2014 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 2014. 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 2014. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

BOARD OF DIRECTORS

R M HARDING (65)

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 the Chairman of Roc Oil Company Limited, a Director of Transpacific Industries Group Ltd and is a former Director of Santos Limited.

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

Mr Harding lives in Sydney.

G A FENN (49)

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 (56)

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, Chair of Queensland Airports Limited and a member of the Board of Export Finance and Insurance Corporation. Ms Chaplain is the Chair of the Council of St Margaret's Anglican Girls School in Brisbane and KDR Gold Coast Pty Ltd and a Director of Keolis Downer Pty Ltd and KDR Victoria Pty Ltd. 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 (60)

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 Chairman of Australian Renewable Fuels Limited and a Director of Charter Hall Limited, Networks NSW and Tellus Holdings Limited. Mr Garling is also the President of 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 (68)

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. Before joining Woodside she was Managing Director of Apache Energy Ltd.

Ms Howell is currently a Director of Mermaid Marine Australia Ltd, Buru Energy Ltd and EMR Resources Pty Ltd. She is also on the Senior Advisory Board of Miro Advisors Ltd.

She has previously served on a number of boards, including Tangiers Petroleum Limited where she held the position of Executive Chair, 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.

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 (59)

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 former 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 (63)

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 Chair of the State Emergency Management Committee, Gold Corporation and a Director of Atlas Iron Limited, St John of God Health Care, Paraplegic Benefit Fund, Senses Australia and the International Centre for Radio Astronomy Research. 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 (64)

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.

He 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	10,150	–	–
G A Fenn*	346,061	445,682	–
S A Chaplain	64,142	–	–
P S Garling	12,100	–	–
E A Howell	–	–	–
J S Humphrey	68,367	–	–
K G Sanderson	10,000	–	–
C G Thorne	59,230	–	–

* Mr Fenn's holding of ordinary shares 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 474,600 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/or service period conditions over the period 2012 to 2016. Performance rights granted to Mr Fenn are subject to performance and/or service period conditions over the period 2013 to 2017. Further details regarding the conditions relating to these restricted shares and performance rights 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 corporate governance from the Governance Institute of Australia 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 the Governance Institute of Australia (formerly Chartered Secretaries Australia), he has qualifications in commerce from the University of Western Sydney and corporate governance from the Governance Institute of Australia. Mr Lyons was previously Deputy Company Secretary and has been in financial and secretarial roles in Downer's corporate office for over ten years.

REVIEW OF OPERATIONS

PRINCIPAL ACTIVITIES

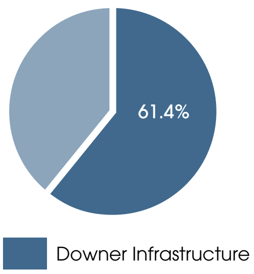
Downer provides comprehensive engineering, construction and asset management services to customers in the Minerals & Metals, Oil and Gas, Power, Transport, Telecommunications, Water and Property sectors. Downer employs approximately 19,000 people primarily in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa.

DIVISIONAL ACTIVITIES

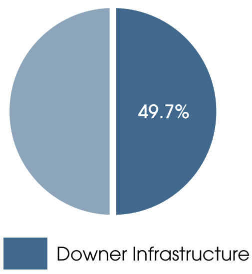
Downer operates through three divisions – Downer Infrastructure, Downer Mining and Downer Rail.

DOWNER INFRASTRUCTURE

Total revenue[1] (FY14)



EBIT (FY14)



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 8,500 people in Australia and more than 5,000 in New Zealand.

Key capabilities include road infrastructure construction and maintenance; electrical and instrumentation (E&I) services; civil, structural and mechanical services; power, transmission and electricity distribution market services; and services to the telecommunications and water infrastructure sectors.

Downer Infrastructure 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 of Australia's State road authorities and the New Zealand Transport Agency.

As one of Australia's leading providers of E&I services, Downer Infrastructure 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 to both private and public sector customers.

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.

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 Infrastructure 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 Infrastructure 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 main telecommunication providers.

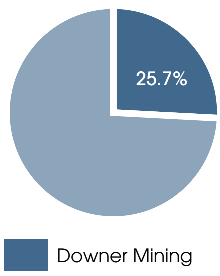
For public sector and industrial water customers in Australia, Downer Infrastructure provides design and construction, operations and maintenance services for water and waste water infrastructure. The New Zealand business offers complete asset lifecycle solutions (design, build, operate and maintain)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

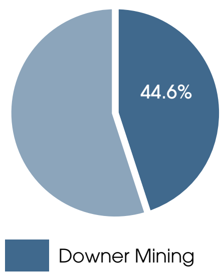
- Mineral Technologies is a leading provider of mineral separation and mineral processing solutions worldwide, delivering a comprehensive range of integrated equipment and services that cost-effectively transform ore bodies into high grade mineral products;
- QCC Resources delivers process and materials 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, which leads to procurement and construction management (EPCM) services being provided by the Downer Group; and
- Snowden provides consultancy services on a wide range of mineral commodities to customers around the world.

DOWNER MINING

Total revenue[1] (FY14)



EBIT (FY14)



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 3,500 people across approximately 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.

1 Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated. Due to rounding, Divisional percentages do not add up precisely to 100%.

Blasting services

- Downer Blasting Services (DBS) is one of the largest blasting services providers in the Australian mining industry. It provides innovative blasting solutions to over 15 projects across Australia with a fleet of over 50 Mobile Processing Units and four state-of-the-art emulsion manufacturing facilities. Its capabilities include down-the-hole and total loading services, emulsion manufacturing, supply and delivery of bulk explosives and accessories, shotfiring and blast management.

Tyre management

- Otraco International provides off-the-road tyre management services at over 35 mine sites in Australia, New Zealand, Asia, South America and Southern Africa. Its capabilities include the provision of expert labour, engineering, web-based, real-time software solutions, electronic tread-depth and pressure metering, distribution and supply of rim and wheel accessories and specialised equipment.

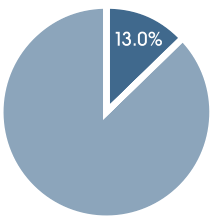
Mine reclamation and land rehabilitation services

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

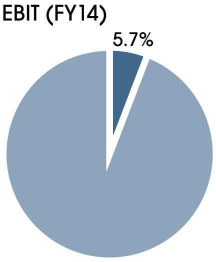
Downer Mining's customers include Fortescue Metals Group, Idemitsu Australia Resources, Karara Iron Ore Project, BHP Mitsubishi Alliance, TEC Coal, Roy Hill Iron Ore, Millmerran Power Partners, Crocodile Gold Corp, Jellinbah Resources, Solid Energy, Yallourn Energy, Yancoal Australia and AngloGold Ashanti.

DOWNER RAIL

Total revenue[1] (FY14)



EBIT (FY14)



Downer Rail employs approximately 1,400 people and is a leading Australian rail transport solutions provider. Downer Rail's capabilities include the provision, maintenance and overhaul of passenger and freight rolling stock and the development of innovative solutions for passenger cars, freight wagons, locomotives and light rail.

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

Downer's passenger rail customers include Sydney Trains (formerly RailCorp), 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 began operating and maintaining the Gold Coast Light Rail in July 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 all of the Public Transport Authority of Western Australia's metropolitan fleet; and
- Hitachi, a leading supplier of railway systems. Downer's partnership with Hitachi includes the supply of electric multiple units and electric and diesel tilt trains.

GROUP FINANCIAL PERFORMANCE

For the year ended 30 June 2014, Downer reported a decline in revenue and earnings before interest and tax (EBIT) and an increase in net profit after tax (NPAT). The Company reported a significant reduction in net debt and gearing.

Following the adoption of AASB11 *Joint Arrangements* in the current year, prior year comparatives have been re-stated. Accordingly, certain amounts and subsequent variance analysis disclosed in the following pages are based on the re-stated figures rather than to those disclosed in the consolidated Financial Report as at 30 June 2013.

REVENUE

Total revenue[1] for the Group decreased by 15.3%, or $1.4 billion, to $7.7 billion, including $0.4 billion of contributions from joint ventures.

Downer Infrastructure's revenue decreased by 9.5%, or $500.6 million, to $4.7 billion. This was due to the decline in mining-based capital expenditure, particularly in Western Australia, a highly competitive tendering environment and challenging conditions for the consulting businesses. A solid performance in New Zealand helped to offset the decline with higher levels of construction work in a recovering economy and favourable foreign exchange movements.

Downer Mining's revenue decreased by 22.3%, or $569.0 million, to $2.0 billion due to the completion of the Peabody coal mining contracts at Wambo and Millennium in March 2013 and the reduction in scope at the Christmas Creek, Boggabri and Goonyella mines. In addition, resource owners continued to reduce ancillary works in an attempt to mitigate the financial effects of falling commodity prices. During the second half of the year work began at Roy Hill and Cosmo Deeps, helping to offset some of the revenue decline.

Downer Rail's revenue (excluding Waratah Train Project (WTP) RSM) decreased by 7.2%, or $65.6 million, to $845.1 million with performance affected by lower revenue from freight build projects and a decline in demand for freight maintenance services.

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. Due to rounding, Divisional percentages do not add up precisely to 100%.

Revenue from JVs increased by 3.4%, or $11.9 million, to $363.0 million reflecting Downer's increased use of JVs to partner with organisations that have complementary skills and so better deliver customer requirements.

EXPENSES

Employee benefits expenses decreased by 12.6% to $2.6 billion and represent 37.4% of Downer's cost base. This decrease is broadly in line with the reduction in Group revenue and is after impacts of restructuring costs associated with efficiency programs and contract completions/variations requiring reduced staffing levels.

Subcontractor costs also decreased by 13.5% to $1.6 billion and represent 23.2% of Downer's cost base. This decrease corresponds with the reduction in Group revenue. Downer maintains a strategic intent 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 decreased by 27.5% to $1.3 billion and represent 18.2% of Downer's cost base. This reduction reflects the lower volumes of work and benefits derived through Fit 4 Business procurement initiatives.

Plant and equipment costs decreased by 17.1% to $845.4 million and represent 12.0% of Downer's cost base. This largely reflects reduced reliance upon operating leased assets with Downer having elected to directly acquire assets in recent 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 decreased by 9.6% to $266.4 million and represents 3.8% of Downer's cost base. This reduction reflects the lower capital intensity of the mining business, as total volumes have declined from peaks experienced during the 2013 financial year, and the sale of equipment back to Downer's mining customers during the year.

Other expenses, communication, travel, occupancy and professional fees have decreased by 15.4% to $393.9 million and represent 5.6% of Downer's cost base.

EARNINGS

Net Profit After Tax (NPAT) for the Group increased 5.9% to $216.0 million and EBIT decreased by 4.9% to $341.1 million. Each of Downer's divisions continued to rationalise its operations in response to softer market conditions, while simultaneously driving productivity improvements to minimise margin decline.

The contribution from the Infrastructure business in Australia was substantially lower than the prior year due to the decline in resources-based capital investment and restructuring costs incurred across the business. This was partially offset by the New Zealand business which delivered a higher contribution due to robust levels of activity across all areas of operations and continued business improvement.

Mining delivered a marginally lower contribution off a significantly lower revenue base as a result of ongoing productivity improvements and changes to equipment financing.

The Rail division delivered a substantially lower EBIT due to reduced demand for locomotives and significant restructuring costs.

Reported net interest decreased by 35.9% to $43.1 million due to lower base interest rates and lower drawn debt balances due to the Company's strong operating cash performance.

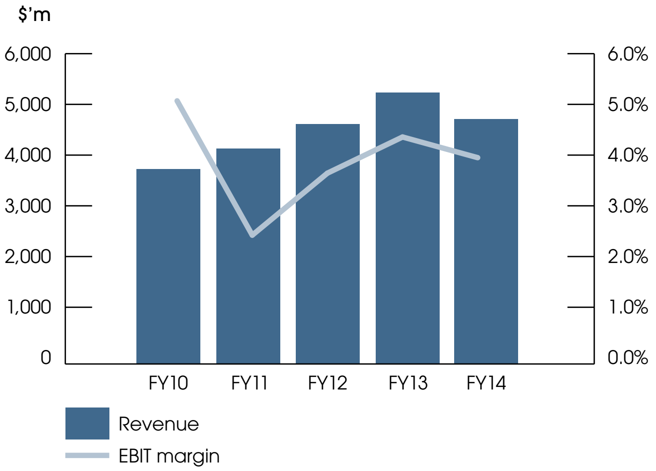
The effective tax rate (ETR) of 27.5% for the underlying result approximates with the statutory rate of 30% due to the majority of the Group's profits being derived in Australia. The prior year's NPAT and EBIT were affected by an Individually Significant Item (ISI), being $11.5 million relating to the 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:

($m)	FY14	FY13
Underlying EBIT	**341.1**	**370.3**
Individually Significant Item (SPPA settlement)	–	(11.5)
Statutory EBIT	**341.1**	**358.8**
Underlying NPAT	**216.0**	**215.4**
Individually Significant Item (SPPA settlement)	–	(11.5)
Statutory NPAT	**216.0**	**204.0**

DIVISIONAL FINANCIAL PERFORMANCE

DOWNER INFRASTRUCTURE



- Total revenue of $4.7 billion, down 9.5%;
- EBIT of $191.1 million, down 17.0%;
- EBIT margin of 4.0%, down 0.4 ppts;
- ROFE of 21.0%, down from 25.8%; and
- Work-in-hand of $9.9 billion.

The 2014 financial year was challenging for the Infrastructure business in Australia due to the decline in resources-based capital expenditure and increased competition for engineering construction work. The road infrastructure business continued to perform strongly across all regions, with solid contributions from the outsourced road maintenance contracts in Western Australia, New South Wales and Queensland.

In a lower demand environment, Downer Infrastructure continued to focus on delivering for its customers while improving efficiencies and reducing costs.

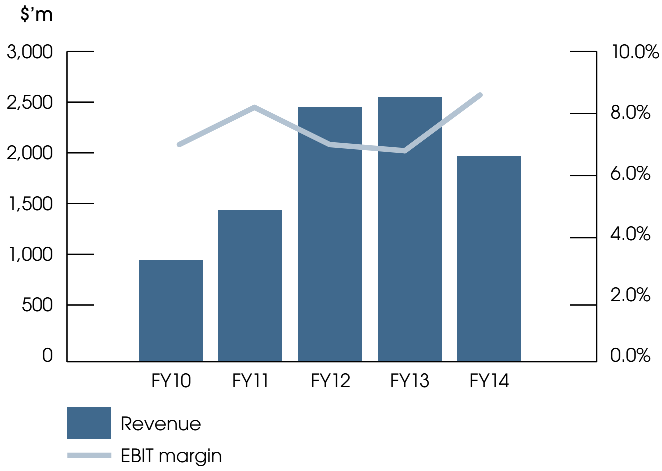
The Australian business won several large contracts during the year which will start to contribute to revenue in 2015. This included the electrical and instrumentation work on the Wheatstone LNG Project in Western Australia, valued at $400 million, and the Stewardship Maintenance Contract for the Sydney West Zone road network, which Downer won in a JV with Mouchel, valued at $700 million over seven years. Other successful tenders during the period included:

- $100 million contract for civil, mechanical, electrical and instrumentation services on the Maules Creek Coal Handling and Processing Plant (Whitehaven Coal);
- $80 million contract for electrical work on the Yandi Sustaining Project (Hamersley Iron);
- $75 million, five-year Intelligence Transport System (ITS) Maintenance Contract (in JV with Mouchel) for the western areas of Sydney and regional areas of New South Wales (Roads and Maritime Services);
- $70 million contract for structural, mechanical, piping and electrical and instrumentation services for the Technical Ammonium Nitrate Plant project (Tecnicas Reunidas S.A.);
- $65 million contract for civil and electrical balance of plant infrastructure work on the Taralga Wind Farm Project (Vestas Australian Wind Technology); and
- $40 million rail infrastructure contract on the Ore Car Repair Workshop and $60 million contract on the Shiploaders 1 and 2 Project (BHP Billiton Iron Ore).

The New Zealand business had a strong year which helped to partially offset the decline in Australia with solid contributions from all operational areas. The New Zealand business also won a number of contracts during the year in road and transport infrastructure, water infrastructure and telecommunications.

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.

DOWNER MINING



- Total revenue of $2.0 billion, down 22.3%;
- EBIT of $171.4 million, down 1.6%;
- EBIT margin of 8.6%, up 1.8 ppts;
- ROFE of 20.9%, up from 20.3%; and
- Work-in-hand of $4.2 billion.

Revenue for Downer Mining was 22.3% lower than last year due to the completion of two Peabody contracts in March 2013 and reductions in scope at Goonyella, Boggabri and Christmas Creek. The Division's EBIT performance was 1.6% lower due to the reduction in revenue partially offset by reduced operating costs.

The mining industry remains under intense pressure due to subdued commodity prices, particularly coal and iron ore. In this environment there are fewer new contract mining opportunities and increased price pressure on existing contracts. In addition to the scope reduction experienced at the three sites referred to above, in June 2014 Downer was advised its contract with BHP Mitsubishi Alliance (BMA) at the Goonyella coal mine in Queensland would be terminated two years early, effective September 2014. While the decision had no financial impact on the 2014 financial year, it will reduce Downer's work-in-hand by around $360 million over the 2015 and 2016 financial years.

New contracts and contract extensions won by Downer Mining during the year included:

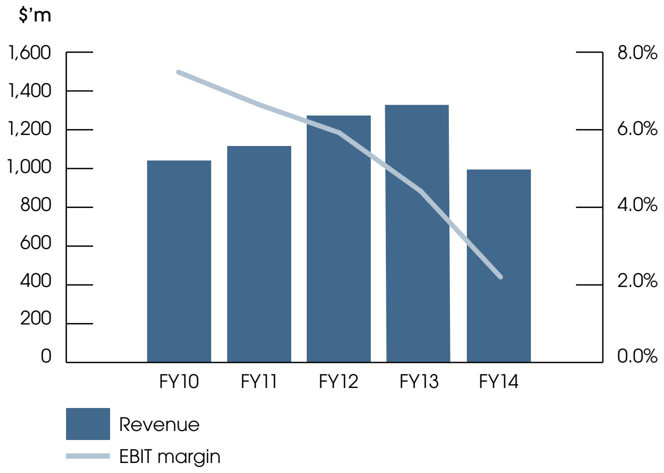
- A new 4.5 year, $500 million contract with Roy Hill Iron Ore for early mining services at the Roy Hill open cut iron ore mine in the Pilbara, Western Australia;
- A new two-year, $70 million contract with Crocodile Gold Corp for underground mining services at the Cosmo Gold Mine in the Northern Territory;

- A five-year, $200-250 million contract extension with Millmerran Power Partners for mining services at the Commodore open cut coal mine in South East Queensland; and
- A one-year contract extension with Idemitsu Australia Resources for mining services at Boggabri open-cut coal mine in New South Wales.

Both Roy Hill and Cosmo Deeps commenced during the second half of the financial year, helping to offset some of the Division's revenue decline.

Downer Blasting Services and Otraco International (Downer's tyre management business) both continued to win new work.

DOWNER RAIL



- Total revenue of $1.0 billion, down 24.9%;
- EBIT of $22.1 million, down 62.6%;
- EBIT margin of 2.2%, down 2.2 ppts;
- ROFE of 4.7%, down from 12.5%; and
- Work-in-hand of $3.5 billion.

Revenue was down 24.9% to $1.0 billion due to lower demand for locomotives and freight maintenance services and the ramping down of the Waratah Rolling Stock Manufacture (RSM) Project.

The Waratah RSM Project was completed in May 2014 with the 78th train entering into passenger service on the Sydney rail network. After experiencing significant challenges on the project, which led to considerable delays and financial losses for Downer, the project was completed in line with the revised schedule and with $17.0 million of contingency released. In the process, the project broke records for train delivery in Australia and set a new benchmark for program recovery worldwide.

Downer Rail's lower EBIT performance was largely due to the drop in demand for freight locomotives and the significant restructuring costs ($16.9 million) incurred across the business. Downer Rail continued its transformation during the year with the consolidation of several sites, staff redundancies, changes to the organisational design and targeted capital investment.

Downer Rail continues its transition to being a 365 days a year, 24/7 services provider for rolling stock across Australia and New Zealand. Its focus is now on integrating its service and maintenance activities with those of its customers, the provision of new rolling stock, overhauls and refurbishment packages and technical support.

Downer continues to build its partnership with French company Keolis, one of Europe's leading public transport operators. The joint venture currently operates and maintains the Melbourne tram system, Yarra Trams, and began the operations and maintenance of the Gold Coast Light Rail in July 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 $583.4 million, up 30.2% on the prior year due to the ongoing rigorous focus on cash and working capital management. This was achieved by working with customers to ensure payment terms were met and disputed claims resolved.

Net debt reduced from $242.7 million to $32.7 million and gearing (net debt to net debt plus equity) reduced from 11.7% to 1.6%. When off balance sheet debt is included, gearing reduced from 20.6% to 9.2%.

The operating cash flow after adjusting for the $93.0 million of cash inflows relating to the Waratah RSM contract and interest and tax payments reflects an EBITDA conversion ratio of 94.7%, consistent with last year and reflecting the continued focus on optimisation of working capital.

Operating cash flow ($m)	**FY14**	**FY13**
EBIT	341.1	358.8
Add: Depreciation and Amortisation	266.4	294.8
EBITDA	**607.5**	**653.6**
Operating cash flow	**583.4**	**448.1**
Add: Net interest paid	43.3	60.6
Tax paid	41.7	14.3
Waratah Train Project net cash (inflow)/outflow	(93.0)	63.3
Singapore Tunnel Settlement	–	39.3
Adjusted Operating cash flow	**575.4**	**625.6**
EBITDA conversion	**94.7%**	**95.7%**

INVESTING CASH

The business continued to invest in capital equipment to support existing contracted operations resulting in net capital of $249.5 million being invested, down 11.7% on the prior year. The reduction in investment was predominantly due to lower activity in the contract mining business with net investing cash including $104.0 million in inflows from the sale of mining equipment to Idemitsu Australia Resources.

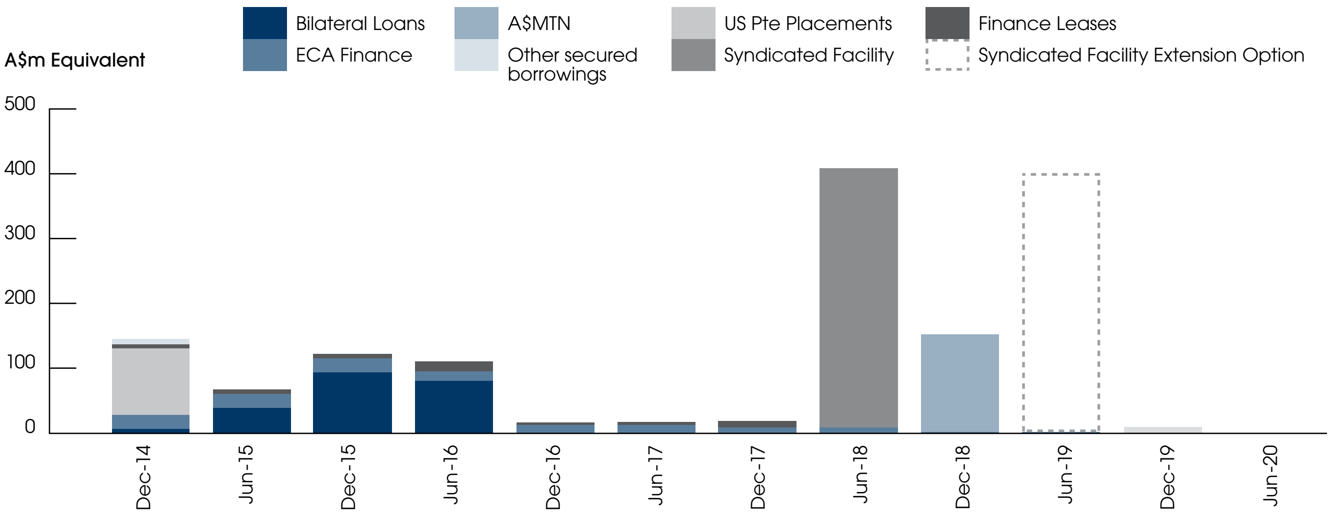
DEBT AND BONDING

In April 2014, Downer extended its $400 million Syndicated Credit Facility for a further year to April 2018. The facility was completed with a 23% reduction in the credit margin and a 30% reduction in the commitment fee payable on any undrawn balance. This facility also contains a one year extension option permitting Downer to potentially further extend the duration to April 2019.

