
| Finance costs on liabilities carried at amortised cost: | | | |
| – Interest expense | | **60,575** | 74,875 |
| – Finance lease expense | | **11,325** | 7,382 |
| Total interest and finance lease expense | 2 | **71,900** | 82,257 |

(i) Operating lease expenses do not include expenses relating to maintenance, insurance and taxes of $14.2 million (2012: $13.5 million). The prior year has been restated to be comparable with the current year.

## NOTE 4. INDIVIDUALLY SIGNIFICANT ITEMS

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| The following material items are relevant to an understanding of the Group's financial performance: | | | |
| – Provision referable to Singapore Tunnel dispute | | **11,456** | 20,000 |
| – Derecognition of hedge reserve relating to Reliance Rail | | **–** | 72,540 |
| – CPG Asia net profit on disposal | 27 | **–** | (33,585) |
| – Impairment of goodwill | 17 | **–** | 18,000 |
| – Provision referable to Stephen Gillies' litigation | | **–** | 5,324 |
| | | **11,456** | 82,279 |

### PROVISION REFERABLE TO SINGAPORE TUNNEL DISPUTE

Note 30 details a dispute with SP PowerAssets Ltd in relation to the construction of an electrical services tunnel in Singapore. A settlement was reached between parties in December 2012. An expense of $11.5 million (2012: $20.0 million) was recognised during the year to cover the settlement outcome.

### PRIOR YEAR

### DERECOGNITION OF HEDGE RESERVE RELATING TO RELIANCE RAIL

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

As a result of the Reliance Rail restructure announced to the ASX on 6 February 2012, Downer transferred the equity accounted Reliance Rail hedge reserve of $72.5 million via the statement of profit or loss to retained earnings. Amortisation of $1.3 million is reflected as an expense in the prior year statement of profit or loss.

### CPG ASIA NET PROFIT ON DISPOSAL

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

### IMPAIRMENT OF GOODWILL AND ASSETS

As required by Accounting Standards, the Group undertook an assessment of the carrying value of assets, having regard to the current and future operating performance of a number of businesses. As a result of this assessment, Management identified impairments of goodwill relating to Spiire Australia of $8.7 million and Downer Asia of $9.3 million in the prior year.

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

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

### PROVISION REFERABLE TO STEPHEN GILLIES' LITIGATION

Former Managing Director Stephen Gillies received an initial award from the New South Wales Supreme Court in the sum of $7.8 million including costs ($5.3 million) and interest ($2.5 million) referable to an employment contract claim.

## NOTE 5. INCOME TAX – CONTINUING OPERATIONS

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| **a) Income tax recognised in the statement of profit or loss** | | |
| Tax expense comprises: | | |
| Current tax expense | **64,280** | 29,053 |
| Deferred tax expense relating to the origination and reversal of temporary differences | **23,423** | 53,123 |
| Total tax expense | **87,703** | 82,176 |
| The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows: | | |
| **Profit before income tax** | **291,689** | 189,691 |
| Group income tax expense calculated at 30 per cent of operating profit | **87,507** | 56,907 |
| – Amortisation of intangible assets | **57** | 87 |
| – Non-taxable gains | **633** | (10,080) |
| – Non-deductible expenses | **3,996** | 1,721 |
| – Effect of different rates of tax on overseas income | **(1,989)** | (655) |
| – Research and development | **–** | (3,892) |
| – Effect of unrecognised temporary differences | **2,689** | 2,960 |
| – Impairment of goodwill and derecognition of hedge reserve | **1,867** | 27,168 |
| – Other items | **(5,495)** | 5,490 |
| | **89,265** | 79,706 |
| (Over)/under provision of income tax in previous year | **(1,562)** | 2,470 |
| Income tax expense attributable to profit | **87,703** | 82,176 |

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

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| **b) Income tax recognised directly in other comprehensive income** | | |
| The following deferred tax amounts were charged directly to equity during the year: | | |
| **Deferred tax** | | |
| – Share-based costs | **751** | (3,214) |
| Revaluations of financial instruments treated as: | | |
| – Cash flow hedges | **(5,718)** | 3,079 |
| **Total deferred tax charged to equity** | **(4,967)** | (135) |

## NOTE 6. REMUNERATION OF AUDITORS

| | Consolidated 2013 $ | 2012 $ |
|---|---|---|
| Audit or review of financial reports: | | |
| Auditor of the parent entity | **2,832,457** | 2,928,257 |
| Related practice of the parent entity auditor | **485,131** | 668,663 |
| | **3,317,588** | 3,596,920 |
| Non-audit services: | | |
| Tax services | **268,439** | 252,225 |
| Audit related services | **119,002** | 70,000 |
| Sustainability assurance | **100,000** | – |
| Due diligence and other non-audit services | **1,452,254** | 1,186,205 |
| | **1,939,695** | 1,508,430 |

The auditor of the Group is Deloitte Touche Tohmatsu.

## NOTE 7. EARNINGS PER SHARE

| | 2013 Cents per share | 2012 Cents per share |
|---|---|---|
| **Basic earnings per share (EPS)** | | |
| – Continuing operations | **45.7** | 22.5 |
| – Discontinued operations | **–** | 1.2 |
| | **45.7** | 23.7 |

| | 2013 | 2012 | |
|---|---|---|---|
| | Continuing operations | Continuing operations | Discontinued operations |
| Profit attributable to members of the parent entity ($'000) | **203,979** | 107,504 | 5,262 |
| Adjustment to reflect ROADS dividends paid ($'000) | **(7,683)** | (10,998) | – |
| Profit attributable to members of the parent entity used in calculating EPS ($'000) | **196,296** | 96,506 | 5,262 |
| Weighted average number of ordinary shares (WANOS) on issue (000's) | **429,998** | 429,100 | 429,100 |
| Earnings per share (cents per share) | **45.7** | 22.5 | 1.2 |

## NOTE 7. EARNINGS PER SHARE – CONTINUED

| | 2013 Cents per share | 2012 Cents per share |
|---|---|---|
| **Diluted earnings per share (EPS)** | | |
| – Continuing operations | **43.1** | 22.4 |
| – Discontinued operations | **–** | 1.1 |
| | **43.1** | 23.5 |

| | 2013 | 2012 | |
|---|---|---|---|
| | Continuing operations | Continuing operations | Discontinued operations |
| Profit attributable to members of the parent entity used in calculating EPS ($'000) | **203,979** | 107,504 | 5,262 |
| Weighted average number of ordinary shares (WANOS) on issue (000's) | **429,998** | 429,100 | 429,100 |
| WANOS adjustment to reflect potential dilution for ROADS (000's)(i) | **43,503** | 51,316 | 51,316 |
| WANOS used in the calculation of EPS (000's) | **473,501** | 480,416 | 480,416 |
| Diluted earnings per share (cents per share) | **43.1** | 22.4 | 1.1 |

(i) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the reporting date. It is calculated based on the issued value of ROADS in New Zealand dollars converted to Australian dollars at the spot rate prevailing at the reporting date, which was $168.6 million (2012: $156.7 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2012 to 30 June 2013 discounted by 2.5 per cent according to the ROADS contract terms, which was $3.87 (2012: $3.05).

## NOTE 8. DIVIDENDS

**a) Ordinary shares**

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

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

No dividends were paid in relation to the financial year ended 30 June 2012.

**b) Redeemable Optionally Adjustable Distributing Securities (ROADS)**

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

| | 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 | |

**c) Franking credits**

| | Parent Entity | |
|---|---|---|
| | **2013 $'000** | **2012 $'000** |
| Franking account balance | **5,114** | – |

## NOTE 9. CASH AND CASH EQUIVALENTS

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| Cash at bank and in hand | | **453,386** | 292,672 |
| Short-term deposits | | **20,347** | 4,019 |
| | 37(a) | **473,733** | 296,691 |

## NOTE 10. TRADE AND OTHER RECEIVABLES

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| **Current** | | | |
| Trade receivables | 10(a) | **515,460** | 647,224 |
| Allowance for doubtful debts | 10(b) | **(8,102)** | (7,160) |
| | | **507,358** | 640,064 |
| Amounts due from customers under contracts and rendering of services | | **958,421** | 1,063,569 |
| Provision for Waratah Train Project[(i)] | 31 | **(60,418)** | (164,108) |
| | 31 | **898,003** | 899,461 |
| Other receivables | | **35,881** | 58,889 |
| | | **1,441,242** | 1,598,414 |
| **Non-current** | | | |
| Other receivables | | **999** | 1,922 |
| Total trade and other receivables | | **1,442,241** | 1,600,336 |

(i) Provision for Waratah Train Project reflects total provision established against the contract of $440.0 million, less $103.7 million of provision utilised during the financial year ended 30 June 2013 and $90.5 million utilised during the financial year ended 30 June 2012. At 30 June 2013, the cumulative provision utilised is $379.6 million (2012: $275.9 million).

(a) Of the total $515.5 million (2012: $647.2 million) of trade receivables, $375.2 million (2012: $460.4 million) are current (i.e. within 30 days). Management considers that there are no indications as at the reporting date that debtors will not meet their payment obligations.

Of the total receivables of $515.5 million (2012: $647.2 million):

- $2.6 million (2012: $0.9 million) are renegotiated receivables and Management has assessed that these are all recoverable and no impairment has been taken;
- $129.6 million (2012: $178.7 million) are past due but not impaired with an average of more than 62 days. These relate to a number of customers for whom there is no recent history of default, nor other indicators of impairment. Management considers that no provision is required on these balances. The consolidated entity does not hold any collateral over these balances; and
- $8.1 million (2012: $7.2 million) are impaired and have been provided for. An allowance account has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience.

## NOTE 10. TRADE AND OTHER RECEIVABLES – CONTINUED

**(b) Movement in the allowance for doubtful debts**

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| Balance at the beginning of financial year | | **(7,160)** | (5,573) |
| Additional provisions | | **(4,749)** | (4,976) |
| Amounts used | | **2,027** | 1,460 |
| Amounts reversed | | **1,872** | 1,612 |
| Provision derecognised on disposal of subsidiary | | **–** | 321 |
| Foreign currency exchange differences | | **(92)** | (4) |
| Balance at the end of financial year | | **(8,102)** | (7,160) |

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

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

## NOTE 11. OTHER FINANCIAL ASSETS

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current** | | | |
| Foreign currency forward contracts | | **14,275** | 3,002 |
| Fair value commodity hedges | | **–** | 419 |
| Other financial assets | | **10,643** | 10,790 |
| | | **24,918** | 14,211 |
| **Non-current** | | | |
| Advances to joint venture entities | | **972** | 972 |
| Foreign currency forward contracts | | **183** | 1,082 |
| Fair value through profit and loss investments | | **6,458** | 5,188 |
| Deferred consideration receivable | 27 | **1,771** | – |
| Other financial assets | | **240** | 552 |
| | | **9,624** | 7,794 |
| Total other financial assets | | **34,542** | 22,005 |

## NOTE 12. INVENTORIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Raw materials | **226,439** | 229,427 |
| Work in progress | **1,435** | 3,316 |
| Finished goods | **92,727** | 30,480 |
| Components and spare parts | **29,279** | 19,515 |
| | **349,880** | 282,738 |

## NOTE 13. TAX ASSETS

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| **Current** | | | |
| Current tax assets | | **13,765** | 13,765 |
| **Non-current** | | | |
| **a) Deferred tax assets** | | **5,830** | 71,271 |
| **b) Movement in deferred tax assets for the financial year** | | | |
| Balance at the beginning of the financial year | | **221,116** | 253,071 |
| Charged to statement of profit or loss as deferred income tax expense | 13(d) | **(26,213)** | (12,400) |
| Charged to equity | | **(4,766)** | 670 |
| Net foreign currency exchange differences | | **1,362** | 224 |
| Tax losses utilised or transferred | | **(33,161)** | (11,305) |
| Disposal of entities and operations | | **(552)** | (622) |
| Other | | **2,888** | (8,522) |
| Balance at the end of the financial year (gross) | 13(c) | **160,674** | 221,116 |
| Set-off of deferred tax liabilities within the same tax jurisdiction | 23(b) | **(154,844)** | (149,845) |
| Net deferred tax assets | | **5,830** | 71,271 |
| **c) Deferred tax assets at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to:** | | | |
| Inventories | | **3,833** | 4,394 |
| Trade and other receivables | | **20,670** | 20,205 |
| Property, plant and equipment | | **6,006** | 5,751 |
| Trade and other payables | | **11,719** | 19,021 |
| Borrowings | | **157** | 196 |
| Provisions | | **108,289** | 108,956 |
| Income tax losses | | **7,153** | 51,905 |
| Hedges and foreign exchange movements | | **1,324** | 7,940 |
| Share issue expenses | | **1,481** | 2,004 |
| Other | | **42** | 744 |
| Total deferred tax assets (gross) | | **160,674** | 221,116 |
| **d) Amounts charged to statement of profit or loss as deferred income tax (expense)/benefit:** | | | |
| Inventories | | **(4,230)** | 108 |
| Trade and other receivables | | **10,883** | (37,803) |
| Property, plant and equipment | | **(2,809)** | (1,813) |
| Trade and other payables | | **(8,454)** | (2,450) |
| Borrowings | | **(185)** | (465) |
| Provisions | | **1,802** | 34,083 |
| Hedges and foreign exchange movements | | **(635)** | 1,118 |
| Share issue expenses | | **(524)** | (830) |
| Other | | **(5,391)** | (1,126) |
| Deferred tax assets in relation to prior years | | **(16,670)** | (3,222) |
| Charged to statement of profit or loss as deferred income tax (expense) | | **(26,213)** | (12,400) |

## NOTE 14. OTHER ASSETS

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| **Current** | | | |
| Prepayments | | **39,679** | 46,109 |
| Other deposits | | **2,162** | 2,213 |
| Other current assets | | **1,922** | 647 |
| | | **43,763** | 48,969 |
| **Non-current** | | | |
| Prepayments | | **1,208** | 3,122 |
| Other non-current assets | | **1,926** | 431 |
| | | **3,134** | 3,553 |
| | | | |
| Total other assets | | **46,897** | 52,522 |

## NOTE 15. EQUITY-ACCOUNTED INVESTMENTS

| | | | |
|---|---|---|---|
| Equity-accounted investments | 15(b) | **68,245** | 60,893 |

