Results for announcement to the market
for the half-year ended 31 December 2014

Appendix 4D

	31 Dec 2014 **$'000**	31 Dec 2013 $'000	% change
Revenue from ordinary activities	**3,374,997**	3,757,554	
Other income	**2,778**	3,297	
Total revenue and other income from ordinary activities	**3,377,775**	3,760,851	(10.2%)
Total revenue including joint ventures and other income	**3,585,983**	3,931,119	(8.8%)
Earnings before interest and tax	**141,730**	160,077	(11.5%)
Profit from ordinary activities after tax attributable to members of the parent entity	**94,715**	99,109	(4.4%)

	31 Dec 2014 **cents**	31 Dec 2013 cents	% change
Basic earnings per share	**20.8**	21.8	
Diluted earnings per share	**20.1**	20.8	
Net tangible asset backing per ordinary share	**253.5**	303.4	(16.4%)

Dividends	**31 Dec 2014**	31 Dec 2013	
Interim dividend per share (cents)	**12.0**	11.0	
Interim franked amount per share (cents)	**12.0**	7.7	
Conduit foreign income (CFI)	**0%**	30%	
Interim dividend record date	**19/02/2015**	18/02/2014	
Interim dividend payable date	**19/03/2015**	20/03/2014	
Redeemable Optionally Adjustable Distributing Securities (ROADS)			
Dividend per ROADS (in Australian cents)	**2.65**	2.22	
New Zealand imputation credit percentage per ROADS	**100%**	100%	
ROADS Quarter 1 instalment payment date	**15/09/2014**	16/09/2013	
ROADS Quarter 2 instalment payment date	**15/12/2014**	16/12/2013	

Downer EDI's Dividend Reinvestment Plan (DRP) has been suspended.

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

Downer EDI Limited
ABN: 97 003 872 848

Condensed Consolidated Financial Report
for the half-year
ended 31 December 2014

Condensed Consolidated Financial Report
for the half-year ended 31 December 2014

Index | **Page**

Directors' Report
for the half-year ended 31 December 2014

The Directors of Downer EDI Limited (Downer) submit the condensed consolidated financial report of the Company for the half-year ended 31 December 2014. In accordance with the provisions of the Corporations Act 2001 (Cth), the Directors' Report is set out below:

Directors

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

R M Harding (Chairman, Independent Non-executive Director)

G A Fenn (Managing Director and Chief Executive Officer)

S A Chaplain (Independent Non-executive Director)

P S Garling (Independent Non-executive Director)

E A Howell (Independent Non-executive Director)

J S Humphrey (Independent Non-executive Director)

K G Sanderson AO (Independent Non-executive Director, resigned 30 September 2014)

C G Thorne (Independent Non-executive Director)

REVIEW OF OPERATIONS

PRINCIPAL ACTIVITIES

Downer provides services to customers in market sectors including Mining, Rail, Transport, Utilities, Telecommunications and Engineering, Construction and Maintenance. Downer employs approximately 20,000 people primarily in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa.

DIVISIONAL ACTIVITIES

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

DOWNER INFRASTRUCTURE

Downer Infrastructure operates predominantly in Australia and New Zealand and is one of the largest providers of engineering services for critical infrastructure in both countries, employing approximately 9,500 people in Australia and approximately 5,500 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.

In October 2014, Downer acquired Tenix Holdings Australia Pty Ltd (Tenix) for $300 million on a cash and debt free basis. Tenix is a leading provider of long-term operations and maintenance services to owners of electricity, gas, water, wastewater, industrial and resources assets in Australia and New Zealand.

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 and the National Broadband Network (NBN). In New Zealand, Downer Infrastructure 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

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 approximately 3,500 people across approximately 60 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 underground development, production, asset management and maintenance activities together with surface and underground exploration, resource and de-watering drilling, including heli-portable rigs.

Blasting services

- Downer Blasting Services (DBS) provides innovative blasting solutions to over 15 projects across Australia with a fleet of over 40 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 to both the open cut and underground industry.

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, 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

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 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 the Gold Coast Light Rail;
- 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 six months ended 31 December 2014, Downer reported declines in total revenue and earnings before interest and tax (EBIT) compared to the prior corresponding period (pcp). This was due to the completion of a number of projects and subdued end markets for Downer Infrastructure, losses incurred by the mining-related consultancy businesses, reduced volumes and project completions in Downer Mining and the completion of the Waratah Train Project (WTP).

Despite the decline in total revenue and EBIT, the Group maintained a stable net profit after tax (NPAT) margin compared to the pcp by continuing to focus on cost reduction, productivity and capital management.

REVENUE

Total revenue[1] for the Group decreased by 8.8%, or $345.1 million, to $3.6 billion.

Downer Mining and Downer Rail delivered lower revenue compared with the pcp while Downer Infrastructure's revenue increased 1.1% to $2.3 billion, including two months' contribution from DownerTenix. Mining revenue fell 20.4% to $815.2 million and Rail revenue (including the WTP) was down 28.0% to $424.4 million.

Downer Infrastructure's Australian revenue increased by 0.4% to $1.8 billion while New Zealand revenue increased by 3.7% to $554.7 million. In New Zealand dollar terms, the revenue is largely in line with the pcp.

The reduction in Mining revenue was due primarily to the early termination of the Goonyella contract, completion of the contract at Daunia and reduced volumes.

The Rail division's performance reflects the completion of the WTP Rolling Stock Manufacture (RSM) contract and less activity in freight manufacturing.

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[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.

EXPENSES

Employee benefits expenses decreased by 5.0% to $1.3 billion and represent 38.6% of Downer's cost base. This decrease is broadly in line with Group's total revenue reduction and is after restructuring costs associated with efficiency programs, redundancies and contract completions/variations requiring reduced staffing levels.

Subcontractor costs also decreased by 2.5% to $757.0 million and represent 23.4% of Downer's cost base. This decrease accords with the reduction in total revenue and a strategic intent by the Group to retain cost base variability, allowing the various businesses to ramp up or down more quickly via the utilisation of subcontract labour without imposing a permanent fixed cost structure on the business.

Raw materials and consumables decreased by 14.8% to $606.4 million and represent 18.7% of Downer's cost base. This reduction reflects the lower volumes of work and the completion of the WTP RSM contract.

Plant and equipment costs decreased by $130.8 million to $332.5 million and represents 10.3% of Downer's cost base. This largely reflects reduced reliance upon operating leased assets, coupled with increased utilisation of owned assets, more efficient maintenance practices as Fit 4 Business plant opportunities are leveraged, and a reduction in scope on some of Downer Mining's contracts.