Downer also refinanced its bilateral bank facilities during the year and took the opportunity to build further tenor into these facilities from 12 months to periods of up to 24 months.

Having successfully refinanced or extended its debt facilities during the year, Downer believes it has sufficient debt and bonding headroom available given the challenging economic environment expected in the 2015 financial year.

Debt Maturity Profile by limit – as at 30 June 2014



BALANCE SHEET

The net assets of Downer increased by 7.4% to $2.0 billion. This increase was substantially reflected in net non-current assets which increased by $192.3 million reflecting the Group's continued focus on cash conversion and the pay down of debt.

Cash and cash equivalents decreased by $48.1 million or 10.0% to $431.8 million as excess cash was applied to debt reduction as described below. Trade and other receivables decreased by $323.2 million or 21.3% to $1.2 billion reflecting continued focus on cash collections and converting Work-in-Progress (WIP) amounts to Trade Receivables. Trade Debtor days (excluding WIP) for the Group increased 4.4 days, from 24.2 to 28.6 days, predominantly due to the reduction in revenue during the period and the focus on converting WIP to trade debtors. Trade Debtor days (including WIP) for the Group reduced from 62.2 days to 56.3 days.

As a consequence, the net debt of the Group (gross debt less available cash) was reduced from $202.3 million at 30 June 2013 to a net cash position of $8.5 million at 30 June 2014. After including $41.3 million in relation to the out-of-the-money mark-to-market position of derivatives and deferred finance charges, the Group is in a net debt position of $32.7 million at 30 June 2014. This translates to an 86.3% reduction in on-balance sheet gearing to 1.6%.

Inventories increased by $34.8 million or 10.0% to $384.7 million. Of this increase, $13.8 million relates to increased inventory as a result of the completion of the WTP and the increasing volume of the TLS contract. Other assets are substantially current prepayments and deposits.

The net value of Property Plant and Equipment (including assets held for sale) decreased by $18.2 million. The Group continued to make significant investments in new plant and equipment ($376.0 million), including the acquisition of previously operating leased assets, offset by assets disposed (including mining assets sold to customers) and depreciation.

Trade and other payables decreased by $212.8 million, or 16.6%, with creditor days decreasing by 1.6 days to 30.8 days. Trade creditors represents 56.1% of Downer's liabilities.

Total drawn borrowings of $423.2 million represents 22.2% of Downer's liabilities. It decreased by $259.0 million as excess cash was applied to debt reduction as part of the Group's strategy to improve balance sheet strength. Current borrowings decreased by 42.1% to $137.7 million and non-current borrowings decreased by 35.7% to $285.5 million.

Other financial liabilities of $51.0 million decreased by $15.4 million and represents 2.7% of Downers' liabilities. This reflects reductions in advances from Joint Ventures and the mark-to-market translations of foreign currency and interest rate derivatives hedging the debt portfolio.

Provisions of $340.8 million decreased by 7.7%, or $28.4 million, and represent 17.9% of Downer's liabilities. Employee provisions (annual leave, long service leave and bonus) made up 77.5% of this balance with the remainder covering return conditions obligation for leased assets, decommissioning costs and property and warranty obligations.

Shareholder equity increased by $135.4 million due predominantly to profit after tax of $216.0 million, Dividend Reinvestment Plan participation of $8.9 million partially offset by dividends paid of $104.5 million. Net foreign currency gains arising on translation of Downer Infrastructure's New Zealand business resulted in an increase in the foreign currency translation reserve by $17.1 million.

CAPITAL MANAGEMENT

The Downer Board resolved to pay a fully franked final dividend of 12.0 cents per share, payable on 17 September 2014 to shareholders on the register at 19 August 2014. Given Downer's strong balance sheet, the Company's Dividend Reinvestment Plan has been suspended.

This followed the partially franked (70%) interim dividend of 11.0 cents per share paid on 20 March 2014, bringing the total declared dividend for the year to 23.0 cents per share.

The Board also determined to continue to pay a fully imputed dividend on the ROADS security, which having been reset on 16 June 2014 has a yield of 7.95% per annum payable quarterly in arrears, with the next payment due on 15 September 2014. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 5.72% per annum for the next 12 months.

On 5 August 2014, the Board resolved to undertake an ongoing share buy-back program that will operate from 20 August 2014. The total number of shares to be purchased under the buy-back will depend on share price levels and capital requirements. The program is part of Downer's ongoing capital management strategy and will be managed in conjunction with capital requirements for growth. Downer has a strong balance sheet and is in a good position to take advantage of growth opportunities, including mergers and acquisitions, but any prospect will be subject to robust risk assessment. Downer will focus on opportunities that are strategic, the right price and grow the Company's capability.

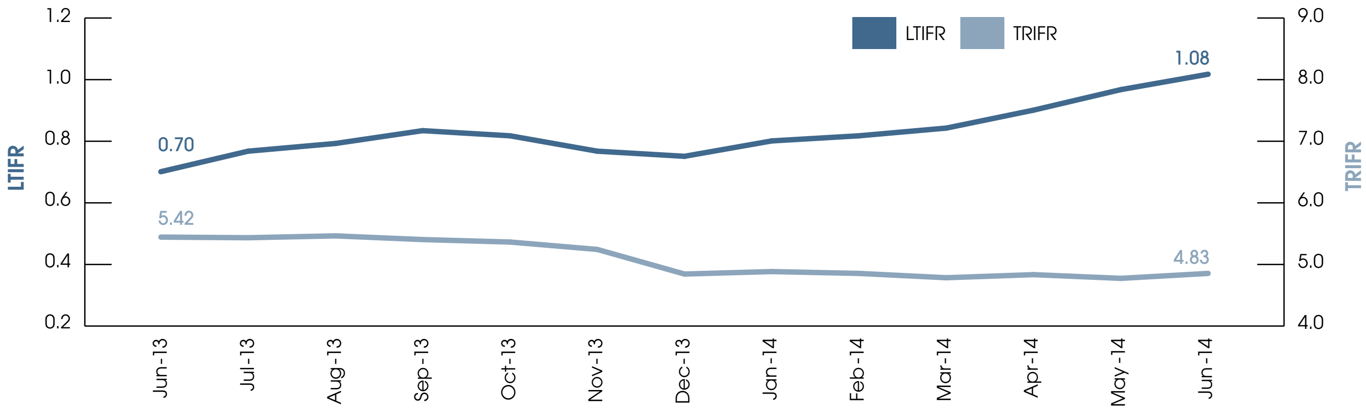
ZERO HARM

Tragically, a Downer employee died in April 2014 while performing stringing work for the construction of a new transmission line in Western Australia. This death occurred despite a very high level of safety management across the company and a mature safety culture. It reinforces the need across all Downer's businesses to focus intensely on understanding and managing the critical risks that have the potential to cause our people serious injury.

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.

Downer's Lost Time Injury Frequency Rate is just over one incident per million hours worked. Downer's Total Recordable Injury Frequency Rate improved, from 5.42 per million hours worked to 4.83.

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



GROUP BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

Downer's key strategies in recent years have focused on improving business performance through business transformation, cost efficiencies and productivity in response to changing economic conditions and the outlook for its end markets. Downer intends to continue focusing on these strategies in future financial years and to also pursue alternate growth opportunities through potential mergers and acquisitions. 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. 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.
Continue to drive business performance.	Downer has taken proactive steps to 'right-size' its business in alignment with market conditions. In FY14 Downer's total expenses declined by 16.5%, as total revenue declined by 15.3%.	Failing to take proactive steps to reduce costs in line with forward revenue projections would jeopardise the ability to drive further improvements to business performance. The focus on business improvement and cost management is a fundamental part of both Downer's formal planning processes and day-to-day management activities.
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
	– Continuing to improve 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.	Downer 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), early termination or scope reduction on existing contracts (e.g. contract mining) 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 the outsourcing of road maintenance by State Governments, large LNG projects and the NBN roll-out;	– 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 from manufacturing 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.
Assess alternative growth options.	Downer is assessing alternative growth opportunities through mergers and acquisitions (M&A), including: – bolt-on acquisitions; – broadening of capabilities; – transformational mergers; and/or – geographical expansion.	Rigorous analysis of potential opportunities to ensure they fit with Downer's strategic objectives, are appropriately valued and are structured to mitigate downside risks. Ensuring Downer remains well within its financing covenant and credit rating metrics.
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's Fit 4 Business program is also a key driver of this strategy. The program achieved $375 million in gross benefits over the past four financial years and is on target to achieve an additional $125 million in gross benefits in the 2015 financial year.	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

The forward outlook varies by market. Government related expenditure on capital and services looks promising while resources based expenditure is expected to be flat, or declining, on current low levels.

Underlying mining commodity markets are currently very difficult for a number of Downer's major customers. The short term impact of this pressure on service providers like Downer is hard to predict. Longer term, this pressure will drive increased demand for Downer's services as companies look for more efficient service delivery.

For the 2015 financial year, Downer is targeting NPAT of around $205 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. Downer's 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 2014, the Board:

- declared a partially franked (70%) interim dividend of 11.0 cents per share, with the unfranked amount paid from Conduit Foreign Income (CFI) that was paid on 20 March 2014 to shareholders on the register at 18 February 2014; and
- declared a fully franked final dividend of 12.0 cents per share, payable on 17 September 2014 to shareholders on the register at 19 August 2014.

Due to the strength of Downer's balance sheet, the Company's Dividend Reinvestment Plan has been suspended.

As detailed in the Directors' Report for the 2013 financial year, the Board declared a partially franked (70%) final dividend of 11.0 cents per share, with the unfranked amount paid from CFI that was paid on 24 September 2013 to shareholders on the register at 20 August 2013.

EMPLOYEE DISCOUNT SHARE PLAN (ESP)

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

No shares were issued under the Employee Discount Share Plan during the years ended 30 June 2014 and 30 June 2013.

There are no performance rights or performance options, in relation to unissued shares, that are 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 to 4, individuals who act as a Director or Company Secretary of Downer's subsidiaries and certain individuals who formerly held any of these roles also have the benefit of the indemnity in the Constitution.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or 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 2014 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, six Audit and Risk Committee meetings, three Remuneration Committee meetings, three Zero Harm Committee meetings and two Nominations and Corporate Governance Committee meetings were held. In addition, ten ad hoc meetings (attended by various Directors) were held in relation to various matters including tender reviews.

	Board		Audit and Risk Committee		Remuneration Committee	
Director	**Held[1]**	**Attended**	**Held[1]**	**Attended**	**Held[1]**	**Attended**
R M Harding	9	9	–	–	3	3
G A Fenn	9	9	–	–	–	–
S A Chaplain	9	8	6	6	–	–
P S Garling	9	9	6	6	3	3
E A Howell	9	8	–	–	–	–
J S Humphrey[2]	9	8	6	4	3	3
K G Sanderson	9	9	6	6	3	3
C G Thorne[3]	9	8	6	6	–	–

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

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

2 Mr Humphrey is also Chairman of the Disclosure Committee which meets on an unscheduled basis.

3 Mr Thorne is also Chairman of the Tender Risk Evaluation Committee which meets on an unscheduled basis.

CORPORATE GOVERNANCE

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

NON-AUDIT SERVICES

Downer is committed to audit independence. The Audit 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 2014 $	June 2013 $
Non-audit services		
Tax services	**448,305**	268,439
Audit related services	**52,500**	119,002
Sustainability assurance	**103,000**	100,000
Due diligence and other non-audit services	**410,880**	1,452,254
	1,014,685	1,939,695

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 means Non-executive Directors and the Groups' most senior executives, for the year to 30 June 2014. The term "executive" in this Report means KMPs who are not Non-executive Directors.

The Report covers the following matters:

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

SUMMARY OF CHANGES TO REMUNERATION POLICY

Downer has continued to refine its remuneration policy during the period. The refinement considered Company strategy, reward plans based on performance measurement, competitive position and stakeholder feedback. Changes to policy are noted in the relevant sections of this Report and are summarised in the table below:

Policy	Change in policy from 2013
Short-term incentive plan (STIP)	– Introduction of STI payment deferral so that 50% of awards are deferred over a two year period as foreshadowed in 2013. Further detail is provided in section 5.3.4; – For the 2014 financial year Downer changed its market guidance emphasis from earnings before interest and tax (EBIT) to net profit after tax (NPAT) to reflect the Company's broad focus, including on cash collection and de-leveraging. Accordingly there has been a change to Group NPAT from Group EBIT for the Group earnings performance condition under the STIP. Divisional EBIT has been retained as the Divisional earnings performance condition; and – Addition of two new Zero Harm measures relating to the identification and management of critical risks to reflect the Company's focus on critical risks to its people and introduce lead indicators of safety performance.
Long-term incentive plan (LTIP)	The Board completed a review of the LTIP in 2014. The review included benchmarking of Downer's LTI policy against a "benchmark group" comprised of sector competitors and other ASX100 companies. The review sought to ensure that the balance between rewarding performance and motivating and retaining existing senior executives and attracting new executives was effective and reflected the Company's business strategies, including the focus on cash and de-leveraging. Accordingly the review focused on the composition and operation of the performance conditions. The following changes were made as a result of the review: – Amendment of the LTIP EPS performance vesting scale so that performance rights qualify for vesting between 5% and 10% compound annual EPS growth (previously between 6% and 12%), consistent with sector competitors; – Amendment of the LTIP vesting profile so that 30% (previously 0%) of performance rights qualify for vesting at threshold performance with linear increments to 100% at the capped maximum performance level, remaining conservative compared to sector competitors; – Transition of the LTIP performance period to a financial year basis from a calendar year basis in order to improve transparency between performance and reward and ensure consistency with STI plan outcomes with the LTIP; – Introduction of a third performance condition, "Scorecard", based on rolling three-year average NPAT and Free Cash Flow (FFO) performance relative to budgeted targets to focus on performance sustainability, increase alignment with the STI and strengthen retention. The Scorecard measure applies to one third of the performance rights granted to each executive with equal weighting to NPAT and FFO. This condition will first apply in 2015. Further detail is provided in section 5.4.3; and – From 2015, the relative total shareholder return (TSR) and earnings per share (EPS) growth LTIP measures each apply to one third (previously each one half) of the performance rights granted to each executive, reflecting the introduction of the Scorecard condition.

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.

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; – Ensure remuneration is competitive with the external market; and – Defer a substantial part of pay contingent on continuing service and sustained performance.
Focus performance	– Provide a substantial component of pay contingent on performance against targets; – Focus attention on the most important drivers of value by linking pay to their achievement; – Require profitability to reach an acceptable level before any bonus payments can be made; and – Provide a LTIP component that rewards consistent Scorecard performance over multiple years and over which executives have a clear line of sight.
Provide a Zero Harm environment	– Incorporate measures that embody "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, and deferring equity based reward vesting after performance has been initially tested; – Set stretch targets that finely balance returns with reasonable but not excessive risk taking and cap maximum incentive payments; – Do not provide excessive "cliff" reward vesting that may encourage excessive risk taking as a performance threshold is approached; – Diversify risk and limit the prospects of unintended consequences from focusing on just one measure in both short-term and long-term incentive plans; – Stagger vesting of deferred short term incentive (STI) payments from 2014 to encourage retention and allow forfeiture of rewards that are the result of misconduct or material adjustments; – Retain full Board discretion to vary incentive payments, including in the event of excessive risk taking; and – Restrict trading of vested equity rewards to ensure compliance with the Company's Securities Trading Policy.
Align executive interests with those of shareholders	– Provide that a significant proportion of pay is delivered as equity so part of executive reward is linked to shareholder value performance; – Provide a long-term incentive that is based on consistent Scorecard performance against challenging targets set each year that reflect sector volatility and prevailing economic conditions; – Maintain a guideline minimum shareholding requirement for the Managing Director; – Encourage holding of shares after vesting via a trading restriction for all executives and payment of deferred STI components in shares after deducting applicable personal taxes; and – Prohibit hedging of unvested equity and equity subject to a trading lock to ensure alignment with shareholder outcomes.
Attract experienced, proven performers	– Provide a total remuneration opportunity sufficient to attract proven and experienced executives from secure positions in other companies and retain existing executives.

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 collaboration;
- Incorporating performance metrics that focus on cash flow to reduce working capital and debt exposure;
- Setting NPAT and EBIT 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;
- Deferring 50% of STI awards to encourage sustainable performance and a longer-term focus;
- Incorporating consistent financial performance in the LTIP Scorecard measure;
- 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:

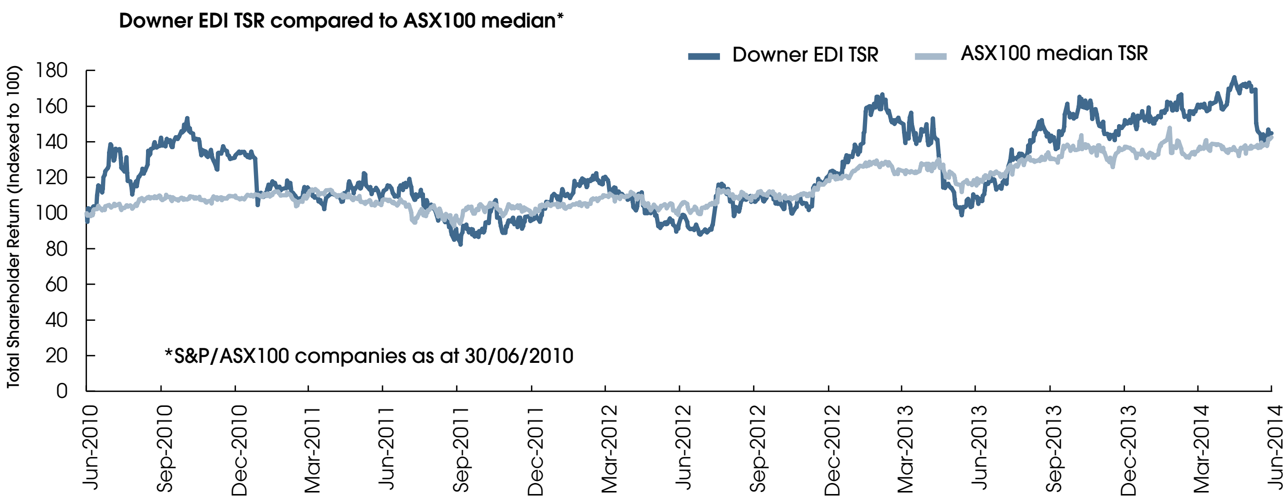
- Requiring a significant portion of executive remuneration to vary with short-term and long-term performance;
- Applying a profitability gateway to be achieved before an STI calculation for executives is made;
- Applying challenging financial and non-financial measures to assess performance; and
- Ensuring 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);
- Group NPAT;
- Divisional EBIT;
- FFO;
- Development of Downer's 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 four year period to 30 June 2014.



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

Continuing and discontinued operations:	2010 $'000	2011 $'000	2012 $'000	2013 (restated)(i) $'000	2014 $'000
Total revenue and other income	5,826,664	6,641,847	8,071,333	8,781,238	**7,371,560**
Share of sales revenue from joint ventures and associates	211,168	319,077	453,236	351,128	**362,978**
Total revenue including joint ventures and associates and other income(ii)	6,037,832	6,960,924	8,524,569	9,132,366	**7,734,538**
Earnings before interest and tax – continuing operations	53,362	3,648	261,202	358,812	**341,118**
Earnings before interest and tax – discontinued operations	–	22,015	3,002	–	**–**
Total earnings before interest and tax	53,362	25,663	264,204	358,812	**341,118**
Net interest expense	(51,295)	(64,309)	(71,531)	(67,123)	**(43,055)**
Income tax (expense)/benefit	985	10,946	(79,778)	(87,703)	**(82,070)**
Net profit/(loss) after tax	3,052	(27,700)	112,895	203,986	**215,993**
Total earnings before interest and tax	53,362	25,663	264,204	358,812	**341,118**
Individually significant items	260,000	266,573	82,279	11,456	**–**
Earnings before interest and tax (before individually significant items)(iii)	313,362	292,236	346,483	370,268	**341,118**
Operating cash flow	204,266	185,625	364,471	448,094	**583,427**
Investing cash flow	(144,396)	(319,573)	(202,990)	(288,356)	**(278,754)**
Free cash flow	59,870	(133,948)	161,481	159,738	**304,673**
Share price at start of the year(iv)	5.59	3.48	3.70	3.13	**3.59**
Share price at end of the year	3.60	3.70	3.13	3.59	**4.52**
Interim dividend (cents per share)	13.1	–	–	10.0	**11.0**
Final dividend (cents per share)	16.0	–	–	11.0	**12.0**
Total Shareholder Return	(30%)	6%	(15%)	21%	**32%**
Basic earnings/(loss) (cents per share)	(2.4)	(10.5)	23.7	45.7	**48.3**
Earnings per share growth (%)	(104%)	(338%)	326%	93%	**6%**
Net profit/(loss) after tax growth rate (%)	(98%)	(1,008%)	508%	81%	**6%**

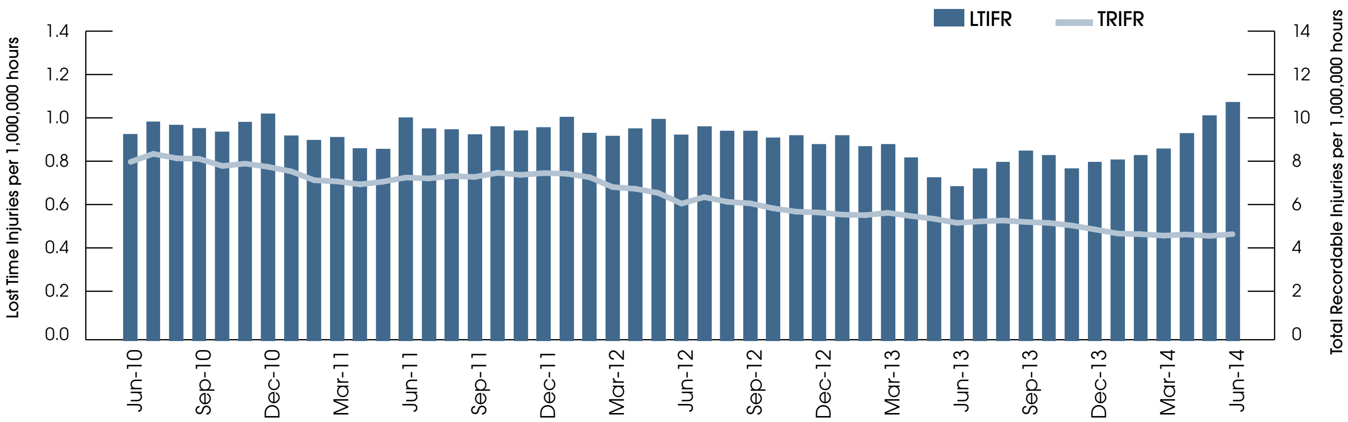
(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) Total revenue comprises revenue from ordinary activities, other income and sales revenue from joint ventures and associates. The Company considers Total Revenue to be an appropriate measure of revenue as joint venture models are seen as an appropriate industry response to meet the needs of engineering, procurement and construction (EPC) customers with regard to large scale integrated projects.

(iii) 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 (IFRS) disclosure.

(iv) 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 four 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 plans;
- Equity-based incentive plans;
- 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 for all key management personnel and senior executives reporting directly to the Managing Director.

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, Remuneration Committee and Tender Risk Evaluation 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 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.

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 seeks 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 sector 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.

No KMP received an adjustment in the 2014 financial year.

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 2014.

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 NPAT for corporate executives and EBIT for divisional executives. 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.

Commencing with the 2014 financial year, the Board has introduced deferral as part of the STI structure. Payment of 50 per cent of the award is paid at the time of award in cash and the remaining 50 per cent of the award earned is deferred over two years.

The value of deferred components will be settled in shares, net of applicable personal tax. This is designed to encourage executive share ownership, and not adversely impact executives who have to meet their taxation obligations arising from the vesting of the deferred components.

No dividend entitlements are attached to the deferred components during the vesting period.

The details of the arrangements are set out in section 5.3.4 and 5.3.5 below.