**a) The consolidated entity has interests in the following joint venture operations which are proportionately consolidated for:**

| Name of joint venture | Principal activity | Country of operation | Ownership interest 2013 % | Ownership interest 2012 % |
|---|---|---|---|---|
| BPL Downer Joint Venture | Building construction | Singapore | **50** | 50 |
| CMC and Downer Joint Venture | Road construction | Australia | **50** | 50 |
| Dampier Highway Joint Venture | Highway construction and design | Australia | **50** | 50 |
| Downer Clough Joint Venture | Ammonium nitrate production | Australia | **50** | 50 |
| Downer Contech Joint Venture | Construction | Fiji | **50** | 50 |
| Downer Daracon Joint Venture | Construction | Australia | **50** | 50 |
| Downer CSS Joint Venture(i) | Telecommunications | Thailand | **60** | 60 |
| Downer Electrical GHD JV(i) | Traffic control infrastructure | Australia | **90** | 90 |
| Downer EDI Works Pty Ltd & Leighton Contractors Pty Ltd | Design and construction of rail works | Australia | **50** | – |
| Leighton Works Joint Venture | Road construction | New Zealand | **50** | 50 |
| Yokogawa Downer Joint Venture | Refurbishment of power station | Australia | **50** | 50 |
| Thiess Downer EDI Works | Construction of coast to coast railway | Australia | **25** | 25 |
| York Civil Pty Ltd and Downer EDI Engineering Pty Ltd Joint Venture | Construction of water pump station | Australia | **50** | 50 |

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

## NOTE 15. EQUITY-ACCOUNTED INVESTMENTS – CONTINUED

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

| Name of entity | Principal activity | Country of operation | Ownership interest 2013 % | Ownership interest 2012 % |
|---|---|---|---|---|
| **Joint ventures** | | | | |
| Allied Asphalt Limited | Asphalt plant | New Zealand | **50** | 50 |
| Bitumen Importers Australia Joint Venture | Construction of bitumen storage facility | Australia | **50** | 50 |
| Bitumen Importers Australia Pty Ltd | Bitumen importer | Australia | **50** | 50 |
| 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 |
| DownerMouchel(i) | Road maintenance | Australia | **60** | 60 |
| RTL Mining and Earthworks Pty Ltd | Contract mining; civil works and plant hire | Australia | **44** | 44 |
| Stockton Alliance Ltd | Mine operations | New Zealand | **50** | 50 |
| Synergy Joint Venture | Road and pavement construction | Australia | **33** | 33 |
| Works Infrastructure Cortex Resources Joint Venture Limited | Construction of bulk coal handling equipment | New Zealand | **50** | 50 |

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

| Name of entity | Principal activity | Country of operation | 2013 % | 2012 % |
|---|---|---|---|---|
| **Associates** | | | | |
| Clyde Babcock Hitachi (Australia) Pty Ltd | Refurbishment, construction and maintenance of boilers | Australia | **27** | 27 |
| Reliance Rail Pty Ltd | Rail manufacturing and maintenance | Australia | **49** | 49 |
| KDR Victoria Pty Ltd | Operation of Yarra Trams and Melbourne tram network | Australia | **49** | 49 |
| KDR Gold Coast Pty Ltd | Operations of and maintenance of Gold Coast Rapid Transit Project | Australia | **49** | 49 |

## NOTE 15. EQUITY-ACCOUNTED INVESTMENTS – CONTINUED

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| **Equity-accounted investments** | | | |
| Equity-accounted amount of investment at the beginning of the financial year | | **60,893** | 37,354 |
| – Share of net profit from: | | | |
| Continuing operations | 2 | **66,205** | 45,853 |
| Discontinued operations | 2 | **–** | 383 |
| – Share of distributions | | **(58,731)** | (24,281) |
| – Earn-in contribution | | **218** | (488) |
| – Additional interest in joint venture entities | | **65** | 7,230 |
| – Disposal of interest in joint venture entities | | **–** | (5,528) |
| – Other | | **(591)** | – |
| – Foreign currency exchange differences | | **186** | 370 |
| Equity-accounted investment at the end of the financial year | | **68,245** | 60,893 |
| **Share of results of joint venture entities and associates** | | | |
| **Continuing operations:** | | | |
| Revenue | 3(a) | **757,352** | 452,173 |
| Expenses | | **(685,847)** | (398,720) |
| | | **71,505** | 53,453 |
| Current assets | | **226,273** | 205,540 |
| Non-current assets | | **38,671** | 34,974 |
| Total assets | | **264,944** | 240,514 |
| Current liabilities | | **181,626** | 164,918 |
| Non-current liabilities | | **18,374** | 13,405 |
| Total liabilities | | **200,000** | 178,323 |
| Net assets | | **64,944** | 62,191 |

### c) Contingent liabilities
The consolidated entity's share of the contingent liabilities of joint venture entities is included in Note 30.

### d) AASB 11 Joint Arrangements
This standard introduces the concept that if the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered to be a joint operation and proportionate consolidation is applied. Otherwise the joint arrangement is considered a joint venture and the equity method must be used to account for the interest. The new standard will become mandatory for the Group's half year 31 December 2013 financial statements, with retrospective application requirements for certain transitions. The Group expects a number of joint ventures, that are currently being equity accounted, to be proportionately consolidated as joint operations in accordance with the new requirements. The new standard is expected to result in a change to total assets and liabilities of the Group, the impact of which has yet to be determined.

## NOTE 16. PROPERTY, PLANT AND EQUIPMENT

| 2013 | Consolidated | | | | |
|---|---|---|---|---|---|
| $'000 | Freehold Land | Buildings | Plant and Equipment | Equipment under Finance Lease | Total |
| **At 1 July 2012** | | | | | |
| Cost | 19,000 | 51,047 | 1,838,392 | 151,577 | 2,060,016 |
| Accumulated depreciation | – | (15,344) | (875,948) | (35,254) | (926,546) |
| Net book value | 19,000 | 35,703 | 962,444 | 116,323 | 1,133,470 |
| **Year ended 30 June 2013** | | | | | |
| Additions | 2,019 | 797 | 288,247 | 70,835 | 361,898 |
| Disposals at net book value | (200) | (260) | (17,412) | (31,366) | (49,238) |
| Disposals of business at net book value | – | – | (1,648) | (68) | (1,716) |
| Depreciation expense (Note 3(b)) | – | (2,769) | (251,739) | (28,892) | (283,400) |
| Reclassified as asset held for sale(i) | – | – | (14,289) | – | (14,289) |
| Reclassifications at net book value | – | 624 | (16,433) | 11,912 | (3,897) |
| Net foreign currency exchange differences at net book value | 41 | 412 | 7,177 | 369 | 7,999 |
| **Closing net book value** | 20,860 | 34,507 | 956,347 | 139,113 | 1,150,827 |
| **At 30 June 2013** | | | | | |
| Cost | 20,860 | 51,465 | 1,961,940 | 183,589 | 2,217,854 |
| Accumulated depreciation | – | (16,958) | (1,005,593) | (44,476) | (1,067,027) |
| **Closing net book value** | 20,860 | 34,507 | 956,347 | 139,113 | 1,150,827 |

(i) Asset held for sale relates to sale of Cracow mining equipment. The proceeds of $14.4 million was received prior to 30 June 2013 and the transfer of the assets was completed in July 2013.

## NOTE 16. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

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

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

## NOTE 17. INTANGIBLE ASSETS

| 2013 | Consolidated | | |
|---|---|---|---|
| $'000 | 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** |
| **Year ended 30 June 2013** | | | |
| Purchases | **–** | **5,344** | **5,344** |
| Reclassifications at net book value | **–** | **3,897** | **3,897** |
| Amortisation expense (Note 3(b)) | **–** | **(11,401)** | **(11,401)** |
| Impairment (Note 2) | **(6,224)** | **–** | **(6,224)** |
| Net foreign currency exchange differences at net book value | **2,441** | **65** | **2,506** |
| Closing net book value | **514,805** | **56,968** | **571,773** |
| **At 30 June 2013** | | | |
| Cost | **590,799** | **138,680** | **729,479** |
| Accumulated amortisation and impairment | **(75,994)** | **(81,712)** | **(157,706)** |
| **Closing net book value** | **514,805** | **56,968** | **571,773** |

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

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

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

## NOTE 17. INTANGIBLE ASSETS – CONTINUED

### ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS (CGUs)

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

| | Consolidated | |
|---|---|---|
| | **2013 $'000** | **2012 $'000** |
| – Downer Infrastructure East | **178,645** | 178,645 |
| – Downer Infrastructure West | **58,850** | 58,850 |
| – Downer Infrastructure Specialist Services | **90,074** | 90,074 |
| – Downer Infrastructure New Zealand | **52,232** | 49,791 |
| – Downer Mining | **65,545** | 65,545 |
| – Downer Rail | **69,459** | 69,459 |
| – Spiire Australia(i) (ii) | **–** | 6,224 |
| | **514,805** | 518,588 |

Goodwill relating to Downer Infrastructure Asia, Works United Kingdom and Spiire New Zealand CGUs has been fully impaired as of 30 June 2012.

(i) Impaired at 30 June 2013 and 30 June 2012 following impairment testing performed by Management.

(ii) Formerly known as CPG Australia.

### RECOVERABLE AMOUNT TESTING

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

Management identified $6.2 million of impairment relating to goodwill in the Spiire Australia business following an assessment of the future performance of this business. Spiire Australia failed to produce sufficient profits to support its goodwill amount due to continued suppressed market conditions and, as a result, a goodwill impairment of $6.2 million (2012: $8.7 million) has been recognised in the current year.

Impairment testing is typically undertaken in one of two ways:

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

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

*Projected cash flows*
Cash flow projections are based on the Board approved 2013/14 (FY14) budget for the year ending 30 June 2014 and the business plan for the subsequent financial years ending 30 June 2015 to 30 June 2016 by applying division specific growth estimates and assuming a 2.5 per cent terminal growth rate to allow for organic growth on the existing asset base. Cash flows are then determined utilising the calculated Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) less tax, capital maintenance spending and working capital changes to provide a "free cash flow" estimate. This calculated cash flow is then compared against the free cash flow in the business plan to ensure the two are consistent.

*Growth rate estimates*
The future annual growth rates for FY15 onwards are based on expected market and expected business performance rates for each CGU being tested for impairment.

## NOTE 17. INTANGIBLE ASSETS – CONTINUED

### RECOVERABLE AMOUNT TESTING – CONTINUED

*Discount rates*
Discount rates of between 10.8 per cent and 12.2 per cent (2012: between 10.8 per cent and 12.1 per cent) reflect Management's estimate of the time value of money and risks specific to each CGU. In determining the appropriate discount rate for each CGU, consideration has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for country and business risk specific to that CGU.

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

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

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

### SENSITIVITIES

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

The discount rate would need to increase by 380 basis points or the terminal value growth rate would need to be negative growth of 2.0 per cent before the recoverable amount of any of the CGUs would be equal to the carrying value.

## NOTE 18. TRADE AND OTHER PAYABLES

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| **Current** | | | |
| Trade payables | | **446,766** | 577,954 |
| Amounts due to customers under contracts and rendering of services | 31 | **222,596** | 310,364 |
| Accruals | | **432,982** | 412,020 |
| Goods and services tax payable | | **56,612** | 50,846 |
| Other | | **50,045** | 37,811 |
| | | **1,209,001** | 1,388,995 |
| **Non-current** | | | |
| Other | | **5,578** | 3,955 |
| Total trade and other payables | | **1,214,579** | 1,392,950 |

## NOTE 19. BORROWINGS

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|---|
| **Current** | | | |
| Secured – at amortised cost: | | | |
| – Finance lease liabilities | 29(c) | **38,037** | 21,472 |
| – Hire purchase liabilities | 29(d) | **2,286** | 3,236 |
| – Supplier finance | | **5,733** | 6,332 |
| | | **46,056** | 31,040 |
| Unsecured – at amortised cost: | | | |
| – Bank loans | | **17,843** | 10,160 |
| – Bank overdrafts | 28(a) | **–** | 2 |
| – AUD medium term notes (2009-1) | | **13,283** | 13,283 |
| – AUD medium term notes (2009-2) | | **150,310** | – |
| – AUD medium term notes (2010-1) | | **12,600** | 12,600 |
| – Works New Zealand Bonds | | **–** | 117,527 |
| – Deferred finance charges | | **(2,158)** | (3,674) |
| | | **191,878** | 149,898 |
| Total current borrowings | 37(a) | **237,934** | 180,938 |
| **Non-current** | | | |
| Secured – at amortised cost: | | | |
| – Finance lease liabilities | 29(c) | **80,850** | 78,533 |
| – Hire purchase liabilities | 29(d) | **3,214** | 3,048 |
| | | **84,064** | 81,581 |
| Unsecured – at amortised cost: | | | |
| – Bank loans | | **61,387** | 32,930 |
| – USD notes | | **83,270** | 76,185 |
| – AUD medium term notes (2009-1) | | **53,177** | 66,460 |
| – AUD medium term notes (2009-2) | | **–** | 151,186 |
| – AUD medium term notes (2010-1) | | **18,900** | 31,500 |
| – AUD medium term notes (2013-1) | | **150,000** | – |
| – Deferred finance charges | | **(6,542)** | (1,870) |
| | | **360,192** | 356,391 |
| Total non-current borrowings | 37(a) | **444,256** | 437,972 |
| Total borrowings | | **682,190** | 618,910 |

## NOTE 20. FINANCING FACILITIES

### FINANCING FACILITIES

At 30 June 2013, the consolidated entity had the following facilities that were not utilised at balance date:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Syndicated bank loan facility | **400,000** | 420,000 |
| Bilateral bank loan facilities | **221,246** | 173,525 |
| **Total unutilised loan facilities** | **621,246** | 593,525 |
| Bilateral bank and insurance company bonding facilities | **458,539** | 327,930 |
| **Total unutilised bonding facilities** | **458,539** | 327,930 |

### BANK LOANS

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

*Bilateral bank loans and overdrafts*
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 $77.9 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 $66.5 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 $31.5 million. In 2013, a new tranche of MTNs was issued for an amount of $150.0 million and with a bullet maturity date of November 2018 (Series 2013-1). The MTNs are 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 6.6 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 into in the normal course of business. The financing has a term of less than one year and amortises on a monthly basis. Security is limited to the insurance premiums that have been paid.

## NOTE 20. FINANCING FACILITIES – CONTINUED

### COVENANTS ON FINANCING FACILITIES

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

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

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

### BONDING

The Group has $1,377.5 million of bank guarantee and insurance bond facilities to support its contracting activities. $499.9 million of these facilities are provided to the Group on a committed basis and $877.6 million on an uncommitted basis. Under both committed and uncommitted facilities, the financial institution being requested to provide the guarantee/bond has the discretion as to whether to issue the instrument depending on factors such as the form of the guarantee/bond, the underlying contract of work being undertaken and potential concentration limits the financial institution may have on the industry where the work is being conducted. Furthermore, in the case of uncommitted facilities, the financier has the discretion to cancel any unutilised balance of a facility at any time or to suspend utilisation of the facility for a given period.