Depreciation and amortisation decreased by 11.2% to $122.0 million and represents 3.8% of Downer's cost base. This decrease reflects lower capital expenditure in the period compared to the past three years and the sale of mining equipment to customers as part of arrangements to reduce volumes or the sale of equipment deemed surplus to requirements as the business optimises asset utilisation and productivity under various Fit 4 Business initiatives.

Other expenses, communication, travel, occupancy and professional fees have decreased by 11.5% to $180.6 million and represent 5.6% of Downer's cost base.

EARNINGS

EBIT for the Group decreased by 11.5%, from $160.1 million to $141.7 million, due largely to reduced levels of activity in Australia.

Downer Infrastructure's EBIT decreased by 16.7% to $72.8 million. EBIT across Downer Infrastructure's Australian businesses decreased by 6.7% as a result of project completions, tighter bid margins and losses incurred in the mining-related consultancy businesses (Snowden, Mineral Technologies and QCC).

Downer Infrastructure's New Zealand business experienced a 34.9% decline in EBIT to $20.3 million due to a tightening of margins and a reduction in ultra-fast broadband (UFB) volumes.

Downer Mining's EBIT decreased by 29.6% to $63.4 million as a result of contract expirations, the early termination of Goonyella and reduced volumes.

Downer Rail's EBIT increased by 279.4% to $17.5 million reflecting significantly lower restructuring costs incurred compared to the pcp.

Corporate costs reduced by $4.1 million, or 13.8%, to $25.9 million. The reduction reflects lower volumes of work across the Group and ongoing initiatives to improve productivity. Net finance costs reduced by $9.9 million, or 41.9%, to $13.8 million reflecting lower base interest rates and repayment of higher cost debt.

The effective tax rate of 26.0% is lower than the statutory rate of 30.0% due to non-assessable Research and Development incentives, non-taxable distributions from joint ventures and lower overseas tax rates.

DIVISIONAL FINANCIAL PERFORMANCE

DOWNER INFRASTRUCTURE[2]

- Total revenue of $2.3 billion, up 1.1%;
- EBIT of $72.8 million, down 16.7%;
- EBIT margin of 3.1%, down 0.7 ppts;
- ROFE of 16.1%, down from 23.3%; and
- Work-in-hand of $11.2 billion.

It was a challenging period for Downer Infrastructure, primarily due to the reduction in mining related capital works.

Total revenue was up 1.1% on the pcp, including two months' contribution from DownerTenix. However EBIT was down 16.7% due to project completions, fewer opportunities in the resources sector and pressure on bid margins in a competitive tendering environment. The mining-related consultancy businesses were hit particularly hard and experienced financial losses during the period. This had a significant impact on Divisional earnings.

Downer Infrastructure's New Zealand business experienced a tightening of margins and a reduction in UFB volumes.

Downer Infrastructure continues to reduce costs and overheads in response to market conditions.

DOWNER MINING

- Total revenue of $815.2 million, down 20.4%;
- EBIT of $63.4 million, down 29.6%;
- EBIT margin of 7.8%, down 1.0 ppts;
- ROFE of 17.9%, down from 19.0%; and
- Work-in-hand of $3.3 billion.

Downer Mining's total revenue declined 20.4% versus the pcp reflecting the Daunia contract coming to an end, the early termination of Goonyella and reduced volumes. There were also fewer opportunities for the blasting business and discounted pricing of Ammonium Nitrate supply, which placed further pressure on earnings.

Downer Mining continues to undertake a number of initiatives to improve productivity and reduce costs.

In December 2014, Downer received two Letters of Award from Adani Mining, valued at over $2.0 billion, for mining services and construction of infrastructure at the Carmichael Coal Mine in Queensland. Both Letters of Award are subject to the parties executing binding contracts which would be followed by pre-production and planning in early 2015 with mine infrastructure construction commencing in the fourth quarter of 2015. First mining is scheduled for the second quarter of 2016.

[2] Includes two months contribution from Tenix.

DOWNER RAIL

- Total revenue of $424.4 million, down 28.0%;
- EBIT of $17.5 million, up 279.4%;
- EBIT margin of 4.1%, up 3.3 ppts;
- ROFE of 8.4%, up from 6.0%; and
- Work-in-hand of $3.5 billion.

Downer Rail's total revenue was down 28.0% to $424.4 million compared with the pcp due primarily to the completion of the WTP RSM contract. This was partially offset by higher revenue from the WTP Through Life Support (TLS) contract and the Keolis Downer and Downer Bombardier joint ventures.

The WTP TLS contract performed strongly during the half year with many of the learnings derived from this project also helping to improve performance on Downer's other rail maintenance contracts.

The Gold Coast Light Rail began operating in July 2014, with Keolis Downer responsible for the operations and maintenance of the network. Keolis Downer continues to successfully operate and maintain Yarra Trams in Melbourne and is pursuing other public transport growth opportunities in Australia and New Zealand.

Downer Rail's EBIT for the half year was up 279.4% to $17.5 million due to lower restructuring costs incurred in the first half of FY15 and higher joint venture earnings.

On 4 February 2015, Downer announced it had signed a 10-year Locomotive Maintenance Agreement with Pacific National Pty Ltd valued at approximately $1 billion. Under the Agreement, Downer will provide a full suite of asset management services for over 300 Pacific National locomotives.

GROUP FINANCIAL POSITION

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

OPERATING CASH FLOW

Operating cash flow was strong at $257.9 million, however down 8.0% on the pcp. This variance reflects lower volumes across most businesses and a higher cash inflow on the WTP RSM contract in the pcp.

EBITDA conversion was 103.5%.

Operating cash flow ($'m)	Dec-14	Dec-13
EBIT	141.7	160.1
Add: Depreciation	122.0	137.4
EBITDA	**263.7**	**297.5**
Operating cash flow	**257.9**	**280.3**
Add : Net interest paid	12.0	25.4
Tax paid	21.9	16.4
WTP net cash inflow	(18.9)	(28.1)
Adjusted operating cash flow	**272.9**	**294.0**
EBITDA conversion	**103.5%**	**98.8%**

INVESTING CASH

The business continued to invest in capital equipment to support existing contracted operations resulting in net capital of $78.7 million being invested, down 49.7% on the pcp. This investment principally represents maintenance capital.

DEBT AND BONDING

In October 2014, the Group entered a $300 million bridge loan facility to fund the Tenix acquisition.

The Group bonding portfolio increased by approximately $75 million during the period in relation to new facilities for Tenix of $45 million and a $30 million facility to support the ongoing operation of the Group.