5.3.2 HOW STI PAYMENTS ARE ASSESSED

Target STI plan percentage 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. Thresholds 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 performance is assessed on NPAT, EBIT, FFO, Zero Harm and a measure of people development. The move to NPAT for Group performance in 2014 reflects the executives' responsibility for financing and tax, and hence the bottom-line as well as consistency with market guidance. 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.

NPAT and EBIT include 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 safety and environmental measures, underscoring Downer's commitment to customers, employees, regulators and the communities in which it operates. The Board introduced additional measures related to the identification and management of critical Zero Harm risks in order to reward performance on lead indicator safety performance, reducing the weighting applied to the existing measures. The measures for the Zero Harm element of the scorecard are as follows:

Measure	Target
Safety	
TRIFR (total recordable injury frequency rate) LTIFR (lost time injury frequency rate)	Achieve a set reduction in the TRIFR at level of responsibility. Award pro rates linearly. TRIFR is calculated as the number of recordable injuries x 1,000,000/the hours worked in 12 months. In addition LTIFR must be retained 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.
Critical Risks	Identify critical risks for the area of responsibility and register these risks in the appropriate system.
Action Close Outs	Achieve minimum periods where there are zero actions that are overdue at the end of each month arising from Zero Harm incidents, covering high Potentials and actual Injuries (First Aid, Medical Treatment Injury and Lost Time Injury), recorded.
Environmental	
Sustainable development	Achieve energy efficiency initiatives to deliver improvements compared to the previous financial year.

Should a workplace 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 2014 STI scorecard measures for all executives, including the Managing Director, are set out in the table below.

Executive	Group NPAT	Divisional EBIT	Free cash flow	Zero Harm	People
Corporate	30%	–	30%	30%	10%
Business unit	7.5%	22.5%	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 6.5.

5.3.4 INTRODUCTION OF STI DEFERRAL FOR 2014

In 2013, the Board 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 significant 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 and settling the balance after applicable personal tax in Company shares, so that only through sustained performance can the original STI value be realised or enhanced.

Accordingly the Board introduced 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 component of the award will be in the form of two tranches, each to the value of 25 per cent of the award.

The deferred components 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 deferred components during the vesting period.

Where an executive ceases employment with the Group prior to the vesting date, the deferred components 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 an eligible leaver.

In implementing STI deferral, the Board addressed two important issues:

- A desire to encourage executives to hold shares in the Company through payment of deferred components in shares 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 deferred components. Accordingly, in order to reduce this impact, any deferred components that vest will be settled in shares net of the value of applicable personal tax applicable to the vested deferred component.

The Board considered 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 have surrendered their contractual rights that prescribed a 100 per cent cash STI which allowed for introduction of the new STI policy.

5.3.5 STI TABULAR SUMMARY

The following table outlines the major features of the 2014 STI plan.

Purpose of STI plan	– Focus performance on drivers of shareholder value over 12 month period; – Improve "Zero Harm" and people related results; and – Ensure a part of remuneration costs varies with the Company's 12 month performance.
Minimum performance "gateway" before any payments can be made	Achievement of a gateway based on budgeted Group NPAT for 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 – 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 – 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 2013 to 30 June 2014.
Performance assessed	August 2014, following audit of accounts.
Additional service period after performance period for payment to be made	50 per cent of the award is deferred with the first tranche of 25 per cent vesting one year following award and the second tranche of 25 per cent vesting two years following award.
Payment timing	August 2014 for the first cash payment of 50 per cent of the award. The deferred components of the STI payments will be paid one and two years following the award, in equal tranches of 25 per cent of the award.
Form of payment	Cash for initial payment. The value of deferred components will be settled in shares, net of personal tax. An eligible leaver's deferred components will be settled in shares or in cash in the sole and absolute discretion of the Board.
Performance requirements	Group NPAT and divisional EBIT, FFO, Zero Harm and people measures.
Board discretion	The Board may exercise discretion to: – Reduce partly or fully the value of the deferred components that are due to vest in certain circumstances, including where an executive has acted inappropriately or where the Board considers that the financial results against which the STIP performance measures were tested were incorrect in a material respect or have been reversed or restated; – Settle deferred components in shares or cash.
New participants	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. Where an executive's employment terminates prior to the vesting date, unvested deferred components will be forfeited. However, the Board has retained discretion to vest deferred awards, in the form of shares or cash, in their ordinary course where the executive is judged to be an eligible leaver.

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 two variations from policy during the year:

- In recognition of outstanding achievement in completing and delivering the Waratah Train Rolling Stock Manufacturing contract, the Board exercised its discretion to make an STI award to R A Spicer, notwithstanding that the Rail division EBIT gateway was not met. The award represents 70% of Mr Spicer's maximum STI; and
- Alternative arrangements are in place for D A Cattell as part of his fixed term contract. These are outlined in section 7.1.

5.4 LONG-TERM INCENTIVE

5.4.1 LTI OVERVIEW

Executives participate in a 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 shares in the Company or cash at the discretion of the Board. 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 Board completed a review of the LTI plan in 2014. The review included benchmarking of Downer's LTI policy against those of sector competitors and other ASX100 companies and sought to ensure that the balance between rewarding performance and motivating and retaining existing senior executives and attracting new executives was effective. Accordingly it focused on the composition and operation of the performance conditions. Certain changes to the LTI plan arising from the review are effective from 2014 and others from 2015. All of these changes are outlined in the Summary of Changes to Remuneration Policy and in further detail in sections 5.4.2 to 5.4.5.

The 2014 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 qualify for vesting commences at 30 per cent and gradually increases pro rata with performance. This approach provides a strong motivation for meeting minimum performance, but avoids a large "cliff" which may encourage excessive risk taking; and
- The maximum reward is capped at a "stretch" performance level that is considered attainable without excessive risk taking.

The Board resolved to change the performance period for the LTIP to a financial year basis from the previous calendar year basis. This decision was taken to:

- Align with the STI performance period to ensure consistency following introduction of the Scorecard measure;
- Provide greater transparency between performance and reward; and
- Align with market practice amongst ASX100 companies.

In implementing this change, the Board needed to address the transition period of six months between the end of the 2013 calendar year and the commencement of the 2015 financial year (i.e. 1 January 2014 to 30 June 2014). The first full grant under the new policy will be made in respect of the 2015 financial year.

The Board determined that a transition arrangement in the form of a half value grant be made for the transition period, at half the value applicable to the executives annual LTI grant. This will be the only grant relating to 2014.

Performance for the 2014 LTI grants will be measured over the 2.5 year period to 30 June 2016. The proportion of performance rights that can vest will be calculated in September 2016, but executives will be required to remain in service until 30 June 2017 (or, but for payment in lieu of notice, would have remained in service until 30 June 2017) 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 2014 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, 30 per cent of the tranche vest at the 50th percentile, 32.8 per cent at the 51st percentile, 35.6 per cent at the 52nd percentile and so on until 100 per cent vest at the 75th percentile.

The comparator group for the 2014 LTI grants will be the companies, excluding financial services companies, in the ASX100 index as at the start of the performance period on 1 January 2014. Consideration has been given to using a smaller group of direct competitors for comparison, 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 is based on Earnings per Share (EPS) growth over the 2.5 year performance period to 30 June 2016. 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 five per cent compound annual EPS growth and 10 per cent compound annual EPS growth. The Board resolved to make this change from the previous vesting scale of six per cent to 12 per cent to reflect a challenging target that does not encourage excessive risk taking, in the context of anticipated market conditions over the plan period and the impact of prudent risk management in recent years to deleverage the Company's balance sheet.

Vesting applies on a pro rata basis from 30 per cent upon meeting the minimum compound annual EPS growth performance level of five per cent to 100 per cent at 10 per cent annual compound annual EPS growth. Capping reduces the tendency for excessive risk taking and volatility that may be encouraged if the annual compound EPS growth bar is set above 10 per cent.

5.4.3 INTRODUCTION OF SCORECARD CONDITION IN 2015

The Board has resolved to introduce a third performance condition as part of the LTI structure, commencing from the 2015 financial year. This decision was taken to:

- Strengthen retention through the setting of challenging targets on an annual basis that reflect prevailing market conditions, for a portion of LTI awards;
- Alignment with the STI plan to encourage a long-term approach to achieving annual financial performance targets;
- Improve the line of sight for executives so as to increase motivation and focus on consistent performance; and
- Focus on performance sustainability through reward of consistent achievement of absolute performance targets over the long term.

The Scorecard condition will apply to one third of the performance rights granted to each executive. This will be of equal weighting to the TSR and EPS conditions which will also apply to one third of the performance rights granted to each executive.

The Scorecard condition will be comprised of two independent absolute components of equal weighting. These components will be based on Group NPAT and Group FFO.

The performance of each component will be measured over the three year period to 30 June 2017.

NPAT and FFO targets will be set at the beginning of each of the three financial years. The performance of each component will be assessed each year relative to the targets. Performance of each component will be determined as the average of the annual performance assessments for the three years. The performance rights will vest on a pro-rata basis from 30 per cent upon meeting the minimum three year average component performance level of 90 per cent of target to 100 per cent at the capped maximum three year average component performance level of 110 per cent of target.

The processes and timing applicable for the Scorecard Measure are outlined below:

Timing	Actions
At the beginning of the plan	– Weighting of components is determined. In 2014 the components are equally weighted.
At the beginning of each financial year	– NPAT and FFO target performance levels are set.
At the end of each financial year	– Calculate actual performance; and – Assess actual performance compared to target to determine performance percentage for the year.
At the end of 3 years	– Calculate average annual performance for each component; and – Calculate award based on performance against the vesting range.
At the end of 3 years	– Consider the continued service condition and determine vesting.

5.4.4 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.

5.4.5 LTI TABULAR SUMMARY

The following table outlines the major features of the 2014 LTI plan, which will apply for the transition grant that is designed to facilitate the move to a financial year basis for future grants.

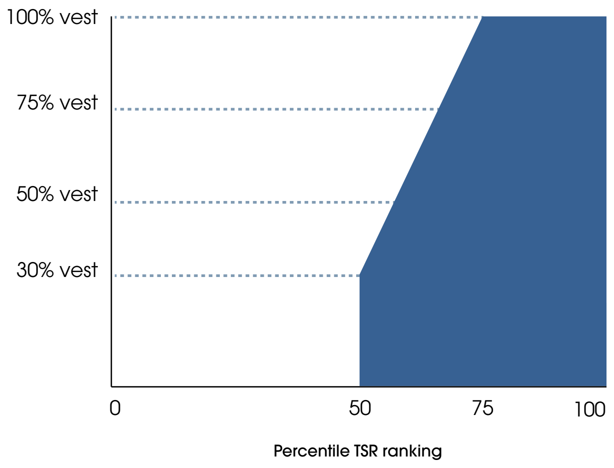
Purpose of LTI plan	– Focus performance on drivers of shareholder value over three year period (2.5 years for the 2014 transitional plan); – Manage risk by countering any tendency to over-emphasise short-term performance to the detriment of longer-term growth and sustainability; and – Ensure a part of remuneration costs varies with the Company's longer-term performance.
Maximum value of equity that can be granted	– Managing Director: 100 per cent of fixed remuneration (50 per cent for the 2014 transitional plan); – KMP appointed pre-2011: 75 per cent of fixed remuneration (37.5 per cent for the 2014 transitional plan); and – KMP appointed from 2011: 50 per cent of fixed remuneration (25 per cent for the 2014 transitional plan).
Performance periods	1 January 2014 to 30 June 2016.
Performance assessed	September 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 30 June 2017.
Performance rights vest	1 July 2017.
Form of award and payment	Performance rights.
Performance conditions	There will be two performance conditions. Each applies to half of the performance rights granted to each executive.

Relative TSR

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 2.5 years to 30 June 2016.

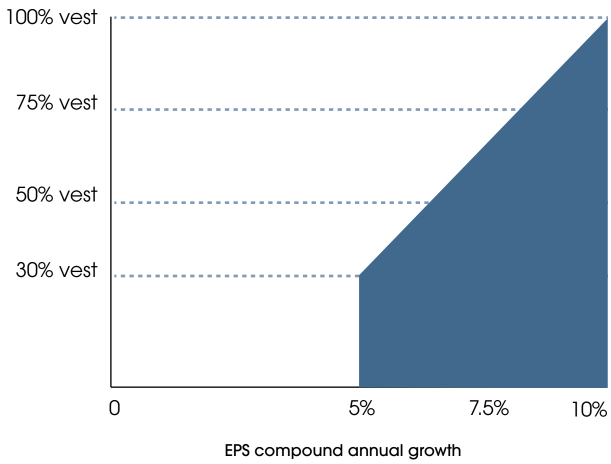
The performance vesting scale that will apply to the performance rights subject to the relative TSR test is shown in tabular and graphic forms below:

Downer EDI Limited's TSR Ranking	Percentage of performance rights subject to TSR condition that qualify for vesting
< 50th percentile	Zero per cent
50th percentile	30 per cent
Above 50th and below 75th percentile	Pro rata so that 2.8 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 2.5 years to 30 June 2016. 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
< 5 per cent	Zero per cent
5 per cent	30 per cent
Above 5 per cent to < 10 per cent	Pro rata so that 14 per cent of the performance rights in the tranche will vest for every 1 per cent increase in EPS growth between 5 per cent and 10 per cent
10 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. 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 participants	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 grants' 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

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:

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)

6.2 RELATED PARTY INFORMATION

6.2.1 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 2014.

		Transaction type		
KMP	Entity	Sponsorship $'000	Sales of goods and services $'000	Purchase of goods $'000
G A Fenn	Australian Constructors Association Ltd	–	–	41
P S Garling	Ausgrid	–	456	371
	Charter Hall Ltd	–	797	–
	Endeavour Energy	–	–	17
	Essential Energy	–	–	6
R M Harding	Santos Ltd	–	15,637	–
	Transpacific Industries Group Ltd	–	145	311
J S Humphrey	Queensland University of Technology	–	–	384
	King & Wood Mallesons	–	–	49
D J Overall	Minerals Council of Australia	–	–	387
K G Sanderson	Advisory Council, Curtin University Business School	1	46	–
	First Murdoch Commission	–	202	–
R A Spicer	EDI Rail Bombardier Transportation (Maintenance) Pty Ltd	–	–	456
	EDI Rail Bombardier Transportation Pty Ltd	–	34,399	1,004
S A Chaplain and R A Spicer	KDR Gold Coast Pty Ltd	–	50	–
	Keolis Downer Pty Ltd	–	–	2,376
C G Thorne	Downer Clough JV	–	12,521	–

6.2.2 KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS

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

2014	Balance at 1 July 2013 No.	Net change No.	Balance at 30 June 2014 No.
R M Harding	9,680	470	10,150
S A Chaplain	51,170	12,972	64,142
G A Fenn	346,061	–	346,061
P S Garling	12,100	–	12,100
E A Howell	–	–	–
J S Humphrey	68,095	272	68,367
K G Sanderson	–	10,000	10,000
C G Thorne	56,486	2,744	59,230
D Cattell	204,393	–	204,393
K Fletcher	55,000	(35,000)	20,000
D Overall	24,801	–	24,801
R Spicer	5,000	242	5,242
Total	832,786	(8,300)	824,486

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 Cattell	171,181	33,212	204,393
K Fletcher	55,000	–	55,000
D Overall	12,216	12,585	24,801
R Spicer	–	5,000	5,000
Total	734,107	98,679	832,786

6.3 REMUNERATION RECEIVED IN RELATION TO THE 2014 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 2014 financial year, comprising fixed remuneration, cash STIs relating to 2014, deferred STIs that vested during the 2014 financial year and the value of LTI grants that vested during the 2014 financial year. This information differs to that provided in the statutory remuneration table at section 6.4 which has been prepared in accordance with accounting standards.

	Fixed Remuneration[1] $	Cash Bonus paid or payable in respect of current year[2] $	Deferred Bonus vested in current year $	Other benefits $	Total cash payments $	Equity that vested during 2014[3] $	Total remuneration received $
Non-executive Directors							
R M Harding	402,534	–	–	–	402,534	–	402,534
S A Chaplain	202,113	–	–	–	202,113	–	202,113
J S Humphrey	163,875	–	–	–	163,875	–	163,875
P S Garling	180,263	–	–	–	180,263	–	180,263
E A Howell	180,263	–	–	–	180,263	–	180,263
K G Sanderson AO	163,875	–	–	–	163,875	–	163,875
C G Thorne	172,069	–	–	–	172,069	–	172,069
KMP executives							
G A Fenn	2,030,201	1,598,810	–	–	3,629,011	–	3,629,011
D A Cattell	1,616,155	–	–	–	1,616,155	–	1,616,155
K J Fletcher	1,025,190	783,420	–	–	1,808,610	–	1,808,610
D J Overall	1,255,526	1,155,780	–	–	2,411,306	–	2,411,306
R A Spicer	989,093	420,000	–	–	1,409,093	–	1,409,093
	8,381,157	**3,958,010**	**–**	**–**	**12,339,167**	**–**	**12,339,167**

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

2 Amounts represent cash payments in relation to the 2014 financial year. These comprise the 50% cash component of the award and the 50% transitional payment as described in sections 5.3.1 and 5.3.4. The remaining 50% of the total award is deferred as described in sections 5.3.4 and 5.3.5.

3 No restricted shares or performance rights vested during the year.

6.4 REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL – STATUTORY

2014	Short-term employee benefits				Post-employment benefits				
	Salary and fees $	Cash Bonus paid or payable in respect of current year[2] $	Deferred Bonus paid or payable in respect of current year[3] $	Non-monetary $	Super-annuation $	Other benefits $	Subtotal $	Share-based payment transactions[4] $	Total $
Non-executive Directors									
R M Harding	375,000	–	–	–	27,534	–	402,534	–	402,534
S A Chaplain[5]	185,000	–	–	–	17,113	–	202,113	–	202,113
J S Humphrey	150,000	–	–	–	13,875	–	163,875	–	163,875
P S Garling[6]	165,000	–	–	–	15,263	–	180,263	–	180,263
E A Howell[7]	165,000	–	–	–	15,263	–	180,263	–	180,263
K G Sanderson AO	150,000	–	–	–	13,875	–	163,875	–	163,875
C G Thorne[8]	157,500	–	–	–	14,569	–	172,069	–	172,069
KMP executives[1]									
G A Fenn	1,877,225	1,598,810	799,405	135,201	17,775	–	4,428,416	290,175	4,718,591
D A Cattell[10]	1,535,000	–	–	56,155	25,000	1,081,773	2,697,928	29,038	2,726,966
K J Fletcher	935,969	783,420	391,710	64,221	25,000	–	2,200,320	96,479	2,296,799
D J Overall	1,230,225	1,155,780	577,890	7,526	17,775	–	2,989,196	187,193	3,176,389
R A Spicer[9]	782,225	420,000	210,000	189,093	17,775	–	1,619,093	–	1,619,093
	7,708,144	**3,958,010**	**1,979,005**	**452,196**	**220,817**	**1,081,773**	**15,399,945**	**602,885**	**16,002,830**

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

2 Amounts represent cash payments in relation to the 2014 financial year. These comprise the 50% cash component of the award and the 50% transitional payment described in sections 5.3.1 and 5.3.4.

3 Amounts represent the deferred component of the bonus awards in relation to the 2014 financial year. 50% of the amount will be paid one year following award and 50% will be paid two years following award as described in section 5.3.5.

4 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 6.6.1 and 6.6.2. 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.

5 S A Chaplain: comprised of $150,000 Board fee and $35,000 Audit and Risk Committee chair fee.

6 P S Garling: comprised of $150,000 Board fee and $15,000 Remuneration Committee chair fee.

7 E A Howell: comprised of $150,000 Board fee and $15,000 Zero Harm Committee chair fee.

8 C G Thorne: comprised of $150,000 Board fee and $7,500 Tender Risk Evaluation Committee chair fee from 1 January 2014.

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

10 D A Cattell: other benefits represents the accrual of the cash retention benefit payable on 1 July 2014 ($674,362) and at the end of Mr Cattell's fixed term contract on 1 July 2015 ($407,411), being nine months' fixed remuneration in each case.

2013	Short-term employee benefits			Post-employment benefits				
	Salary and fees $	Cash Bonus paid or payable in respect of current year[2]	Non-monetary $	Super-annuation $	Other benefits $	Subtotal $	Share-based payment transactions[3] $	Total $
Non-executive Directors								
R M Harding	383,750	–	–	25,000	–	408,750	–	408,750
S A Chaplain[4]	185,000	–	–	16,650	–	201,650	–	201,650
L Di Bartolomeo[5]	58,288	–	–	5,246	–	63,534	–	63,534
J S Humphrey	150,000	–	–	13,500	–	163,500	–	163,500
P S Garling[6]	159,701	–	–	14,373	–	174,074	–	174,074
E A Howell[7]	157,500	–	–	14,175	–	171,675	–	171,675
K G Sanderson AO	150,000	–	–	13,500	–	163,500	–	163,500
C G Thorne[8]	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[1,9]	531,770	281,408	80,093	18,151	–	911,422	94,375	1,005,797
D A Cattell[10]	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[1,9]	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 Amounts represent the cash payments that relate to the 2013 financial year. No deferral applied to the award.

3 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 6.6.1 and 6.6.2. 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.

4 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.

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

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

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

8 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.

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

10 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.

6.5 PERFORMANCE RELATED REMUNERATION

The table below lists the proportions of remuneration paid during the year ended 30 June 2014 that are performance and non-performance related.

	Performance Related	Non-Performance Related
KMP executives	%	%
G A Fenn[1]	57	43
R A Spicer[1]	39	61
D A Cattell[1]	1	99
K J Fletcher[1]	55	45
D J Overall[1]	60	40

1 Performance related portion includes the reversal of expense for forfeited equity incentives and the transitional short-term incentive payment as described in sections 5.3.1 and 5.3.4.

Weightings applied to the 2014 STI scorecard measures for executives are set out below:

Executive	Group NPAT	Divisional EBIT	Free cash flow	Zero Harm	People
Corporate	30%	–	30%	30%	10%
Division	7.5%	22.5%	30% (7.5% Group, 22.5% Division)	30%	10%

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

Measure	Target
Safety	
TRIFR (total recordable injury frequency rate) and LTIFR (lost time injury frequency rate)	Achieve a set reduction in the TRIFR at level of responsibility. Award pro rates linearly and maintain LTIFR below an established level for area of responsibility.
Critical Risks	Identify critical risks for the area of responsibility and register these risks in the appropriate system.
Action Close Outs	Achieve minimum periods where there are zero actions that are overdue by more than 60 days at the end of each month arising from Zero Harm incidents, covering high Potentials and actual Injuries (First Aid, Medical Treatment Injury and Lost Time Injury), recorded.
Environmental	
Sustainable development	Achieve energy efficiency initiatives to deliver improvements compared to previous financial year for the area of responsibility.

Specific STI financial and commercial targets at division 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. Profit for this purpose is defined as NPAT. For divisional executives, the hurdle is 90 per cent of the division budgeted profit target. Profit for this purpose is defined as EBIT.

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

		Group NPAT	Divisional EBIT	Free Cash Flow	Zero Harm	People
Weighting of scorecard element	Corporate	30.0%		30.0%	30.0%	10.0%
	Division	7.5%	22.5%	30.0%	30.0%	10.0%
Performance as a percentage of the overall weighting[1]	Corporate	22.7%		30.0%	10.0%	10.0%
	Division	3.8%	8.2%	20.0%	23.3%	10.0%

1 Performance includes the results for each element, even if the NPAT or EBIT gateway was not achieved.

The following table shows the STIs that were earned during the year ended 30 June 2014 due to the achievement of the relevant performance targets.

	Short-term Incentive in respect of 2014 financial year	
	Paid	Forfeited
KMP executives	%	%
G A Fenn	80	20
R A Spicer	70	30
D A Cattell	–	100
K J Fletcher	80	20
D J Overall	93	7

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, K J Fletcher, D J Overall	2011 plan		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a three year period.	Actual performance ranked at the 51st percentile.	Four (4) per cent became provisionally qualified.
	EPS tranche – compound annual earnings per share growth against absolute targets over a three year period.	Actual performance was negative 3.1%.	Zero per cent became provisionally qualified. The shares were forfeited.

6.6 SHARE-BASED PAYMENTS

6.6.1 OPTIONS AND RIGHTS

No performance options were granted or exercised during the year ended 30 June 2014.

