



Downer

ANNUAL REVIEW **2011**

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DOWNER OVERVIEW

DOWNER PROVIDES COMPREHENSIVE ENGINEERING AND INFRASTRUCTURE MANAGEMENT SERVICES TO ITS CUSTOMERS IN AUSTRALIA, NEW ZEALAND, THE ASIA-PACIFIC REGION, SOUTH AMERICA, SOUTH AFRICA AND THE UNITED KINGDOM. DOWNER DESIGNS, CONSTRUCTS AND MAINTAINS THE BEST SOLUTIONS FOR ITS CUSTOMERS WHILE FOCUSING ON THE SAFETY OF ITS EMPLOYEES AND THE SUSTAINABILITY OF THE ENVIRONMENT AND THE COMMUNITIES IN WHICH IT OPERATES. DOWNER EMPLOYS OVER 20,000 PEOPLE AND IS COMMITTED TO ITS GOAL OF ZERO HARM.



DOWNER AUSTRALIA

Downer Australia provides integrated solutions to support the critical infrastructure needs of customers in the core markets of Minerals & Metals, Oil & Gas, Power, Transport Infrastructure, Water, Communications and Property.

04



DOWNER MINING

Downer is one of Australia's leading diversified mining contractors, with over 3,500 employees working across more than 50 sites in Australia, New Zealand, Papua New Guinea, South America and South Africa.

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DOWNER NEW ZEALAND

Downer is one of New Zealand's largest transport, water, communications and renewable energy infrastructure service providers and is often referred to as the country's fourth emergency service.

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DOWNER RAIL

Downer is the leading provider and maintainer of freight and passenger rolling stock in Australia, operating three engineering design centres, four manufacturing plants and over 20 maintenance facilities.

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ENVIRONMENTAL SUSTAINABILITY

Downer is committed to minimising the impact its business has on the environment and the communities in which we operate. Downer has been included in the Carbon Disclosure Leadership Index for the second year in a row.

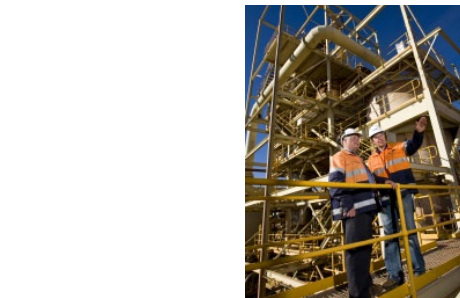
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OUR PEOPLE

Downer employs over 20,000 people who deliver results for our customers, the communities in which we operate and each other. Downer is committed to ensuring that we have a diverse and inclusive workforce.

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SAFETY

Downer is committed to sustaining a work environment which supports the health and safety of our people. Our objective is to equip our people with the systems, knowledge and support networks that they require to work more safely and efficiently.

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CEO'S REPORT

The 2011 financial year has been one of rebuilding and transformation for Downer.

Our underlying business reported total revenue of \$7.0 billion and earnings before interest and tax (EBIT) of \$292.2 million. This was a solid performance achieved despite severe wet weather conditions, particularly in Eastern Australia, intense competition and the cost of maintaining capacity in relation to delayed projects. In addition, there was lower government expenditure on road and rail infrastructure maintenance in both Australia and New Zealand and ongoing tough economic conditions in New Zealand, compounded by the major earthquakes that struck the Canterbury region in September 2010 and February 2011.

Despite these difficult conditions, Downer's businesses continued to win new contracts and secure contract renewals during the year. Further details of these contract wins are provided in the divisional sections of this Annual Review. Overall, the Group won about \$7 billion of new work and renewals, and work-in-hand is now about \$20 billion. This strong performance highlights the fact that Downer continues to deliver for its customers.

It was extremely disappointing to announce an additional pre-tax provision of \$250 million in respect of the Waratah train project, which was the main reason statutory EBIT was \$25.7 million. However, Downer made substantial progress during the year in turning the business around and addressing various challenges within the business.

Very good progress was made on the Waratah train project including recruitment of a new project team with experience in large and complex rolling stock projects, implementation of a revised production and delivery schedule, and delivery of the first two Waratah trains to RailCorp. The first Waratah train entered passenger service on 1 July 2011 and is performing well.

The Group's tender and project risk management processes were overhauled during the year and management capability was strengthened with a number of senior executive appointments.

Following a review of our business portfolio, the Australian Works, Engineering, Emerging Sectors and CPG Resources businesses were combined into one division, Downer Australia. This important change was made in order to organise the business around key customers and markets with an increased focus on business development.