As at 31 December 2014, Downer had liquidity of approximately $1.0 billion comprising cash of $378 million and undrawn committed facilities of $612 million.

BALANCE SHEET

The net assets of Downer increased by 1.7% to $2.0 billion.

Cash and cash equivalents decreased by $53.7 million or 12.4% to $378.0 million, reflecting debt repayments and on-market share buy-back. Current trade and other receivables decreased by 9.0% or $107.1 million to $1.1 billion reflecting a decrease in revenue, increased focus on cash collections by all Divisions and the resolution of a number of customer disputes in both Downer Infrastructure and Downer Mining. Trade debtor days (excluding WIP) for the Group decreased by 2.2 days, from 28.6 to 26.4 days. Trade debtor days (including WIP) for the Group reduced from 56.3 to 54.6 days.

Net debt increased from $32.7 million at June 2014 to $252.7 million at December 2014 mainly reflecting the acquisition of Tenix (for $300 million), repayment of debt and the on-market share buy-back ($11.7 million). Gearing (net debt to net debt plus equity) increased from 1.6% (June 2014) to 11.2%. When off-balance sheet debt is included (based on the present value of operating lease commitments[3]), gearing increased from 9.2% (June 2014) to 17.4%.

Inventories balance was largely in line with the June 2014 balance. Other assets are substantially current prepayments and deposits.

The net value of Property Plant and Equipment decreased by $6.6 million principally due to reduced capital expenditure in Mining and Infrastructure in response to revenue decline.

Trade and other payables decreased by $3.2 million, or 0.3%, reflecting a lower cost base due to reduced revenue. Trade creditor days decreased by 0.6 days from 30.8 to 30.2 days, which is well within Downer's terms of trade. Trade and other payables represent 52.1% of Downer's total liabilities.

Total drawn borrowings of $620.7 million represent 30.3% of Downer's total liabilities and has increased by $197.5 million as a result of the Tenix acquisition.

Other financial liabilities of $22.4 million decreased by $28.6 million and represent 1.1% of Downer's total liabilities. The decrease reflects the settlement of cross currency interest rate swap liabilities of $28.9 million following the repayment of the USPP debt.

Provisions of $309.5 million decreased by 9.2%, or $31.2 million, and represent 15.1% of Downer's total liabilities. The decrease is mainly due to payments of leave liabilities and the 2013/14 short term incentive bonus provided at June 2014. Employee provisions (annual leave and long service leave) made up 78.7% of this balance with the remainder covering return conditions obligation for leased assets and property and warranty obligations.

Shareholder equity increased by $33.6 million due predominantly to net profit after tax of $94.7 million during period partially offset by the $11.7 million on-market share buy-back and $57.5 million dividend paid during the period. Net foreign currency gains on translation of Downer Infrastructure's New Zealand business resulted in an increase in the foreign currency translation reserve by $4.8 million.

DIVIDENDS

The Downer Board resolved to pay a fully franked interim dividend of 12.0 cents per share (11.0 cents per share pcp), payable on 19 March 2015 to shareholders on the register at 19 February 2015.

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 16 March 2015. 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.

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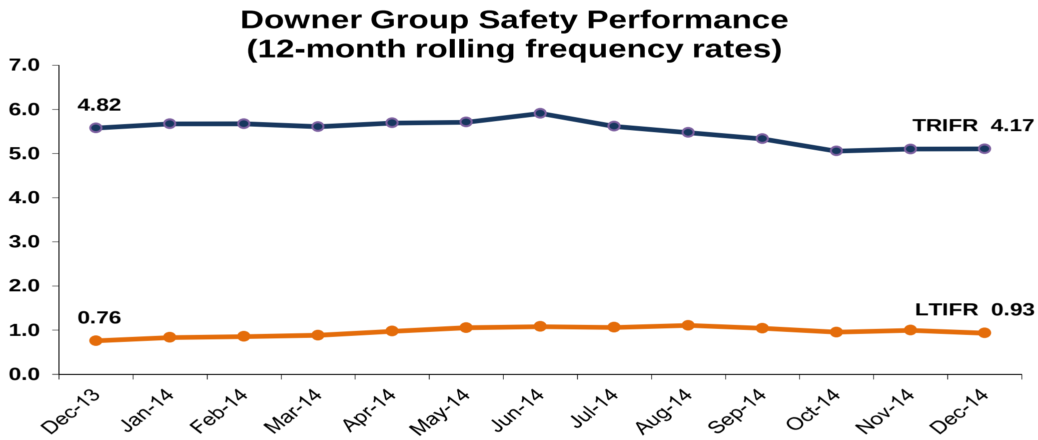
[3] The present value of operating leases with respect to plant and equipment (excluding real property) discounted at 10% per annum (discount rate prescribed by the loan covenant) was $167.0 million (June 2014: $166.8 million).

ZERO HARM

Downer's Lost Time Injury Frequency Rate (LTIFR) of 0.93 remained below one incident per million hours worked for the year and Total Recordable Injury Frequency Rate (TRIFR) reduced from 4.82 to 4.17 per million hours worked.



Auditor's independence declaration

The auditor's independence declaration, as required under Section 307C of the Corporations Act 2001, is set out on page 11.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

R M Harding
Chairman
Sydney, 5 February 2015

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Downer EDI Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Martin Sheppard
Partner

Sydney

5 February 2015

Independent auditor's review report to the members of Downer EDI Limited

Report on the financial report

We have reviewed the accompanying half-year financial report of Downer EDI Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2014 condensed consolidated statement of profit or loss and condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Downer EDI Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

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

KPMG	KPMG
Martin Sheppard *Partner*	Malcolm Ramsay *Partner*

Sydney

5 February 2015

Condensed consolidated statement of profit or loss
for the half-year ended 31 December 2014