As outlined in section 5.4.1, the LTI plan for the 2014 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.

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

	2013 Plan		
	Number of performance rights[1]	% vested	% forfeited
KMP executives			
G A Fenn	445,682	–	–
D A Cattell	–	–	–
K J Fletcher	163,788	–	–
D J Overall	208,579	–	–
R A Spicer	–	–	–

1 Performance rights were granted on 15 October 2013. The fair value of the performance rights was $3.81 per right for the EPS tranche and $2.26 for the TSR tranche.

The maximum number of performance rights 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 performance rights for the vesting year		
	2015	2016	2017
KMP executives			
G A Fenn	–	–	445,682
D A Cattell	–	–	–
K J Fletcher	–	–	163,788
D J Overall	–	–	208,579
R A Spicer	–	–	–

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

	Maximum value of shares for the vesting year ($)		
	2015	2016	2017
KMP executives			
G A Fenn	421,248	421,248	210,624
D A Cattell	–	–	–
K J Fletcher	154,808	154,808	77,404
D J Overall	197,143	197,143	98,572
R A Spicer	–	–	–

6.6.2 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.

	2011 Plan			2012 Plan		
	Number of shares[1]	% vested	% forfeited	Number of shares[2]	% vested	% forfeited
KMP executives						
G A Fenn	480,205	–	98%	464,996	–	–
D A Cattell	–	–	–	–	–	–
K J Fletcher	160,068	–	98%	154,999	–	–
D J Overall	180,077	–	98%	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	
	2015	2016
KMP executives		
G A Fenn	480,205	464,996
D A Cattell	–	–
K J Fletcher	160,068	154,999
D J Overall	180,077	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 Payment* over the vesting period.

	Maximum value of shares for the vesting year ($)	
	2015	2016
KMP executives		
G A Fenn	521,354	163,012
D A Cattell	–	–
K J Fletcher	173,783	54,337
D J Overall	236,260	81,506
R A Spicer	–	–

6.7 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

Executives are on contracts with no fixed end date, other than the following:

- D A Cattell who is on a fixed term contract that ends on 1 July 2015; 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 18 December 2013 with D A Cattell to ensure management continuity and to guide the Downer Infrastructure business through a period of significant transition in the sector. That contract ends on 1 July 2015. 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.

  In accordance with his previous contract dated 5 October 2012, Mr Cattell received a cash payment equal to nine months fixed remuneration on 1 July 2014.

  Mr Cattell will participate in the STI plan for the 2014 and 2015 financial years, but the amount payable for each year will be limited to the amount payable for performance that exceeds target. This means that the maximum STI he may receive for the 2015 financial year is 25 per cent of fixed remuneration if performance on all measures is at or above the maximum (i.e. the stretch component up to a total maximum of 100 per cent). In relation to the 2014 STI, there was no award to Mr Cattell.

  In addition, 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 is $2.0 million per annum and this was unchanged during the 2014 financial year. This amount includes superannuation contributions and non-cash benefits and excludes Mr Fenn's home telephone rental and call costs, home internet costs and medical health, life and salary continuance insurance. Mr Fenn may also be accompanied by his wife when travelling on business, at the Chairman's discretion. There was no such travel during the year. It is reviewable annually in accordance with Downer's policies.

Mr Fenn is eligible to receive an annual STI and the maximum STI opportunity is 100 per cent of fixed remuneration. Any entitlement to an STI is at the discretion of the Board, having regard to performance measures and targets developed in consultation with Mr Fenn including Downer's financial performance, safety, people, environmental and sustainability targets and adherence to risk management policies and practices. The Board also retains the right to vary the STI by + or – 100 per cent (up to the 100 per cent maximum) based on its assessment of performance. The STI deferral arrangements described in section 5.3.4 apply to Mr Fenn.

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

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, 5 August 2014

Deloitte.

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

5 August 2014

Dear Directors

DOWNER EDI LIMITED

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

As lead audit partner for the audit of the financial report of Downer EDI Limited for the financial year ended 30 June 2014, 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 sincerely

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 2014

	Note	2014 $'000	2013 (restated)(i) $'000
Revenue from ordinary activities	3(a)	**7,365,323**	8,776,375
Other income	3(a)	**6,237**	4,863
Total revenue and other income	2	**7,371,560**	8,781,238
Employee benefits expense	3(b)	**(2,629,268)**	(3,009,369)
Raw materials and consumables used		**(1,276,966)**	(1,761,399)
Subcontractor costs		**(1,631,794)**	(1,887,032)
Plant and equipment costs		**(845,428)**	(1,019,904)
Communication expenses		**(76,309)**	(90,470)
Occupancy costs		**(125,560)**	(132,262)
Professional fees(ii)		**(58,525)**	(47,267)
Travel and accommodation expenses		**(109,991)**	(134,640)
Other expenses from ordinary activities(ii)		**(23,531)**	(60,789)
Depreciation and amortisation	3(b)	**(266,421)**	(294,801)
Share of net profit of joint ventures and associates	2	**13,351**	26,963
Individually significant item	4	**–**	(11,456)
		(7,030,442)	(8,422,426)
Earnings before interest and tax		**341,118**	358,812
Finance income	3(c)	**6,627**	4,779
Finance costs	3(c)	**(49,682)**	(71,902)
		(43,055)	(67,123)
Profit before income tax		**298,063**	291,689
Income tax expense	6(a)	**(82,070)**	(87,703)
Profit after income tax		**215,993**	203,986
Profit for the year that is attributable to:			
– Non-controlling interest		**41**	7
– Members of the parent entity		**215,952**	203,979
Profit for the year		**215,993**	203,986
Earnings per share (cents)			
– Basic earnings per share	7	**48.3**	45.7
– Diluted earnings per share	7	**46.0**	43.1

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) The 2013 balances have been restated to better reflect the nature of the costs incurred. There has been no impact on the profit before income tax as a result of these changes.

The consolidated statement of profit or loss should be read in conjunction with the accompanying notes on pages 48 to 112.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	2014 $'000	2013 $'000
Profit after income tax	**215,993**	203,986
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
– Exchange differences arising on translation of foreign operations	**17,139**	16,966
– Net (loss)/gain on foreign currency forward contracts taken to equity	**(4,476)**	18,212
– Net (loss)/gain on cross currency interest rate swaps taken to equity	**(571)**	846
– Income tax relating to components of other comprehensive income	**1,614**	(5,718)
Other comprehensive income for the year (net of tax)	**13,706**	30,306
Total comprehensive income for the year	**229,699**	234,292
Total comprehensive income for the year that is attributable to:		
– Non-controlling interest	**41**	7
– Members of the parent entity	**229,658**	234,285
Total comprehensive income for the year	**229,699**	234,292

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 48 to 112.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	30 June 2014 $'000	30 June 2013 (restated)[i] $'000	1 July 2012 (restated)[i] $'000
ASSETS				
Current assets				
Cash and cash equivalents	9	**431,767**	479,878	306,387
Trade and other receivables	10	**1,193,364**	1,516,562	1,626,346
Other financial assets	11	**11,566**	24,918	14,211
Inventories	12	**384,724**	349,880	282,738
Current tax assets	13	**–**	13,765	13,765
Other assets	14	**39,466**	45,391	51,575
Assets classified as held for sale	16	**–**	14,289	–
Total current assets		**2,060,887**	2,444,683	2,295,022
Non-current assets				
Trade and other receivables	10	**15,963**	999	1,922
Interest in joint ventures and associates	15	**40,085**	52,911	54,119
Property, plant and equipment	16	**1,146,909**	1,150,830	1,134,186
Intangible assets	17	**589,481**	571,773	577,651
Other financial assets	11	**6,727**	9,624	7,794
Deferred tax assets	13(a)	**732**	5,830	71,271
Other assets	14	**7,598**	3,134	3,553
Total non-current assets		**1,807,495**	1,795,101	1,850,496
Total assets		**3,868,382**	4,239,784	4,145,518
LIABILITIES				
Current liabilities				
Trade and other payables	18	**1,063,849**	1,276,751	1,423,171
Borrowings	19	**137,715**	237,946	180,938
Other financial liabilities	21	**47,607**	38,713	77,532
Provisions	22	**304,022**	326,099	332,450
Current tax liabilities	23	**9,962**	10,623	3,926
Total current liabilities		**1,563,155**	1,890,132	2,018,017
Non-current liabilities				
Trade and other payables	18	**5,685**	5,578	3,955
Borrowings	19	**285,513**	444,256	437,972
Other financial liabilities	21	**3,383**	27,664	46,112
Provisions	22	**36,742**	43,017	15,612
Deferred tax liabilities	23(a)	**11,893**	2,563	6,150
Total non-current liabilities		**343,216**	523,078	509,801
Total liabilities		**1,906,371**	2,413,210	2,527,818
Net assets		**1,962,011**	1,826,574	1,617,700
EQUITY				
Issued capital	24	**1,457,859**	1,448,927	1,427,730
Reserves	25	**(2,427)**	(17,461)	(51,752)
Retained earnings		**506,553**	395,123	241,737
Parent interests		**1,961,985**	1,826,589	1,617,715
Non-controlling interest		**26**	(15)	(15)
Total equity		**1,962,011**	1,826,574	1,617,700

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 48 to 112.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

2014

$'000	Issued capital	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2013	1,448,927	1,746	(33,157)	13,950	395,123	1,826,589	(15)	1,826,574
Profit after income tax	–	–	–	–	215,952	215,952	41	215,993
Exchange differences arising on translation of foreign operations	–	–	17,139	–	–	17,139	–	17,139
Net loss on foreign currency forward contracts	–	(4,476)	–	–	–	(4,476)	–	(4,476)
Net loss on cross currency interest rate swaps	–	(571)	–	–	–	(571)	–	(571)
Income tax relating to components of other comprehensive income	–	1,614	–	–	–	1,614	–	1,614
Total comprehensive income for the year	–	(3,433)	17,139	–	215,952	229,658	41	229,699
Contributions of equity(i)	8,932	–	–	–	–	8,932	–	8,932
Share-based transactions during the year	–	–	–	1,171	–	1,171	–	1,171
Income tax relating to share-based transactions during the year	–	–	–	157	–	157	–	157
Payment of dividends(ii)	–	–	–	–	(104,522)	(104,522)	–	(104,522)
Balance at 30 June 2014	1,457,859	(1,687)	(16,018)	15,278	506,553	1,961,985	26	1,962,011

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

(ii) Payment of dividends relates to 2013 final dividend, 2014 interim dividend and ROADS dividends paid during the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 48 to 112.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CONTINUED
FOR THE YEAR ENDED 30 JUNE 2014

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 48 to 112.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 $'000	2013 (restated)[i] $'000
Cash flows from operating activities			
Receipts from customers		**8,446,469**	9,807,932
Distributions from equity-accounted investees	15(a)	**26,292**	28,639
Dividends received from external entities		**352**	7
Payments to suppliers and employees		**(7,890,744)**	(9,313,563)
Manufacture Delay Account (MDA) interest received[ii]		**86,084**	–
Interest received		**6,150**	8,648
Interest and other costs of finance paid		**(49,467)**	(69,242)
Income tax paid		**(41,709)**	(14,327)
Net cash inflow from operating activities	28(c)	**583,427**	448,094
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**129,936**	67,595
Payments for property, plant and equipment		**(379,474)**	(350,343)
Payments for intangible assets (software)	17	**(12,989)**	(5,344)
Payments for investments		**(389)**	(1,335)
(Advances to)/repayments from joint ventures		**(15,120)**	4,028
Repayments from/(advances to) other entities		**600**	(600)
Divestment cost paid on disposal of subsidiary		**–**	(2,357)
Proceeds from sale of businesses		**1,529**	–
Payments for businesses acquired		**(2,847)**	–
Net cash used in investing activities		**(278,754)**	(288,356)
Cash flows from financing activities			
Proceeds from borrowings		**1,091,362**	3,798,391
Repayments of borrowings		**(1,352,343)**	(3,759,584)
Dividends paid		**(95,590)**	(29,694)
Dividends paid to non-controlling interest		**–**	(7)
Net cash (used in)/inflow from financing activities		**(356,571)**	9,106
Net (decrease)/increase in cash and cash equivalents		**(51,898)**	168,844
Cash and cash equivalents at the beginning of the year		**479,866**	306,385
Effect of exchange rate changes		**3,799**	4,637
Cash and cash equivalents at the end of the year	28(a)	**431,767**	479,866

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) MDA interest in relation to the Waratah Train Project was substantially received upon the delivery of Train Set 78 to Reliance Rail. Refer to Note 1 for further details.

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 48 to 112.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

These financial statements represent the consolidated results of Downer EDI Limited (ABN 97 003 872 848). The Financial Report is a general purpose Financial Report prepared in accordance with the *Corporations Act 2001* (Cth), Accounting Standards and Interpretations and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). 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 5 August 2014.

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. All amounts are presented in Australian dollars, unless otherwise noted.

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

NEW AND AMENDED ACCOUNTING STANDARDS ADOPTED BY THE GROUP

In the current year, the Group has applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

The new and revised standards adopted by the Group for its annual reporting period beginning on 1 July 2013 are as follows:

- AASB 10 *Consolidated Financial Statements*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*;
- AASB 11 *Joint Arrangements*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*;
- AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards;*
- AASB 13 *Fair Value Measurement*, AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*;
- AASB 119 *Employee Benefits (2011)*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (2011)*;
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*;
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*;
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period;
- AASB 1048 *Interpretation of Standards (December 2013)*;
- AASB 2012-9 *Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039*; and
- AASB CF 2013-1 *Amendments to the Australian Conceptual Framework*, AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part A Conceptual Framework)*.

CHANGES IN ACCOUNTING POLICIES

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

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that when there is a change in accounting policy, the revised policy is applied retrospectively as if the new accounting policy had always been applied. Therefore certain amounts shown in the consolidated Financial Report as at 30 June 2014 do not correspond to the consolidated Financial Report as at 30 June 2013 or to the consolidated Financial Report as at 30 June 2012 (which represents the 1 July 2012 earliest opening comparative balance). Adjustments to these previously disclosed amounts have been reflected as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

BASIS OF CONSOLIDATION

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

INVESTMENT IN JOINT ARRANGEMENTS

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

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

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

The effect of the change in accounting policy on individual line items in the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of financial position is shown in more detail in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

FAIR VALUE MEASUREMENT

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

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

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

ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the 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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

APPLICATION OF CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

REVENUE RECOGNITION

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

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

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

CAPITALISATION OF TENDER/BID COSTS

Tender/bid costs are expensed until the Group has reached preferred bidder status and there is a reasonable expectation that the 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. 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 (WTP)

During the year ended 30 June 2014, the WTP Rolling Stock Manufacturing (RSM) program achieved several significant milestones. As at 29 May 2014, all Waratah trains had achieved Practical Completion (PC) with Train Set 78 entering passenger service on the Sydney Rail network. With all payment milestones in relation to the RSM program satisfied upon Train Set 78 achieving PC the majority of monies held in the Manufacturing Delay Account (MDA) were released and paid to Downer.

A total provision of $440.0 million had been provided against losses expected to be incurred in the completion of the WTP RSM program. The provision included estimates for program design, manufacture, production and delivery schedules (the program). The Total Forecast Costs at Completion (FCAC) as at 31 December 2013 included $21.0 million of general contingency to cover unexpected completion costs. As at 30 June 2014, $4.0 million of the general contingency was incurred to close-out the RSM program, resulting in $17.0 million of the remaining contingency being written-back to net profit in the period.

The financial position at project completion assumes that inventory remaining at the completion of the build phase will be utilised within the maintenance phase of the project and that all outstanding supplier claims will be managed within management expectations.

There are no specific allowances made for potential future legal claims against Downer in relation to this project.

During the year, Final Completion (FC) was achieved for 33 trains following achievement of initial reliability requirements and the correction of minor defects. FC payments of $1.8 million were subsequently received per train Set for achieving FC.

Major outstanding receivables against the WTP RSM program at 30 June 2014 therefore comprised:

- $81.8 million in FC payments (referable to 45 train Sets achieving FC expected in 2014/15); and
- MDA receivable of $17.5 million ($5.0 million projected in 2014/15 and $12.5 million projected in 2018/19).

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

IMPAIRMENT OF ASSETS

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis or whenever there is an indication of impairment. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. The Group uses the higher of fair value less costs of disposal, and value in use to determine recoverable amount. Key assumptions requiring Management's judgement include projected cash flows, growth rate estimates, discount rates, gross margin, working capital and capital expenditure.

ANNUAL LEAVE AND LONG SERVICE LEAVE

The provision is calculated using expected future increases in wages and salary rates including on-costs and expected settlement dates based on staff turnover history and is discounted using the rates attaching to Australian State Government bonds at balance date that most closely match the terms 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 incorporates the financial statements of the Company and entities controlled by the Group and its subsidiaries. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 and 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 of minority interests resulting in gains and losses for the Group are recorded in the statement of profit or loss and other comprehensive income.

BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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.

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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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 reflects 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.

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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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 costs of disposal. 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 ARRANGEMENTS

JOINT OPERATIONS

Joint operations give the Group the right to the underlying assets and obligations for liabilities and are accounted for by recognising the share of those assets and liabilities.

JOINT VENTURES

Joint ventures give the Group the right to the net assets and are accounted for using the equity method. The interests are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

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 methods 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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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 methods 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.

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 or CGUs). 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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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 bond 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.

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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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.

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.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

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 from 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.

NOTE 1. SUMMARY OF ACCOUNTING POLICIES – CONTINUED

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.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. They have not been applied in preparing this Financial Report. The Group has not yet determined the potential effect of these standards on the Group's future Financial Reports.

- AASB 9 *Financial Instruments* (December 2009), AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 8 and Transition Disclosure*, AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2017;
- AASB 9 *Financial Instruments* (December 2010), AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010), AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 8 and Transition Disclosure*, AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* effective on a modified retrospective basis to annual periods beginning on or after 1 January 2017;
- AASB 1031 *Materiality* (2013) effective for annual periods beginning on or after 1 January 2014;
- AASB 2012-3 *Amendments to Australian Accounting Standards Disclosure – offsetting Financial Assets and Liabilities (Amendments to AASB 132)* effective for annual periods beginning on or after 1 January 2014;
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* effective for annual periods beginning on or after 1 January 2014;
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* effective for annual periods beginning on or after 1 January 2014;
- AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* effective for annual periods beginning on or after 1 January 2014;
- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* effective for annual periods beginning on or after 1 January 2014; and
- Interpretation 21 *Levies* effective for annual periods beginning on or after 1 January 2014.

The following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

- Narrow-scope amendments to IAS 19 *Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)* effective for annual periods beginning on or after 1 July 2014;
- Annual Improvements to *IFRSs 2010-2012 Cycle* effective for annual periods beginning on or after 1 July 2014;
- Annual Improvements to *IFRSs 2011-2013 Cycle* effective for annual periods beginning on or after 1 July 2014;
- IFRS 14 *Regulatory Deferral Accounts* effective for annual periods beginning on or after 1 July 2014; and
- IFRS 15 *Revenue from Contracts with Customers* effective for annual periods beginning on or after 1 January 2017.

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 the Group 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) Interest income and finance costs;

b) Corporate charges comprising non-segmental expenses such as head office expenses; and

c) Income tax expense.

INFORMATION ABOUT MAJOR CUSTOMERS

There is no single customer that contributed 10% or more to the Group's revenue for the years ended 30 June 2014 and 30 June 2013.

NOTE 2. SEGMENT INFORMATION – CONTINUED

	Total revenue(ii)		Share of sales revenue from joint ventures and associates		Total revenue including joint ventures and associates	
	2014 $'000	2013 (restated)(i) $'000	2014 $'000	2013 (restated)(i) $'000	2014 $'000	2013 $'000
By business segment						
Downer Infrastructure Australia	**3,556,349**	4,143,889	**49,385**	59,438	**3,605,734**	4,203,327
Downer Infrastructure New Zealand	**1,129,036**	1,033,216	**7,270**	6,104	**1,136,306**	1,039,320
Downer Mining	**1,923,983**	2,472,205	**58,937**	79,740	**1,982,920**	2,551,945
Downer Rail	**755,458**	1,129,896	**247,386**	205,846	**1,002,844**	1,335,742
Inter-segment sales	**(6,500)**	(8,547)	**–**	–	**(6,500)**	(8,547)
Subtotal	**7,358,326**	8,770,659	**362,978**	351,128	**7,721,304**	9,121,787
Unallocated	**13,234**	10,579	**–**	–	**13,234**	10,579
Total	**7,371,560**	8,781,238	**362,978**	351,128	**7,734,538**	9,132,366

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) 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

		Segment results	
	Note	2014 $'000	2013 (restated)[(i)] $'000
By business segment			
Downer Infrastructure Australia		**127,859**	184,684
Downer Infrastructure New Zealand		**63,220**	45,589
Downer Mining		**171,432**	174,225
Downer Rail		**22,097**	59,021
Total reported segment results		**384,608**	463,519
Unallocated		**(43,490)**	(104,707)
Interest income	3(c)	**6,627**	4,779
Interest expense	3(c)	**(49,682)**	(71,902)
Net interest expense		**(43,055)**	(67,123)
Total profit before income tax		**298,063**	291,689
Income tax expense	6(a)	**(82,070)**	(87,703)
Total net profit after tax		**215,993**	203,986
Reconciliation of segment net operating profit to net profit after tax:			
Segment net operating profit		**384,608**	463,519
Unallocated:			
Individually significant item	4	**–**	(11,456)
Impairment of goodwill	17	**–**	(6,224)
Settlement/(provision) of contractual claims		**6,423**	(18,917)
Government grant	3(a)	**11,711**	10,302
Redundancy costs		**(701)**	(1,516)
Corporate costs		**(51,366)**	(66,985)
IT transformation costs		**(9,557)**	(9,911)
Total unallocated		**(43,490)**	(104,707)
Earnings before interest and tax		**341,118**	358,812
Interest income	3(c)	**6,627**	4,779
Interest expense	3(c)	**(49,682)**	(71,902)
Total profit before income tax		**298,063**	291,689
Income tax expense	6(a)	**(82,070)**	(87,703)
Total net profit after tax		**215,993**	203,986

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

NOTE 2. SEGMENT INFORMATION – CONTINUED

	Segment assets		Segment liabilities		Carrying value of equity-accounted investees	
	2014 $'000	2013 (restated)(i) $'000	2014 $'000	2013 (restated)(i) $'000	2014 $'000	2013 (restated)(i) $'000
By business segment						
Downer Infrastructure Australia	**1,354,927**	1,312,551	**635,796**	651,479	**8,914**	9,308
Downer Infrastructure New Zealand	**449,380**	410,982	**188,605**	173,273	**4,128**	2,327
Downer Mining	**1,069,496**	1,243,559	**403,056**	567,646	**9,002**	17,297
Downer Rail	**694,573**	958,263	**229,432**	409,103	**18,041**	23,979
Subtotal	**3,568,376**	3,925,355	**1,456,889**	1,801,501	**40,085**	52,911
Unallocated	**300,006**	314,429	**449,482**	611,709	**–**	–
Total	**3,868,382**	4,239,784	**1,906,371**	2,413,210	**40,085**	52,911

	Share of net profit of joint ventures and associates		Depreciation and amortisation		Acquisition of segment assets	
	2014 $'000	2013 (restated)(i) $'000	2014 $'000	2013 $'000	2014 $'000	2013 (restated)(i) $'000
By business segment						
Downer Infrastructure Australia	**938**	2,042	**38,643**	41,846	**51,870**	83,673
Downer Infrastructure New Zealand	**435**	356	**23,073**	21,994	**25,535**	20,813
Downer Mining	**3,616**	13,225	**188,167**	215,295	**294,025**	246,280
Downer Rail	**8,362**	11,340	**7,988**	7,889	**17,084**	9,382
Subtotal	**13,351**	26,963	**257,871**	287,024	**388,514**	360,148
Unallocated	**–**	–	**8,550**	7,777	**4,547**	7,097
Total	**13,351**	26,963	**266,421**	294,801	**393,061**	367,245

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

	Total revenue(ii)		Segment assets		Acquisition of segment assets	
	2014 $'000	2013 (restated)(i) $'000	2014 $'000	2013 (restated)(i) $'000	2014 $'000	2013 (restated)(i) $'000
By geographic location						
Australia	**6,156,876**	7,654,832	**3,374,005**	3,775,017	**363,234**	344,567
Pacific	**1,148,630**	1,063,336	**448,920**	419,829	**25,839**	20,971
Asia	**12,406**	11,822	**10,311**	10,426	**62**	7
Africa	**26,953**	22,207	**11,969**	9,567	**1,193**	304
South America	**20,011**	20,706	**17,513**	16,996	**2,668**	1,319
Other	**6,684**	8,335	**5,664**	7,949	**65**	77
Total	**7,371,560**	8,781,238	**3,868,382**	4,239,784	**393,061**	367,245

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) 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

		Consolidated	
	Note	2014 $'000	2013 (restated)[i] $'000
a) Revenue			
Sales revenue			
Rendering of services		**4,150,337**	4,667,621
Mining services		**1,887,680**	2,423,830
Construction contracts		**1,038,519**	1,408,458
Sale of goods		**261,522**	248,949
Other revenue			
Other revenue		**6,354**	8,085
Rental income		**8,848**	9,123
Government grant[ii]	2	**11,711**	10,302
Dividends			
Other entities		**352**	7
Total revenue from ordinary activities		**7,365,323**	8,776,375
Other income			
Net gain on disposal of property, plant and equipment		**4,820**	4,863
Net foreign exchange gains		**1,417**	–
Total other income		**6,237**	4,863
Total revenue and other income		**7,371,560**	8,781,238
Share of sales revenue from joint ventures and associates	2	**362,978**	351,128
Total revenue including joint ventures and associates and other income		**7,734,538**	9,132,366

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) The amount relates to the research and development tax incentive received by the Group. The Group elected to present the net amount in 'Other revenue' as allowed under AASB 120 *Accounting for Government grants and disclosure of Government assistance*.