The Group's facilities are provided by a number of different banks and insurance companies on an unsecured basis and are subject to certain Group guarantees. $918.9 million of these facilities were utilised as at 30 June 2013 with $458.5 million unutilised as at that date. $209.5 million of the current committed facilities relates to a syndicated bonding facility referable to the Waratah Train Project which matures in December 2014. Excluding this syndicated facility, the Group's other facilities have varying maturity dates which range from August 2013 to June 2014. $1.9 million of facilities included as utilised on 30 June 2013 relates to guarantees and bonds that have an expiry date of 30 June 2013, but with the Group still to be formally notified of their cancellation by the financier.

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

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

### REFINANCING REQUIREMENTS

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

### CREDIT RATINGS

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

## NOTE 21. OTHER FINANCIAL LIABILITIES

| | Consolidated 2013 $'000 | Consolidated 2012 $'000 |
|---|---|---|
| **Current** | | |
| Foreign currency forward contracts | 1,785 | 48,171 |
| Cross currency and interest rate swaps | 4,373 | 897 |
| Fair value commodity hedges | 63 | – |
| Advances from joint venture entities | 32,492 | 28,464 |
| | 38,713 | 77,532 |
| **Non-current** | | |
| Foreign currency forward contracts | 11 | 4,822 |
| Cross currency and interest rate swaps | 27,653 | 41,290 |
| | 27,664 | 46,112 |
| Total other financial liabilities | 66,377 | 123,644 |

## NOTE 22. PROVISIONS

| $'000 | Employee benefits(i) | Decom-missioning(ii) | Contract claims/ warranties(iii) | Other(iv) | Total |
|---|---|---|---|---|---|
| | Consolidated | | | | |
| **At 1 July 2012** | | | | | |
| Current | 245,198 | 6,358 | 29,454 | 51,440 | 332,450 |
| Non-current | 8,810 | 6,198 | – | 604 | 15,612 |
| Total | 254,008 | 12,556 | 29,454 | 52,044 | 348,062 |
| Additional provisions recognised | 359,133 | 1,200 | 24,870 | 25,228 | 410,431 |
| Unused provision reversed | (3,692) | (1,207) | (5,065) | (2,321) | (12,285) |
| Utilisation of provision | (324,351) | (37) | (22,021) | (30,744) | (377,153) |
| Disposal of businesses | (1,548) | – | – | – | (1,548) |
| Net foreign currency exchange differences | 1,347 | 18 | 113 | 131 | 1,609 |
| **At 30 June 2013** | 284,897 | 12,530 | 27,351 | 44,338 | 369,116 |
| Current | 265,458 | 5,829 | 25,502 | 29,310 | 326,099 |
| Non-current | 19,439 | 6,701 | 1,849 | 15,028 | 43,017 |
| **Total at 30 June 2013** | 284,897 | 12,530 | 27,351 | 44,338 | 369,116 |

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

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

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

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

## NOTE 23. TAX LIABILITIES

| | Note | Consolidated 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current** | | | |
| Current tax overseas entities | | **10,623** | 3,926 |
| **Non-current** | | | |
| **a) Deferred tax liabilities** | | **2,563** | 6,150 |
| **b) Movement in deferred tax liabilities for the financial year** | | | |
| Balance at the beginning of the financial year | | **155,995** | 121,401 |
| Charged to statement of profit or loss as deferred income tax (benefit)/expense | 23(d) | **(2,790)** | 40,723 |
| Charged to equity | | **201** | 805 |
| Net foreign currency exchange differences | | **1,546** | 300 |
| Disposal of entities and operations | | **(395)** | (113) |
| Other | | **2,850** | (7,121) |
| Balance at the end of the financial year (gross) | 23(c) | **157,407** | 155,995 |
| Set-off of deferred tax assets within the same tax jurisdiction | 13(b) | **(154,844)** | (149,845) |
| Net deferred tax liabilities | | **2,563** | 6,150 |
| **c) Deferred tax liabilities at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to:** | | | |
| Inventories | | **1,515** | 4,105 |
| Trade and other receivables | | **106,851** | 116,413 |
| Other current assets | | **4,772** | 5,224 |
| Equity-accounted investments | | **10,777** | 9,624 |
| Property, plant and equipment | | **21,679** | 2,069 |
| Intangible assets | | **3,182** | 3,235 |
| Trade and other payables | | **5,046** | 7,385 |
| Borrowings | | **493** | 168 |
| Provisions | | **–** | 389 |
| Hedges and foreign exchange movements | | **1,140** | 1,567 |
| Other | | **1,952** | 5,816 |
| Total deferred tax liabilities (gross) | | **157,407** | 155,995 |

## NOTE 23. TAX LIABILITIES – CONTINUED

| | Consolidated 2013 $'000 | 2012 $'000 |
|---|---|---|
| **d) Amounts charged to statement of profit or loss as deferred income tax (benefit)/expense** | | |
| Inventories | **(724)** | 1,825 |
| Trade and other receivables | **(9,238)** | 27,017 |
| Other assets | **(1,118)** | (710) |
| Equity-accounted investments | **(902)** | 4,389 |
| Property, plant and equipment | **(601)** | 422 |
| Intangible assets | **(46)** | 3,596 |
| Trade and other payables | **(3,396)** | 3,370 |
| Borrowings | **20** | (142) |
| Provisions | **(84)** | 228 |
| Hedges and foreign exchange movements | **127** | (241) |
| Deferred tax liabilities in relation to prior years | **13,172** | 969 |
| Charged to statement of profit or loss as deferred income tax (benefit)/expense | **(2,790)** | 40,723 |

## NOTE 24. ISSUED CAPITAL

| | Consolidated 2013 $'000 | 2012 $'000 |
|---|---|---|
| Ordinary shares | | |
| 433,409,429 ordinary shares (2012: 429,100,296) | **1,299,463** | 1,278,564 |
| Unvested executive incentive shares 6,038,698 ordinary shares (2012: 6,115,960) | **(29,139)** | (29,437) |
| 200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (2012: 200,000,000) | **178,603** | 178,603 |
| | **1,448,927** | 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 2013 | | 2012 | |
|---|---|---|---|---|
| | 000's | $'000 | 000's | $'000 |
| **Fully paid ordinary share capital** | | | | |
| Balance at the beginning of the financial year | **429,100** | **1,278,564** | 429,100 | 1,278,564 |
| Issue of shares through Dividend Reinvestment Plan election | **4,309** | **20,899** | – | – |
| Balance at the end of the financial year | **433,409** | **1,299,463** | 429,100 | 1,278,564 |

## NOTE 24. ISSUED CAPITAL – CONTINUED

| | Consolidated | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | 000's | $'000 | 000's | $'000 |
| **Unvested executive incentive shares** | | | | |
| Balance at the beginning of the financial year | **6,116** | **(29,437)** | 6,845 | (33,270) |
| Vested executive incentive shares transactions | **(77)** | **298** | (729) | 3,833 |
| Balance at the end of the financial 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 met. Otherwise, excess net dividends are retained in the trust to be used by the Company to acquire additional shares on the market for Employee Equity plans.

| | Consolidated | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | 000's | $'000 | 000's | $'000 |
| **Redeemable Optionally Adjustable Distributing Securities (ROADS)** | | | | |
| Balance at the beginning and at the end of the financial year | **200,000** | **178,603** | 200,000 | 178,603 |

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

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

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

### SHARE OPTIONS AND PERFORMANCE RIGHTS

During the financial year, no performance rights (2012: nil) or performance options (2012: nil) were granted to senior executives of the Group under the LTI plan. Further details of the key management personnel LTI plan are contained in the Remuneration Report.

## NOTE 25. RESERVES

| | Consolidated | |
|---|---|---|
| | **2013 $'000** | **2012 $'000** |
| Hedge reserve | **1,746** | (11,594) |
| Foreign currency translation reserve | **(33,157)** | (50,123) |
| Employee benefits reserve | **13,950** | 9,965 |
| Total reserves | **(17,461)** | (51,752) |

## NOTE 26. ACQUISITION OF BUSINESSES

### 2013

The Group did not acquire any businesses during the financial year ended 30 June 2013.

### 2012

During the financial year ended 30 June 2012, there was an addition of goodwill of $1.0 million representing deferred contingent consideration in relation to the purchase of the business assets of Corke Instrumentation Engineering, originally acquired in FY09. There were no acquisitions of controlling interests in any businesses during the financial year ended 30 June 2012.

## NOTE 27. DISPOSAL OF SUBSIDIARY

### 2013

The Group disposed the Spiire Australia business by way of a management buy out (MBO) to three of its senior executives for $1.8 million. The sale transaction was completed on 30 June 2013.

### 2012

The Group disposed the CPG Asia business to China Architecture Design and Research Group (CAG) for $147.0 million in the prior year. The gain and net cash inflow from the disposal was $33.6 million and $129.2 million respectively. Transaction costs of $2.4 million were paid during the financial year ended 30 June 2013.

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

| | | Consolidated | |
|---|---|---|---|
| | Note | **2013 $'000** | **2012 $'000** |
| **a) Reconciliation of cash and cash equivalents** | | | |
| For the purpose of the statement of cash flows, cash and cash equivalents comprise: | | | |
| Cash | | **453,386** | 292,672 |
| Short-term deposits | | **20,347** | 4,019 |
| | 37(a) | **473,733** | 296,691 |
| Bank overdrafts | 19 | **–** | (2) |
| | | **473,733** | 296,689 |

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

**b) Non-cash financing and investing activities**

During the current financial year $20.9 million (2012: nil) equity was issued in respect of Dividend Reinvestment Plan elections.

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| **c) Reconciliation of profit after tax to net cash flows from operating activities** | | | |
| Profit after tax for the year | | **203,986** | 112,895 |
| Adjustments for: | | | |
| Share of joint ventures and associates' profits net of distributions | | **(7,474)** | (21,955) |
| Depreciation and amortisation of non-current assets | 2 | **294,801** | 247,168 |
| Amortisation of deferred costs | | **3,795** | 3,494 |
| Net gain on sale of property, plant and equipment | 3(a) | **(4,863)** | (5,053) |
| Loss/(profit) on disposal of businesses | | **2,111** | (33,585) |
| Derecognition of hedge reserve relating to Reliance Rail | 4 | **–** | 72,540 |
| Government grant | 3(a) | **(10,302)** | – |
| Foreign exchange loss | 3(b) | **3,122** | 1,113 |
| Decrease in income tax payable | | **17,379** | 1,702 |
| Movement in deferred tax balances | | **55,997** | 65,830 |
| Equity-settled share-based transactions | | **3,532** | 2,237 |
| Impairment of goodwill | | **6,224** | 18,000 |
| Impairment of assets | | **–** | 416 |
| Other | | **1,909** | (1,351) |
| | | **366,231** | 350,556 |
| Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses: | | | |
| (Increase)/decrease in assets: | | | |
| Current trade and other receivables | | **130,552** | (389,686) |
| Current inventories | | **(65,733)** | (90,544) |
| Other current assets | | **5,482** | (13,141) |
| Non-current trade and other receivables | | **1,035** | (1,835) |
| Other non-current assets | | **413** | 1,190 |
| Increase/(decrease) in liabilities: | | | |
| Current trade and other payables | | **(212,832)** | 302,063 |
| Current provisions | | **(5,537)** | 94,887 |
| Non-current trade and other payables | | **1,343** | 944 |
| Non-current provisions | | **27,430** | (2,858) |
| | | **(117,847)** | (98,980) |
| Net cash generated by operating activities | | **452,370** | 364,471 |

## NOTE 29. COMMITMENTS

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| **a) Capital expenditure commitments** | | | |
| Plant and equipment | | | |
| Within one year | | **45,737** | 196,338 |
| Between one and five year(s) | | **–** | 30,593 |
| | | **45,737** | 226,931 |
| **b) Operating lease commitments** | | | |
| Non-cancellable operating leases relate to premises and plant and equipment with lease terms of between one to 15 year(s). | | | |
| Within one year | | **148,170** | 143,378 |
| Between one and five year(s) | | **221,877** | 223,210 |
| Greater than five years | | **117,405** | 128,141 |
| | | **487,452** | 494,729 |
| **c) Finance lease commitments** | | | |
| Finance leases relate to plant and equipment with lease terms of between one to five year(s). | | | |
| Within one year | | **44,630** | 28,328 |
| Between one and five year(s) | | **90,746** | 87,439 |
| Minimum finance lease payments | | **135,376** | 115,767 |
| Future finance charges | | **(16,489)** | (15,762) |
| Finance lease liabilities | | **118,887** | 100,005 |
| Included in the financial statements as: | | | |
| Current borrowings | 19 | **38,037** | 21,472 |
| Non-current borrowings | 19 | **80,850** | 78,533 |
| | | **118,887** | 100,005 |
| **d) Hire purchase liabilities** | | | |
| Within one year | | **2,547** | 3,589 |
| Between one and five year(s) | | **3,358** | 3,522 |
| Greater than five years | | **184** | – |
| Minimum hire purchase payments | | **6,089** | 7,111 |
| Future finance charges | | **(589)** | (827) |
| Hire purchase liabilities | | **5,500** | 6,284 |
| Included in the financial statements as: | | | |
| Current borrowings | 19 | **2,286** | 3,236 |
| Non-current borrowings | 19 | **3,214** | 3,048 |
| | | **5,500** | 6,284 |
| **e) Other service contracts** | | | |
| Within one year | | **27,983** | 20,561 |
| Between one and five year(s) | | **89,904** | 77,936 |
| Greater than five years | | **–** | 1,580 |
| | | **117,887** | 100,077 |

Other service contracts relates to a six year contract with Hewlett-Packard Australia Pty Ltd for the provision of information technology services.

## NOTE 30. CONTINGENT LIABILITIES

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 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 | 918,942 | 966,193 |

**In the ordinary course of business:**

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

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

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

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

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

vi) The Group has previously disclosed a number of material arbitration/litigation matters in relation to contracts, which have now been settled or decided, as set out below:

- In March 2013, a claim issued by Alstom Limited was settled. Downer Engineering and Yokogawa Australia Pty Limited entered into an unincorporated "50/50" joint venture arrangement (YDRML) which subcontracted in August 2002 to undertake electrical and control and instrumentation works at the Playford Power Station refurbishment for Alstom. Alstom has claimed $31.8 million against YDRML and YDRML counter-claimed more than $20 million.