	Note	Consolidated 31 Dec 2014 $'000	Consolidated 31 Dec 2013 $'000
Revenue from ordinary activities	3(a)	**3,374,997**	3,757,554
Other income	3(a)	**2,778**	3,297
Total revenue and other income	2	**3,377,775**	3,760,851
Employee benefits expense	3(b)	**(1,250,283)**	(1,316,001)
Raw materials and consumables used		**(606,372)**	(711,733)
Subcontractor costs		**(757,022)**	(776,209)
Plant and equipment costs		**(332,476)**	(463,308)
Communication expenses		**(43,346)**	(43,508)
Occupancy costs		**(60,330)**	(65,491)
Professional fees		**(18,992)**	(24,525)
Travel and accommodation expenses		**(45,683)**	(56,871)
Other expenses from ordinary activities		**(12,282)**	(13,747)
Depreciation and amortisation	3(b)	**(121,973)**	(137,401)
Share of net profit of joint ventures and associates		**12,714**	8,020
		(3,236,045)	(3,600,774)
Earnings before interest and tax		**141,730**	160,077
Finance income	3(c)	**3,891**	3,531
Finance costs	3(c)	**(17,697)**	(27,278)
		(13,806)	(23,747)
Profit before income tax		**127,924**	136,330
Income tax expense		**(33,201)**	(37,218)
Profit after income tax		**94,723**	99,112
Profit for the period that is attributable to:			
- Non-controlling interest		**8**	3
- Members of the parent entity		**94,715**	99,109
Profit for the period		**94,723**	99,112
Earnings per share (cents)			
- Basic earnings per share	5	**20.8**	21.8
- Diluted earnings per share	5	**20.1**	20.8

The condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes on pages 20 to 41.

Condensed consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2014

	Consolidated	
	31 Dec 2014	31 Dec 2013
	$'000	$'000
Profit for the period	**94,723**	99,112
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
- Exchange differences arising on translation of foreign operations	**4,794**	18,071
- Net gain/(loss) on foreign currency forward contracts taken to equity	**2,542**	(958)
- Net gain on cross currency interest rate swaps taken to equity	**77**	106
- Income tax relating to components of other comprehensive income	**(759)**	240
Other comprehensive income for the period (net of tax)	**6,654**	17,459
Total comprehensive income for the period	**101,377**	116,571
Total comprehensive income for the period that is attributable to:		
- Non-controlling interest	**8**	3
- Members of the parent entity	**101,369**	116,568
Total comprehensive income for the period	**101,377**	116,571

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 20 to 41.

Condensed consolidated statement of financial position
As at 31 December 2014

		Consolidated	
		Dec 2014	June 2014
	Note	**$'000**	$'000
ASSETS			
Current assets			
Cash and cash equivalents		**378,039**	431,767
Trade and other receivables		**1,086,308**	1,193,364
Other financial assets		**16,201**	11,566
Inventories		**382,027**	384,724
Current tax assets		**10,780**	-
Other assets		**45,486**	39,466
Total current assets		**1,918,841**	2,060,887
Non-current assets			
Trade and other receivables		**16,694**	15,963
Interest in joint ventures and associates		**50,528**	40,085
Property, plant and equipment		**1,140,303**	1,146,909
Intangible assets	7	**898,640**	589,481
Other financial assets		**7,650**	6,727
Deferred tax assets		**1,372**	732
Other assets		**7,460**	7,598
Total non-current assets		**2,122,647**	1,807,495
Total assets		**4,041,488**	3,868,382
LIABILITIES			
Current liabilities			
Trade and other payables		**1,057,937**	1,063,849
Borrowings	10	**361,546**	137,715
Other financial liabilities		**20,028**	47,607
Provisions		**266,594**	304,022
Current tax payables		**179**	9,962
Total current liabilities		**1,706,284**	1,563,155
Non-current liabilities			
Trade and other payables		**8,354**	5,685
Borrowings	10	**259,134**	285,513
Other financial liabilities		**2,344**	3,383
Provisions		**42,931**	36,742
Deferred tax liabilities		**26,861**	11,893
Total non-current liabilities		**339,624**	343,216
Total liabilities		**2,045,908**	1,906,371
Net assets		**1,995,580**	1,962,011
EQUITY			
Issued capital	9	**1,446,397**	1,457,859
Reserves		**5,444**	(2,427)
Retained earnings		**543,729**	506,553
Parent interests		**1,995,570**	1,961,985
Non-controlling interest		**10**	26
Total equity		**1,995,580**	1,962,011

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 20 to 41.

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 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 2014	1,457,859	(1,687)	(16,018)	15,278	506,553	1,961,985	26	1,962,011
Profit for the period	-	-	-	-	94,715	94,715	8	94,723
Exchange differences arising on translation of foreign operations	-	-	4,794	-	-	4,794	-	4,794
Net gain on foreign currency forward contracts	-	2,542	-	-	-	2,542	-	2,542
Net gain on cross currency interest rate swaps	-	77	-	-	-	77	-	77
Income tax relating to components of other comprehensive income	-	(759)	-	-	-	(759)	-	(759)
Total comprehensive income for the period	-	1,860	4,794	-	94,715	101,369	8	101,377
Group on-market share buy-back	(11,652)	-	-	-	-	(11,652)	-	(11,652)
Vested executive incentive shares transactions	190	-	-	(190)	-	-	-	-
Share-based employee benefits expense	-	-	-	1,343	-	1,343	-	1,343
Income tax relating to share-based transactions during the period	-	-	-	64	-	64	-	64
Payment of dividends (i)	-	-	-	-	(57,539)	(57,539)	-	(57,539)
Acquisition of non-controlling interest (ii)	-	-	-	-	-	-	(24)	(24)
Balance at 31 December 2014	1,446,397	173	(11,224)	16,495	543,729	1,995,570	10	1,995,580

(i) Payment of dividend relates to the 2014 final dividend, and $5.3m ROADS dividends paid during the financial period.

(ii) During the financial period, the Group has acquired the remaining non-controlling interest in Techtel Training & Development Limited and it is now a subsidiary of the Group.

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 20 to 41.

Condensed consolidated statement of changes in equity - *continued*

for the half-year ended 31 December 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 for the period	-	-	-	-	99,109	**99,109**	3	**99,112**
Exchange differences arising on translation of foreign operations	-	-	18,071	-	-	**18,071**	-	**18,071**
Net loss on foreign currency forward contracts	-	(958)	-	-	-	**(958)**	-	**(958)**
Net gain on cross currency interest rate swaps	-	106	-	-	-	**106**	-	**106**
Income tax relating to components of other comprehensive income	-	240	-	-	-	**240**	-	**240**
Total comprehensive income for the period	-	(612)	18,071	-	99,109	**116,568**	3	**116,571**
Issue of shares under dividend reinvestment plan	5,608	-	-	-	-	**5,608**	-	**5,608**
Share-based employee benefits expense	-	-	-	1,756	-	**1,756**	-	**1,756**
Income tax relating to share-based transactions during the period	-	-	-	(1,122)	-	**(1,122)**	-	**(1,122)**
Payment of dividends [(i)]	-	-	-	-	(52,118)	**(52,118)**	-	**(52,118)**
Balance at 31 December 2013	1,454,535	1,134	(15,086)	14,584	442,114	**1,897,281**	(12)	**1,897,269**

[(i)] Payment of dividend relates to the 2013 final dividend, and $4.4m ROADS dividends paid during the financial period.