NOTE 3. PROFIT FROM ORDINARY ACTIVITIES – CONTINUED

		Consolidated	
	Note	2014 $'000	2013 (restated)[(i)] $'000
b) Operating expenses			
Cost of goods sold		**201,586**	189,407
Net foreign exchange losses		**–**	3,122
Net loss on disposal of business		**–**	2,111
Depreciation and amortisation of non-current assets:			
– Plant and equipment	16	**232,011**	251,739
– Buildings	16	**2,075**	2,769
– Amortisation of leased assets	16	**19,547**	28,892
Total depreciation		**253,633**	283,400
– Amortisation of intellectual property/software	17	**12,788**	11,401
Total depreciation and amortisation		**266,421**	294,801
Doubtful debts		**2,276**	2,877
Operating lease expenses relating to land and buildings		**73,562**	72,894
Operating lease expenses relating to plant and equipment[(ii)]		**167,730**	241,588
Total operating lease expenses		**241,292**	314,482
Employee benefits expense:			
– Defined contribution plans		**135,735**	170,893
– Share-based transactions		**1,171**	3,532
– Employee benefits		**2,463,287**	2,821,088
– Redundancy costs		**29,075**	13,856
Total employee benefits expense		**2,629,268**	3,009,369
c) Finance income and costs			
Finance income			
Interest income	2	**6,627**	4,779
Finance costs			
Finance costs on liabilities carried at amortised cost:			
– Interest expense		**40,797**	60,577
– Finance lease expense		**8,885**	11,325
Total interest and finance lease expense	2	**49,682**	71,902

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) Operating lease expenses do not include expenses relating to maintenance, insurance and taxes of $17.9 million (2013: $14.2 million).

NOTE 4. INDIVIDUALLY SIGNIFICANT ITEM

	Consolidated	
	2014 $'000	2013 $'000
The following material item is relevant to an understanding of the Group's financial performance:		
– Provision referable to Singapore Tunnel dispute	–	11,456
	–	11,456

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

NOTE 5. REMUNERATION OF AUDITORS

	Consolidated	
	2014 $	2013 $
Audit or review of financial reports:		
Auditor of the parent entity	**2,966,420**	2,832,457
Related practice of the parent entity auditor	**584,580**	485,131
	3,551,000	3,317,588
Non-audit services:		
Tax services	**448,305**	268,439
Audit related services	**52,500**	119,002
Sustainability assurance	**103,000**	100,000
Due diligence and other non-audit services	**410,880**	1,452,254
	1,014,685	1,939,695

The auditor of the Group is Deloitte Touche Tohmatsu.

NOTE 6. INCOME TAX

	Consolidated 2014 $'000	2013 $'000
a) Income tax recognised in the statement of profit or loss		
Tax expense comprises:		
– Current tax expense	**68,385**	64,280
– Deferred tax expense relating to the origination and reversal of temporary differences	**13,685**	23,423
Total tax expense	**82,070**	87,703
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	**298,063**	291,689
Group income tax expense calculated at 30% of operating profit	**89,419**	87,507
– Amortisation of intangible assets	**–**	57
– Non-taxable gains	**–**	633
– Profits and franked distributions from joint arrangements and associate entities	**(5,831)**	(7,741)
– Non-deductible expenses	**559**	3,996
– Effect of different rates of tax on overseas income	**(1,912)**	(1,989)
– Effect of unrecognised temporary differences	**–**	2,689
– Impairment of goodwill	**–**	1,867
– Other items	**(2,629)**	2,246
	79,606	89,265
Under/(over) provision of income tax in previous year	**2,464**	(1,562)
Income tax expense attributable to profit	**82,070**	87,703

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the Australian corporate tax rate between 2013 and 2014.

	Consolidated 2014 $'000	2013 $'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	**157**	751
– Revaluations of financial instruments treated as cash flow hedges	**1,614**	(5,718)
Total deferred tax charged to equity	**1,771**	(4,967)

NOTE 7. EARNINGS PER SHARE

	2014	2013
Earnings per share (EPS)		
– Basic earnings per share (cents per share)	**48.3**	45.7
– Diluted earnings per share (cents per share)	**46.0**	43.1
Basic earnings per share		
Profit attributable to members of the parent entity ($'000)	**215,952**	203,979
Adjustment to reflect ROADS dividends paid ($'000)	**(9,026)**	(7,683)
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**206,926**	196,296
Weighted average number of ordinary shares		
Weighted average number of ordinary shares (WANOS) on issue (000's)(i)	**428,569**	429,998
Basic earnings per share (cents per share)	**48.3**	45.7
Diluted earnings per share		
Profit attributable to members of the parent entity used in calculating EPS ($'000)	**215,952**	203,979
Weighted average number of ordinary shares – diluted		
Weighted average number of ordinary shares (WANOS) on issue (000's)(i)(ii)	**428,572**	429,998
WANOS adjustment to reflect potential dilution for ROADS (000's)(iii)	**40,482**	43,503
WANOS used in the calculation of diluted EPS (000's)	**469,054**	473,501
Diluted earnings per share (cents per share)	**46.0**	43.1

(i) The WANOS on issue has been adjusted by the weighted average effect of shares issue from Dividend Reinvestment Plan election and the unvested Executive Incentive shares.

(ii) For diluted earning per share, the WANOS has been further adjusted by the potential vesting of Executive Incentive shares.

(iii) 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 $185.9 million (2013: $168.6 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2013 to 30 June 2014 discounted by 2.5% according to the ROADS contract terms, which was $4.59 (2013: $3.87).

NOTE 8. DIVIDENDS

a) Ordinary shares

	Final 2014	Interim 2014	Final 2013	Interim 2013
Dividend per share (in Australian cents)	**12.0**	**11.0**	11.0	10.0
Franking percentage	**100%**	**70%**	70%	70%
Cost (in $'000)	**52,248**	**47,821**	47,675	42,910
Payment date	**17/09/2014**	**20/03/2014**	24/09/2013	15/04/2013
Dividend record date	**19/08/2014**	**18/02/2014**	20/08/2013	15/03/2013

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

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

	Quarter 1 2014	Quarter 2 2014	Quarter 3 2014	Quarter 4 2014	Total 2014
Dividend per ROADS (in Australian cents)	**1.09**	**1.13**	**1.15**	**1.14**	**4.51**
New Zealand imputation credit percentage	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'000)	**2,181**	**2,262**	**2,301**	**2,282**	**9,026**
Payment date	**16/09/2013**	**16/12/2013**	**17/03/2014**	**16/06/2014**	

	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	

c) Franking credits

	Parent Entity	
	2014 $'000	2013 $'000
Franking account balance	**3,853**	5,114

NOTE 9. CASH AND CASH EQUIVALENTS

	Note	Consolidated 2014 $'000	2013 (restated)[i] $'000
Cash at bank and in hand		**327,678**	459,531
Short-term deposits		**104,089**	20,347
	37(a)	**431,767**	479,878

NOTE 10. TRADE AND OTHER RECEIVABLES

	Note	2014 $'000	2013 (restated)[i] $'000
Current			
Trade receivables	10(a)	**574,947**	580,669
Allowance for doubtful debts	10(b)	**(4,672)**	(8,102)
		570,275	572,567
Amounts due from customers under contracts and rendering of services[ii]	31	**557,410**	910,075
Other receivables		**65,679**	33,920
		1,193,364	1,516,562
Non-current			
Other receivables		**15,963**	999
Total trade and other receivables		**1,209,327**	1,517,561

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) Prior year included $60.4 million ($440.0 million less $379.6 million utilised) provision for the Waratah Train Project. The Waratah Train Project is substantially completed. Refer Note 1 for further details.

a) Of the total $574.9 million (2013: $580.7 million) of trade receivables, $454.6 million (2013: $440.4 million) is current (i.e. within 30 days). The Group considers that there are no indications as at the reporting date that debtors will not meet their payment obligations.

Of the total receivables of $574.9 million (2013: $580.7 million):

- $2.2 million (2013: $2.6 million) are renegotiated receivables and the Group has assessed that these are all recoverable and no impairment has been taken;
- $113.4 million (2013: $129.6 million) are past due but not impaired with an average of more than 64 days. These relate to a number of customers for whom there is no recent history of default, nor other indicators of impairment. The Group considers that no provision is required on these balances. The consolidated entity does not hold any collateral over these balances; and
- $4.7 million (2013: $8.1 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

	Note	Consolidated 2014 $'000	2013 $'000
Balance at the beginning of financial year		**(8,102)**	(7,160)
Additional provisions		**(3,131)**	(4,749)
Amounts used		**5,795**	2,027
Amounts reversed		**855**	1,872
Foreign currency exchange differences		**(89)**	(92)
Balance at the end of the financial year		**(4,672)**	(8,102)

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	2014 $'000	2013 $'000
Current			
Foreign currency forward contracts – designated as cash flow hedge		**642**	13,925
Foreign currency forward contracts – fair value through profit or loss		**311**	350
Deferred consideration receivable – amortised cost	27	**572**	–
Other financial assets – amortised cost		**10,041**	10,643
		11,566	24,918
Non-current			
Advances to joint ventures – amortised cost		**–**	972
Foreign currency forward contracts – designated as cash flow hedge		**178**	183
Fair value through profit or loss investments		**5,151**	6,458
Deferred consideration receivable – amortised cost	27	**1,398**	1,771
Other financial assets – amortised cost		**–**	240
		6,727	9,624
Total other financial assets		**18,293**	34,542

NOTE 12. INVENTORIES

	2014 $'000	2013 $'000
Current		
Raw materials	**253,768**	226,439
Work in progress	**2,534**	1,435
Finished goods	**95,281**	92,727
Components and spare parts	**33,141**	29,279
	384,724	349,880

NOTE 13. TAX ASSETS

	Note	Consolidated 2014 $'000	2013 $'000
Current			
Current tax assets		–	13,765
Non-current			
a) Deferred tax assets		**732**	5,830
b) Movement in deferred tax assets for the financial year			
Balance at the beginning of the financial year		**160,674**	221,116
Charged to statement of profit or loss as deferred income tax expense	13(d)	**(24,070)**	(26,213)
Charged to equity		**129**	(4,766)
Net foreign currency exchange differences		**1,859**	1,362
Tax losses utilised or transferred		**(4,255)**	(33,161)
Disposal of entities and operations		**(243)**	(552)
Other		**5,668**	2,888
Balance at the end of the financial year (gross)	13(c)	**139,762**	160,674
Set-off of deferred tax liabilities within the same tax jurisdiction	23(b)	**(139,030)**	(154,844)
Net deferred tax assets		**732**	5,830
c) Deferred tax assets at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to:			
Inventories		**5,755**	3,833
Trade and other receivables		**2,467**	20,670
Property, plant and equipment		**11,009**	6,006
Trade and other payables		**28,433**	11,719
Borrowings		**65**	157
Provisions		**89,385**	108,289
Income tax losses		**–**	7,153
Hedges and foreign exchange movements		**1,649**	1,324
Share issue expenses		**956**	1,481
Other		**43**	42
Total deferred tax assets (gross)		**139,762**	160,674
d) Amounts charged to the statement of profit or loss as deferred income tax (expense)/benefit:			
Inventories		**(4,030)**	(4,230)
Trade and other receivables		**(19,507)**	10,883
Property, plant and equipment		**(5,097)**	(2,809)
Trade and other payables		**15,074**	(8,454)
Borrowings		**–**	(185)
Provisions		**(17,885)**	1,802
Hedges and foreign exchange movements		**(1,475)**	(635)
Share issue expenses		**(798)**	(524)
Other		**3,803**	(5,391)
Deferred tax assets in relation to prior years		**5,845**	(16,670)
Charged to statement of profit or loss as deferred income tax expense		**(24,070)**	(26,213)

NOTE 14. OTHER ASSETS

	Consolidated 2014 $'000	Consolidated 2013 (restated)[i] $'000
Current		
Prepayments	**34,296**	39,935
Other deposits	**2,294**	2,162
Other current assets	**2,876**	3,294
	39,466	45,391
Non-current		
Prepayments	**6,109**	1,208
Other non-current assets	**1,489**	1,926
	7,598	3,134
Total other assets	**47,064**	48,525

NOTE 15. JOINT ARRANGEMENTS AND ASSOCIATE ENTITIES

	Note	Consolidated 2014 $'000	Consolidated 2013 (restated)[i] $'000
Interest in joint ventures and associates	15(a)	**40,085**	52,911

a) The consolidated entity and its controlled entities have interests in the following joint ventures and associates which are equity accounted:

Name of joint venture	Principal activity	Country of operation	Ownership interest 2014 %	Ownership interest 2013 %
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
Bitumen Importers Australia Joint Venture	Construction of bitumen storage facility	Australia	**50**	50
Bitumen Importers Australia Pty Ltd	Bitumen importer	Australia	**50**	50
Dust-A-Side Australia Pty Ltd[ii]	Dust suppression to mine industry	Australia	**–**	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco Limited	Emulsion plant	New Zealand	**50**	50
Green Vision Recycling Limited	Recycling	New Zealand	**33**	33
Isaac Asphalt Limited	Manufacture and supply of asphalt	New Zealand	**50**	–
RTL Mining and Earthworks Pty Ltd	Contract mining; civil works and plant hire	Australia	**44**	44
Stockton Alliance Limited	Mine operations	New Zealand	**50**	50

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) Joint venture interest in Dust-A-Side Australia Pty Ltd was disposed of during the financial year.

NOTE 15. JOINT ARRANGEMENTS AND ASSOCIATE ENTITIES – CONTINUED

Name of associate	Principal activity	Country of operation	Ownership interest 2014 %	2013 %
Clyde Babcock Hitachi (Australia) Pty Ltd	Refurbishment, construction and maintenance of boilers	Australia	**27**	27
KDR Gold Coast Pty Ltd(i)	Operation and maintenance of Gold Coast Rapid Transit Project	Australia	**49**	49
KDR Victoria Pty Ltd	Operation of Yarra Trams and Melbourne tram network	Australia	**49**	49
KDR Victoria Services Pty Ltd	Operation of maintenance activities	Australia	**49**	–
Keolis Downer Pty Ltd	Holding company of KDR	Australia	**49**	–
Reliance Rail Pty Ltd	Rail manufacturing and maintenance	Australia	**49**	49

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

Material associates

The Group is a 49% partner in Keolis Downer Pty Ltd, the ultimate parent entity of KDR Victoria Pty Ltd, KDR Victoria Services Pty Ltd and KDR Gold Coast Pty Ltd. These associates are considered material to the Group as the partnership with Keolis (one of Europe's leading public transport operators) is considered a strategic long-term partnership.

KDR Victoria Pty Ltd is the operator of the Yarra Trams, the Melbourne tram system; KDR Victoria Services Pty Ltd operates the maintenance activities for Yarra Trams and KDR Gold Coast Pty Ltd operates and maintains a light rail public transportation system on the Gold Coast.

	Note	Consolidated 2014 $'000	2013 (restated)(ii) $'000
Interest in joint ventures and associates			
Equity-accounted investees at the beginning of the financial year		**52,911**	54,119
– Share of net profit	2	**13,351**	26,963
– Share of distributions		**(26,292)**	(28,639)
– Earn-in contribution		**–**	218
– Additional interest in joint ventures and associates		**1,695**	65
– Disposal of interest in joint ventures and associates(iii)		**(2,000)**	–
– Foreign currency exchange differences		**420**	185
Equity-accounted investees at the end of the financial year		**40,085**	52,911
Share of results of joint ventures and associates			
Revenue	2	**362,978**	351,128
Expenses		**(342,847)**	(318,865)
		20,131	32,263
Current assets		**139,484**	143,179
Non-current assets		**41,820**	38,668
Total assets		**181,304**	181,847
Current liabilities		**128,523**	113,864
Non-current liabilities		**12,737**	18,374
Total liabilities		**141,260**	132,238
Net assets		**40,044**	49,609

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

(ii) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(iii) Joint venture interest in Dust-A-Side Australia Pty Ltd was disposed of during the financial year.

NOTE 15. JOINT ARRANGEMENTS AND ASSOCIATE ENTITIES – CONTINUED

b) Contingent liabilities

The consolidated entity's share of the contingent liabilities of joint ventures and associates is included in Note 30.

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

Name of joint operation	Principal activity	Country of operation	Ownership interest 2014 %	Ownership interest 2013 %
BPL Downer Joint Venture	Building construction	Singapore	**50**	50
CDJV Construction Pty Ltd(i)	Employment of labour force deployed in Clough Downer	Australia	**50**	50
Clough Downer Joint Venture(i)	Gas compression facilities and pipelines	Australia	**50**	50
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(ii)	Construction	Fiji	**–**	50
Downer CSS Joint Venture(iii)	Telecommunications	Thailand	**60**	60
Downer Daracon Joint Venture	Construction	Australia	**50**	50
Downer EDI Works Pty Ltd & Leighton Contractors Pty Ltd	Design and construction of rail works	Australia	**50**	50
Downer Electrical GHD JV(iii)	Traffic control infrastructure	Australia	**90**	90
Downer HEB Joint Venture	Design and build of the New Zealand National War Memorial Park	New Zealand	**50**	50
DownerMouchel(i)(iv)	Road maintenance	Australia	**60**	60
DownerMouchel Services Pty Ltd	Employment of labour force deployed in DownerMouchel in New South Wales	Australia	**50**	–
John Holland EDI Joint Venture(i)	Research reactor	Australia	**40**	40
LD&C Joint Venture	Design and construction of pipes and structures	Australia	**37.5**	–
Leighton Works Joint Venture	Road construction	New Zealand	**50**	50
Macdow Downer Joint Venture	Road construction	New Zealand	**50**	50
Roche Thiess Linfox Joint Venture	Contract mining; civil works and plant hire	Australia	**44**	44
Synergy Joint Venture(i)	Road and pavement construction	Australia	**33**	33
Thiess Downer EDI Works	Construction of coast to coast railway	Australia	**25**	25
Total Spaces Joint Venture	Roading, landscaping and earthworks	New Zealand	**50**	50
Wiri Train Depot Joint Venture	Construction of the Wiri train depot	New Zealand	**50**	50
Yokogawa Downer Joint Venture(ii)	Refurbishment of power station	Australia	**–**	50
York Civil Pty Ltd and Downer EDI Engineering Pty Ltd Joint Venture	Construction of water pump station	Australia	**50**	50

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

(ii) Joint Operation was de-registered during the financial year.

(iii) Contractual arrangement prevents control despite ownership of more than 50% of these joint ventures.

(iv) The joint arrangement specifies 50% interest, except where an Integrated Service Arrangement (ISA) obligation is in place, whereby Downer EDI Limited has a 60% interest.

NOTE 15. JOINT ARRANGEMENTS AND ASSOCIATE ENTITIES – CONTINUED

MATERIAL JOINT OPERATIONS

Clough Downer Joint Venture
The Group is a 50% partner in Clough Downer Joint Venture. The joint arrangement was set up to utilise each party's experience, knowledge and relevant skills to deliver the Santos Gladstone LNG project in Queensland. The project involves the construction of over 400 kilometres of gas and water transmission pipelines, compression facilities, camps and associated infrastructure.

DownerMouchel
The Group is a 50% partner in DownerMouchel except for three Integrated Service Arrangements (ISA) in Western Australia where Downer has a 60% interest. The joint arrangement is a strategic partnership with Mouchel, a UK-based international infrastructure and business services group, to tender and deliver integrated asset management services and maintenance services. The major projects on hand include: the Stewardship Maintenance contract for the Sydney West Zone road network for Roads and Maritime Services (RMS); the maintenance and improvement of the intelligent transport system assets in the Sydney West Zone and regional New South Wales for RMS; and the road asset maintenance contract in the northern region of South East Queensland for The Department of Transport and Main Roads (TMR) Queensland. DownerMouchel also operates the three ISAs for Main Roads Western Australia involving the delivery of fence-to-fence road network asset management on more than 6,600 lane-kilometres of road.

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

2014			Consolidated		
$'000	Freehold Land	Buildings	Plant and Equipment	Equipment under Finance Lease	Total
At 1 July 2013					
Cost	20,860	51,465	1,961,943	183,589	2,217,857
Accumulated depreciation	–	(16,958)	(1,005,593)	(44,476)	(1,067,027)
Net book value	20,860	34,507	956,350	139,113	1,150,830
Year ended 30 June 2014					
Additions	–	144	366,877	8,935	375,956
Disposals at net book value	–	(275)	(80,319)	(44,525)	(125,119)
Acquisition of business	–	–	893	–	893
Disposals of business at net book value	–	–	(1,006)	–	(1,006)
Depreciation expense (Note 3(b))	–	(2,075)	(232,011)	(19,547)	(253,633)
Reclassifications at net book value	–	(748)	748	–	–
Reclassified as intangible assets (Note 17)(i)	–	–	(10,386)	–	(10,386)
Net foreign currency exchange differences at net book value	58	567	9,278	(529)	9,374
Closing net book value	20,918	32,120	1,010,424	83,447	1,146,909
At 30 June 2014					
Cost	20,918	49,735	2,120,712	131,475	2,322,840
Accumulated depreciation	–	(17,615)	(1,110,288)	(48,028)	(1,175,931)
Closing net book value	20,918	32,120	1,010,424	83,447	1,146,909

(i) Refers to the reclassification of software from Capital Work in Progress to Intangible Assets.

NOTE 16. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

2013	Consolidated				
$'000	Freehold Land	Buildings	Plant and Equipment (restated)[(i)]	Equipment under Finance Lease	Total (restated)[(i)]
At 1 July 2012					
Cost	19,000	51,047	1,839,108	151,577	2,060,732
Accumulated depreciation	–	(15,344)	(875,948)	(35,254)	(926,546)
Net book value	19,000	35,703	963,160	116,323	1,134,186
Year ended 30 June 2013					
Additions	2,019	797	288,250	70,835	361,901
Disposals at net book value	(200)	(260)	(18,128)	(31,366)	(49,954)
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[(ii)]	–	–	(14,289)	–	(14,289)
Reclassifications at net book value	–	624	(12,536)	11,912	–
Reclassified as intangible assets (Note 17)[(iii)]	–	–	(3,897)	–	(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	956,350	139,113	1,150,830
At 30 June 2013					
Cost	20,860	51,465	1,961,943	183,589	2,217,857
Accumulated depreciation	–	(16,958)	(1,005,593)	(44,476)	(1,067,027)
Closing net book value	20,860	34,507	956,350	139,113	1,150,830

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) Asset held for sale related to the sale of mining equipment at Cracow underground mine. Proceeds of $14.4 million were received prior to 30 June 2013 and the transfer of the assets was completed in July 2013.

(iii) Refers to the reclassification of software from Capital Work in Progress to Intangible Assets.