Downer Group now consists of four divisions – Downer Australia, Downer New Zealand, Downer Mining and Downer Rail – and this Annual Review follows our new organisational structure.

Over \$55 million in cost savings were achieved during the year by driving a range of Fit 4 Business initiatives. Fit 4 Business is a five year program, launched in August 2010, which is targeting \$250 million in savings across the Group.

Importantly, Downer maintained its industry leading safety performance, with continuing improvement in both Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR). LTIFR for the year was 0.93 per million hours worked and TRIFR was 11.8% lower at 7.17 per million hours worked.

The health and safety of our people is paramount at Downer and Zero Harm, which includes minimising the impact Downer's business has on the environment, is embedded in our culture and fundamental to our future success.

I would like to thank all our people for their hard work and commitment during the year.

In the year ahead, Downer will continue to drive transformation across the Group. Our priorities are to deliver the Waratah train project within the revised program, deliver other existing projects across the Group, drive growth in core markets with key customers, focus intensely on risk management and improve project management capability. We will also seek to further simplify and enable our business.

Downer has work-in-hand of around \$20 billion, is strongly aligned to the resources and energy sectors and is well placed to capitalise on the pipeline of opportunities driven by these markets. We will continue transforming Downer to optimise these opportunities.

DOWNER PERFORMED SOLIDLY DURING THE YEAR DESPITE FACING NUMEROUS CHALLENGES. IMPORTANTLY, WE MAINTAINED OUR INDUSTRY LEADING SAFETY PERFORMANCE. I AM POSITIVE ABOUT OUR FUTURE BECAUSE WE HAVE WORK-IN-HAND OF \$20 BILLION, WE ARE STRONGLY ALIGNED TO THE RESOURCES AND ENERGY SECTORS AND WE ARE WELL PLACED TO CAPITALISE ON A LARGE PIPELINE OF ATTRACTIVE OPPORTUNITIES.



GRANT FENN, CEO AND MANAGING DIRECTOR

WORK-IN-HAND
\$20.0B

REVENUE
\$7.0B



DOWNER AUSTRALIA

REVENUE

\$3.2B

WORK-IN-HAND

\$4.8B

EMPLOYEES

>10,000



CASE STUDY

In May 2011, Downer successfully delivered a coal handling and preparation plant (CHPP) for Xstrata Coal at Mangoola in the Hunter Valley, New South Wales (pictured above). The contract included civil, structural, mechanical and process work as well as electrical, instrumentation and control.

In July 2011, Downer announced it had secured a contract with Xstrata Coal for the development of a CHPP at the Ravensworth North Coal Project in the Hunter Valley. Downer's design and engineering team had been working on this project for more than two years, assisting with its development from the concept stage.

Downer has a strong relationship with Xstrata Coal, providing services at its Mount Owen and Lidell mines, as well as Mangoola and now Ravensworth North.





DOWNER AUSTRALIA PROVIDES ELECTRICAL AND INSTRUMENTATION WORK FOR WOODSIDE PETROLEUM'S PLUTO LNG PROJECT IN THE PILBARA REGION OF WESTERN AUSTRALIA. IN AUSTRALIA, DOWNER IS THE CLEAR MARKET LEADER IN THE ELECTRICAL AND INSTRUMENTATION FIELD. THE PLUTO LNG PROJECT PROCESSES GAS FROM THE PLUTO AND XENA GAS FIELDS LOCATED IN THE CARNARVON BASIN ABOUT 190 KILOMETRES NORTH-WEST OF KARRATHA. THE VALUE OF THE WORK PROVIDED BY DOWNER SINCE LATE 2009 EXCEEDS \$100 MILLION.

On 22 February 2011, Downer announced that its Australian Works, Engineering, Emerging Sectors and CPG Resources businesses would be combined into one division, Downer Australia.

The establishment of Downer Australia is a significant change for the company because it involves organising our business around key customers and markets. Customers are increasingly asking for integrated, national solutions for their infrastructure needs and the establishment of Downer Australia allows us to provide these solutions.

Downer Australia is the Group's largest division, contributing about half of total revenue. It has significant scale, providing a strong platform for growth and also for servicing our customers including large blue-chip companies, State Government departments and more than 350 local government authorities.

Downer Australia provides integrated solutions to support the critical infrastructure needs of customers in the core markets of Minerals & Metals, Oil & Gas, Power, Transport Infrastructure, Water, Communications and Property.