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 20 to 41.

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2014

	Note	Consolidated 31 Dec 2014 $'000	Consolidated 31 Dec 2013 $'000
Cash flows from operating activities			
Receipts from customers		**3,947,461**	4,419,421
Distributions from equity-accounted investees		**2,441**	13,451
Dividends received from external entities		**4**	-
Payments to suppliers and employees		**(3,658,131)**	(4,110,802)
Interest received		**3,945**	3,332
Interest and other costs of finance paid		**(15,972)**	(28,709)
Income tax paid		**(21,872)**	(16,360)
Net cash flows from operating activities		**257,876**	280,333
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**14,261**	15,270
Payments for property, plant and equipment		**(92,917)**	(171,639)
Payments for intangible assets	7	**(4,580)**	(4,434)
(Payments for)/Receipts from investments		**(45)**	1,342
Advances to joint ventures		**(2,250)**	(1,481)
Payments for businesses acquired		**(318,545)**	(2,847)
Net cash flows used in investing activities		**(404,076)**	(163,789)
Cash flows from financing activities			
Proceeds from borrowings		**499,000**	817,500
Repayments of borrowings		**(339,337)**	(1,008,717)
Group on-market share buy-back		**(11,652)**	-
Dividends paid		**(57,539)**	(46,510)
		90,472	(237,727)
Net decrease in cash and cash equivalents		**(55,728)**	(121,183)
Cash and cash equivalents at the beginning of the period		**431,767**	479,878
Effect of exchange rate changes		**2,000**	4,830
Cash and cash equivalents at the end of the period		**378,039**	363,525

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 20 to 41.

Notes to the condensed consolidated financial statements
for the half-year ended 31 December 2014

Note 1. Summary of accounting policies

Statement of Compliance

These condensed consolidated financial statements represent the consolidated results of Downer EDI Limited (ABN 97 003 872 848) (Downer). The condensed consolidated half-year Financial Report is a general purpose Financial Report prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth), and with IAS 134 *Interim Financial Reporting*.

This half-year Financial Report does not include all of the notes that would normally be included in an Annual Financial Report and should be read in conjunction with the 2014 Annual Report.

The condensed consolidated financial statements were authorised for issue by the Directors on 5 February 2015.

Rounding of amounts

Downer is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the Financial Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Basis of preparation

The condensed consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation in the preparation of the half-year Financial Report are consistent with those adopted and disclosed in Downer's Annual Report for the financial year ended 30 June 2014, except in relation to the relevant amendments and their effects on the current period or prior periods as described below.

The new and revised standards adopted by the Group for its annual reporting period beginning on 1 July 2014 are as follows:

- 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;
- Interpretation 21 *Levies* effective for annual periods beginning on or after 1 January 2014;
- 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; and
- Annual Improvements to *IFRSs 2011-2013 Cycle* effective for annual periods beginning on or after 1 July 2014.

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

Note 1. Summary of accounting policies - *continued*

Accounting estimates and judgements

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

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

Application of critical judgements and key sources of estimation uncertainty

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

Revenue recognition

(i) Service contracts

Revenue for service contracts that have a short-term duration are recognised when the services are completed in accordance with the terms of the contract.

Revenue for service contracts that have a long-term duration are recognised using the stage of completion method at the reporting date. Stage of completion is measured by reference to costs incurred (or revenue earned when deemed a more appropriate measure) to reporting date as a percentage of estimated total costs (or revenue) for each contract. Where the contract expenses and revenue can be reliably estimated, they are recognised in the profit or loss.

(ii) Construction contracts

Construction revenue relates to contracts specifically negotiated for the construction of an asset or group of assets. Revenue is recognised based on the stage of completion method at the reporting date. The stage of completion is determined by reference to physical estimates, surveys of the work performed or cost incurred. Contract expenses are recognised as incurred and an expected loss on a contract is recognised immediately in the profit or loss.

In determining revenue and expenses for services and construction contracts, Management makes key assumptions regarding estimated revenues and expenses over the life of the contract. Where contract variations are recognised in revenue, assumptions are made regarding the amount and the probability that customer will approve those contract variations. In respect of costs, key assumptions regarding costs to complete may include labour, technical costs, impact of delays and productivity.

Capitalisation of tender/bid costs

Tender/bid costs are expensed until the Group has either reached preferred bidder status and/or there is a reasonable expectation that the costs will be recovered. From 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.

Note 1. Summary of accounting policies - *continued*

Key contracts

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. 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.

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 a weighted average Australian State Government bond rate at reporting 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.

Note 1. Summary of accounting policies - *continued*

New accounting standards and interpretations

At the date of authorisation of these condensed consolidated financial statements, the Standards and Interpretations listed below were in issue but not yet effective. They have not been applied in preparing this half-year 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 2018;
– 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 2018;
– *Accounting for acquisitions of interest in joint operations (amendments to IFRS 11)* effective for annual periods beginning on or after 1 January 2016; and
– AASB 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 Group constantly assess the appropriateness of these segments in providing decision-support information to the Board of Directors.

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 and it also provides design, construction, operation and maintenance services to utility asset owners. 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, water and water treatment, power and gas.

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, 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 and blasting services.

Downer Rail: Provides design, build, fit-out and maintenance of passenger rolling stock and provides design, build and maintenance of freight rolling stock including locomotives and rail wagons as well as importing and commissioning of completed locomotives units for use in the resources sector.

Note 2. Segment information - *continued*

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as the Group accounting policies disclosed in the Group's 2014 Annual Report.

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

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

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

Information about major customers
There is no single customer that contributed 10% or more to the Group's revenue for both the first half of FY2015 and FY2014.