NOTE 17. INTANGIBLE ASSETS

2014	Consolidated		
$'000	Goodwill	Intellectual Property/ Software	Total
At 1 July 2013			
Cost	**590,799**	**138,680**	**729,479**
Accumulated amortisation and impairment	**(75,994)**	**(81,712)**	**(157,706)**
Net book value	**514,805**	**56,968**	**571,773**
Year ended 30 June 2014			
Purchases	**–**	**12,989**	**12,989**
Acquisition of business (Note 26)	**3,223**	**–**	**3,223**
Disposals of business at net book value	**–**	**(150)**	**(150)**
Reclassifications at net book value (Note 16)(i)	**–**	**10,386**	**10,386**
Amortisation expense (Note 3(b))	**–**	**(12,788)**	**(12,788)**
Net foreign currency exchange differences at net book value	**3,567**	**481**	**4,048**
Closing net book value	**521,595**	**67,886**	**589,481**
At 30 June 2014			
Cost	**597,589**	**158,514**	**756,103**
Accumulated amortisation and impairment	**(75,994)**	**(90,628)**	**(166,622)**
Closing net book value	**521,595**	**67,886**	**589,481**

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 (Note 16)(i)	–	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

(i) Refers to the reclassification of software 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 CGUs that are significant individually or in aggregate, taking into consideration geographical spread, resource allocation, how operations are monitored and where independent cash inflows are identifiable. Eight independent CGUs (by operation) have been identified across the Group against which impairment testing has been undertaken. Goodwill has been allocated to these CGUs as follows:

	Carrying value of Consolidated Goodwill	
	2014 $'000	2013 $'000
Downer Infrastructure East	**188,162**	184,939
Downer Infrastructure West	**58,850**	58,850
Downer Infrastructure Specialist Services	**83,780**	83,780
Downer Infrastructure New Zealand	**55,799**	52,232
Downer Mining	**65,545**	65,545
Downer Rail	**69,459**	69,459
	521,595	514,805

Goodwill relating to Downer Infrastructure Asia and Works United Kingdom has previously been fully impaired.

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.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In its impairment assessment, the Group determines the recoverable amount based on a value in use calculation, using three years cash flow projections based on the 2014/15 (FY15) budget for the year ending 30 June 2015 and the business plan for the subsequent financial years ending 30 June 2016 (FY16) and 30 June 2017 (FY17) as discussed with the Board. For FY18 onwards, the Group assumes a long-term growth rate to allow for organic growth on the existing asset base.

Cash flow projections are determined utilising the budgeted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) less tax, capital maintenance spending and working capital changes, adjusted to exclude any uncommitted restructuring costs and future benefits to provide a "free cash flow" estimate. This calculated "free cash flow" is then discounted to its present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

KEY ASSUMPTIONS

The table below shows the key assumptions utilised in the "value in use" calculations.

	Budgeted EBITDA(i) %	Long-term Growth rate %	Discount rate %
Downer Infrastructure East	**6.9%**	**2.5%**	**10.8%**
Downer Infrastructure West	**3.6%**	**2.5%**	**10.8%**
Downer Infrastructure Specialist Services	**7.6%**	**2.5%**	**10.8%**
Downer Infrastructure New Zealand	**2.4%**	**2.5%**	**11.2%**
Downer Mining	**3.8%**	**2.5%**	**11.8%**
Downer Rail	**11.6%**	**2.5%**	**10.8%**

(i) Budgeted EBITDA used for impairment testing is expressed as the compound annual growth rates from FY15 to FY17 based on the business plans.

NOTE 17. INTANGIBLE ASSETS – CONTINUED

KEY ASSUMPTIONS – CONTINUED

Budgeted EBITDA

Budgeted EBITDA has been based on past experience and the Group's assessment of economic and regulatory factors affecting the industry within which the Downer businesses operate:

- Downer Infrastructure revenue is expected to benefit from the development of strategic partnerships and an expected increase in activity in the oil and gas, transport infrastructure and telecommunications sectors. It will also benefit from recent restructuring and business improvement initiatives.
- Downer Mining revenue and EBITDA have been adjusted to reflect the recent early termination of the Goonyella contract and include assumptions that take into account the cyclical nature of the resources industry.
- Downer Rail is expected to benefit from its recently completed business restructure through growth in its maintenance, component and overhauls and after-market parts sales activities. The projected cash flows assume that the restructure results in a return to historic profitability levels for these activities from FY15. In addition, strategic partnerships and investments are expected to continue to contribute to revenue and EBITDA growth.

Long-term growth rate

The future annual growth rates for FY17 onwards to perpetuity are based on the historical nominal GDP rates for the country of operation.

Discount rates

Post-tax discount rates of between 10.8% and 11.8% reflect the Group'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 risks specific to that CGU, including benchmarking against relevant peer group companies. The post-tax discount rate is applied to post-tax cash flows that include an allowance for tax based on the respective jurisdiction's tax rate. This method is used to approximate the requirement of the accounting standards to apply a pre-tax discount rate to pre-tax cash flows.

Budgeted capital expenditure

The cash flows for capital expenditure are based on past experience and the amounts included in the terminal year calculation are 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.

Budgeted working capital

Working capital has been maintained to support the underlying business plus allowances for growth. It has been assumed to be in line with historic trends given the level of utilisation and operating activity.

SENSITIVITIES

Other than as disclosed below, the Group believes that for all other CGUs, any reasonably possible change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.

For the Mining CGU, the Group has considered the current macro-economic challenges facing the resources sector (which has resulted in the recent early termination of its Goonyella mining contract). A number of scenarios, including further contract losses and pricing and volume reductions have been analysed. Based on the modelling and analysis performed, the recoverable amount is expected to be greater than the carrying value.

For the Rail CGU, the recoverable amount currently exceeds its carrying value. A reasonably possible change in the projected cash flows could result in the carrying value of the CGU exceeding its recoverable amount. The following sensitivity analysis was performed to determine what changes in the key assumptions used, if any, would lead to an impairment loss being recognised.

The valuation of the Rail CGU assumes increased efficiencies in its operations and improvement in financial performance of its maintenance business and a return to historical levels in FY15 following a substantial restructure undertaken during FY14. The timing of the cash flows arising from these improvements may be affected by macro-economic risks including volatile commodity prices which result in reduced capital expenditure in the Australian resources sector and insourcing by key customers for rolling stock maintenance. In the event that these risks cannot be mitigated and EBITDA for the Rail CGU for FY15 is 24% lower than planned, with subsequent years EBITDA increasing by 2.5% from the revised base, then the Rail CGU carrying value may exceed its recoverable amount.

NOTE 18. TRADE AND OTHER PAYABLES

	Note	Consolidated 2014 $'000	2013 (restated)(i) $'000
Current			
Trade payables		**348,111**	450,150
Amounts due to customers under contracts and rendering of services	31	**156,003**	241,267
Accruals		**481,096**	478,114
Goods and services tax payable		**42,651**	57,000
Other		**35,988**	50,220
		1,063,849	1,276,751
Non-current			
Other		**5,685**	5,578
Total trade and other payables		**1,069,534**	1,282,329

NOTE 19. BORROWINGS

	Note	2014 $'000	2013 (restated)(i) $'000
Current			
Secured – at amortised cost:			
– Finance lease liabilities	29(c)	**14,017**	38,037
– Hire purchase liabilities	29(d)	**1,667**	2,286
– Supplier finance		**7,545**	5,733
		23,229	46,056
Unsecured – at amortised cost:			
– Bank loans		**16,562**	17,843
– Bank overdrafts	28(a)	**–**	12
– AUD medium term notes (2009-1)		**13,283**	13,283
– AUD medium term notes (2009-2)		**–**	150,310
– AUD medium term notes (2010-1)		**12,600**	12,600
– USD notes		**74,357**	–
– Deferred finance charges		**(2,316)**	(2,158)
		114,486	191,890
Total current borrowings	37(a)	**137,715**	237,946
Non-current			
Secured – at amortised cost:			
– Finance lease liabilities	29(c)	**40,455**	80,850
– Hire purchase liabilities	29(d)	**2,008**	3,214
		42,463	84,064
Unsecured – at amortised cost:			
– Bank loans		**44,825**	61,387
– USD notes		**7,436**	83,270
– AUD medium term notes (2009-1)		**39,894**	53,177
– AUD medium term notes (2010-1)		**6,300**	18,900
– AUD medium term notes (2013-1)		**150,000**	150,000
– Deferred finance charges		**(5,405)**	(6,542)
		243,050	360,192
Total non-current borrowings	37(a)	**285,513**	444,256
Total borrowings		**423,228**	682,202

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

NOTE 20. FINANCING FACILITIES

Financing facilities

At 30 June 2014, the consolidated entity had the following facilities that were not utilised at balance date:

	2014 $'000	2013 $'000
Syndicated bank loan facility	**400,000**	400,000
Bilateral bank loan facilities	**217,000**	221,246
Total unutilised bank loan facilities	**617,000**	621,246
Bilateral bank and insurance company bonding facilities	**384,187**	458,539
Total unutilised bonding facilities	**384,187**	458,539

BANK LOANS

Syndicated loan facility
The syndicated loan facility, totalling A$400.0 million, is unsecured and has a maturity date of April 2018 following completion of the process whereby the Group exercised an option to extend the term by one year. The facility has a further one year extension option, exercisable in April 2015, 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 multiple tranches in calendar year 2015 and 2016. Included in bank loans are amounts of $61.4 million in aggregate, which are supported by Export Credit Agency guarantees and which amortise through even semi-annual instalments and with final maturity dates of May 2017, April 2018 and July 2019.

USD NOTES

USD unsecured private placement notes are on issue for a total amount of US$77.0 million and are subject to certain Group guarantees. The notes mature in various tranches in September 2014 (US$30.0 million), October 2014 (US$40.0 million) and September 2019 (US$7.0 million). The USD principal and interest have been fully hedged against the Australian dollar.

AUD MEDIUM TERM NOTES (MTNs)

The Group has the following MTNs on issue: Series 2009-1 amortises through even semi-annual instalments, until the final maturity date of April 2018 and has a balance of $53.2 million; Series 2010-1 amortises through even semi-annual instalments until the final maturity date of September 2015 and has a balance of $18.9 million; and Series 2013-1 for an amount of $150.0 million and which has a bullet maturity date of November 2018. The MTNs are subject to certain Group guarantees.

FINANCE LEASE FACILITIES

The Group funds certain of its equipment under finance leases which amortise over periods of up to five years. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. Interest rates which are implicit in the rentals are fixed at lease commencement dates and have a weighted average of 6.0% per annum (June 2013: 6.6% 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 financial covenants which require the Group to operate within certain financial ratio levels as well as ensuring that subsidiaries that contribute certain 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 (calculated as rolling 12 month EBIT to Net Interest Expense) and Leverage (calculated as Net Debt to Total 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 2014.

BONDING

The Group has $1,282.0 million of bank guarantee and insurance bond facilities to support its contracting activities. $498.5 million of these facilities are provided to the Group on a committed basis and $783.5 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 nature of the contract of work and potential concentration limits the financial institution may have on the project or industry where the work is being undertaken. 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. $897.8 million of these facilities were utilised as at 30 June 2014 with $384.2 million unutilised. $84.6 million of the current committed facilities relates to a syndicated bonding facility referable to the Waratah Train Project and which matures in December 2014. Excluding this syndicated facility, the Group's other facilities have varying maturity dates which range from December 2014 to February 2016.

The risk being assumed by the financier under these bonds is Downer corporate 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, be utilised for bonding purposes.

REFINANCING REQUIREMENTS

Where existing facilities approach maturity, the Group will seek to negotiate with existing and new financiers to extend the maturity date of those facilities. The Group's earnings profile, financial metrics, 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. Furthermore, banks and other lending institutions may demand more stringent terms (including increased pricing and lower facility limits) on debt and bonding facilities to reflect the higher credit risk profile.

NOTE 21. OTHER FINANCIAL LIABILITIES

	Consolidated 2014 $'000	Consolidated 2013 $'000
Current		
Foreign currency forward contracts – designated as cash flow hedge	**888**	1,588
Foreign currency forward contracts – fair value through profit or loss	**74**	197
Cross currency and interest rate swaps – designated as cash flow hedge	**30,173**	4,373
Fair value commodity hedges	**–**	63
Advances from joint ventures and associates – amortised cost	**16,472**	32,492
	47,607	38,713
Non-current		
Foreign currency forward contracts – designated as cash flow hedge	**15**	11
Cross currency and interest rate swaps – designated as cash flow hedge	**3,368**	27,653
	3,383	27,664
Total other financial liabilities	**50,990**	66,377

NOTE 22. PROVISIONS

$'000	Consolidated Employee benefits(i)	Decom-missioning(ii)	Contract claims/ warranties(iii)	Other(iv)	Total
At 1 July 2013					
Current	265,458	5,829	25,502	29,310	326,099
Non-current	19,439	6,701	1,849	15,028	43,017
Total	284,897	12,530	27,351	44,338	369,116
Movement					
Additional provisions recognised	316,388	1,357	12,837	41,235	371,817
Unused provision reversed	(12,561)	(595)	(4,574)	(13,109)	(30,839)
Utilisation of provision	(326,589)	(1,468)	(8,754)	(34,717)	(371,528)
Acquisition of business	77	–	–	–	77
Disposal of business	(522)	–	–	(349)	(871)
Net foreign currency exchange differences	2,287	26	495	184	2,992
At 30 June 2014	263,977	11,850	27,355	37,582	340,764
Current	244,258	4,654	23,857	31,253	304,022
Non-current	19,719	7,196	3,498	6,329	36,742
Total at 30 June 2014	263,977	11,850	27,355	37,582	340,764

(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 warranties 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 provision is estimated having regard to previous claims experience.

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

NOTE 23. TAX LIABILITIES

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Current			
Current tax liabilities		**9,962**	10,623
Non-current			
a) Deferred tax liabilities		**11,893**	2,563
b) Movement in deferred tax liabilities for the financial year			
Balance at the beginning of the financial year		**157,407**	155,995
Charged to statement of profit or loss as deferred income tax (benefit)	23(d)	**(10,385)**	(2,790)
Charged to equity		**(1,642)**	201
Net foreign currency exchange differences		**2,164**	1,546
Disposal of entities and operations		**(396)**	(395)
Other		**3,775**	2,850
Balance at the end of the financial year (gross)	23(c)	**150,923**	157,407
Set-off of deferred tax assets within the same tax jurisdiction	13(b)	**(139,030)**	(154,844)
Net deferred tax liabilities		**11,893**	2,563
c) Deferred tax liabilities at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to:			
Inventories		**7,693**	1,515
Trade and other receivables		**96,973**	106,851
Other current assets		**373**	34
Joint arrangements and associate entities		**5,870**	10,777
Property, plant and equipment		**16,865**	21,679
Intangible assets		**7,578**	7,920
Trade and other payables		**12,844**	5,046
Borrowings		**515**	493
Hedges and foreign exchange movements		**620**	1,140
Other		**1,592**	1,952
Total deferred tax liabilities (gross)		**150,923**	157,407
d) Amounts charged to statement of profit or loss as deferred income tax (benefit)/expense:			
Inventories		**(17)**	(724)
Trade and other receivables		**(31,622)**	(9,238)
Other assets		**8**	(1,118)
Joint arrangements and associate entities		**1,845**	(902)
Property, plant and equipment		**(1,654)**	(601)
Intangible assets		**317**	(46)
Trade and other payables		**5,667**	(3,396)
Borrowings		**12**	20
Provisions		**–**	(84)
Hedges and foreign exchange movements		**(25)**	127
Other		**628**	–
Deferred tax liabilities in relation to prior years		**14,456**	13,172
Charged to statement of profit or loss as deferred income tax (benefit)		**(10,385)**	(2,790)

NOTE 24. ISSUED CAPITAL

	Consolidated 2014 $'000	Consolidated 2013 $'000
Ordinary shares		
435,399,975 ordinary shares (2013: 433,409,429)	**1,308,395**	1,299,463
Unvested executive incentive shares		
6,038,698 ordinary shares (2013: 6,038,698)	**(29,139)**	(29,139)
200,000,000 Redeemable Optionally Adjustable		
Distributing Securities (ROADS) (2013: 200,000,000)	**178,603**	178,603
	1,457,859	1,448,927

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

FULLY PAID ORDINARY SHARE CAPITAL

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

	Consolidated 2014 000's	Consolidated 2014 $'000	Consolidated 2013 000's	Consolidated 2013 $'000
Fully paid ordinary share capital				
Balance at the beginning of the financial year	**433,409**	**1,299,463**	429,100	1,278,564
Issue of shares through Dividend Reinvestment Plan election	**1,991**	**8,932**	4,309	20,899
Balance at the end of the financial year	**435,400**	**1,308,395**	433,409	1,299,463

	Consolidated 2014 000's	Consolidated 2014 $'000	Consolidated 2013 000's	Consolidated 2013 $'000
Unvested executive incentive shares				
Balance at the beginning of the financial year	**6,039**	**(29,139)**	6,116	(29,437)
Vested executive incentive shares transactions	**–**	**–**	(77)	298
Balance at the end of the financial year	**6,039**	**(29,139)**	6,039	(29,139)

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust under the Long Term Incentive (LTI) plan. 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.

NOTE 24. ISSUED CAPITAL – CONTINUED

	Consolidated			
	2014		2013	
	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. In accordance with the terms of the ROADS preference shares, the dividend rate for the one year commencing 15 June 2014 is 7.95% per annum (2013: 6.82% per annum) which is equivalent to the one year swap rate on 16 June 2014 plus the Step-up margin of 4.05% per annum.

SHARE OPTIONS AND PERFORMANCE RIGHTS

During the financial year, no performance rights (2013: nil) or performance options (2013: nil), in relation to unissued shares, 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	
	2014 $'000	2013 $'000
Hedge reserve	**(1,687)**	1,746
Foreign currency translation reserve	**(16,018)**	(33,157)
Employee benefits reserve	**15,278**	13,950
Total reserves	**(2,427)**	(17,461)

NOTE 26. ACQUISITION OF BUSINESS

2014

Name of business acquired	Principal activity	Date of acquisition	Cost of acquisition $'000
Scarriff	Pipeline maintenance	01/07/2013	4,037

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

Total consideration for this acquisition was $4.0 million, which includes a deferred consideration of $1.2 million. At the date of the acquisition the net asset value of Scarriff was $0.8 million, resulting in a $3.2 million goodwill being recognised. The goodwill represents the benefit of expected synergies; the expected revenue growth; the future market development and the assembled workforce of Scarriff. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

2013

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

NOTE 27. DISPOSAL OF SUBSIDIARY

2014

On 4 February 2014, the Group sold the Spiire NZ business to Brown Consulting (the civil and urban infrastructure services business of Calibre Group Limited) for its net tangible asset value of NZ$2.2 million comprising cash and deferred consideration.

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.

NOTE 28. STATEMENT OF CASH FLOWS – ADDITIONAL INFORMATION

		Consolidated	
	Note	2014 $'000	2013 (restated)[(i)] $'000
a) Reconciliation of cash and cash equivalents			
For the purpose of the statement of cash flows, cash and cash equivalents comprises:			
Cash		**327,678**	459,531
Short-term deposits		**104,089**	20,347
	37(a)	**431,767**	479,878
Bank overdrafts	19	**–**	(12)
		431,767	479,866
b) Non-cash financing and investing activities			
During the current financial year $8.9 million (2013: $20.9 million) equity was issued in respect of Dividend Reinvestment Plan elections.			
c) Reconciliation of profit after tax to net cash flows from operating activities			
Profit after tax for the year		**215,993**	203,986
Adjustments for:			
Share of joint ventures and associates' profits net of distributions		**12,941**	1,676
Depreciation and amortisation of non-current assets	3(b)	**266,421**	294,801
Amortisation of deferred costs		**2,375**	3,795
Net gain on sale of property, plant and equipment	3(a)	**(4,820)**	(4,863)
Loss on disposal of business		**–**	2,111
Government grant	3(a)	**(11,711)**	(10,302)
Foreign exchange (gain)/loss	3	**(1,417)**	3,122
Decrease in income tax payable		**24,288**	17,379
Movement in deferred tax balances		**16,068**	55,997
Equity-settled share-based transactions	3(b)	**1,171**	3,532
Impairment of goodwill		**–**	6,224
Other		**1,532**	1,319
		306,848	374,791
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase)/decrease in assets:			
Current trade and other receivables		**341,786**	83,164
Current inventories		**(32,541)**	(65,733)
Other current assets		**6,206**	6,460
Non-current trade and other receivables		**(14,876)**	1,035
Other non-current assets		**(4,487)**	413
Increase/(decrease) in liabilities:			
Current trade and other payables		**(203,813)**	(179,258)
Current provisions		**(23,936)**	(5,537)
Non-current trade and other payables		**(1,137)**	1,343
Non-current provisions		**(6,616)**	27,430
		60,586	(130,683)
Net cash generated by operating activities		**583,427**	448,094

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

NOTE 29. COMMITMENTS

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
a) Capital expenditure commitments			
Plant and equipment			
Within one year		**17,612**	45,737
		17,612	45,737
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		**110,829**	148,170
Between one and five year(s)		**212,473**	221,877
Greater than five years		**120,761**	117,405
		444,063	487,452
c) Finance lease commitments			
Finance leases relate to plant and equipment with lease terms of between one to five year(s).			
Within one year		**16,801**	44,630
Between one and five year(s)		**43,224**	90,746
Minimum finance lease payments		**60,025**	135,376
Future finance charges		**(5,553)**	(16,489)
Finance lease liabilities		**54,472**	118,887
Included in the financial statements as:			
Current borrowings	19	**14,017**	38,037
Non-current borrowings	19	**40,455**	80,850
		54,472	118,887
d) Hire purchase liabilities			
Within one year		**1,853**	2,547
Between one and five year(s)		**2,187**	3,358
Greater than five years		**–**	184
Minimum hire purchase payments		**4,040**	6,089
Future finance charges		**(365)**	(589)
Hire purchase liabilities		**3,675**	5,500
Included in the financial statements as:			
Current borrowings	19	**1,667**	2,286
Non-current borrowings	19	**2,008**	3,214
		3,675	5,500
e) Other service contracts			
Within one year		**25,642**	27,983
Between one and five year(s)		**55,063**	89,904
		80,705	117,887

Other service contracts relates to a six-year contract (from December 2011 to November 2017) with Hewlett-Packard Australia Pty Ltd for the provision of information technology services.

NOTE 30. CONTINGENT LIABILITIES

	Consolidated	
	2014 $'000	2013 $'000
The consolidated entity has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for wholly-owned controlled entities	**897,794**	918,942

In the ordinary course of business:

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

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

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

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

vii) On 27 February 2014, the Group announced that the IMF (Australia) Ltd (IMF) funded shareholder class action had been settled ("First Class Action").

Slater & Gordon has also advised that it reserves its position in relation to a second claim arising out of the second impairment to the Waratah Train Project announced on 27 January 2011, although no basis for this position has been provided.

viii) On 27 March 2014, Downer was served with a second class action claim alleging breaches of Downer's continuous disclosure obligations in connection with the Group's $190 million impairment to the Waratah Train Project announced on 1 June 2010, i.e. similar facts as the First Class Action ("Second Class Action").

The Second Class Action has been commenced in the Victorian Supreme Court and the Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

ix) A subsidiary of Downer, Snowden Mining Industry Consultants Inc (an entity incorporated in Canada) ("Snowden") has been served with two class action claims issued out of the Ontario Superior Court, Canada. Both claims name Pretium Resources Inc as the first-named defendant as well as executives of Pretium Resources Inc as defendants. The quantum of the first claim is CAD $60 million plus unspecified damages (against all defendants) and the quantum of the second claim is CAD $250 million (against all defendants), with no specific amount sought against Snowden alone.