For **Minerals & Metals** and **Oil & Gas** customers, we offer comprehensive engineering and construction services that support the asset life cycle from concept, design and planning through to construction, operation and maintenance. Our customers include BHP Billiton, Rio Tinto, Xstrata, Wesfarmers, Woodside and Fortescue Metals Group.

These services are supported by our mechanical, electrical, instrumentation and technical capabilities. In the electrical and instrumentation field, Downer is by far the largest industrial contractor in Australia and the clear market leader.

Our services are complemented by high quality procurement and products developed in fabrication workshops located throughout Australia.

In June 2011, Downer secured a contract with OneSteel Manufacturing Pty Ltd to construct an iron ore beneficiation plant in Iron Baron, South Australia. The contract is for the design, procurement, construction and commissioning of all process equipment as well as site preparation and civil works.

In July 2011, Downer won a contract with Xstrata Coal for the development of a coal handling and preparation plant (CHPP) at the Ravensworth North Coal Project in New South Wales. Downer successfully delivered the Mangoola CHPP for Xstrata in May 2011. The Ravensworth North contract has a total value of more than \$400 million and the scope of work includes the design, procurement, construction and commissioning of the CHPP as well as low voltage power supply and reticulation and high voltage transmission supply and relocation.

In the **Power** sector, we provide a complete engineering, procurement, and construction service for transmission lines, sub-station developments and renewable development for customers including Transgrid and Powerlink.

For **Transport Infrastructure** customers, we offer one of the largest non-government owned road and rail services business in Australia, operating from a national network of over 50 depots and maintaining more than 40,000 kilometres of road and 2,800 kilometres of rail.

Downer is a leading producer of asphalt in Australia, owning and operating more than 30 asphalt plants to produce and supply asphalt for many road construction and maintenance projects. Customers include The Roads and Traffic Authority (New South Wales), Main Roads WA, Queensland TMR and Vic Roads.

During the year, Downer and its joint venture partner Mouchel secured three Integrated Service Arrangements (ISAs) with Main Roads Western Australia for the delivery of fence-to-fence road network asset management over a total of 6,600 road kilometres.

Downer also won a contract with Australian Rail Track Corporation to undertake rail upgrade work as part of the Federal Government's Nation Building Rail Investment. This includes track duplication projects across New South Wales and Victoria, re-railing of track on the north-south corridor between Albury and Geelong, signalling separation work between Enfield and Port Botany (New South Wales), and upgrade of rail lines at Geelong Port and Altona (Victoria).

On 29 June 2011, Downer won a contract for work at Rio Tinto Iron Ore's Warramboe infrastructure project in Western Australia valued at more than \$50 million. The contract involves earthworks, concrete works, road surfacing and bridge construction, electrical and communication works, as well as a diversion of the North West Highway near Warramboe.

For public sector and industrial **Water** customers we provide design and construction, operations and maintenance services for water and waste water infrastructure. Our customers include Water Corp WA and SA Water.

In the **Communications** sector we build, operate and maintain network and wireless infrastructure for customers including Foxtel and Telstra.

In the **Property** sector we support the building infrastructure development, installation and facility management of these assets for customers including Coles, ANZ and Landcorp WA.

DOWNER NEW ZEALAND

REVENUE

\$852.4M

WORK-IN-HAND

\$2.6B

EMPLOYEES

4,500



CASE STUDY

During 2011, Downer New Zealand's executive team experienced cultural training to increase their knowledge and understanding of marae and cultural protocols.

Downer New Zealand is also involved in a number of Maori leadership and cadet programs. This includes the Te Puni Kokiri Scholarships which recognise Maori leadership and technical capability within civil engineering.

For the past three years, young Downer Maori cadets have been distinguished by receiving these NZ\$10,000 scholarships. In 2009, Downer cadets won two out of two scholarships awarded, in 2010 Downer won six of the 10 scholarships and in 2011 Downer won two out of four scholarships.



DOWNER PLAYS AN INTEGRAL ROLE KEEPING NEW ZEALAND'S ESSENTIAL INFRASTRUCTURE RUNNING AND WE ARE OFTEN REFERRED TO AS THE COUNTRY'S FOURTH EMERGENCY SERVICE. DOWNER NEW ZEALAND HAS OVER 4,500 EMPLOYEES WITH EXPERTISE IN THE TRANSPORT, WATER AND TELECOMMUNICATIONS SECTORS AND THIS ALLOWS US TO SUPPORT AND PROTECT COMMUNITIES ACROSS THE COUNTRY. DOWNER IS NEW ZEALAND'S LEADING WINTER MAINTENANCE SERVICE PROVIDER.