	Total revenue[(i)]		**Share of sales revenue in joint ventures and associates**		**Total revenue including joint ventures and associates**	
	31 Dec 2014	31 Dec 2013	**31 Dec 2014**	31 Dec 2013	**31 Dec 2014**	31 Dec 2013
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
By business segment						
Downer Infrastructure Australia	**1,738,669**	1,751,924	**45,531**	25,526	**1,784,200**	1,777,450
Downer Infrastructure New Zealand	**551,551**	531,602	**3,169**	3,406	**554,720**	535,008
Downer Mining	**782,404**	995,587	**32,750**	28,951	**815,154**	1,024,538
Downer Rail	**297,626**	476,688	**126,758**	112,385	**424,384**	589,073
Inter-segment sales	**(3,000)**	(3,309)	**-**	-	**(3,000)**	(3,309)
Subtotal	**3,367,250**	3,752,492	**208,208**	170,268	**3,575,458**	3,922,760
Unallocated	**10,525**	8,359	**-**	-	**10,525**	8,359
Total	**3,377,775**	3,760,851	**208,208**	170,268	**3,585,983**	3,931,119

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

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2014

Note 2. Segment information - *continued*

	Note	Segment results	
		31 Dec 2014	31 Dec 2013
		$'000	$'000
By business segment			
Downer Infrastructure Australia		**52,476**	56,231
Downer Infrastructure New Zealand		**20,311**	31,182
Downer Mining		**63,440**	90,133
Downer Rail		**17,515**	4,616
Total operating segment results		**153,742**	182,162
Unallocated:			
Research and development incentives		**10,200**	7,907
Tenix acquisition costs	8(c)	**(5,208)**	-
Amortisation of acquired customer contracts and relationships	7	**(1,642)**	-
Settlement of customer contracts		**10,500**	-
Corporate costs		**(25,862)**	(29,992)
Total unallocated		**(12,012)**	(22,085)
Earnings before interest and tax		**141,730**	**160,077**
Interest income	3(c)	**3,891**	3,531
Interest expense	3(c)	**(17,697)**	(27,278)
Total profit before income tax		**127,924**	136,330
Income tax expense		**(33,201)**	(37,218)
Total net profit after tax		**94,723**	99,112

Note 3. Profit from ordinary activities

	Note	Consolidated	
		31 Dec 2014	31 Dec 2013
		$'000	$'000
a) Revenue			
Sales revenue			
Rendering of services		**2,129,593**	2,016,807
Mining services		**766,203**	972,989
Construction contracts		**329,980**	627,201
Sale of goods		**125,128**	125,887
Other revenue			
Other revenue		**19,518**	10,205
Rental income		**4,571**	4,465
Dividends			
Other entities		**4**	-
		3,374,997	3,757,554
Other income			
Net gain on disposal of property, plant and equipment		**2,778**	3,297
Total other income		**2,778**	3,297
Total revenue and other income		**3,377,775**	3,760,851
Share of sales revenue from joint venture entities and associates	2	**208,208**	170,268
Total revenue including joint ventures and associates and other income		**3,585,983**	3,931,119

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2014

Note 3. Profit from ordinary activities - *continued*

	Note	**Consolidated**	
		31 Dec 2014	31 Dec 2013
	Note	**$'000**	$'000
b) Operating expenses			
Depreciation and amortisation of non-current assets:			
- Plant and equipment		**104,926**	117,244
- Buildings		**3,126**	1,604
- Amortisation of leased assets		**4,276**	12,371
Total depreciation		**112,328**	131,219
Amortisation of intellectual property and software	7	**8,003**	6,182
Amortisation of acquired customer contracts and relationships	7	**1,642**	-
Total depreciation and amortisation		**121,973**	137,401
Operating lease expenses related to land and buildings		**34,258**	36,346
Operating lease expenses related to plant and equipment [(i)]		**63,740**	102,774
Total operating lease expenses		**97,998**	139,120
Employee benefits expense:			
- Defined contribution plans		**68,234**	72,327
- Share-based employee benefits expense		**1,343**	1,756
- Employee benefits		**1,169,154**	1,223,656
- Redundancy costs		**11,552**	18,262
Total employee benefits expense		**1,250,283**	1,316,001
c) Finance income and costs			
Finance income			
Interest income	2	**3,891**	3,531
Finance costs			
Finance costs on liabilities carried at amortised cost:			
- Interest expense		**16,068**	23,565
- Finance lease expense		**1,629**	3,713
Total interest and finance lease expense	2	**17,697**	27,278

[(i)] Operating lease expenses do not include expenses relating to maintenance, insurance and taxes of $8.7 million (December 2013: $7.9 million).

Note 4. Dividends

a) Ordinary shares

	Interim 2015	Final 2014	Interim 2014
Dividend per share (in Australian cents)	**12.0**	12.0	11.0
Franking percentage	**100%**	100%	70%
Cost (in $'000)	**51,922**	52,248	47,821
Payment date	**19/03/2015**	17/09/2014	20/03/2014
Dividend record date	**19/02/2015**	19/08/2014	18/02/2014

The interim 2015 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 2015	**Quarter 2 2015**			**Total 2015**
Dividend per ROADS (in Australian cents)	**1.28**	**1.37**			**2.65**
New Zealand imputation credit percentage	**100%**	**100%**			**100%**
Cost (in A$'000)	**2,556**	**2,735**			**5,291**
Payment date	**15/09/2014**	**15/12/2014**			

	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	

Note 5. Earnings per share

	31 Dec 2014	31 Dec 2013
Basic earnings per share		
Profit attributable to members of the parent entity ($'000)	**94,715**	99,109
Adjustment to reflect ROADS dividends paid ($'000)	**(5,291)**	(4,443)
Profit attributable to members of the parent entity used in calculating basic EPS ($'000)	**89,424**	94,666
Add back: Tenix acquisition costs ($'000)	**5,208**	-
Underlying profit attributable to members of the parent entity used in calculating underlying basic EPS ($'000)	**94,632**	94,666
Weighted average number of ordinary shares (WANOS) on issue (000's) (i)	**428,913**	434,115
Basic earnings per share (cents per share)	**20.8**	21.8
Underlying basic earnings per share (cents per share)	**22.1**	21.8
Diluted earnings per share		
Profit attributable to members of the parent entity used in calculating diluted EPS ($'000)	**94,715**	99,109
Add back: Tenix acquisition costs ($'000)	**5,208**	-
Underlying profit attributable to members of the parent entity used in calculating underlying diluted EPS ($'000)	**99,923**	99,109
Weighted average number of ordinary shares - diluted		
Weighted average number of ordinary shares (WANOS) on issue (000's) (i)(ii)	**428,939**	434,115
WANOS adjustment to reflect potential dilution for ROADS (000's) (iii)	**43,139**	42,299
WANOS used in the calculation of diluted EPS (000's)	**472,078**	476,414
Diluted earnings per share (cents per share)	**20.1**	20.8
Underlying diluted earnings per share (cents per share)	**21.2**	20.8

(i) The WANOS on issue has been adjusted by the weighted average effect of on-market share buy-back and the unvested Executive Incentive shares.