  On 2 April 2012 the South Australian Supreme Court gave judgement, dismissing Alstom's claim in full and finding in favour of YDRML on its counter-claim. Alstom filed an appeal but a full and final settlement was since negotiated with Alstom agreeing to discontinue its claim and pay YDRML $25.1 million plus GST in relation to its counter-claim.
- 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. An expense of $11.5 million was recognised during the year to cover the settlement outcome.
- 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. The Court of Appeal heard Downer's appeal and held that Mr. Gillies had engaged in serious misconduct, which disentitled Mr. Gillies from receiving certain termination payments, thus reducing the initial award. Mr Gillies sought special leave to appeal the issue of serious misconduct to the High Court of Australia, which was refused by the High Court.

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

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

No details of the amount of the claims have been provided by IMF or Slater & Gordon Lawyers and as stated above, proceedings have not been commenced by IMF. In the event that proceedings are commenced by IMF, the claims will be defended. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

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

## NOTE 31. RENDERING OF SERVICES AND CONSTRUCTION CONTRACTS

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| Cumulative contracts in progress as at reporting date: | | | |
| Cumulative costs incurred plus recognised profits less recognised losses to date | | **13,328,120** | 11,528,012 |
| Less: Progress billings | | **(12,592,295)** | (10,774,807) |
| Less: Provision for Waratah Train Project[(i)] | 10 | **(60,418)** | (164,108) |
| Net amount | | **675,407** | 589,097 |
| Recognised and included in the financial statements as amounts due: | | | |
| From customers under contracts – current | 10 | **898,003** | 899,461 |
| To customers under contracts – current | 18 | **(222,596)** | (310,364) |
| Net amount | | **675,407** | 589,097 |

(i) Provision for Waratah Train Project reflects total provision established against the contract of $440.0 million, less $103.7 million of provision utilised during the financial year ended 30 June 2013 and $90.5 million utilised during the financial year ended 30 June 2012. At 30 June 2013, the cumulative provision utilised is $379.6 million (2012: $275.9 million).

## NOTE 32. SUBSEQUENT EVENTS

At the date of this report there is no matter or circumstance other than those referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect:

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

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

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

## NOTE 33. CONTROLLED ENTITIES

| Name of controlled entity | Country of incorporation | Ownership interest | |
|---|---|---|---|
| | | 2013 % | 2012 % |
| ACN 066 652 177 Pty Ltd [(iv)] [(v)] | Australia | **100** | 100 |
| Advanced Separation Engineering Australia Pty Ltd | Australia | **100** | 100 |
| Century Administration Pty Limited [(xv)] | Australia | **–** | 100 |
| Chan Lian Construction Pte Ltd | Singapore | **100** | 100 |
| Chang Chun Ao Da Technical Consulting Co Ltd | China | **100** | 100 |
| Choad Pty Ltd [(xv)] | Australia | **–** | 100 |
| Coomes AC Consulting Pty Ltd [(v)] | Australia | **100** | 100 |
| Coomes Consulting Group Unit Trust | Australia | **100** | 100 |
| Corke Instrument Engineering (Australia) Pty Ltd [(v)] | Australia | **100** | 100 |
| DCE Limited [(xvi)] | New Zealand | **–** | 100 |
| Dean Adams Consulting Pty Ltd | Australia | **100** | 100 |
| DGL Investments Limited | New Zealand | **100** | 100 |
| DMQA Technical Services (UK) Limited [(xv)] | United Kingdom | **–** | 100 |
| DMQA Training Limited [(xv)] | United Kingdom | **–** | 100 |
| Downer Australia Pty Ltd | Australia | **100** | 100 |
| Downer Construction (Fiji) Limited | Fiji | **100** | 100 |
| Downer Construction (New Zealand) Limited | New Zealand | **100** | 100 |
| Downer Construction PNG Limited | PNG | **100** | 100 |
| Downer EDI Associated Investments Pty Ltd [(iii)] | Australia | **100** | 100 |

## NOTE 33. CONTROLLED ENTITIES – CONTINUED

| Name of controlled entity | Country of incorporation | Ownership interest 2013 % | Ownership interest 2012 % |
|---|---|---|---|
| Downer EDI Consulting Pty Ltd (v) | Australia | 100 | 100 |
| Downer EDI Engineering Communications Limited | New Zealand | 100 | 100 |
| Downer EDI Engineering Company Pty Limited | Australia | 100 | 100 |
| Downer EDI Engineering Construction (Australia) Pty Limited (v) | Australia | 100 | 100 |
| Downer EDI Engineering CWH Pty Limited | Australia | 100 | 100 |
| Downer EDI Engineering Electrical Pty Ltd | Australia | 100 | 100 |
| Downer EDI Engineering Group Limited | New Zealand | 100 | 100 |
| Downer EDI Engineering Group Pty Limited | Australia | 100 | 100 |
| Downer EDI Engineering Holdings (Thailand) Limited | Thailand | 100 | 100 |
| Downer EDI Engineering Holdings Pty Ltd | Australia | 100 | 100 |
| Downer EDI Engineering Limited | New Zealand | 100 | 100 |
| Downer EDI Engineering Power Limited | New Zealand | 100 | 100 |
| Downer EDI Engineering Power Pty Ltd | Australia | 100 | 100 |
| Downer EDI Engineering Pty Limited | Australia | 100 | 100 |
| Downer EDI Engineering Thailand Ltd | Thailand | 100 | 100 |
| Downer EDI Engineering (M) Sdn Bhd | Malaysia | 100 | 100 |
| Downer EDI Engineering (S) Pte Ltd | Singapore | 100 | 100 |
| Downer EDI Engineering Transmission Pty Ltd | Australia | 100 | 100 |
| Downer EDI Finance (NZ) Limited (xvi) | New Zealand | – | 100 |
| Downer EDI Group Finance (NZ) Limited (xvi) | New Zealand | – | 100 |
| Downer EDI Group Insurance Pte Ltd | Singapore | 100 | 100 |
| Downer EDI Mining NZ Limited | New Zealand | 100 | 100 |
| Downer EDI Mining Pty Ltd | Australia | 100 | 100 |
| Downer EDI Mining-Blasting Services Pty Ltd | Australia | 100 | 100 |
| Downer EDI Mining-Minerals Exploration Pty Ltd | Australia | 100 | 100 |
| Downer EDI Rail (Hong Kong) Limited | Hong Kong | 100 | 100 |
| Downer EDI Rail Pty Ltd | Australia | 100 | 100 |
| Downer EDI Resources Holdings Pty Limited (v) | Australia | 100 | 100 |
| Downer EDI Services Pty Ltd | Australia | 100 | 100 |
| Downer EDI Works (Hong Kong) Limited | Hong Kong | 100 | 100 |
| Downer EDI Works Pty Ltd | Australia | 100 | 100 |
| Downer EDI Works Vanuatu Limited | Vanuatu | 100 | 100 |
| Downer Energy Systems Pty Limited | Australia | 100 | 100 |
| Downer Group Finance International Pty Ltd (v) | Australia | 100 | 100 |
| Downer Group Finance Pty Limited | Australia | 100 | 100 |
| Downer Holdings Pty Limited | Australia | 100 | 100 |
| Downer MBL Pty Limited (v) | Australia | 100 | 100 |
| Downer New Zealand Limited | New Zealand | 100 | 100 |
| Downer NZ Finance Pty Ltd (xv) | Australia | – | 100 |
| Downer PPP Investments Pty Ltd | Australia | 100 | 100 |
| Downer Pte Ltd | Singapore | 100 | 100 |
| Downer Singapore Pte Ltd (viii) | Singapore | 100 | 100 |
| Duffill Watts Pte Ltd | Singapore | 100 | 100 |

## NOTE 33. CONTROLLED ENTITIES – CONTINUED

| Name of controlled entity | Country of incorporation | Ownership interest 2013 % | Ownership interest 2012 % |
|---|---|---|---|
| Duffill Watts Vietnam Ltd (v) | Vietnam | 100 | 100 |
| EDI Rail (Maryborough) Pty Ltd (xv) | Australia | – | 100 |
| EDI Rail Investments Pty Ltd (xv) | Australia | – | 100 |
| EDI Rail PPP Maintenance Pty Ltd | Australia | 100 | 100 |
| EDICO Pty Ltd | Australia | 100 | 100 |
| Emoleum Partnership | Australia | 100 | 100 |
| Emoleum Road Services Pty Ltd | Australia | 100 | 100 |
| Emoleum Roads Group Pty Ltd | Australia | 100 | 100 |
| Emoleum Services Pty Limited | Australia | 100 | 100 |
| Evans Deakin Industries Pty Ltd | Australia | 100 | 100 |
| Faxgroove Pty. Limited | Australia | 100 | 100 |
| Gaden Drilling Pty Limited (xv) | Australia | – | 100 |
| Locomotive Demand Power Pty Ltd | Australia | 100 | 100 |
| Lowan (Management) Pty. Ltd. | Australia | 100 | 100 |
| MD Mineral Technologies Private Limited (ii) | India | 100 | 100 |
| MD Mineral Technologies SA (Pty) Ltd. (xii) | South Africa | 100 | 100 |
| MD Mining and Mineral Services (Pty) Ltd. (vi) | South Africa | 70 | 70 |
| Mineral Technologies Comercio de Equipamentos para Processamento de Minerais LTD (i) | Brazil | 100 | 100 |
| Mineral Technologies (Holdings) Pty Ltd | Australia | 100 | 100 |
| Mineral Technologies, Inc. (xiii) | USA | 100 | 100 |
| Mineral Technologies Pty Ltd | Australia | 100 | 100 |
| Otraco Botswana (Proprietary) Limited | Botswana | 100 | 100 |
| Otraco Brasil Gerenciamento de Pneus Ltda | Brazil | 100 | 100 |
| Otraco Canada Inc. (v) | Canada | 100 | 100 |
| Otraco Chile SA | Chile | 100 | 100 |
| Otraco International Pty Ltd | Australia | 100 | 100 |
| Otraco Tyre Management Namibia (Pty) Ltd | Namibia | 100 | – |
| Otracom Pty Ltd | Australia | 100 | 100 |
| Otraco Southern Africa (Pty) Ltd | South Africa | 100 | 100 |
| Primary Producers Improvers Pty. Ltd. | Australia | 100 | 100 |
| PT Duffill Watts Indonesia | Indonesia | 100 | 100 |
| PT Otraco Indonesia | Indonesia | 100 | 100 |
| QCC Resources Pty Ltd | Australia | 100 | 100 |
| Quality Coal Consulting Pty Ltd (x) | Australia | 100 | 100 |
| Rail Services Victoria Pty Ltd | Australia | 100 | 100 |
| REJV Services Pty Ltd | Australia | 100 | 100 |
| Reussi Pty Ltd | Australia | 100 | 100 |
| Richter Drilling (PNG) Limited | PNG | 100 | 100 |
| Rimtec Pty Ltd | Australia | 100 | 100 |
| Rimtec USA Inc. | USA | 100 | 100 |
| Roche Bros. (Hong Kong) Limited | Hong Kong | 100 | 100 |
| Roche Bros. Superannuation Pty. Ltd. | Australia | 100 | 100 |

## NOTE 33. CONTROLLED ENTITIES – CONTINUED

| Name of controlled entity | Country of incorporation | Ownership interest 2013 % | 2012 % |
|---|---|---|---|
| Roche Castings Pty Limited (xv) | Australia | – | 100 |
| Roche Contractors Pty Ltd (v) | Australia | **100** | 100 |
| Roche Highwall Mining Pty Ltd (v) | Australia | **100** | 100 |
| Roche Mining (PNG) Limited | PNG | **100** | 100 |
| Roche Services Pty Ltd | Australia | **100** | 100 |
| RPC Roads Pty Ltd | Australia | **100** | 100 |
| SACH Infrastructure Pty Ltd | Australia | **100** | 100 |
| Sillars (B. & C.E.) Limited | United Kingdom | **100** | 100 |
| Sillars (FRC) Limited (xv) | United Kingdom | – | 100 |
| Sillars (TMWC) Limited (xv) | United Kingdom | – | 100 |
| Sillars (TMWD) Limited | United Kingdom | **100** | 100 |
| Sillars Holdings Limited | United Kingdom | **100** | 100 |
| Sillars Road Construction Limited | United Kingdom | **100** | 100 |
| Singleton Bahen Stansfield Pty Ltd (v) | Australia | **100** | 100 |
| Snowden Consultoria do Brasil Limitada | Brazil | **100** | 100 |
| Snowden Holdings Pty Ltd (xi) | Australia | **100** | 100 |
| Snowden Mining Industry Consultants (Proprietary) Ltd | South Africa | **100** | 100 |
| Snowden Mining Industry Consultants Inc. | Canada | **100** | 100 |
| Snowden Mining Industry Consultants Limited | United Kingdom | **100** | 100 |
| Snowden Mining Industry Consultants Pty Ltd | Australia | **100** | 100 |
| Snowden Mining Technologies Limited (xv) | British Virgin Islands | – | 100 |
| Snowden Technologies Pty Ltd | Australia | **100** | 100 |
| Snowden Training (Pty) Ltd | South Africa | **100** | 100 |
| Southern Asphalters Pty Ltd | Australia | **100** | 100 |
| Spiire Australia Pty Ltd (vii) (xiv) | Australia | – | 100 |
| Spiire New Zealand Limited (ix) | New Zealand | **100** | 100 |
| Techtel Training & Development Limited | New Zealand | **90** | 90 |
| TSE Wall Arlidge Limited | New Zealand | **100** | 100 |
| Underground Locators Limited | New Zealand | **100** | 100 |
| Waste Solutions Limited | New Zealand | **100** | 100 |
| Works Finance (NZ) Limited | New Zealand | **100** | 100 |
| Works Infrastructure (Holdings) Limited | United Kingdom | **100** | 100 |
| Works Infrastructure Harker Underground Construction Joint Venture Limited | New Zealand | **100** | 100 |
| Works Infrastructure Limited | United Kingdom | **100** | 100 |

(i) Formerly Roche Mining (MT) Brasil Ltda.
(ii) Formerly Roche Mining MT India Pvt Ltd.
(iii) Formerly Downer EDI (USA) Pty Ltd.
(iv) Formerly CPG Traffic Pty Ltd.
(v) Indicates entities currently undergoing liquidation as part of a Group rationalisation process.
(vi) Formerly CPG Resources Mining and Mineral Services (Pty) Ltd.
(vii) Formerly CPG Australia Pty Ltd.
(viii) Formerly CPG Holdings Pte. Ltd.
(ix) Formerly CPG New Zealand Limited.
(x) Formerly CPG Resources – QCC Pty Ltd.
(xi) Formerly CPG Resources Pty Ltd.
(xii) Formerly CPG Resources Mineral Technologies (Pty) Ltd.
(xiii) Formerly CPG Resources-Mineral Technologies (USA) Inc.
(xiv) Indicates entities disposed during the financial year ended 30 June 2013.
(xv) Liquidated during the financial year ended 30 June 2013.
(xvi) Indicates entities that amalgamated into DGL Investments Limited on 19 April 2013.