The claims arise out of Pretium's Brucejack Project, being a gold reserve located in British Columbia. Snowden was one of Pretium's advisers for the project. Based on currently available information, the Directors are of the view that there is no material exposure to Snowden. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

NOTE 30. CONTINGENT LIABILITIES – CONTINUED

x) Locomotive Demand Power Pty Ltd (LDP), a wholly owned subsidiary of the Group, is party to a Master Rental Agreement (MRA) with Aurizon Ltd. Under the terms of the MRA, Aurizon leases nine locomotives from LDP and pays rental and maintenance fees. Separately, LDP has obligations to National Australia Bank which extend to 2019 under a financing/lease back facility for the locomotives. A dispute has arisen between LDP and Aurizon as to whether or not Aurizon is obligated to extend the duration of the MRA for a further three years. The Group has instigated a dispute resolution process under the MRA to enforce the additional three-year term and is in the process of finalising a claim which will be filed in the New South Wales Supreme Court. LDP is claiming a declaration regarding the term of the lease, or in the alternative, damages in the order of $20 million plus interest and costs. 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.

xi) 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	2014 $'000	2013 (restated)(i) $'000
Cumulative contracts in progress as at reporting date:			
Cumulative costs incurred plus recognised profits less recognised losses to date		**13,355,354**	13,340,192
Less: progress billings(ii)		**(12,953,947)**	(12,671,384)
Net amount		**401,407**	668,808
Recognised and included in the financial statements as amounts due:			
From customers under contracts – current	10	**557,410**	910,075
To customers under contracts – current	18	**(156,003)**	(241,267)
Net amount		**401,407**	668,808

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) Prior year included $60.4 million ($440.0 million less $379.6 million utilised) provision for the Waratah Train Project. The Waratah Train Project is substantially completed. Refer Note 1 for further details.

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	
		2014 %	2013 %
A F Downer Memorial Scholarship Trust	New Zealand	**100**	100
ACN 066 652 177 Pty Ltd(iii)	Australia	**–**	100
Advanced Separation Engineering Australia Pty Ltd(ii)	Australia	**100**	100
Chan Lian Construction Pte Ltd	Singapore	**100**	100
Chang Chun Ao Da Technical Consulting Co Ltd	China	**100**	100
Coomes AC Consulting Pty Ltd(iii)	Australia	**–**	100
Coomes Consulting Group Unit Trust(iii)	Australia	**–**	100
Corke Instrument Engineering (Australia) Pty Ltd(iii)	Australia	**–**	100
DBS Chile SpA(v)	Chile	**100**	–
Dean Adams Consulting Pty Ltd	Australia	**100**	100
DGL Investments Limited	New Zealand	**100**	100

NOTE 33. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest 2014 %	2013 %
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	Australia	**100**	100
Downer EDI Consulting Pty Ltd(ii)	Australia	**100**	100
Downer EDI Engineering Communications Limited(iv)	New Zealand	**–**	100
Downer EDI Engineering Company Pty Limited	Australia	**100**	100
Downer EDI Engineering Construction (Australia) Pty Limited(ii)	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(iv)	New Zealand	**–**	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 Group Insurance Pte Ltd	Singapore	**100**	100
Downer EDI Limited Tax Deferred Employee Share Plan	Australia	**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(ii)	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(ii)	Australia	**100**	100
Downer Group Finance Pty Limited	Australia	**100**	100
Downer Holdings Pty Limited	Australia	**100**	100
Downer MBL Pty Limited(iii)	Australia	**–**	100
Downer Mining Regional NSW Pty Ltd(v)	Australia	**100**	–

NOTE 33. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest 2014 %	Ownership interest 2013 %
Downer New Zealand Limited	New Zealand	**100**	100
Downer PPP Investments Pty Ltd	Australia	**100**	100
Downer Professional Services Limited[(v)]	New Zealand	**100**	–
Downer Pte Ltd	Singapore	**100**	100
Downer Singapore Pte Ltd	Singapore	**100**	100
Duffill Watts Pte Ltd	Singapore	**100**	100
Duffill Watts Vietnam Ltd[(ii)]	Vietnam	**100**	100
EDI Rail PPP Maintenance Pty Ltd	Australia	**100**	100
EDICO Pty Ltd	Australia	**100**	100
Emoleum Partnership	Australia	**100**	100
Emoleum Road Services Pty Ltd	Australia	**100**	100
Emoleum Roads Group Pty 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
Locomotive Demand Power Pty Ltd	Australia	**100**	100
Lowan (Management) Pty. Ltd.	Australia	**100**	100
MD Mineral Technologies Private Limited	India	**100**	100
MD Mineral Technologies SA (Pty) Ltd.	South Africa	**100**	100
MD Mining and Mineral Services (Pty) Ltd.	South Africa	**70**	70
Mineral Technologies Comercio de Equipamentos para Processamento de Minerais LTD	Brazil	**100**	100
Mineral Technologies (Holdings) Pty Ltd	Australia	**100**	100
Mineral Technologies, Inc.	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.[(iii)]	Canada	**–**	100
Otraco Chile SA	Chile	**100**	100
Otraco International Pty Ltd	Australia	**100**	100
Otracom Pty Ltd	Australia	**100**	100
Otraco Southern Africa (Pty) Ltd	South Africa	**100**	100
Otraco Tyre Management Namibia (Proprietary) Limited[(vi)]	Namibia	**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	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

NOTE 33. CONTROLLED ENTITIES – CONTINUED

Name of controlled entity	Country of incorporation	Ownership interest	
		2014 %	2013 %
Rimtec Pty Ltd	Australia	**100**	100
Rimtec USA Inc.	USA	**100**	100
Roche Bros. (Hong Kong) Limited(ii)	Hong Kong	**100**	100
Roche Bros. Superannuation Pty. Ltd.	Australia	**100**	100
Roche Contractors Pty Ltd(iii)	Australia	**–**	100
Roche Highwall Mining Pty Ltd(ii)	Australia	**100**	100
Roche Mining (PNG) Limited(ii)	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 (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(iii)	Australia	**–**	100
Snowden Consultoria do Brasil Limitada	Brazil	**100**	100
Snowden Holdings Pty Ltd	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 Technologies Pty Ltd	Australia	**100**	100
Snowden Training (Pty) Ltd	South Africa	**100**	100
Southern Asphalters Pty Ltd	Australia	**100**	100
Spiire New Zealand Limited(i)	New Zealand	**–**	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 Cortex Resources Joint Venture 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) Entity disposed during the financial year ended 30 June 2014.
(ii) Indicates entities currently undergoing liquidation as part of a Group rationalisation process.
(iii) Indicates entities liquidated during the financial year ended 30 June 2014.
(iv) Indicates entities amalgamated into Downer New Zealand Limited on 24 June 2014.
(v) Indicates entities incorporated during the financial year ended 30 June 2014.
(vi) Formerly Otraco Tyre Management Namibia (Pty) Ltd.

NOTE 34. RELATED PARTY INFORMATION

a) 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.

b) 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 joint arrangements and associate entities

Details of interests in joint arrangements and associate entities are disclosed in Note 15.

c) Controlling entity

The parent entity of the Group is Downer EDI Limited.

NOTE 35. KEY MANAGEMENT PERSONNEL COMPENSATION

	Consolidated	
	2014 $	2013 $
Short-term employee benefits	**14,097,355**	12,898,151
Post-employment benefits	**1,302,590**	1,100,681
Share-based payments	**602,885**	960,549
	16,002,830	14,959,381

NOTE 36. EMPLOYEE DISCOUNT SHARE PLAN

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

No shares were issued under the Employee Discount Share Plan during the years ended 30 June 2014 and 30 June 2013.

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, provide adequate returns to shareholders and maintain an appropriate capital structure to optimise its cost of capital.

The consolidated entity monitors its gearing ratio determined as the ratio of Net Debt to Total Capitalisation. The gearing ratios at 30 June 2014 and 30 June 2013 were as follows:

		Consolidated	
	Note	2014 $'000	2013 (restated)[i] $'000
Current borrowings	19	**137,715**	237,946
Non-current borrowings	19	**285,513**	444,256
Gross debt[ii]		**423,228**	682,202
Adjustment for the mark to market of derivatives and deferred finance charges		**41,262**	40,416
Adjusted gross debt		**464,490**	722,618
Less: cash and cash equivalents	9	**(431,767)**	(479,878)
Net debt		**32,723**	242,740
Equity[iii]		**1,962,011**	1,826,574
Total capitalisation (Net debt + Equity)		**1,994,734**	2,069,314
Gearing ratio[iv]		**1.6%**	11.7%
Off balance sheet debt			
Operating leases[v]		**166,830**	231,820
Gearing ratio (including off balance sheet debt)		**9.2%**	20.6%

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) Gross debt is defined as all borrowings.

(iii) Equity consists of all issued capital and reserves.

(iv) Net debt/Total capitalisation.

(v) The Group enters into operating leases with respect to plant and equipment utilised in its businesses. The present value of these leases at 30 June 2014 discounted at 10% per annum (discount rate prescribed by the relevant loan covenant) was $166.8 million (June 2013: $231.8 million).

(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 exposures 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.

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

(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)	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Consolidated				
US dollar (USD)	**30,061**	38,699	**22,905**	25,660
New Zealand dollar (NZD)	**846**	775	**267**	263
Great British pound (GBP)	**36**	1,601	**59**	1,083
Euro (EUR)	**711**	6,138	**906**	–
	31,654	47,213	**24,137**	27,006

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

The 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	
	2014	2013	2014 FC'000	2013 FC'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Buy USD / Sell AUD								
Less than 3 months	**0.9140**	0.9883	**7,954**	43,273	**8,744**	43,317	**(262)**	4,119
3 to 6 months	**0.9320**	0.9834	**8,033**	33,842	**8,793**	34,076	**(191)**	3,223
Later than 6 months	**0.9019**	0.9736	**7,626**	60,277	**8,458**	63,057	**(206)**	3,806
			23,613	137,392	**25,995**	140,450	**(659)**	11,148
Buy AUD / Sell USD								
Less than 3 months	**0.8343**	1.0041	**2,427**	1,908	**2,899**	1,871	**313**	(220)
3 to 6 months	**0.8722**	0.9828	**875**	1,238	**999**	1,169	**64**	(195)
Later than 6 months	**0.9156**	0.9992	**2,135**	4,601	**2,332**	4,581	**28**	(520)
			5,437	7,747	**6,230**	7,621	**405**	(935)
Buy EUR / Sell AUD								
Less than 3 months	**0.6594**	0.7387	**998**	7,803	**1,513**	9,950	**(59)**	1,165
3 to 6 months	**0.6785**	0.7207	**237**	2,822	**349**	3,837	**(1)**	214
Later than 6 months	**0.6726**	0.6983	**534**	21,156	**794**	30,586	**(4)**	119
			1,769	31,781	**2,656**	44,373	**(64)**	1,498
Buy CNY / Sell USD								
Less than 3 months	**–**	6.2913	**–**	139,000	**–**	22,094	**–**	387
3 to 6 months	**–**	6.3021	**–**	132,000	**–**	20,944	**–**	284
Later than 6 months	**–**	6.3153	**–**	116,000	**–**	18,369	**–**	209
			–	387,000	**–**	61,407	**–**	880
Buy AUD / Sell ZAR								
Less than 3 months	**10.0354**	9.2982	**936**	1,085	**93**	117	**1**	(3)
3 to 6 months	**10.0748**	–	**999**	–	**99**	–	**–**	–
Later than 6 months	**–**	–	**–**	–	**–**	–	**–**	–
			1,935	1,085	**192**	117	**1**	(3)
Buy NZD / Sell AUD								
Less than 3 months	**1.2292**	1.2433	**700**	734	**570**	595	**79**	26
3 to 6 months	**1.2339**	1.2469	**434**	734	**352**	590	**49**	31
Later than 6 months	**1.2491**	1.2444	**3,023**	5,593	**2,420**	4,508	**342**	189
			4,157	7,061	**3,342**	5,693	**470**	246
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	**5.9036**	6.2467	**458**	358	**78**	57	**1**	6
3 to 6 months	**5.8422**	6.1750	**229**	329	**39**	53	**–**	5
Later than 6 months	**5.7806**	5.9570	**129**	1,633	**22**	275	**–**	16
			816	2,320	**139**	385	**1**	27

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 movements in the Australian dollar against relevant foreign currencies. The percentages disclosed below represent the Group'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 exchange 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	2014 $'000	2013 $'000	2014 $'000	2013 $'000
USD impact				
– 15% rate change	**1,263**	2,918	**3,427**	24,598
+ 15% rate change	**(933)**	(2,157)	**(2,509)**	(18,181)
EUR impact				
– 15% rate change	**(34)**	1,083	**385**	6,770
+ 15% rate change	**25**	(801)	**(383)**	(6,770)
CNY impact(iii)				
– 15% rate change	**–**	–	**25**	11,874
+ 15% rate change	**–**	–	**(18)**	(8,812)
NZD impact				
– 10% rate change	**–**	(5,702)	**–**	658
+ 10% rate change	**–**	4,665	**–**	(539)
– 15% rate change	**102**	–	**680**	–
+ 15% rate change	**(76)**	–	**(502)**	–
GBP impact				
– 15% rate change	**(4)**	91	**–**	–
+ 15% rate change	**3**	(68)	**–**	–

(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 in the prior year relates to the USD/CNY pair. Therefore, the above prior year sensitivity analysis includes assumed USD rate changes.

In the Group's opinion, the above sensitivity analysis is not fully representative of the underlying foreign exchange risk as the year end exposure used in this analysis, does not necessarily reflect the exposure during the course of the year.

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 and interest rates. Such contracts enable the consolidated entity to eliminate the risk of adverse movements in foreign exchange rates and interest rates related to foreign currency denominated borrowings.

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

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	
	2014 %	2013 %	2014	2013	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Buy USD / Sell AUD								
Less than 1 year	**8.0**	–	**0.6787**	–	**103,141**	–	**(28,877)**	–
1 to 2 year(s)	**–**	8.0	**–**	0.6787	**–**	103,141	**–**	(26,713)
5 years or more	**6.8**	6.8	**0.7220**	0.7220	**9,695**	9,695	**(1,893)**	(1,407)
					112,836	112,836	**(30,770)**	(28,120)

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

(e) Interest rate risk management

The consolidated entity is exposed to interest rate risk as entities borrow funds at 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	
	2014 %	2013 %	2014 $'000	2013 (restated)(i) $'000
Floating interest rates – cash flow exposure				
Bank overdrafts(ii)	**–**	4.4	**–**	12
Bank loans				
AUD	**4.1**	4.4	**47,701**	59,701
SGD	**–**	2.4	**–**	1,281
AUD medium term notes				
Series 2010-1	**5.4**	5.8	**18,900**	31,500
Cash and cash equivalents	**2.7**	2.7	**(431,767)**	(479,878)
Cash flow exposure – total			**(365,166)**	(387,384)
Fixed interest rates – fair value exposure				
Bank loans				
AUD	**4.9**	4.3	**21,678**	24,692
USD notes	**8.0**	7.8	**112,563**	111,391
AUD medium term notes				
Series 2009-1	**7.2**	7.2	**55,501**	69,654
Series 2009-2(iii)	**–**	9.8	**–**	150,000
Series 2013-1(iii)	**5.8**	5.8	**150,000**	150,000
Finance lease and hire purchase liabilities	**6.0**	6.6	**58,147**	124,387
Fair value exposure – total			**397,889**	630,124

All interest rates in the above table reflect rates in the currency of the relevant loan other than USD notes where the AUD rate under the cross currency swap is used.

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

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

(iii) Coupon rate.

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 swap contracts	Weighted average interest rate		Notional principal amount		Fair value	
	2014 %	2013 %	2014 $'000	2013 $'000	2014 $'000	2013 $'000
AUD interest rate swaps						
2 to 5 years	**5.1**	5.1	**66,863**	84,707	**(2,771)**	(3,906)
			66,863	84,707	**(2,771)**	(3,906)

The above interest rate swap contracts 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 period.

The selected basis points increase or decrease represents the Group'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 75 basis points (2013: 100 basis points) and a decrease by 75 basis points (2013: 100 basis points) across the yield curve.

	Consolidated	
	2014 $'000	2013 $'000
Increase in rate + 75 bp (2013: + 100 bp)		
Profit/(loss)(i)	**2,770**	3,815
Equity(ii)	**887**	2,143
Decrease in rate – 75 bp (2013: – 100 bp)		
Profit/(loss)(i)	**(2,770)**	(3,815)
Equity(ii)	**(907)**	(2,214)

(i) This is mainly attributable to the floating rate valuation component of its interest rate swaps and to interest rate changes on cash and cash equivalents.

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

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

(f) Commodity price risks

The consolidated entity is exposed to commodity price risks arising from variability in bitumen prices. The consolidated entity uses Fuel Oil Index derivatives to manage this exposure. No such hedging was in place at 30 June 2014.

(g) Credit risk management

Credit risk refers to the risk that a financial counterparty will default on its contractual obligations, resulting in a 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. Refer to Note 10 for details on credit risk arising from trade and other receivables.

The preferred credit risk on derivative financial instruments is to counterparties that have minimum long-term credit ratings from Standard & Poor's of no less than AA– (or equivalent from other rating agencies). 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. Three bank counterparties are rated A+ and one is rated BBB+. Furthermore as a result of a global restructure, one counterparty is no longer rated by Standard & Poor's. The transactions with the BBB+ and unrated counterparties were entered into more than five years ago when these entities had ratings of at least AA–. From a commercial perspective, Downer has no current credit exposure to either BBB+ or unrated counterparties as the underlying derivatives are out-the-money.

Credit risk arising from cash balances held with banks is managed by Group Treasury. Investments of surplus funds are generally only made with counterparties that have a minimum AA– credit rating. On a specific approval basis, investments for limited amounts and short tenors are made on occasions with A rated counterparties.

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 (restated)(i)	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
2014						
Financial liabilities						
Trade payables	**348,111**	**–**	**–**	**–**	**–**	**–**
Supplier finance	**7,672**	**–**	**–**	**–**	**–**	**–**
Bank loans	**18,784**	**18,177**	**14,568**	**7,139**	**5,835**	**2,816**
USD notes	**77,420**	**483**	**483**	**483**	**483**	**7,667**
AUD medium term notes (Series 2009-1)	**15,617**	**15,057**	**14,500**	**13,881**	**–**	**–**
AUD medium term notes (Series 2010-1)	**13,461**	**6,472**	**–**	**–**	**–**	**–**
AUD medium term notes (Series 2013-1)	**8,625**	**8,625**	**8,625**	**8,625**	**154,313**	**–**
Total borrowings including interest	**141,579**	**48,814**	**38,176**	**30,128**	**160,631**	**10,483**
Finance lease and hire purchase liabilities	**18,654**	**25,121**	**10,084**	**10,025**	**181**	**–**
Derivative instruments(ii)						
Cross currency interest rate swaps(iii)						
– Receive leg	**(77,527)**	**(483)**	**(483)**	**(483)**	**(483)**	**(7,677)**
– Pay leg	**107,226**	**659**	**659**	**659**	**659**	**10,031**
Interest rate swaps	**1,518**	**1,035**	**518**	**167**	**–**	**–**
Foreign currency forward contracts	**13**	**(168)**	**–**	**–**	**–**	**–**
Total	**539,574**	**74,978**	**48,954**	**40,496**	**160,988**	**12,837**
2013						
Financial liabilities						
Trade payables	450,150	–	–	–	–	–
Bank overdrafts	12	–	–	–	–	–
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	229,137	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(ii)						
Cross currency interest rate swaps(iii)						
– 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	718,823	189,179	79,954	54,931	55,909	174,002

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) Includes assets and liabilities.

(iii) Bond basis.

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. The fair value is shown in the table below:

	Carrying amount		Fair value	
	2014 $'000	2013 (restated)(i) $'000	2014 $'000	2013 $'000
Total borrowings(ii)	**365,081**	557,815	**384,163**	562,149

(i) Certain amounts shown here do not correspond to the consolidated Annual Financial Report as at 30 June 2013 and reflect adjustments made as detailed in Note 39: Impact on Group's historical financial statements on adoption of AASB 11 *Joint Arrangements*.

(ii) 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 (refer to valuation techniques below); 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.

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets/liabilities at Fair Value Through Profit or Loss (FVTPL); and
- Derivative financial instruments.

Fair value measurements recognised in the statement of financial position

The Group provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, split 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 in active and liquid 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.

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2014. Comparative information for non-financial assets has not been provided as permitted by the transitional provisions of the new rules.

2014

$'000	Level 1	Level 2	Level 3	Total
Financial assets in designated cash flow hedge accounting relationships				
Foreign currency forward contracts	–	**820**	–	**820**
Financial assets at fair value through profit or loss				
Unquoted equity investments	–	–	**5,151**	**5,151**
Foreign currency forward contracts	–	**311**	–	**311**
	–	**1,131**	**5,151**	**6,282**
Financial liabilities in designated cash flow hedge accounting relationships				
Foreign currency forward contracts	–	**903**	–	**903**
Cross currency and interest rate swaps	–	**33,541**	–	**33,541**
Financial liabilities at fair value through profit or loss				
Foreign currency forward contracts	–	**74**	–	**74**
	–	**34,518**	–	**34,518**

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
Foreign currency forward contracts	–	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				
Foreign currency forward contracts	–	197	–	197
	–	33,885	–	33,885

NOTE 37. FINANCIAL INSTRUMENTS – CONTINUED

Valuation techniques used to derive fair values (Level 2)

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

Specific valuation techniques used to value financial instruments include:

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

Fair value measurements using significant unobservable inputs (Level 3)

The fair values of unquoted equity investments were determined based on the consolidated entity's interest in the net assets of the unquoted entities. Where practical the valuations incorporate observable market data. Assumptions are generally required to be made with regard to future expected revenues and discount rates.

Reconciliation of Level 3 fair value measurements of financial assets

During the year there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies. The table below analyses the changes in Level 3 instruments as follows:

	Fair value through profit or loss	
	2014 $'000	**2013 $'000**
Unquoted equity investments		
Opening balance	**6,458**	5,188
Purchases	**–**	1,400
Return on investment	**(1,280)**	(130)
Other	**(27)**	–
Closing balance	**5,151**	6,458

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

Fair value of financial assets and liabilities

Unquoted equity investments
Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in profit or loss, total assets or total liabilities, or total equity.

NOTE 38. PARENT ENTITY DISCLOSURES

	Company	
	2014 $'000	2013 $'000
(a) Financial position		
Assets		
Current assets	**484,338**	459,898
Non-current assets	**933,855**	948,905
Total assets	**1,418,193**	1,408,803
Liabilities		
Current liabilities	**49,300**	49,808
Non-current liabilities	**1,756**	2,416
Total liabilities	**51,056**	52,224
Net assets	**1,367,137**	1,356,579
Equity		
Issued capital	**1,279,256**	1,270,324
Retained earnings	**72,603**	72,305
Reserves		
Employee benefits reserve	**15,278**	13,950
Total equity	**1,367,137**	1,356,579
(b) Financial performance		
Profit for the year	**95,794**	26,837
Total comprehensive income	**95,794**	26,837

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

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

(d) Contingent liabilities of the parent entity

The parent entity has no contingent liabilities as at 30 June 2014 other than those disclosed in Note 30 to the financial statements.

(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 2014.

NOTE 39. IMPACT ON GROUP'S HISTORICAL FINANCIAL STATEMENTS ON ADOPTION OF AASB 11 *JOINT ARRANGEMENTS*

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

The following tables summarise the adjustment made to the Group's consolidated statement of profit or loss and consolidated statement of cash flows for the year ended 30 June 2013, and to the Group's consolidated statement of financial position as at 1 July 2012 and 30 June 2013.

IMPACT ON CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Consolidated		
	June 2013 As previously reported $'000	Change in accounting policy $'000	June 2013 restated $'000
Revenue from ordinary activities	8,370,151	406,224	**8,776,375**
Other income	4,863	–	**4,863**
Total revenue	8,375,014	406,224	**8,781,238**
Employee benefits expense	(2,910,974)	(98,395)	**(3,009,369)**
Raw materials and consumables used	(1,735,777)	(25,622)	**(1,761,399)**
Subcontractor costs	(1,706,120)	(180,912)	**(1,887,032)**
Plant and equipment costs	(976,538)	(43,366)	**(1,019,904)**
Communication expenses	(89,021)	(1,449)	**(90,470)**
Occupancy costs	(128,505)	(3,757)	**(132,262)**
Professional fees(i)	(46,874)	(393)	**(47,267)**
Travel and accommodation expenses	(122,301)	(12,339)	**(134,640)**
Other expenses from ordinary activities(i)	(59,975)	(814)	**(60,789)**
Depreciation and amortisation	(294,801)	–	**(294,801)**
Share of net profit of joint ventures and associates	66,205	(39,242)	**26,963**
Individually significant item	(11,456)	–	**(11,456)**
	(8,016,137)	(406,289)	**(8,422,426)**
Earnings before interest and tax	358,877	(65)	**358,812**
Finance income	4,712	67	**4,779**
Finance costs	(71,900)	(2)	**(71,902)**
	(67,188)	65	**(67,123)**
Profit before income tax	291,689	–	**291,689**
Income tax expense	(87,703)	–	**(87,703)**
Profit after income tax	203,986	–	**203,986**
Profit for the year that is attributable to:			
– Non-controlling interest	7	–	**7**
– Members of the parent entity	203,979	–	**203,979**
Total profit for the year	203,986	–	**203,986**
Earnings per share (cents)			
– Basic earnings per share	45.7	–	**45.7**
– Diluted earnings per share	43.1	–	**43.1**

(i) The 2013 balances have been restated to better reflect the nature of the costs incurred. There has been no impact on the profit before income tax as a result of these changes.