(ii) For diluted earnings 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 $191.1 million (2013: $184.2 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2014 to 31 December 2014 discounted by 2.5% according to the ROADS contract terms, which was $4.43 (December 2013: $4.36).

Note 6. Material associate entities

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

			Ownership interest	
		Country of	**31 Dec 2014**	31 Dec 2013
Name of entity	**Principal activity**	**operation**	**%**	%
Keolis Downer Pty Ltd	Holding company of KDR	Australia	**49**	49
KDR Gold Coast Pty Ltd	Operations and maintenance for Gold Coast Rapid Transit	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**	-

The Group is a 49% partner in Keolis Downer Pty Ltd, the ultimate parent entity of KDR Gold Coast Pty Ltd, KDR Victoria Pty Ltd and KDR Victoria Services 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 7. Intangible assets

December 2014	Consolidated			
$'000	Goodwill	Customer contracts/ relationships	Intellectual Property/ Software	Total
At 1 July 2014				
Cost	**597,589**	**-**	**158,514**	**756,103**
Accumulated amortisation and impairment	**(75,994)**	**-**	**(90,628)**	**(166,622)**
Net book value	**521,595**	**-**	**67,886**	**589,481**
Period ended 31 December 2014				
Purchases	**-**	**-**	**4,580**	**4,580**
Acquisition of businesses (Note 8)	**251,687**	**50,121**	**9,124**	**310,932**
Reclassifications at net book value [(i)]	**-**	**-**	**1,812**	**1,812**
Amortisation expense (Note 3(b))	**-**	**(1,642)**	**(8,003)**	**(9,645)**
Net foreign currency exchange differences at net book value	**1,067**	**-**	**413**	**1,480**
Closing net book value	**774,349**	**48,479**	**75,812**	**898,640**
At 31 December 2014				
Cost	**850,343**	**50,121**	**174,943**	**1,075,407**
Accumulated amortisation and impairment	**(75,994)**	**(1,642)**	**(99,131)**	**(176,767)**
Closing net book value	**774,349**	**48,479**	**75,812**	**898,640**

June 2014	Consolidated		
$'000	Goodwill	Intellectual Property / Software	Total
At 1 July 2013			
Cost	590,799	138,680	729,479
Accumulated amortisation	(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 8)	3,223	-	3,223
Disposal of businesses at net book value	-	(150)	(150)
Reclassifications at net book value [(i)]	-	10,386	10,386
Amortisation expense	-	(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

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

Note 8. Acquisition of businesses

December 2014

Tenix

On 31 October 2014, the Group acquired 100% of Tenix Holdings Australia Pty Ltd and its subsidiaries (Tenix) for $300 million on a cash and debt free basis. Adjusting for acquired cash, net working capital and other minor adjustments, the gross purchase consideration was $333 million. The principal activity of Tenix is to provide design, construction, fabrication and installation, operation and maintenance in the water, power and gas industries. Tenix is a leader in the electricity, gas and water sectors in Australia and New Zealand and the acquisition of Tenix is a strategic growth initiative for the Group.

(a) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at acquisition date:

	Note	Fair values $'000
Cash and other cash equivalents	8(c)	29,322
Trade and other receivables		90,956
Inventories		8,850
Other current assets		1,078
Property, plant and equipment		16,194
Intangible assets - software	7	9,124
Intangible assets - customer contracts and relationships	7	50,121
Net tax assets		1,217
Trade and other payables		(79,863)
Provisions		(38,771)
Borrowings		(411)
Total identifiable net assets acquired		87,817

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Asset acquired	Valuation technique
Trade and other receivables	Cost technique - considers the expected economic benefits receivable when due.
Property, plant and equipment	Market comparison technique and cost technique: the valuation model considers quoted market prices for similar items when available and depreciated replacement cost when appropriate.
Intangible assets	Multi-period excess earnings method: considered the present value of net cash flows expected to be generated by the customer contracts and relationships, excluding any cash flows related to contributory assets.
Trade and other payables	Cost technique - considers the expected economic outflow of resources when due.

The initial accounting and tax values for the acquisition of Tenix has been provisionally determined at the end of the reporting period. The tax values do not include any estimated tax liability on the acquisition of future deductible liabilities in accordance with announced but unenacted tax consolidation law changes. If new information is obtained within one year of the acquisition date about facts and circumstances that existed at the acquisition date, then the accounting for the acquisition will be revised.

Note 8. Acquisition of businesses - *continued*

(b) Goodwill

Goodwill arising from Tenix's acquisition has been recognised as follows:

	Note	$'000
Gross purchase consideration		333,000
Fair value of identifiable net assets acquired	8(a)	(87,817)
Goodwill arising from acquisition		245,183

The goodwill represents revenue growth opportunities, the skills and technical talent of Tenix's workforce and expected synergies to be achieved from integrating the company into the Group's existing business. 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 the acquisition is expected to be deductible for tax purposes.

(c) Purchase consideration - cash outflow

		$'000
Gross purchase consideration		333,000
Less: Cash balances acquired	8(a)	(29,322)
		303,678
Acquisition related costs		5,208
Outflow of cash - investing activities		308,886

(d) Impact of Tenix's acquisition on the result of the Group

In the two months to 31 December 2014, Tenix contributed revenue of $99.7 million and profit of $5.0 million to the Group's results. Acquisition related costs of $5.2 million are included in other expenses in the Group condensed consolidated statement of profit or loss.

Note 8. Acquisition of businesses - *continued*

VEC

On 31 October 2014, the Group acquired 100% of VEC Civil Engineering Pty Ltd and VEC Plant & Equipment Pty Ltd (collectively known as "VEC") for $11.8 million. The principal activity of VEC is to design and construct concrete structures. VEC is a leader in their field and is a new capability for the Group. The acquisition of VEC complements the existing Group's Tasmanian business and enhance the Group's integrated service capability.

Total consideration for this acquisition was $11.8 million, which includes a deferred consideration of $1.0 million. At the date of acquisition, the net asset value of VEC was $5.3 million, resulting in a $6.5 million goodwill being recognised. The goodwill represents future market development, expected revenue growth, technical talent and skills of VEC work force and benefit of expected synergies. 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.

Prior year

On 1 July 2013, the Group acquired the business of Scarriff Pipelines and business assets of Scarriff Construction (collectively known as “Scarriff”) for $4.0 million to provide a broader market offering of the Group's water maintenance services. The principal activity of Scarriff is to maintain pipelines.

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.