## NOTE 34. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES

### a) Key management personnel

**Directors**

R M Harding, Chairman

G A Fenn, Managing Director and Chief Executive Officer

S A Chaplain, Non-executive Director

L Di Bartolomeo, Non-executive Director (retired 7 November 2012)

P S Garling, Non-executive Director

E A Howell, Non-executive Director

J S Humphrey, Non-executive Director

K G Sanderson, Non-executive Director

C G Thorne, Non-executive Director

**Key Management Executives**

P H Borden, Chief Executive Officer – Downer Rail to 11 April 2013

D A Cattell, Chief Executive Officer – Downer Infrastructure

K J Fletcher, Chief Financial Officer

D J Overall, Chief Executive Officer – Downer Mining

R A Spicer, Chief Executive Officer – Downer Rail, appointed 12 April 2013

### b) Key management personnel compensation

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

### c) Other transactions with Directors

A Director of the Company, J S Humphrey, has an interest in the firm King & Wood Mallesons, solicitors (formerly Mallesons Stephen Jacques). This firm renders legal advice to the consolidated entity in the ordinary course of business under normal commercial terms and conditions. The amount of fees paid and recognised was $6,443 (2012: $418,953).

### d) Transactions with other related parties:

Transactions with other related parties are made on normal commercial terms and conditions. The following transactions with other related parties occurred during the financial year ended 30 June 2013:

| | | Transaction type | |
|---|---|---|---|
| Key management personnel | Entity | Sales of goods and services $'000 | Purchase of goods $'000 |
| L Di Bartolomeo | Australian Rail Track Corporation Limited | 79,173 | 1,906 |
| | Australian Industry Group | – | 189 |
| P H Borden and R A Spicer | EDI Rail Bombardier Transportation Pty Ltd | 41,974 | 236 |
| C G Thorne | Downer Clough JV | 12,272 | – |
| | JK Tech Pty Ltd (a wholly-owned subsidiary of UQ Holdings Pty Ltd) | – | 40 |
| G A Fenn | KDR Victoria Pty Ltd | 2,268 | – |
| | Australian Constructors Association Limited | – | 41 |
| P S Garling | Ausgrid | 867 | 3,208 |
| | Essential Energy | – | 59 |
| | Endeavour Energy | – | 6 |
| J S Humphrey | Queensland University of Technology | – | 463 |
| D J Overall | Minerals Council of Australia | – | 373 |
| R M Harding | Transpacific Industries Group Ltd | – | 310 |
| K G Sanderson | Advisory Council, Curtin University Business School | – | 1 |
| | Atlas Iron Limited | 107 | – |
| | St John of God Health Care | – | 1 |

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

**e) Transactions within the wholly-owned Group**

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

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

**f) Equity interests in related parties**

*Equity interests in subsidiaries*

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

*Equity interests in associates and joint ventures*

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

**g) Controlling entity**

The parent entity of the Group is Downer EDI Limited.

**h) Key management personnel equity holdings**

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

| 2013 | Balance at 1 July 2012 No. | Net change No. | Balance at 30 June 2013 No. |
|---|---|---|---|
| R M Harding | 5,780 | 3,900 | 9,680 |
| S A Chaplain | 50,137 | 1,033 | 51,170 |
| G A Fenn | 346,061 | – | 346,061 |
| P S Garling | – | 12,100 | 12,100 |
| E A Howell | – | – | – |
| J S Humphrey | 67,982 | 113 | 68,095 |
| K G Sanderson | – | – | – |
| C G Thorne | 25,750 | 30,736 | 56,486 |
| D A Cattell | 171,181 | 33,212 | 204,393 |
| K J Fletcher | 55,000 | – | 55,000 |
| D J Overall | 12,216 | 12,585 | 24,801 |
| R A Spicer | – | 5,000 | 5,000 |
| | 734,107 | 98,679 | 832,786 |

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

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

## NOTE 35. KEY MANAGEMENT PERSONNEL COMPENSATION

| Key management personnel compensation | Consolidated | |
|---|---|---|
| | 2013 $ | 2012 $ |
| Short-term employee benefits | 12,898,151 | 12,972,684 |
| Post-employment benefits | 1,100,681 | 882,876 |
| Share-based payments | 960,549 | 1,749,000 |
| | 14,959,381 | 15,604,560 |

## NOTE 36. EMPLOYEE DISCOUNT SHARE PLAN

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

No shares were issued under the Employee Discount Share Plan during the years ended 30 June 2013 and 30 June 2012.

## NOTE 37. FINANCIAL INSTRUMENTS

### (a) Capital risk management

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

The consolidated entity's objectives when managing capital are to safeguard its ability to operate as a going concern so that it can meet all its financial obligations when they fall due, to provide adequate returns to shareholders and to maintain an appropriate capital structure to optimise its cost of capital. The consolidated entity's capital management strategy remains unchanged from 2012.

The consolidated entity monitors its gearing ratio determined as the ratio of net debt to total capitalisation. The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

| | | Consolidated | |
|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 |
| Current borrowings | 19 | **237,934** | 180,938 |
| Non-current borrowings | 19 | **444,256** | 437,972 |
| Gross debt [i] | | **682,190** | 618,910 |
| Adjustment for the mark to market of derivatives and deferred finance charges | | **40,416** | 46,545 |
| Adjusted gross debt | | **722,606** | 665,455 |
| Less: Cash and cash equivalents | 9 | **(473,733)** | (296,691) |
| Net debt | | **248,873** | 368,764 |
| Equity [ii] | | **1,826,574** | 1,617,700 |
| Total capitalisation (Net debt + Equity) | | **2,075,447** | 1,986,464 |
| Gearing ratio [iii] | | **12.0%** | 18.6% |
| Off balance sheet debt | | | |
| Operating leases [iv] | | **231,820** | 298,994 |
| Gearing ratio (including off balance sheet debt) | | **20.8%** | 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 30 June 2013 discounted at 10 per cent per annum (discount rate prescribed by the loan covenant) was $231.8 million (June 2012: $299.0 million).

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

**(b) Financial risk management objectives**

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

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

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

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

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

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

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

**(c) Accounting policies**

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

**(d) Foreign currency risk management**

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

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

| | Financial assets(i) | | Financial liabilities(i) | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Consolidated** | | | | |
| US dollar (USD) | **38,699** | 25,594 | **25,660** | 14,910 |
| New Zealand dollar (NZD) | **775** | 4,666 | **263** | 189 |
| Great British pound (GBP) | **1,601** | 7,429 | **1,083** | 4,706 |
| Euro (EUR) | **6,138** | 14,760 | **–** | 2,588 |
| | **47,213** | 52,449 | **27,006** | 22,393 |

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

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

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

### FOREIGN CURRENCY FORWARD CONTRACTS

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

| Outstanding contracts | Weighted average exchange rate | | Foreign currency | | Contract value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 FC'000 | 2012 FC'000 | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Buy USD / Sell AUD** | | | | | | | | |
| Less than 3 months | **0.9883** | 0.8947 | **43,273** | 81,330 | **43,317** | 90,902 | **4,119** | (11,166) |
| 3 to 6 months | **0.9834** | 0.9351 | **33,842** | 81,603 | **34,076** | 87,271 | **3,223** | (6,575) |
| Later than 6 months | **0.9736** | 0.9305 | **60,277** | 146,758 | **63,057** | 157,718 | **3,806** | (9,853) |
| | | | **137,392** | 309,691 | **140,450** | 335,891 | **11,148** | (27,594) |
| **Buy AUD / Sell USD** | | | | | | | | |
| Less than 3 months | **1.0041** | 0.9057 | **1,908** | 3,031 | **1,871** | 3,346 | **(220)** | 371 |
| 3 to 6 months | **0.9828** | 0.9678 | **1,238** | 2,949 | **1,169** | 3,047 | **(195)** | 136 |
| Later than 6 months | **0.9992** | 0.9738 | **4,601** | 2,275 | **4,581** | 2,336 | **(520)** | 70 |
| | | | **7,747** | 8,255 | **7,621** | 8,729 | **(935)** | 577 |
| **Buy EUR / Sell AUD** | | | | | | | | |
| Less than 3 months | **0.7387** | 0.6544 | **7,803** | 24,056 | **9,950** | 36,760 | **1,165** | (6,903) |
| 3 to 6 months | **0.7207** | 0.6374 | **2,822** | 19,439 | **3,837** | 30,497 | **214** | (6,073) |
| Later than 6 months | **0.6983** | 0.7222 | **21,156** | 48,377 | **30,586** | 66,984 | **119** | (4,365) |
| | | | **31,781** | 91,872 | **44,373** | 134,241 | **1,498** | (17,341) |
| **Buy CNY / Sell USD** | | | | | | | | |
| Less than 3 months | **6.2913** | 6.2726 | **139,000** | 135,845 | **22,094** | 21,657 | **387** | (198) |
| 3 to 6 months | **6.3021** | 6.2324 | **132,000** | 137,914 | **20,944** | 22,128 | **284** | (450) |
| Later than 6 months | **6.3153** | 6.2537 | **116,000** | 627,727 | **18,369** | 100,378 | **209** | (2,528) |
| | | | **387,000** | 901,486 | **61,407** | 144,163 | **880** | (3,176) |
| **Buy KRW / Sell USD** | | | | | | | | |
| Less than 3 months | **–** | 1,136.9 | **–** | 2,500,000 | **–** | 2,199 | **–** | (17) |
| 3 to 6 months | **–** | 1,138.3 | **–** | 2,000,000 | **–** | 1,757 | **–** | (15) |
| Later than 6 months | **–** | 1,140.2 | **–** | 6,500,000 | **–** | 5,701 | **–** | (70) |
| | | | **–** | 11,000,000 | **–** | 9,657 | **–** | (102) |
| **Buy GBP / Sell AUD** | | | | | | | | |
| Less than 3 months | **–** | 0.5040 | **–** | 778 | **–** | 1,544 | **–** | (348) |
| 3 to 6 months | **–** | 0.5058 | **–** | 900 | **–** | 1,779 | **–** | (381) |
| Later than 6 months | **–** | 0.4956 | **–** | 914 | **–** | 1,844 | **–** | (408) |
| | | | **–** | 2,592 | **–** | 5,167 | **–** | (1,137) |
| **Buy AUD / Sell ZAR** | | | | | | | | |
| Less than 3 months | **9.2982** | 8.2421 | **1,085** | 1,463 | **117** | 177 | **(3)** | 3 |
| 3 to 6 months | **–** | 8.4207 | **–** | 743 | **–** | 88 | **–** | – |
| Later than 6 months | **–** | 8.5586 | **–** | 294 | **–** | 34 | **–** | – |
| | | | **1,085** | 2,500 | **117** | 299 | **(3)** | 3 |

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

| Outstanding contracts | Weighted average exchange rate | | Foreign currency | | Contract value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 FC'000 | 2012 FC'000 | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Buy NZD / Sell AUD** | | | | | | | | |
| Less than 3 months | **1.2433** | – | **734** | – | **595** | – | **26** | – |
| 3 to 6 months | **1.2469** | – | **734** | – | **590** | – | **31** | – |
| Later than 6 months | **1.2444** | 1.2299 | **5,593** | 5,134 | **4,508** | 4,174 | **189** | (120) |
| | | | **7,061** | 5,134 | **5,693** | 4,174 | **246** | (120) |
| **Buy AUD / Sell NZD** | | | | | | | | |
| Less than 3 months | **1.2159** | – | **850** | – | **712** | – | **(3)** | – |
| 3 to 6 months | **1.1865** | – | **18,802** | – | **15,846** | – | **(61)** | – |
| Later than 6 months | **1.1878** | – | **41,718** | – | **35,125** | – | **(133)** | – |
| | | | **61,370** | – | **51,683** | – | **(197)** | – |
| **Buy CNY / Sell AUD** | | | | | | | | |
| Less than 3 months | **6.2467** | – | **358** | – | **57** | – | **6** | – |
| 3 to 6 months | **6.1750** | – | **329** | – | **53** | – | **5** | – |
| Later than 6 months | **5.9570** | – | **1,633** | – | **275** | – | **16** | – |
| | | | **2,320** | – | **385** | – | **27** | – |

### CROSS CURRENCY INTEREST RATE SWAPS

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

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

| Outstanding contracts | Weighted average interest rate (including credit margin) | | Weighted average exchange rate | | Contract value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | 2013 % | 2012 % | 2013 | 2012 | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Buy USD / Sell AUD** | | | | | | | | |
| 1 to 2 year(s) | **8.0** | – | **0.6787** | – | **103,141** | – | **(26,713)** | – |
| 2 to 5 years | **–** | 8.0 | **–** | 0.6787 | **–** | 103,141 | **–** | (34,750) |
| 5 years or more | **6.8** | 6.8 | **0.7220** | 0.7220 | **9,695** | 9,695 | **(1,407)** | (2,030) |
| | | | | | **112,836** | 112,836 | **(28,120)** | (36,780) |
| **Buy NZD / Sell AUD** | | | | | | | | |
| Less than 1 year | **–** | 10.0 | **–** | 1.2384 | **–** | 28,887 | **–** | (897) |
| | | | | | **–** | 28,887 | **–** | (897) |

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

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

### FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

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

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

| | Profit/(loss)(i) | | Equity(ii) | |
|---|---|---|---|---|
| Consolidated | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **USD impact** | | | | |
| – 20% rate change | – | 2,671 | – | 74,811 |
| + 20% rate change | – | (1,781) | – | (49,874) |
| – 15% rate change | **2,918** | – | **24,598** | – |
| + 15% rate change | **(2,157)** | – | **(18,181)** | – |
| **EUR impact** | | | | |
| – 15% rate change | **1,083** | 2,148 | **6,770** | 16,980 |
| + 15% rate change | **(801)** | (1,588) | **(6,770)** | (16,980) |
| **CNY impact (iii)** | | | | |
| – 10% rate change | – | – | – | 15,118 |
| + 10% rate change | – | – | – | (12,387) |
| – 15% rate change | – | – | **11,874** | – |
| + 15% rate change | – | – | **(8,812)** | – |
| **NZD impact** | | | | |
| – 10% rate change | **(5,702)** | 497 | **658** | 443 |
| + 10% rate change | **4,665** | (407) | **(539)** | (362) |
| **GBP impact** | | | | |
| – 15% rate change | **91** | 481 | – | 594 |
| + 15% rate change | **(68)** | (355) | – | (594) |

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

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

(iii) A portion of the Group's forward foreign exchange contracts relate to the USD/CNY currency pair. Therefore, the above sensitivity analysis includes assumed USD rate changes.