NOTE 39. IMPACT ON GROUP'S HISTORICAL FINANCIAL STATEMENTS ON ADOPTION OF AASB 11 *JOINT ARRANGEMENTS* – CONTINUED

IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

NOTE 39. IMPACT ON GROUP'S HISTORICAL FINANCIAL STATEMENTS ON ADOPTION OF AASB 11 *JOINT ARRANGEMENTS* – CONTINUED

IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED

	Consolidated		
	June 2013 As previously reported $'000	Change in accounting policy $'000	June 2013 restated $'000
EQUITY			
Issued capital	1,448,927	–	**1,448,927**
Reserves	(17,461)	–	**(17,461)**
Retained earnings	395,123	–	**395,123**
Parent interests	1,826,589	–	**1,826,589**
Non-controlling interest	(15)	–	**(15)**
Total equity	1,826,574	–	**1,826,574**

	Consolidated		
	1 July 2012 As previously reported $'000	Change in accounting policy $'000	1 July 2012 restated $'000
ASSETS			
Current assets			
Cash and cash equivalents	296,691	9,696	**306,387**
Trade and other receivables	1,598,414	27,932	**1,626,346**
Other financial assets	14,211	–	**14,211**
Inventories	282,738	–	**282,738**
Current tax assets	13,765	–	**13,765**
Other assets	48,969	2,606	**51,575**
Total current assets	2,254,788	40,234	**2,295,022**
Non-current assets			
Trade and other receivables	1,922	–	**1,922**
Interest in joint ventures and associates	60,893	(6,774)	**54,119**
Property, plant and equipment	1,133,470	716	**1,134,186**
Intangible assets	577,651	–	**577,651**
Other financial assets	7,794	–	**7,794**
Deferred tax assets	71,271	–	**71,271**
Other assets	3,553	–	**3,553**
Total non-current assets	1,856,554	(6,058)	**1,850,496**
Total assets	4,111,342	34,176	**4,145,518**
LIABILITIES			
Current liabilities			
Trade and other payables	1,388,995	34,176	**1,423,171**
Borrowings	180,938	–	**180,938**
Other financial liabilities	77,532	–	**77,532**
Provisions	332,450	–	**332,450**
Current tax liabilities	3,926	–	**3,926**
Total current liabilities	1,983,841	34,176	**2,018,017**

NOTE 39. IMPACT ON GROUP'S HISTORICAL FINANCIAL STATEMENTS ON ADOPTION OF AASB 11 *JOINT ARRANGEMENTS* – CONTINUED

	Consolidated		
	1 July 2012 As previously reported $'000	Change in accounting policy $'000	1 July 2012 restated $'000
Non-current liabilities			
Trade and other payables	3,955	–	**3,955**
Borrowings	437,972	–	**437,972**
Other financial liabilities	46,112	–	**46,112**
Provisions	15,612	–	**15,612**
Deferred tax liabilities	6,150	–	**6,150**
Total non-current liabilities	509,801	–	**509,801**
Total liabilities	2,493,642	34,176	**2,527,818**
Net assets	1,617,700	–	**1,617,700**
EQUITY			
Issued capital	1,427,730	–	**1,427,730**
Reserves	(51,752)	–	**(51,752)**
Retained earnings	241,737	–	**241,737**
Parent interests	1,617,715	–	**1,617,715**
Non-controlling interest	(15)	–	**(15)**
Total equity	1,617,700	–	**1,617,700**

NOTE 39. IMPACT ON GROUP'S HISTORICAL FINANCIAL STATEMENTS ON ADOPTION OF AASB 11 *JOINT ARRANGEMENTS* – CONTINUED

IMPACT ON CONSOLIDATED STATEMENT OF CASH FLOWS

	Consolidated		
	June 2013 As previously reported $'000	Change in accounting policy $'000	June 2013 restated $'000
Cash flows from operating activities			
Receipts from customers	9,449,096	358,836	**9,807,932**
Distributions from equity-accounted investees	58,731	(30,092)	**28,639**
Dividends received from external entities	7	–	**7**
Payments to suppliers and employees	(8,980,478)	(333,085)	**(9,313,563)**
Interest received	8,581	67	**8,648**
Interest and other costs of finance paid	(69,240)	(2)	**(69,242)**
Income tax paid	(14,327)	–	**(14,327)**
Net cash inflow from operating activities	452,370	(4,276)	**448,094**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	66,879	716	**67,595**
Payments for property, plant and equipment	(350,340)	(3)	**(350,343)**
Payments for intangible assets (software)	(5,344)	–	**(5,344)**
Payments for investments	(1,335)	–	**(1,335)**
Repayments from joint ventures	4,028	–	**4,028**
Advances to other entities	(600)	–	**(600)**
Divestment cost paid on disposal of subsidiary	(2,357)	–	**(2,357)**
Net cash used in investing activities	(289,069)	713	**(288,356)**
Cash flows from financing activities			
Proceeds from borrowings	3,798,391	–	**3,798,391**
Repayments of borrowings	(3,759,584)	–	**(3,759,584)**
Dividends paid	(29,694)	–	**(29,694)**
Dividends paid to non-controlling interest	(7)	–	**(7)**
Net cash inflow from financing activities	9,106	–	**9,106**
Net increase in cash and cash equivalents	172,407	(3,563)	**168,844**
Cash and cash equivalents at the beginning of the year	296,689	9,696	**306,385**
Effect of exchange rate changes	4,637	–	**4,637**
Cash and cash equivalents at the end of the year	473,733	6,133	**479,866**

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2014

In the opinion of the Directors of Downer EDI Limited:

(a) The financial statements and notes set out on pages 42 to 112 are in accordance with the Australian *Corporations Act 2001* (Cth), including:

  (i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) The financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;

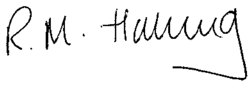
(b) There are reasonable grounds to believe that Downer EDI Limited will be able to pay its debts as and when they become due and payable;

(c) The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* (Cth); and

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

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the *Corporations Act 2001* (Cth).

On behalf of the Directors



R M Harding
Chairman
Sydney, 5 August 2014

Deloitte.

Deloitte Touche Tohmatsu
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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 2014, 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 113.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and 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 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 2014 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 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 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

Sydney, 5 August 2014

Downer's ability to understand and manage the sustainability and environmental impacts of its activities is fundamental to its long-term success as a business, improving its environmental performance and delivering value to Downer's stakeholders. Downer balances the need for short-term results against the long-term sustainability of the Company by optimising costs, improving efficiencies and maintaining systems. Downer's sustainability strategy is designed to focus on the health and safety of its people, environmental sustainability and the advancement of the communities in which Downer operates.

Downer focuses on the issues, risks and opportunities that are relevant to its business activities and that are important for the Company and its stakeholders. Reviewing performance in the context of emerging global risks and opportunities enables Downer to adapt the way the Company delivers products and services and interacts with its supply chain. Sustainability performance is tracked and disclosed through the annual Sustainability Report, which is a supplement to the 2014 Annual Report. The Sustainability Report provides a summary of Downer's non-financial, sustainability-related performance for the year ended 30 June 2014 and will be available on the Downer website at **www.downergroup.com** later in 2014.

HEALTH AND SAFETY

Tragically, a Downer employee died in April 2014 while performing stringing work for the construction of a new transmission line in Western Australia. This death occurred despite a very high level of safety management across the company and a mature safety culture. It reinforces the need across all Downer's businesses to focus intensely on understanding and managing the critical risks that have the potential to cause our people serious injury.

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 and are held accountable for safety performance, compliance with Zero Harm policy and the creation of a workplace culture that recognises that the safety of Downer's people is paramount. Employees are expected to take personal responsibility and be involved in setting and complying with Company standards and improvement initiatives. 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.

In 2013 the Group embarked on an analysis, assessment and response at every level of the organisation on the management of critical risks. An example of this work is the introduction of a Group-wide Critical Risk Register which informs key improvement targets in areas that pose the most significant risk to employees.

Downer's health and safety performance, as monitored through the measure of Lost Time Injury Frequency Rate (LTIFR)[1], increased slightly and Total Recordable Injury Frequency Rate (TRIFR)[2], improved again compared to the previous year. LTIFR was 1.08 per million hours worked at 30 June 2014. TRIFR reduced from 5.42 per million hours worked[3] at 30 June 2013 to 4.83 as at 30 June 2014. This represents a 21% improvement in the number of recordable injuries.

This TRIFR performance is due to a number of factors including an increased focus on critical risks through the implementation of Group-wide risk management processes, providing appropriate workplace health, safety and environmental training to employees and contractors, and greater utilisation of feedback from audit and incident investigations to enhance learning for the Company.

ENVIRONMENTAL SUSTAINABILITY

Driving energy efficiency and reducing greenhouse gas (GHG) emissions has been central to the environmental sustainability goals during 2013-14 and this involved the implementation of a range of energy saving and carbon abatement initiatives. Significant environmental benefits, as well as bottom line savings, have been delivered through Downer's energy efficiency and GHG emissions reduction program. This includes annualised energy savings of more than 400 terajoules per year, equivalent to potential abatement of 42 kilotonnes of carbon covering Scope 1, 2 and 3 GHG emissions.

During the year the Group exceeded its stretch target of 7.5% energy efficiency improvements compared to 2012-13 consumption levels as well as continued development of energy management strategies. Each of the Downer divisions has developed five-year energy efficiency/GHG emissions reduction plans that are incorporated into operational planning and provide the framework for ongoing energy management across the Group.

Downer operates across a diverse range of industry sectors and manages its environmental and sustainability impacts through a risk-based approach which is supported by robust environmental management systems. During 2013-14, Downer met its Group-wide target of zero level 5[4] or level 6[5] environmental incidents and additionally no level 4 (significant) environmental events were recorded.

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 injuries that cause the injured person to be unfit to perform any work duties for one whole day or shift, or more, after the shift on which the injury occurred, and injury that results, directly or indirectly, in the death of the person. The LTIFR is the number of LTIs per million hours worked.

2 TRIFR is the number of fatal injuries + lost-time injuries + medically treated injuries per million hours worked.

3 Published safety statistics may be subject to change due to updates in incident classifications and amendments to hours worked. These data will be subject to third party verification and will be published in the 2014 Sustainability Report.

4 A Level 5 environmental incident is defined as a highly significant incident reversible only in the long term (over 10 years).

5 A Level 6 environmental incident is defined as an incident which results in catastrophic widespread impacts resulting in irreversible damage to habitat and species.

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 to 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 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 Company 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.

Downer has written employment agreements with each of its senior executives and the performance of those senior executives is regularly reviewed against appropriate measures, including performance targets linked to the business plan and overall corporate objectives. In FY2014, Downer's senior executives participated in periodic performance evaluations where they received feedback on progress against these targets.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Throughout the 2014 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 to 3 and are also available on the Downer website at **www.downergroup.com**.

The composition of the Board is assessed by the Nominations and Corporate Governance Committee to ensure the Board is of a composition, size and commitment to effectively discharge its responsibilities and duties.

Directors are required to bring an independent judgement to bear on all Board decisions. To facilitate this, it is Downer's policy to provide Directors with access to independent professional advice at the Company's expense in appropriate circumstances.

Downer's Non-executive Directors recognise the benefit of conferring regularly without management present, and they do so at various times throughout the year.

The Board considers that an independent Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could (or could reasonably be perceived to) materially interfere with the independent exercise of their judgement. The Board regularly assesses the independence of each Director to ensure that each director has the capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of Downer as a whole.

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 committees 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 J S Humphrey K G Sanderson C G Thorne
Zero Harm Committee	E A Howell	S A Chaplain G A Fenn C G Thorne
Nominations and Corporate Governance Committee	R M Harding	S A Chaplain J S Humphrey K G Sanderson
Remuneration Committee	P S Garling	R M Harding J S Humphrey K G Sanderson
Disclosure Committee	J S Humphrey	G A Fenn R M Harding
Tender Risk Evaluation Committee	C G Thorne	G A Fenn P S Garling R M Harding E A Howell

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 Tender Risk Evaluation Committee's primary purpose is to oversee tenders and contracts that exceed the delegation of the Group CEO. The Tender Risk Evaluation Committee is chaired by an independent Director and comprises five members, including the Group CEO. 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 practices for selection and appointment of Directors 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.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE – CONTINUED

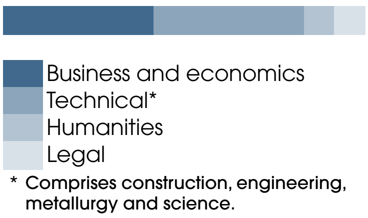
The Committee's responsibilities include:

- 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 (including undertaking a formal due diligence screening process); and
- Recommending the engagement of nominated persons as Directors.

When appointing Directors, the Nominations and Corporate Governance Committee aims to ensure that an appropriate balance of skills, experience, expertise and diversity is represented on the Board. This may result in a Non-executive Director with a longer tenure remaining in office so as to bring that experience and depth of understanding to matters brought before the Board.

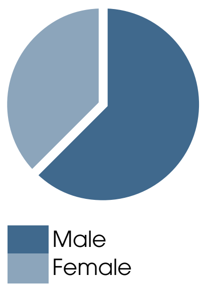
The chart below illustrates the balance achieved with the current Board composition. The Company recognises the value of diversity and diversity has been a component of the appointment process over the past few years.

Professional qualifications

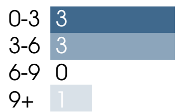


Industry experience

Gender diversity



Tenure



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 externally facilitated periodic reviews of its performance and that of its Committees and Directors. The last review was completed during FY13 with a number of improvements identified and implemented.

Downer's Director induction program is designed to enable new Directors 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, through the Chair, 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;
- Workplace behaviour;
- 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 is available on the Downer website at **www.downergroup.com**.

Downer endorses leading governance practices and has in place policies setting out the Company's approach to various matters, including:

- Securities trading (stipulating "closed periods" for designated employees and a formal process which 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 an Anti-Bribery and Corruption Policy which expands upon the prohibition against bribery and corruption currently contained in the Standards of Business Conduct, and which 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 confronted by the challenges of doing business in environments where bribery and corruption are real 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 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 2014 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 2014; and
- An outline of Downer's measurable gender diversity objectives for 2015.

GENDER REPRESENTATION METRICS

As at 30 June 2014, 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 7 per cent of Senior Executive[1] roles;
- 6.0 per cent of Manager[2] roles are held by women; and
- Women constitute approximately 12 per cent of Downer's workforce.

LOOKING BACK: FY2014 MEASURABLE OBJECTIVES

Objective	Outcome
Increase the number of female employees in the organisation by providing development opportunities, targeted recruitment and introduction of flexible work opportunities where appropriate	The number of female employees in the organisation remained unchanged from FY13 at 12 per cent. The Diversity and Inclusiveness Policy was updated to recognise and promote flexible work practices within Downer. The Diversity Committee has introduced the concept of Employee Resource Groups which are designed to increase awareness and assist with the implementation of diversity and inclusiveness initiatives throughout the organisation. The Downer Diversity and Inclusiveness intranet site was established in March 2014 and now provides employees with access to a range of information and resources relating to diversity and inclusiveness. Downer New Zealand established the Downer Women's Network, the purpose of which is to explore key barriers to and opportunities for career progression within Downer, and to encourage networking amongst female employees in this business. Downer continues to offer a Group-wide Downer Corporate Family Program to its employees. This program, established in FY13, is designed to support employees with caring responsibilities and to assist them in managing these responsibilities with their work obligations.
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	The program for the recruitment of Indigenous and Torres Strait Islander employees continues to deliver strong results, particularly in Downer Mining. Downer New Zealand established the Maori Leadership Network which is designed to promote leadership development opportunities for Maori employees in Downer.
Undertake a pilot program to support the Jawun program and it is expected this will lead to full support and membership with Jawun	In late 2013, three Downer employees participated in a successful six week pilot program to support the Jawun program, an indigenous corporate partnership program which creates opportunities for selected employees to use their professional skills to make a contribution to our Indigenous communities. Following the successful pilot program, Downer has entered into a formal partnership with Jawun, with further secondments now underway.

1 For present purposes, "Senior Executive" refers to CEO, KMP and Other Executives/General Managers as defined in the Workplace Gender Equality Agency Reference guide to the workplace profile and reporting questionnaire (**WGEA Reference Guide**).

2 For present purposes, "Manager" refers to CEO, KMP, Other Executives/General Managers, Senior Managers and Other Managers as defined in the WGEA Reference Guide.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING – CONTINUED

Objective	Outcome
Maintain a continuous pipeline of talent into the organisation through cadetship, graduate and apprenticeship opportunities	An analysis of the adequacy of the training support that Downer provides through its cadetship, graduate and apprenticeship opportunities was conducted across the Group. The findings of this analysis were presented to and considered by the Executive Committee and Downer Board and will form the basis for the initiatives of the Corporate Champions Program to be established during FY2015. Downer Mining successfully applied to Queensland Civil and Administrative Tribunal in November 2013 for an exemption under the anti-discrimination laws to specifically recruit females for specific roles at designated mining sites in Queensland for the next five (5) year period. Additionally, the exemptions granted by the Anti-Discrimination Tribunal of New South Wales in March 2013 led to two targeted recruitment campaigns being run throughout FY2014 which employed 15 female operators (trainee and experienced) at the Boggabri mine site.
Optimise the ageing workforce by providing flexible work arrangements and retirement planning options to employees	Downer has received Commonwealth Government funding to establish a Corporate Champions Program, which will focus on improving the retention and management of mature workers. Additionally, Downer employees now have access to a senior living program which is designed to assist those employees who are transitioning into retirement by offering services such as superannuation planning and aged care assistance.

LOOKING AHEAD: FY2015 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 FY2015, which are comprised by a continuation of the FY2014 objectives and those set out below:

- To have at least one woman candidate on the shortlist for 25% of Manager roles (currently 17%) to aim to increase the number of female Managers in Downer from 6.0% (FY2014) to 6.5% in the future;
- To complete the implementation of a job grading structure across Downer to enable a comprehensive gender pay review in the future;
- Conduct a diversity and inclusiveness survey which will expand upon the survey conducted in 2012 by targeting a broader audience and incorporating cultural and age diversity, not just gender diversity;
- Introduce a Group-wide formalised mentoring program with the initial focus being women in leadership;
- Promote awareness, utilisation and continuous improvement of flexible work opportunities to female employees;
- Consolidate and strengthen Downer's involvement in the Jawun program; and
- Continue to focus on the ageing workforce and the flexible work and retirement planning options available to employees transitioning to retirement, with a particular focus on developing and implementing the objectives and initiatives of the Corporate Champions Program, and undertaking a Group-wide employee age profiling exercise.

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 Board receives assurances from the Group CEO and the Group CFO that the declarations provided in relation to the annual and half-year financial statements, in accordance with sections 295A and 303(4) of the *Corporations Act 2001* (Cth) are 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.

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.

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 market-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.

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.

Downer's annual Sustainability Report provides a detailed overview of Downer's approach to managing its environmental sustainability and social sustainability risks. The 2013 Sustainability Report is available on the Downer website at **www.downergroup.com**.

The Company's internal audit function objectively evaluates and reports on the existence, design and operating effectiveness of internal controls. Downer's internal audit team is independent of the external auditor and reports to the Audit and Risk Committee.

Downer's Audit and Risk Committee assists 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.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration Committee and has adopted the Remuneration Committee Charter which sets out its role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board about:

– Executive remuneration and incentive policies;
– The remuneration, recruitment, retention, performance measurement and termination policies and procedures for all senior executives reporting directly to the Group CEO;
– 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 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 2014

DOWNER SHAREHOLDERS

Downer had 20,659 ordinary shareholders as at 30 June 2014.

The largest shareholder, J P Morgan Nominees Australia Limited, holds 23.43 per cent of the 435,399,975 fully paid ordinary shares issued at that date. Downer has 18,561 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 and NZX, 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**.

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 9, 225 George Street
Sydney NSW 2000

REGISTERED OFFICE AND PRINCIPAL ADMINISTRATION OFFICE

Downer EDI Limited
Level 2, Triniti III
Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

Tel: +61 2 9468 9700
Fax: +61 2 9813 8915

AUSTRALIAN SECURITIES EXCHANGE INFORMATION AS AT 30 JUNE 2014

Number of holders of equity securities:

ORDINARY SHARE CAPITAL

435,399,975 fully paid listed ordinary shares were held by 20,659 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 2014.

Shareholders	Ordinary shares held	% of issued shares
Schroder Investment Management Australia Limited	28,061,984	6.45
National Australia Bank Limited	27,965,895	6.42
UBS AG and its related bodies corporate	22,442,355	5.15
Commonwealth Bank of Australia	22,042,680	5.06
LSV Asset Management	21,874,362	5.02

DISTRIBUTION OF HOLDERS OF QUOTED EQUITY SECURITIES

Shareholder distribution of quoted equity securities as at 30 June 2014.

Range of holdings	Number of shareholders	Shareholders %	Ordinary shares held	Shares %
1 – 1,000	11,410	55.24	5,056,634	1.16
1,001 – 5,000	7,287	35.27	16,568,374	3.81
5,001 – 10,000	1,205	5.83	8,557,779	1.97
10,001 – 100,000	703	3.40	15,364,477	3.53
100,001 and over	54	0.26	389,852,711	89.53
Total	20,659		435,399,975	100.00
Holding less than a marketable parcel of shares	1,058			

TWENTY LARGEST SHAREHOLDERS

Downer's 20 largest shareholders of ordinary fully paid shares as at 30 June 2014.

Shareholders	Shares held	% of issued shares
J P Morgan Nominees Australia Limited	102,000,693	23.43
HSBC Custody Nominees (Australia) Limited	97,334,884	22.36
National Nominees Limited	73,355,455	16.85
Citicorp Nominees Pty Ltd	40,086,426	9.21
BNP Paribas Noms Pty Ltd	22,818,621	5.24
Citicorp Nominees Pty Limited – Colonial First State Inv A/C	7,948,332	1.83
HSBC Custody Nominees (Australia) Limited – NT-Comnwlth Super Corp A/C	6,560,633	1.51
AMP Life Ltd	5,677,305	1.30
CPU Share Plans Pty Ltd	6,375,320	1.46
Argo Investments Ltd	2,392,527	0.55
RBC Investor Services Australia Nominees Pty Limited – PI Pooled A/C	2,279,847	0.52
BNP Paribas Nominees Pty Ltd – Agency Lending DRP A/C	2,249,265	0.52
UBS Nominees Pty Ltd	2,232,500	0.51
National Nominees Limited – N A/C	1,400,000	0.32
HSBC Custody Nominees (Australia) Limited – GSCO ECA	1,248,683	0.29
UBS Nominees Pty Ltd	1,231,500	0.28
Masfen Securities Limited	1,171,647	0.27
CS Fourth Nominees Pty Ltd	1,168,178	0.27
QIC Limited	1,079,314	0.25
Sandhurst Trustees Ltd – Harper Bernays Ltd A/C	1,061,120	0.24
Total for top 20 shareholders	379,672,250	87.21

ON-MARKET BUY-BACK

On 5 August 2014, the Board resolved to undertake an ongoing share buy-back program that will operate from 20 August 2014. The total number of shares to be purchased under the buy-back will depend on share price levels and capital requirements. The program is part of Downer's ongoing capital management strategy and will be managed in conjunction with capital requirements for growth. Downer has a strong balance sheet and is in a good position to take advantage of growth opportunities, including mergers and acquisitions, but any prospect will be subject to robust risk assessment. Downer will focus on opportunities that are strategic, the right price and grow the Company's capability.

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