Downer began business in New Zealand in 1870 with the formation of the Public Works Department. Since this time, we have built the majority of the country's roads, rail lines, telecommunications and hydroelectric schemes and provided vital infrastructure support to our customers and local communities.

Today, Downer employs over 4,500 people in more than 30 towns and cities and has become one of New Zealand's largest transport, water, communications and renewable energy infrastructure service providers. Downer New Zealand is often referred to as the country's fourth emergency service.

Downer New Zealand's customers include the New Zealand Transport Agency, Auckland City, local authorities across the country, Telecom New Zealand, Chorus and KiwiRail.

New Zealand experienced very difficult economic conditions during the year, with intense competition and discounting putting pressure on margins. There has been a significant reduction in expenditure by central and local governments.

On 4 September 2010, an earthquake struck the Canterbury region on New Zealand's South Island causing substantial damage, particularly in Christchurch, the country's second largest city. On 22 February 2011, another severe earthquake struck the Canterbury region, killing 181 people and again causing widespread damage.

Both these earthquakes, and particularly the later earthquake, placed further pressure on maintenance and infrastructure expenditure across New Zealand. This is because Government spending was reallocated and other customers froze expenditure as they assessed the impact of the earthquake.

On 3 May 2011, Downer and four other contractors signed an interim alliance agreement with the Christchurch Earthquake Recovery Authority, New Zealand Transport Agency and Christchurch City Council for the rebuilding of earthquake-damaged infrastructure in Christchurch. The agreement covers the rebuilding of city roads, sewerage, water supply pipes and parks damaged in the earthquakes and is expected to undertake works valued at more than NZ\$2 billion over five years.

In these difficult conditions, Downer New Zealand secured a number of contracts during the year, including:

- The NZ\$60 million Hamilton Ring Road project which is part of Access Hamilton, a series of initiatives to create a safe, sustainable, integrated transport system for the city of Hamilton; and
- Runway rehabilitation works at Cassidy Airport in Kiribati.

Downer New Zealand also completed a number of major projects during the year, including:

- The Vanuatu Transportation Infrastructure Project, a US\$60 million aid project that is having a huge impact on Vanuatu's ability to sustain growth and reduce poverty through improved infrastructure;
- The award-winning Ruby Bay Bypass, a 10.7 kilometre greenfield highway project for the New Zealand Transport Agency; and
- The Matahorua Gorge Realignment Project, involving the design and construction of 3.1 kilometres of new State Highway and two new bridges for the New Zealand Transport Agency. One of these bridges is 137 metres long, crossing the 60 metre deep gorge.

Downer New Zealand's telecommunications business offers a diverse range of services to its customers at a national and regional level.

The telecommunications team includes over 1,000 field technicians who provide mobile and fixed line services including planning and design; project management and deployment; asset management; procurement; and warehouse, build, maintain and provisioning.

These services are supported by a 24-hour, seven-day-a-week Service Management Centre that manages over 450,000 requests each year.

Downer New Zealand also provides end-to-end management and implementation of national telecommunication services (including Antarctica and the Chatham Islands) for major projects including:

- Fibre to the Node, Ultrafast Broadband Initiative and Rural Broadband Initiative for Telecom New Zealand;
- DOCSIS 3 and High Definition Personal Video Recorder for TelstraClear;
- Mobile build and maintenance for Telecom New Zealand and Vodafone;
- Winter and summer technicians for Antarctic NZ;
- National maritime distress radio network for Maritime NZ; and
- National Radio Trunk Network for TeamTalk.

Downer New Zealand is investing in training and innovation to ensure its telecommunications skill set and capability remain at a premium level and it can move with its customers into future technologies and advanced solution design.

DOWNER MINING



Downer Mining has been successfully delivering contract mining and civil earthmoving services to customers around the world for almost 90 years. It is now one of Australia's leading diversified mining contractors, with around 3,500 employees working across more than 50 sites in Australia, New Zealand, Papua New Guinea, South America and South Africa.

Our customers include AngloGold Ashanti, BHP Billiton, BHP Billiton Mitsubishi Alliance (BMA), Codelco, Fortescue Metals Group, Idemitsu Australia Resources, Ok Tedi Mining, Peabody Energy Australia, Rio Tinto, Solid Energy, TRUenergy and Wesfarmers Resources.