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

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

**(e) Interest rate risk management**

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

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

| | Weighted average effective interest rate (including credit margin) | | Consolidated | |
|---|---|---|---|---|
| | 2013 % | 2012 % | 2013 $'000 | 2012 $'000 |
| **Floating interest rates – cash flow exposure** | | | | |
| Bank overdrafts[(i)] | – | 5.1 | – | 2 |
| Bank loans | | | | |
| AUD | 4.4 | 5.8 | 59,701 | 19,116 |
| SGD | 2.4 | 2.2 | 1,281 | 1,165 |
| AUD medium term notes: | | | | |
| Series 2010-1 | 5.8 | 7.3 | 31,500 | 44,100 |
| Cash and cash equivalents | 2.7 | 3.5 | (473,733) | (296,691) |
| **Cash flow exposure – total** | | | (381,251) | (232,308) |
| **Fixed interest rates – fair value exposure** | | | | |
| Bank loans | | | | |
| AUD | 4.3 | 4.5 | 24,692 | 29,974 |
| USD notes | 7.8 | 7.8 | 111,391 | 112,965 |
| AUD medium term notes: | | | | |
| Series 2009-1 | 7.2 | 7.2 | 69,654 | 83,420 |
| Series 2009-2 | 9.8 | 9.8 | 150,000 | 150,000 |
| Series 2013-1 | 5.8 | – | 150,000 | – |
| NZD Works Bonds | | | | |
| NZD[(ii)] | – | 9.7 | – | 118,424 |
| Finance lease and hire purchase liabilities | 6.6 | 7.7 | 124,387 | 106,289 |
| **Fair value exposure – total** | | | 630,124 | 601,072 |

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

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

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

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

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

### INTEREST RATE SWAP CONTRACTS

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

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

| Outstanding floating for fixed contracts | Weighted average interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | 2013 % | 2012 % | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **AUD interest rate swaps** | | | | | | |
| 2 to 5 years | **5.1** | 5.0 | **84,707** | 22,809 | **(3,906)** | (833) |
| 5 years or more | **–** | 5.2 | **–** | 79,743 | **–** | (3,677) |
| | | | **84,707** | 102,552 | **(3,906)** | (4,510) |

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

### INTEREST RATE SENSITIVITY ANALYSIS

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

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

Sensitivities have been based on an increase in interest rates by 100 basis points and a decrease by 100 basis points across the yield curve.

| | Consolidated | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| **Increase in rate** | | |
| Profit/(loss)(i) | **3,815** | 2,326 |
| Equity(ii) | **2,143** | 3,384 |
| **Decrease in rate** | | |
| Profit/(loss)(i) | **(3,815)** | (2,327) |
| Equity(ii) | **(2,214)** | (3,516) |

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

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

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

**(f) Commodity price risk**

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

**Commodity price risk sensitivity**

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

**(g) Credit risk management**

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

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables counterparties and where appropriate insurance cover is obtained. Refer to Note 10 for details on credit risk arising from trade and other receivables.

The credit risk on derivative financial instruments is limited in terms of Treasury Policy to counterparties that have minimum long-term credit ratings from Standard & Poor's of no less than AA–. Due to the general downward migration of the credit ratings of bank counterparties over recent years, the consolidated entity has exposure to banks below this rating threshold. Two bank counterparties are rated A+ and one is rated A. Furthermore, as a result of a global restructure, one counterparty is no longer rated by Standard & Poor's.

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

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

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk.

**(h) Liquidity risk management**

Liquidity risk arises from the possibility that the consolidated entity is unable to settle a transaction on the due date. The ultimate liquidity risk management rests with the Board of Directors, which has built an appropriate risk management framework for the consolidated entity's funding and liquidity management requirements.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and committed undrawn debt facilities, by continually monitoring forecast and actual cash flows, and where possible by matching the maturity profiles of financial assets and liabilities. Included in Note 20 is a listing of committed undrawn debt facilities.

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

### LIQUIDITY RISK TABLES

The following tables detail the consolidated entity's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturities. The tables include both interest and principal cash flows.

| $'000 | Less than 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| **Financial liabilities** | | | | | | |
| **Trade payables** | **446,766** | **–** | **–** | **–** | **–** | **–** |
| Supplier finance | **5,845** | **–** | **–** | **–** | **–** | **–** |
| Bank loans | **20,816** | **18,864** | **18,417** | **15,850** | **6,192** | **8,723** |
| USD notes | **6,027** | **79,798** | **497** | **497** | **497** | **8,400** |
| AUD medium term notes (Series 2009-1) | **16,305** | **15,708** | **15,272** | **14,710** | **13,975** | **–** |
| AUD medium term notes (Series 2009-2) | **157,313** | **–** | **–** | **–** | **–** | **–** |
| AUD medium term notes (Series 2010-1) | **14,194** | **13,481** | **6,487** | **–** | **–** | **–** |
| AUD medium term notes (Series 2013-1) | **8,625** | **8,625** | **8,625** | **8,625** | **8,625** | **154,313** |
| **Total borrowings including interest** | **229,125** | **136,476** | **49,298** | **39,682** | **29,289** | **171,436** |
| Finance lease and hire purchase liabilities | **47,176** | **23,150** | **29,772** | **14,804** | **26,379** | **184** |
| **Derivative instruments[(i)]** | | | | | | |
| Cross currency interest rate swaps | | | | | | |
| – Receive leg | **(5,961)** | **(78,927)** | **(492)** | **(492)** | **(492)** | **(8,308)** |
| – Pay leg | **8,974** | **107,226** | **659** | **659** | **659** | **10,690** |
| Interest rate swaps | **1,905** | **1,401** | **774** | **278** | **74** | **–** |
| Foreign currency forward contracts | **(12,558)** | **(147)** | **(57)** | **–** | **–** | **–** |
| **Total** | **715,427** | **189,179** | **79,954** | **54,931** | **55,909** | **174,002** |
| **2012** | | | | | | |
| **Financial liabilities** | | | | | | |
| Trade payables | 577,954 | – | – | – | – | – |
| Bank overdrafts | 2 | – | – | – | – | – |
| Supplier finance | 6,332 | – | – | – | – | – |
| Bank loans | 12,010 | 10,247 | 9,976 | 9,627 | 6,157 | – |
| USD notes | 5,386 | 5,386 | 71,320 | 445 | 445 | 7,954 |
| AUD medium term notes (Series 2009-1) | 17,607 | 16,491 | 16,049 | 15,494 | 14,717 | 13,950 |
| AUD medium term notes (Series 2009-2) | 14,625 | 157,313 | – | – | – | – |
| AUD medium term notes (Series 2010-1) | 15,322 | 14,249 | 13,590 | 6,506 | – | – |
| NZD Bonds | 120,366 | – | – | – | – | – |
| **Total borrowings including interest** | 191,650 | 203,686 | 110,935 | 32,072 | 21,319 | 21,904 |
| Finance lease and hire purchase liabilities | 31,917 | 41,270 | 17,151 | 32,333 | 207 | – |
| **Derivative instruments[(i)]** | | | | | | |
| Cross currency interest rate swaps | | | | | | |
| – Receive leg | (34,171) | (5,454) | (72,216) | (450) | (450) | (8,054) |
| – Pay leg | 38,650 | 8,974 | 107,255 | 659 | 659 | 11,349 |
| Interest rate swaps | 1,484 | 1,658 | 995 | 500 | 270 | 99 |
| Foreign currency forward contracts | 45,705 | 3,674 | 248 | – | – | – |
| **Total** | 853,189 | 253,808 | 164,368 | 65,114 | 22,005 | 25,298 |

(i) Includes assets and liabilities.

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

**(i) Fair value of financial instruments**

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **2013 $'000** | 2012 $'000 | **2013 $'000** | 2012 $'000 |
| Total borrowings(i) | **557,803** | 512,621 | **562,149** | 525,202 |

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

**Fair value measurements**

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

i) The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

ii) The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

iii) The fair values of derivative instruments included in hedging assets and liabilities are calculated using quoted prices. Where such prices are not available, the fair values are calculated using discounted cash flow analysis and based on the applicable yield curve for the duration of the term of the instruments.

Transaction costs are included in the determination of net fair value.

**Fair value measurements recognised in the statement of financial position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

**2013**

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

## NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

**2012**

| $'000 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets in designated cash flow hedge accounting relationships** | | | | |
| Foreign currency forward contracts | – | 4,084 | – | 4,084 |
| **Financial assets in designated fair value hedge accounting relationships** | | | | |
| Fair value commodity hedges | – | 419 | – | 419 |
| **Financial assets at fair value through profit or loss** | | | | |
| Unquoted equity investments | – | – | 5,188 | 5,188 |
| | – | 4,503 | 5,188 | 9,691 |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Foreign currency forward contracts | – | 52,993 | – | 52,993 |
| Cross currency and interest rate swaps | – | 42,187 | – | 42,187 |
| | – | 95,180 | – | 95,180 |

There were no transfers between Level 1 and Level 2 during the year.

**Reconciliation of Level 3 fair value measurements of financial assets**

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

| 2012 | Fair value through profit or loss | Available-for-sale | Total |
|---|---|---|---|
| **$'000** | **Unquoted equity investments** | **Unquoted equity investments** | |
| Opening balance | 5,373 | 13,750 | 19,123 |
| Net foreign currency exchange | – | (23) | (23) |
| Settlements | (185) | – | (185) |
| Disposals of business | – | (13,727) | (13,727) |
| Closing balance | 5,188 | – | 5,188 |

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

**Fair value of financial assets and liabilities**

*Unquoted equity investments*
The fair value of the unquoted equity investments were determined based on the consolidated entity's interest in the net assets of the unquoted entities.

## NOTE 38. PARENT ENTITY DISCLOSURES

| | Company | |
|---|---|---|
| | 2013 $'000 | 2012 $'000 |
| **(a) Financial position** | | |
| **Assets** | | |
| Current assets | 459,898 | 596,491 |
| Non-current assets | 948,905 | 1,162,030 |
| **Total assets** | 1,408,803 | 1,758,521 |
| **Liabilities** | | |
| Current liabilities | 49,808 | 56,039 |
| Non-current liabilities | 2,416 | 355,012 |
| **Total liabilities** | 52,224 | 411,051 |
| **Net assets** | 1,356,579 | 1,347,470 |
| **Equity** | | |
| Issued capital | 1,270,324 | 1,249,127 |
| Retained earnings | 72,305 | 88,378 |
| **Reserves** | | |
| Employee benefit reserve | 13,950 | 9,965 |
| **Total equity** | 1,356,579 | 1,347,470 |
| **(b) Financial performance** | | |
| Profit for the year | 26,837 | 6,108 |
| **Total comprehensive income** | 26,837 | 6,108 |

**(c) Guarantees entered into by the parent entity in relation to debts of its subsidiaries**

The parent entity has, in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year.

**(d) Contingent liabilities of the parent entity**

The parent entity has no contingent liabilities other than those disclosed in Note 30 to the financial statements as at 30 June 2013.

**(e) Commitments for the acquisition of property, plant and equipment by the parent entity**

The parent entity does not have any commitments for acquisition of property, plant and equipment as at 30 June 2013.

In the opinion of the Directors' of Downer EDI Limited:

(a) The financial statements and notes set out on pages 42 to 114 are in accordance with the Australian *Corporations Act 2001* (Cth), including:

(i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) The financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;

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

(c) The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* (Cth); and

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

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the *Corporations Act 2001* (Cth).

On behalf of the Directors

R M Harding
Chairman

Sydney, 6 August 2013

Deloitte.

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

## Report on the Financial Report

We have audited the accompanying financial report of Downer EDI Limited, which comprises the statement of financial position as at 30 June 2013, and the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 42 to 115.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

*Auditor's Independence Declaration*

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

*Opinion*

In our opinion:

(a) the financial report of Downer EDI Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 17 to 40 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

Sydney, 6 August 2013

# SUSTAINABILITY PERFORMANCE SUMMARY 2013

Sustainability for Downer means being a valued contributor to the communities in which it operates, demonstrating sound environmental performance and being a responsible employer, while delivering excellence to its customers and rewarding its shareholders.

Downer tracks and discloses its sustainability impacts, challenges and opportunities through its annual Sustainability Report. The Sustainability Report provides a summary of Downer's non-financial, sustainability-related performance for the year ended 30 June 2013 and will be available on the Downer website in late 2013 at **www.downergroup.com.**

## MANAGEMENT SYSTEMS

Downer has implemented systems which seek to identify foreseeable hazards and to manage risks associated with them. The systems are designed to assist Downer's governance and go beyond Safety Management Systems to include Safety Culture and Safety Leadership. This year Downer improved its legislative identification and compliance by introducing Document Maps and reviewing its Zero Harm compliance guides, which set out Downer's compliance obligations and requirements based on operational issues relevant to Downer's activities.

## HEALTH AND SAFETY

The health and safety of Downer's people is the Company's first priority. Downer's goal of Zero Harm requires continuous improvement to achieve zero work-related injuries and environmental incidents. Downer's managers are expected to lead by example, regularly carrying out workplace safety observations and communicating safety messages, and employees are encouraged to contribute. Downer's Zero Harm culture involves leading and inspiring, re-thinking processes, learning lessons from what has worked well and tracking the progress of programs and initiatives.

Regrettably, despite the efforts to keep its people safe, Downer suffered a workplace fatality in New Zealand in October 2012. The Group has embarked on an analysis, assessment and response at every level of the organisation on critical risk management where hazards are identified and known controls are applied. An example of this is the introduction of a set of Group-wide Cardinal Rules, which address ten of the most significant areas of risk for harm to employees.

Downer's health and safety performance, as monitored through the measure of Lost Time Injury Frequency Rate (LTIFR)[1] and Total Recordable Injury Frequency Rate (TRIFR)[2], improved during the year. LTIFR was 0.70 at 30 June 2013, down from 0.93 at 30 June 2012 and remaining below one incident per million hours worked. TRIFR reduced from 6.21 to 5.42 per million hours worked[3].

The improved performance is due to a number of factors including an increased focus on critical risks through the implementation of Group-wide risk management processes, targeted operational and management health and safety training, and greater utilisation of feedback from audit and incident investigations to enhance learning for the Company.