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2014

Note 9. Issued capital

	Consolidated	
	Dec 2014	June 2014
	$'000	$'000
Ordinary shares:		
432,683,214 ordinary shares (June 2014: 435,399,975)	**1,296,743**	1,308,395
Unvested executive incentive shares:		
5,989,302 ordinary shares (June 2014: 6,038,698)	**(28,949)**	(29,139)
200,000,000 Redeemable Optionally Adjustable		
Distributing Securities (ROADS) (June 2014: 200,000,000)	**178,603**	178,603
	1,446,397	1,457,859

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

	Consolidated			
	Dec 2014		June 2014	
Fully paid ordinary share capital	**000's**	**$'000**	000's	$'000
Balance at the beginning of the financial period/year	**435,400**	**1,308,395**	433,409	1,299,463
Issue of shares through Dividend Reinvestment Plan elections	**-**	**-**	1,991	8,932
Group on-market share buy-back	**(2,717)**	**(11,652)**	-	-
Balance at the end of financial period/year	**432,683**	**1,296,743**	435,400	1,308,395

	Consolidated			
	Dec 2014		June 2014	
Unvested executive incentive shares	**000's**	**$'000**	000's	$'000
Balance at the beginning of the financial period/year	**6,039**	**(29,139)**	6,039	(29,139)
Vested executive incentive shares transactions	**(50)**	**190**	-	-
Balance at the end of financial period/year	**5,989**	**(28,949)**	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.

	Consolidated			
Redeemable Optionally Adjustable Distributing	**Dec 2014**		June 2014	
Securities (ROADS)	**000's**	**$'000**	000's	$'000
Balance at the end of financial period/year	**200,000**	**178,603**	200,000	178,603

Notes to the condensed consolidated financial statements - *continued*
for the half-year ended 31 December 2014

Note 10. Borrowings

	Consolidated	
	Dec 2014	June 2014
	$'000	$'000
Current		
Secured - at amortised cost:		
- Finance lease liabilities	**14,180**	14,017
- Hire purchase liabilities	**7,319**	1,667
- Supplier finance	**-**	7,545
	21,499	23,229
Unsecured - at amortised cost:		
- Bank loans	**316,562**	16,562
- AUD medium term notes (2009-1)	**13,283**	13,283
- AUD medium term notes (2010-1)	**12,600**	12,600
- USD notes	**-**	74,357
- Deferred finance charges	**(2,398)**	(2,316)
	340,047	114,486
Total current borrowings	**361,546**	137,715
Non-current		
Secured - at amortised cost:		
- Finance lease liabilities	**33,669**	40,455
- Hire purchase liabilities	**1,482**	2,008
	35,151	42,463
Unsecured - at amortised cost:		
- Bank loans	**36,544**	44,825
- USD notes	**8,522**	7,436
- AUD medium term notes (2009-1)	**33,252**	39,894
- AUD medium term notes (2010-1)	**-**	6,300
- AUD medium term notes (2013-1)	**150,000**	150,000
- Deferred finance charges	**(4,335)**	(5,405)
	223,983	243,050
Total non-current borrowings	**259,134**	285,513
Total borrowings	**620,680**	423,228

Note 11. Financing facilities

Unutilised facilities

At 31 December 2014, the consolidated entity had the following facilities that were not utilised at balance date:

	Consolidated	
	Dec 2014	June 2014
	$'000	$'000
Syndicated bank loan facility	**400,000**	400,000
Bilateral bank loan and overdraft facilities	**212,000**	217,000
Total unutilised loan facilities	**612,000**	617,000
Bilateral bank and insurance company bonding facilities	**437,094**	384,187
Total unutilised bonding facilities	**437,094**	384,187

Bank loans

Syndicated bank loan facility

The syndicated loan facility, totalling $400.0 million, is unsecured and has a maturity date of April 2018. The facility has a 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 loan and overdraft facilities

These facilities are unsecured, are subject to certain Group guarantees and excluding those supported by guarantees from Export Credit Agencies, are due for renewal in multiple tranches in calendar years 2015 and 2016. Included in bank loans are amounts of $53.1million 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.

Bank bridge loan facility

The Group arranged a facility of $300.0 million to fund the acquisition of the Tenix Group. It is fully drawn, has a maturity date of October 2015 and is expected to be refinanced through long term funding markets. The facility is subject to certain Group guarantees.

USD Notes

USD unsecured private placement notes are on issue for a total amount of US$7.0 million. The notes mature in September 2019. The USD principal and interest have been fully hedged against the Australian dollar. The notes are subject to certain Group guarantees.

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 $46.5 million; Series 2010-1 amortises through even semi-annual instalments until the final maturity date of September 2015 and has a balance of $12.6 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 and have a weighted average of 5.2% per annum (June 2014: 6.0% per annum).

Hire purchase and lease facilities

Hire purchase facilities are secured by the specific assets financed.

Note 11. 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 31 December 2014.

Bonding
The Group has $1,349.4 million of bank guarantee and insurance bond facilities to support its contracting activities. $556.6 million of these facilities are provided to the Group on a committed basis and $792.8 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.

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. $912.3 million of these facilities were utilised as at 31 December 2014 with $437.1 million unutilised. $62.7 million of the current committed facilities relates to a non-revolving syndicated bonding facility referable to the Waratah Train Project which matures in March 2016 and is fully utilised. Excluding this syndicated facility, the Group's other facilities have varying maturity dates during 2015 and 2016.

The risk being assumed by the relevant financier under all 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 financial metrics, credit rating, state of the economy, conditions in financial markets and other factors may influence the outcome of those negotiations.

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

Note 12. Contingent liabilities

	Consolidated	
	December 2014 $'000	June 2014 $'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	**912,295**	897,794

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 "leaky building" claims in New Zealand. The leaky building claims where Group entities are co-defendants generally relate to water damage due to historical design and construction methodologies (and certification) for residential and other buildings in New Zealand during the late 1990s and early-mid 2000s. The Directors are of the opinion that disclosure of any further information relating to the leaky building claims would be prejudicial to the interests of the Group.

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

Note 12. Contingent liabilities - *continued*

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. based on the same events 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 claims 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 advisors for the project. Based on currently available information, the Directors are of the view that there is no material exposure to Snowden. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

x) 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 13. Subsequent events

At the date of this report there is no matter or circumstance that has arisen since 31 December 2014 that has significantly affected, or may significantly affect:

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

Directors' Declaration
for the half-year ended 31 December 2014

In the opinion of the Directors of Downer EDI Limited:

1 the condensed consolidated financial statements and notes set out on pages 14 to 41, are in accordance with the Corporations Act 2001 including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the six month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

On behalf of the Directors

R M Harding
Chairman

Sydney, 5 February 2015