Downer Mining supports its customers at all stages of the mining life cycle, with a wide range of services including:

- Open-cut mining and underground mining;
- Drill and blast services (through subsidiary Downer Blasting Services), including explosives manufacture and supply;
- Exploration drilling;
- Crushing;
- Tyre management (through subsidiaries Otraco International and Rimtec);
- Mobile plant maintenance;
- Mine planning and design;
- Construction of mine-related infrastructure; and
- Land rehabilitation.

Downer Mining experienced a year of significant growth, while maintaining its overarching focus on the continuous improvement of its Zero Harm performance. Consequently its Lost Time Injury Frequency Rate and Total Recordable Injury Frequency Rate reduced by 17 per cent and 15 per cent respectively.

Downer Mining performed very well during the year driven by continuing strong demand for contract mining services. Revenue was \$1.5 billion, 50.6% higher than last year and EBIT was 75.4% higher at \$119.6 million.

This strong performance was driven by a number of large contract wins and renewals, in particular:

- A six-year contract, awarded in August 2010 and valued at approximately \$3 billion, with Fortescue Metals Group Limited for the provision of mining services at its Christmas Creek operation in the East Pilbara region of Western Australia. The Christmas Creek contract is one of the largest mining services contracts of its type in Australia; and

- Five-year extension and expansion contracts, awarded in July 2010, with BMA at Goonyella Riverside and Norwich Park Mines in the Bowen Basin, Central Queensland. The contracts, jointly valued at approximately \$2 billion, are for load and haul of prestrip material and drill and blast services at Goonyella Riverside Mine, and for load and haul of prestrip material at Norwich Park Mine.

All these major projects are making good progress.

In addition, in December 2010 Downer Mining signed a five-year mining service agreement with Idemitsu Australia Resources for the provision of mining services at Boggabri open-cut coal mine in the Gunnedah Basin, New South Wales.

This expanded contract starts in December 2011 and will continue the company's involvement at Boggabri to over a decade. Services provided will include drill and blast, mine planning, and load and haul of both overburden and coal. The value of the contract revenue will depend on the mine's production output, which has yet to be finalised. The base case values revenue at approximately \$900 million over the duration of the contract.

Downer Blasting Services and Otraco International (Downer's tyre and haul road management business), also won new contracts and contract extensions during the year.

Downer Mining will continue to focus on extending and expanding its existing footprint and growing its blasting and tyre management services.

On 10 June 2011, Downer Mining won the Queensland Premier's Corporate ClimateSmart Sustainability Award for demonstrating it is at the forefront of understanding and tackling minerals industry sustainability challenges and opportunities.

Downer Mining's environmental achievements include:

- Being the largest consumer of B20 biodiesel in Australia;
- Innovation leadership in developing the Downer Energy and Emissions Measure for measuring, comparing and improving fuel efficiency, energy efficiency and greenhouse gas emissions reductions within and between mine types and projects;
- Pioneering work in calculating open-cut, mine-site-specific fugitive methane emissions; and
- Its approach to promoting collaboration and developing partnerships with universities, research organisations and government departments.

DOWNER MINING IS COMMITTED TO BEING AN ACTIVE PART OF THE SOLUTION TO CLIMATE CHANGE THROUGH DELIVERING SIGNIFICANT EMISSION REDUCTIONS FOR ITS CUSTOMERS' MINING OPERATIONS. ITS INDUSTRY-LEADING PERFORMANCE IN THIS AREA INCLUDES BEING THE LARGEST CONSUMER OF B20 BIODIESEL IN THE AUSTRALIAN MINING INDUSTRY, WHICH REDUCES ITS CONSUMPTION OF TRADITIONAL FOSSIL FUELS. DOWNER MINING WON THE 2011 QUEENSLAND PREMIER'S CORPORATE CLIMATESMART SUSTAINABILITY AWARD FOR DEMONSTRATING IT IS AT THE FOREFRONT OF UNDERSTANDING AND TACKLING MINERALS INDUSTRY SUSTAINABILITY CHALLENGES AND OPPORTUNITIES.

REVENUE

\$1.5B

WORK-IN-HAND

\$7.5B

EMPLOYEES

3,500



CASE STUDY

Downer Mining is proud of its success in implementing indigenous employment programs. We recruited a further 90 indigenous people during this year and 16 per cent of the Downer Mining workforce in Western Australia is now indigenous.