## ENVIRONMENTAL SUSTAINABILITY

Downer continues to track and report its sustainability-related performance against three key areas covering compliance and risk management, minimising environmental impact and improving resource efficiency.

The focus for Downer within the environmental area during the 2013 financial year has been on improving energy efficiency, reducing greenhouse gas emissions and improving the data collection and reporting processes. In addition, there has been work on environmental risk assessment, review and implementation of mitigation strategies and categorisation of environmental incidents.

Downer has commenced the reassessment of energy use across its Australian operations and continues to identify opportunities that can deliver energy savings and improved efficiencies for its business. Downer's work in this area has delivered annualised energy savings of more than 150,000 gigajoules, which is equivalent to approximately 5 per cent of the Group's energy consumption.

Downer has continued its program of introducing world-class technology for asphalt production with the commissioning of a new plant in South Australia which allows increased proportions of recycled product to be used. Downer plans to progressively apply this technology more broadly as it replaces older plants.

Downer continues to focus on reducing its greenhouse gas emissions by improving energy efficiency across the diverse range of company business activities and industry sectors in which it operates.

Downer manages environmental risk by implementing mitigation strategies through effective project planning to reduce the potential for, and number of, actual spills or other environmental incidents. This risk-based approach is supported by robust environmental management systems across Downer's diverse operations and focuses on industry-specific risks and opportunities.

Further information about Downer's approach to sustainability is available in its Annual Review and Sustainability Reports, which are available on the Downer website at **www.downergroup.com.**

1 Lost time injuries (LTIs) are defined as diseases or occurrences that result in a fatality, permanent disability or time lost from one day/shift or more. The LTIFR is the number of LTIs per million hours worked.

2 TRIFR is the number of fatal injuries + lost-time injuries + medically treated injuries per million hours worked.

3 Published safety statistics may be subject to change due to updates in incident classifications and amendments to hours worked. This data will be subject to third party verification and will be published in the 2013 Sustainability Report.

## OVERVIEW

Downer's corporate governance framework provides the platform from which:

- The Board is accountable to shareholders for the operations, performance and growth of the Company;
- Downer management is accountable to the Board;
- The risks of Downer's business are identified and managed; and
- Downer effectively communicates with its shareholders and the investment community.

Downer continues to enhance its policies and processes to promote leading corporate governance practices.

The Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles).

## PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Downer Board Charter sets out the functions and responsibilities of the Board and is available on the Downer website at **www.downergroup.com**.

The Board Charter states that the role of the Board is to provide strategic guidance for the Company and to effectively oversee management of the Company. Among other things, the Board is responsible for:

- Overseeing the Company, including its control and accountability systems;
- Appointing and removing the Group CEO and senior executives;
- Monitoring performance of the Group CEO and senior executives; and
- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Directors receive formal letters of engagement setting out the key terms, conditions and expectations of their engagement.

The Board Charter also describes the functions delegated to management, led by the Group CEO.

The primary goal set for management by the Board is to focus on enhancing shareholder value, which includes responsibility for Downer's economic, environmental and social performance.

The Group CEO is responsible for the day-to-day management of Downer and his authority is delegated and authorised by the Board.

Details of the Downer Executive Leadership Team are available on the Downer website at **www.downergroup.com**.

The Board has formal induction procedures for both Directors and senior executives. These induction procedures have been developed to enable new Directors and senior executives to gain an understanding of:

- Downer's financial position, strategies, operations and risk management policies; and
- The respective rights, duties and responsibilities and roles of the Board and senior executives.

The performance of Downer's senior executives is regularly reviewed against appropriate measures, including individual performance targets linked to the business plan and overall corporate objectives. Downer's senior executives participate in periodic performance evaluations where they receive feedback on progress against these targets.

## PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Throughout the 2013 financial year, the Board was comprised of a majority of independent Directors.

The Board is currently comprised of the Chairman (Mike Harding, an independent, Non-executive Director), six independent, Non-executive Directors and an Executive Director (the Group CEO, Grant Fenn). Details of the members of the Board, including their skills, experience, status and their term of office are set out in the Directors' Report on pages 2-3 and are also available on the Downer website at **www.downergroup.com**.

The composition of the Board is assessed by the Nominations and Corporate Governance Committee to ensure the Board is of a composition, size and commitment to effectively discharge its responsibilities and duties.

Directors are required to bring an independent judgement to bear on all Board decisions. To facilitate this, it is Downer's policy to provide Directors with access to independent professional advice at the Company's expense in appropriate circumstances.

Downer's Non-executive Directors recognise the benefit of conferring regularly without Management present, and they do so at various times throughout the year.

The Board considers that an independent Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could (or could reasonably be perceived to) materially interfere with the independent exercise of their judgement. The Board regularly assesses the independence of each Director.

Downer's governance framework requires each Director to promptly disclose actual and possible conflicts of interest, any interests in contracts, other directorships or offices held, related party transactions and any dealing in the Company's securities.

At least one Director must retire from office at each Annual General Meeting (AGM). No Non-executive Director can serve more than three years without offering themselves for re-election.

The Chairman of the Board is an independent, Non-executive Director. He is responsible for leadership of the Board and for the efficient organisation and functioning of the Board. The Chairman is appointed by the Board to ensure that a high standard of values, governance and constructive interaction is maintained.

The Chairman facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and the Board and Management. He also represents the views of the Board to Downer's shareholders and conducts the AGM.

## PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE – CONTINUED

The roles of Chairman and Group CEO are not exercised by the same person and the division of responsibilities between the Chairman and the Group CEO have been agreed by the Board and are set out in the Board Charter and Downer's Delegations Policy.

The Board has established a number of subcommittees to assist the Board to effectively and efficiently execute its responsibilities. A list of the main Board Committees and their membership is set out in the table below.

| Board Committee | Chairman | Members |
|---|---|---|
| Audit and Risk Committee | S A Chaplain | P S Garling<br>J S Humphrey<br>K G Sanderson<br>C G Thorne |
| Zero Harm Committee | E A Howell | G A Fenn<br>R M Harding<br>C G Thorne |
| Nominations and Corporate Governance Committee | R M Harding | S A Chaplain<br>J S Humphrey<br>K G Sanderson |
| Remuneration Committee | P S Garling | R M Harding<br>J S Humphrey<br>K G Sanderson |
| Disclosure Committee | J S Humphrey | G A Fenn<br>R M Harding |

The names of members of each committee, the number of meetings and the attendances by each of the members of the various committees to which they are appointed is set out in the Directors' Report on page 15.

The Board has also established a Tender Risk Evaluation Committee to oversee tenders and contracts that exceed the delegation of the Group CEO.

The Tender Risk Evaluation Committee, all members of which are independent Directors, is chaired by an independent Director and comprises four members. Meetings of the Tender Risk Evaluation Committee are convened as required to review tender opportunities.

The Board has established the Nominations and Corporate Governance Committee to oversee the selection and appointment practices of the Company.

The Nominations and Corporate Governance Committee's primary purpose is to support and advise the Board on fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and leading governance practice.

The Nominations and Corporate Governance Committee has a charter which sets out its roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. The Nominations and Corporate Governance Committee Charter gives the Nominations and Corporate Governance Committee access to internal and external resources, including access to advice from external consultants and specialists. The Nominations and Corporate Governance Committee Charter is available on the Downer website at **www.downergroup.com**.

The Nominations and Corporate Governance Committee, all members of which are independent Directors, is chaired by an independent Director and has a minimum of three members.

The Committee's responsibilities include:

- Assessing the skills and competencies required on the Board;
- Assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual Directors and the Board as a whole;
- Establishing processes for identifying suitable candidates for appointment to the Board; and
- Recommending the engagement of nominated persons as Directors.

## PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE – CONTINUED

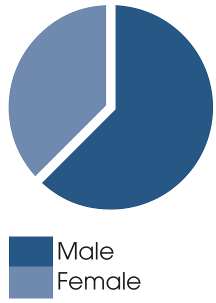
When appointing Directors, the Nominations and Corporate Governance Committee aims to ensure that an appropriate balance of skills, experience, expertise and diversity is represented on the Board. The chart below illustrates the balance achieved with the current Board composition. The Company recognises the value of diversity and diversity has been a component of the appointment process over the past few years.

Professional qualifications


* Comprises construction, engineering, metallurgy and science.

Industry experience


Gender diversity




From time to time, Downer engages external specialists to assist with the selection process as necessary, and the Chairman, Board and Group CEO meet with nominees as part of the appointment process.

Nominations for re-election of directors are reviewed by the Nominations and Corporate Governance Committee and Directors are re-elected in accordance with the Downer Constitution and the ASX Listing Rules.

As part of its commitment to leading corporate governance practice, the Board undertakes improvement programs, including periodic reviews of its performance in consultation with an external consultant.

During the year, the Board completed an externally facilitated review of its performance and that of its Committees and Directors. The review involved the completion of surveys and face to face interviews with Board and certain key members of Management that focused on Board effectiveness and assessment of each individual Director. The Board discussed the results of the review at a Board meeting and the Chairman discussed the results of individual Director assessments with the relevant Directors (with the Chair of the Audit and Risk Committee undertaking this role for the Chairman). While the review concluded that the Board is operating well, a number of improvements were identified and were implemented during the year.

Additionally, Downer's Director and senior executive induction program is designed to enable new Directors and senior executives to gain an understanding of, among other things, Downer's culture and values and the Company's financial, strategic, operational and risk management position.

Directors are given an induction briefing by the Company Secretary and an induction pack containing information about Downer and its business, Board and Committee charters and Downer Group policies. New Directors also meet with key senior executives to gain an insight into the Company's business operations and the Downer Group structure.

Directors are encouraged to continually build on their exposure to the Company's business and a formal program of Director site visits has been in place since 2009.

Directors are also encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge and the Company Secretary regularly organises governance and other continuing education sessions for the Board.

The Board is provided with the information it needs to discharge its responsibilities effectively. The Directors also have access to the Company Secretary for all Board and governance-related issues and the appointment and removal of the Company Secretary is determined by the Board. The Company Secretary is accountable to the Board on all governance matters.

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Downer strives to attain the highest standards of behaviour and business ethics when engaging in corporate activity. The Downer Standards of Business Conduct sets the ethical tone and standards of the company and deals with matters such as:

- Compliance with the letter and the spirit of the law;
- Prohibition against bribery and corruption;
- Protection of confidential information;
- Engaging with stakeholders;
- Workplace safety;
- Diversity and inclusiveness;
- Sustainability; and
- Conflicts of interest.

Downer has a formal whistleblower policy and procedures for reporting and investigating breaches of the Standards of Business Conduct. This includes the Our Voice service, an external and independent reporting service which enables employees to anonymously report potential breaches of the Standards of Business Conduct, including misconduct or other unethical behaviour. Reports received through Our Voice are investigated where appropriate, with the Company Secretary overseeing the completion of any remedial action.

The Standards of Business Conduct apply to all officers and employees and are available on the Downer website at **www.downergroup.com**.

Downer endorses leading governance practices and has in place policies setting out the Company's approach to various matters, including:

- Securities trading (stipulating "closed periods" for designated employees and a formal process which employees must adhere to when dealing in securities);
- The Company's disclosure obligations (including continuous disclosure);
- Communicating with shareholders and the general investment community; and
- Privacy.

Downer has also established an Anti-Bribery and Corruption Policy which expands upon the prohibition against bribery and corruption currently contained in the Standards of Business Conduct, and addresses key issues such as working with government, political donations, human rights, conducting business internationally, and gifts and benefits. As Downer has operations in foreign jurisdictions, Downer employees are increasingly confronted by the challenges of doing business in environments where bribery and corruption are risks. However, regardless of the country or culture within which our people work, Downer is committed to compliance with the law, as well as maintaining its reputation for ethical practice.

These policies are available on the Downer website at **www.downergroup.com**.

### DIVERSITY AT DOWNER

Downer is committed to ensuring that it has a diverse and inclusive workforce, which fulfils the expectations of its employees, customers and shareholders while building a sustainable future for its business. Downer has formalised its practices in a Diversity and Inclusiveness Policy, which sets out Downer's diversity initiatives and has a particular focus on gender, age and cultural diversity. Downer has established a Diversity and Inclusiveness Committee made up of senior executives across the Group which meets on a regular basis to implement and monitor these initiatives.

The Diversity and Inclusiveness Policy and Downer's Sustainability Reports are available on the Downer website at **www.downergroup.com**.

### ASX DIVERSITY RECOMMENDATIONS – DIVERSITY STATEMENT

This diversity statement outlines Downer's performance throughout 2013 with respect to its broader diversity program, but with a particular focus on gender, and specifically includes:

- Details of Downer's key gender representation metrics;
- An overview of the gender diversity initiatives undertaken by Downer throughout 2013; and
- An outline of Downer's measurable gender diversity objectives for 2014.

### GENDER REPRESENTATION METRICS

As at 30 June 2013, the gender representation metrics were as follows:

- Three of the eight Non-executive Directors on the Downer Board are women (unchanged since FY12);
- Women currently make up 8 per cent of Senior Management/Executive roles; and
- Women constitute approximately 12 per cent of Downer's workforce.

## PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING – CONTINUED

### LOOKING BACK: FY13 MEASURABLE OBJECTIVES

| Objective | Outcome |
|---|---|
| Increase the number of new female Senior Management/ Executive appointments | The number of women holding Senior Management/Executive roles increased by 2 per cent. |
| Improve recruitment processes to increase the number of female applicants across all roles in Downer | The need to apply for and obtain a special dispensation for gender targeted recruitment campaigns has meant that progress in this area has been slower than anticipated. So far, Downer Mining has been granted special dispensation in order to run recruitment campaigns for specific roles within New South Wales and Queensland. |
| Review, evaluate and assess the structured consultative processes, initiatives, policies and support programs that have been or will be established | The Diversity and Inclusiveness Committee has been reconstituted to provide better representation from all Divisions, particularly at a leadership level. Committee members have conducted workshops with divisional stakeholders and the Committee has prepared a strategic plan. This has resulted in a Group-wide strategic plan covering the short to medium term initiatives of the Diversity and Inclusiveness Committee, and aims to cover all aspects of an employee's lifecycle from recruitment through to retirement planning.<br><br>A Group-wide Downer Corporate Family program has been established, which supports employees who have caring responsibilities and assists them in managing these responsibilities with their work obligations. The program has proved to be effective, with a significant number of staff having accessed and/or used the services provided to date.<br><br>A pilot anti-bullying and harassment training program was also implemented at the Group office level in May/June 2013. |
| Promote awareness and understanding of Indigenous and Torres Strait Islander affairs by implementing the Indigenous and Torres Strait Islander Affairs strategy across the Group | The program for the recruitment of Indigenous and Torres Strait Islander employees continues to deliver strong results, particularly in Downer Mining.<br><br>The Indigenous and Torres Strait Islander Affairs strategy is planned to be implemented by late 2013/early 2014. |

### LOOKING AHEAD: FY14 MEASURABLE OBJECTIVES

As part of Downer's ongoing commitment to the regular review and updating of its measurable objectives, Downer has re-affirmed its objectives for 2014, which are comprised by a continuation of the FY13 objectives and those set out below:

- Increase the number of female employees in the organisation by providing development opportunities, targeted recruitment and introduction of flexible work opportunities where appropriate;
- Increase the number of Indigenous and Torres Strait Islander employees in Australia and increase the number of Maori and Pacific Island employees in management and senior management roles in New Zealand, through targeted recruitment and development initiatives;
- Downer has committed to undertake a pilot program to support the Jawun program and it is expected this will lead to full support and membership with Jawun. The Jawun program creates opportunities for selected employees to use their professional skills to make a contribution to our Indigenous communities;
- Maintain a continuous pipeline of talent into the organisation through cadetship, graduate and apprenticeship opportunities; and
- Optimise the ageing workforce by providing flexible work arrangements and retirement planning options to employees.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Company has in place a structure of review and authorisation which independently verifies and safeguards the integrity of its financial reporting.

The Audit and Risk Committee assists the Board to fulfil its responsibilities relating to:

- The quality and integrity of the accounting, auditing and reporting practices of the Company with a particular focus on the qualitative aspects of financial reporting to shareholders;
- The Company's risk profile and risk policies; and
- The effectiveness of the Company's system of internal control and framework for risk management.

The Audit and Risk Committee is structured so that it:

- Consists of only Non-executive Directors;
- Consists of a majority of independent Directors;
- Is chaired by an independent Chairman (who is not the Chairman of the Board); and
- Has at least three members.

The Audit and Risk Committee currently comprises only independent Directors, includes members who are financially literate and has at least one member who has relevant qualifications and experience.

The Audit and Risk Committee Charter sets out the Audit and Risk Committee's role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company's Disclosure Policy sets out processes which assist the Company to ensure that all investors have equal and timely access to material information about the Company and that Company announcements are factual and presented in a clear and balanced way. A copy of the Disclosure Policy is available on the Downer website at **www.downergroup.com**.

The Disclosure Policy also sets out the procedures for identifying and disclosing material and price-sensitive information in accordance with the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

Downer's Disclosure Committee consists of two independent, Non-executive Directors (one of which is the Chairman of the Board) and the Group CEO. The Disclosure Committee oversees disclosure of information by the Company to the market and the general investment community.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Downer empowers its shareholders by:

- Communicating effectively with shareholders;
- Giving shareholders ready access to balanced and understandable information about the Company; and
- Making it easy for shareholders to participate in general meetings.

The Downer Communication Policy sets out the Company's approach to communicating with shareholders and is available on the Downer website at **www.downergroup.com**.

The Company publishes corporate information on its website (**www.downergroup.com**), including Annual and Half Year Reports, ASX announcements, investor updates and media releases.

Downer encourages shareholder participation at AGMs through its use of electronic communication, including by making notices of meetings available on its website and audio casting of general meetings and significant Group presentations.

The Directors and key members of Management attend the Company's AGMs and are available to answer questions.

Downer's external auditor attends the Company's AGMs and is available to answer any questions which shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

To mitigate the risks that arise through its activities, Downer has various risk management policies and procedures in place that cover (among other matters) interest rate management, foreign exchange risk management, credit risk management, tendering and contracting risk and project management.

Downer has controls at the Board, executive and business unit levels that are designed to safeguard Downer's interests and ensure the integrity of reporting (including accounting, financial reporting, environment and workplace health and safety policies and procedures). These controls are designed to ensure that Downer complies with legal and regulatory requirements, as well as community standards.

Downer has a Risk Management Framework in place to enable business risks to be identified, evaluated and managed. The Downer Board ratifies Downer's approach to managing risk and oversees Downer's Risk Management Framework, including the Group risk profile and the effectiveness of the systems being implemented to manage risk.

Management reports regularly to the Board on the effectiveness of Downer's management of its material business risks. The Board regularly reviews the effectiveness of the Company's systems for the management of material business risks and the implementation of these systems.

The Company's internal audit team analyses and undertakes independent appraisal of the adequacy and effectiveness of Downer's internal control system.

## PRINCIPLE 7 – RECOGNISE AND MANAGE RISK – CONTINUED

Downer's internal audit team is independent of the external auditor and has access to the Audit and Risk Committee and to Management.

Downer has established an Audit and Risk Committee to assist the Board in its oversight of Downer's risk profile and risk policies, the effectiveness of the systems of internal control and Risk Management Framework and Downer's compliance with applicable legal and regulatory obligations.

The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

Management reports regularly to the Audit and Risk Committee on the effectiveness of Downer's management of its material business risks and on the progress of mitigation treatments.

The Board receives assurances from the Group CEO and the Group CFO that the declaration provided in accordance with section 295A of the *Corporations Act 2001* (Cth) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration Committee and has adopted the Remuneration Committee Charter which sets out its role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board about:

- Executive remuneration and incentive policies;
- The remuneration, recruitment, retention, performance measurement and termination policies and procedures for all senior executives reporting directly to the Group;
- Executive and equity-based incentive plans; and
- Superannuation arrangements and retirement payments.

Remuneration of the Group CEO, executive Directors and Non-executive Directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Downer's remuneration policy is designed to motivate senior executives to pursue the long-term growth and success of the Company and prescribes a relationship between the performance and remuneration of senior executives.

The Remuneration Committee consists of a majority of independent Directors, is chaired by an independent Director and has at least three members (currently no Executive Director is a member of the Remuneration Committee).

The maximum aggregate fee approved by shareholders that can be paid to Non-executive Directors is $2.0 million per annum. This cap was approved by shareholders on 30 October 2008. Further details about remuneration paid to Non-executive Directors are set out in the Remuneration Report at page 17.

The Company's previous Constitution allowed for retiring Non-executive Directors to receive a retiring allowance, subject to the limitations set out in the *Corporations Act 2001* (Cth). Consistent with the ASX Principles, the right to retirement benefits was frozen in 2005. However, because remuneration arrangements for some Non-executive Directors were in place prior to 2005, information about any payments has been fully provided in the financial statements where such retirement benefits have been paid. Directors entitled to a retirement benefit were paid a reduced fee and once a Director's accumulated reduction in base fees has reached the value of the retirement benefit, the applicable base fee reverts to the general fee level. This has been applied to Mr Humphrey from 1 July 2009. The retirement benefit has not been offered to Non-executive Directors appointed subsequently.

Non-executive Directors do not participate in any equity incentive schemes.

The remuneration structure for Executive Directors and senior executives is designed to achieve a balance between fixed and variable remuneration taking into account the performance of the individual and the performance of the Company. Executive Directors receive payment of equity-based remuneration as short-term and long-term incentives.

Executive Directors and senior executives are prohibited from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any of the Company's equity-based remuneration schemes.

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report at page 17 and details of Downer shares beneficially owned by Directors are provided in the Directors' Report at page 4.

# INFORMATION FOR INVESTORS
FOR THE YEAR ENDED 30 JUNE 2013

## DOWNER SHAREHOLDERS

Downer had 21,710 ordinary shareholders as at 30 June 2013.

The largest shareholder, HSBC Custody Nominees (Australia) Limited, holds 21.92 per cent of the 433,409,429 fully paid ordinary shares issued at that date. Downer has 19,327 shareholders with registered addresses in Australia.

## SECURITIES EXCHANGE LISTING

Downer is listed on the Australian Securities Exchange (ASX) under the "Downer EDI" market call code 3965, with ASX code DOW, and is secondary listed on the New Zealand Exchange with the ticker code DOW NZ.

## COMPANY INFORMATION

The Company's website **www.downergroup.com** offers comprehensive information about Downer and its services. The site also contains news releases and announcements to the ASX, financial presentations, Annual Reports, Half Year Reports and company newsletters. Downer printed communications for shareholders include the Annual Report which is available on request.

## DIVIDENDS

Dividends are determined by the Board having regard to a range of circumstances within the business operations of Downer including operating profit and capital requirements. The level of franking on dividends is dependent on the level of taxes paid to the Australian Taxation Office by Downer and its incorporated joint ventures.

International shareholders can use Computershare's Global Payments System to receive dividend payments in the currency of their choice at a nominal cost to the shareholder.

## DIVIDEND REINVESTMENT PLAN

Downer's Dividend Reinvestment Plan (DRP) is a mechanism to allow shareholders to increase their shareholding in the company without the usual costs associated with share acquisitions, such as brokerage. Details of the DRP are available from the company's website or the Easy Update website at **www.computershare.com.au/easyupdate/dow**. The DRP is currently suspended.

## SHARE REGISTRY

Shareholders and investors seeking information about Downer shareholdings or dividends should contact the company's share registry, Computershare Investor Services Pty Ltd (Computershare):

Level 5
115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

Tel: 1300 556 161 (within Australia)
+61 3 9415 4000 (outside Australia)

Fax: 1300 534 987 (within Australia)
+61 3 9473 2408 (outside Australia)

**www.computershare.com**

Shareholders must give their holder number (SRN/HIN) when making inquiries. This number is recorded on issuer sponsored and CHESS statements.

## UPDATING YOUR SHAREHOLDER DETAILS

Shareholders can update their details (including bank accounts, DRP elections, tax file numbers and email addresses) online at **www.computershare.com.au/easyupdate/dow**.

Shareholders will require their holder number (SRN/HIN) and postcode to access this site.

## TAX FILE NUMBER INFORMATION

Providing your tax file number to Downer is not compulsory. However, for shareholders who have not supplied their tax file number, Downer is required to deduct tax at the top marginal rate plus Medicare levy from unfranked dividends paid to investors residing in Australia. For more information please contact Computershare.

## LOST ISSUER SPONSORED STATEMENT

You are advised to contact Computershare immediately, in writing, if your issuer sponsored statement has been lost or stolen.

## ANNUAL REPORT MAILING LIST

Shareholders must elect to receive a Downer Annual Report by writing to Computershare Investor Services Pty Ltd at the address provided. Alternatively shareholders may choose to receive this publication electronically.

## CHANGE OF ADDRESS

So that we can keep you informed, and protect your interests in Downer, it is important that you inform Computershare of any change of your registered address.

## AUDITOR

Deloitte Touche Tohmatsu
Level 3, 225 George Street
Sydney NSW 2000

## REGISTERED OFFICE AND PRINCIPAL ADMINISTRATION OFFICE

Downer EDI Limited
Level 2, Triniti III
Triniti Business Campus
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North Ryde NSW 2113

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Fax: +61 2 9813 8915

## AUSTRALIAN SECURITIES EXCHANGE INFORMATION AS AT 30 JUNE 2013

Number of holders of equity securities:

### ORDINARY SHARE CAPITAL

433,409,429 fully paid listed ordinary shares were held by 21,710 shareholders. All issued ordinary shares carry one vote per share.

## SUBSTANTIAL SHAREHOLDERS

The following shareholders have notified that they are substantial shareholders of Downer as at 30 June 2013.

| Shareholders | Ordinary shares held | % of issued shares |
|---|---|---|
| Sumitomo Mitsui Trust Holdings Inc | 28,228,024 | 6.51 |
| Vinva Investment Management | 27,029,324 | 6.24 |
| LSV Asset Management | 21,676,095 | 5.00 |

## DISTRIBUTION OF HOLDERS OF QUOTED EQUITY SECURITIES

Shareholder distribution of quoted equity securities as at 30 June 2013.

| Range of holdings | Number of shareholders | Shareholders % | Ordinary shares held | Shares % |
|---|---|---|---|---|
| 1 – 1,000 | 12,266 | 56.5 | 5,428,442 | 1.25 |
| 1,001 – 5,000 | 7,412 | 34.14 | 16,991,718 | 3.92 |
| 5,001 – 10,000 | 1,210 | 5.57 | 8,568,169 | 1.98 |
| 10,001 – 100,000 | 758 | 3.49 | 16,764,205 | 3.87 |
| 100,001 and over | 64 | 0.29 | 385,656,895 | 88.98 |
| Total | 21,710 | | 433,409,429 | 100.00 |
| Holding less than a marketable parcel of shares | 1,109 | | | |

## TWENTY LARGEST SHAREHOLDERS

Downer's 20 largest shareholders of ordinary fully paid shares as at 30 June 2013.

| Shareholders | Shares held | % of issued shares |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 94,993,778 | 21.92 |
| National Nominees Limited | 87,657,518 | 20.23 |
| JP Morgan Nominees Australia Limited | 77,815,752 | 17.95 |
| BNP Paribas Noms Pty Limited | 21,671,111 | 5.00 |
| Citicorp Nominees Pty Ltd | 21,410,932 | 4.94 |
| JP Morgan Nominees Australia Limited Cash Income A/C | 19,344,040 | 4.46 |
| Citicorp Nominees Pty Limited – Colonial First State Inv A/C | 12,751,711 | 2.94 |
| CPU Share Plans Pty Ltd | 7,949,611 | 1.83 |
| AMP Life Ltd | 7,449,755 | 1.72 |
| HSBC Custody Nominees (Australia) Limited – NT-Comnwlth Super Corp A/C | 6,876,403 | 1.59 |
| Share Direct Nominees Pty Ltd | 3,167,952 | 0.73 |
| Argo Investments Ltd | 2,392,527 | 0.55 |
| QIC Limited | 1,886,273 | 0.44 |
| BNP Paribas Nominees Pty Ltd – Agency Lending DRP A/C | 1,818,649 | 0.42 |
| UBS Nominees Pty Ltd | 1,520,000 | 0.35 |
| CS Fourth Nominees Pty Ltd | 1,340,199 | 0.31 |
| Masfen Securities Limited | 1,171,647 | 0.27 |
| Sandhurst Trustees Ltd – Harper Bernays Ltd A/C | 1,139,650 | 0.26 |
| Bond Street Custodians Limited – Macquarie Alpha Opport A/C | 1,136,400 | 0.26 |
| UBS Wealth Management Australia Nominees Pty Ltd | 1,041,281 | 0.24 |
| Total for top 20 shareholders | 374,535,189 | 86.41 |

## ON-MARKET BUY-BACK

There is no current on-market buy-back.

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## DOWNER GROUP OFFICE


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