Downer is involved in a successful partnership with Fortescue Metals Group, the Federal Department of Employment Education, the Australian Children's Trust and Kimberley TAFE to provide training for members of the Fitzroy Crossing community who work at the Christmas Creek mine. The first 11 recruits started on site in December last year and a further 24 recruits graduated in May. This partnership demonstrates what can be achieved when industry, government and the community work hand in hand with a common goal.



DOWNER RAIL

REVENUE

\$1.1B

WORK-IN-HAND

\$5.2B

EMPLOYEES

2,500



CASE STUDY

In October 2010, Downer was awarded a contract to expand and upgrade Queensland Rail's fleet of high speed passenger Tilt Trains that service the Cairns to Brisbane rail corridor. Downer has previously built Tilt Trains for Queensland Rail and has been a supplier to, and partner with, Queensland Rail for over three decades.

Under the new contract, Downer Rail will rely on these foundations to design and build a next generation diesel Tilt Train consisting of two power cars and 12 carriages. These new trains and carriages will incorporate Queensland Rail's stringent safety standards and provide passengers with a new standard in long distance rail travel.

The new trains and carriages will feature sleeper cars with personal ensembles, first class sifter cars with lay flat seats, a restaurant car, first class and club lounges, and economy sifter cars.





DOWNER RAIL HAS OVER 100 YEARS' EXPERIENCE AND IS THE LEADING PROVIDER AND MAINTAINER OF FREIGHT AND PASSENGER ROLLING STOCK IN AUSTRALIA. DOWNER RAIL OPERATES THREE ENGINEERING DESIGN CENTRES, FOUR MANUFACTURING PLANTS AND OVER 20 MAINTENANCE FACILITIES IN AUSTRALIA. TOGETHER WITH ITS KEY TECHNOLOGY PARTNERS, DOWNER RAIL PROVIDES WHOLE-OF-LIFE ASSET MANAGEMENT SOLUTIONS FOR ITS CUSTOMERS WITH A FOCUS ON ZERO HARM.

Strong demand for resources, particularly coal and iron ore, is driving demand for Downer Rail's narrow and standard gauge locomotives. Downer has supplied over 60 per cent of the locomotives operating in Australia today to customers including QR National, Pacific National, BHP Billiton, Genesee & Wyoming and SCT Logistics.

Downer is also a leading provider and maintainer of passenger rolling stock, with State Government customers including Western Australia's Public Transport Authority, Queensland Rail and RailCorp (NSW).

Downer Rail's revenue for the year was \$1.1 billion, 7.9% higher than last year. Excluding the Waratah train project, revenue rose by 19.9% to \$928.6 million. EBIT was down 3.7% to \$75.0 million.

At 30 June 2011, Downer Rail had work-in-hand worth \$5.2 billion. During the year, Downer Rail secured:

- A contract valued at approximately \$190 million to expand and upgrade QR's fleet of high speed passenger diesel Tilt Trains that service the Brisbane to Cairns rail corridor. The vehicles will be delivered progressively from April 2013;
- An order for 13 new standard gauge diesel electric locomotives to support Pacific National's coal haulage services in NSW. The fleet will be delivered progressively between mid-2011 and mid-2012 and Downer will maintain these locomotives;
- An order for seven new standard gauge diesel electric locomotives for Genesee & Wyoming. The locomotives will be delivered in the fourth quarter of 2011 and Downer will maintain these locomotives for GWA; and
- A contract extension for four new narrow gauge diesel electric locomotives to support Pacific National's coal haulage services in Queensland. These locomotives will be delivered in the second quarter of 2012 and be maintained by Downer.

In addition, Downer (through a joint venture with Keolis), was a member of the GoldLinQ Consortium that was the successful proponent for the Gold Coast Rapid Transport Project.

Since 30 June 2011, Downer Rail has been awarded:

- A contract, through a 50:50 joint venture with Bombardier Transportation Australia (Bombardier), with PTA for the supply of 15, three-car, single-deck electric trains to grow the PTA's existing B Series fleet. The value of the contract is more than \$160 million, of which Downer's share is over \$80 million;
- A contract, through its 50:50 joint venture with Bombardier, that extends the maintenance work it has been providing to PTA to cover all PTA's suburban fleet. The contract is for seven and a half years with an option to extend for an additional seven and a half years. The value of the seven and a half year contract is more than \$285 million, with Downer's share exceeding \$140 million.

WARATAH TRAIN PROJECT

The Waratah Train Project is the largest rolling stock procurement project ever undertaken in Australia. It includes three elements:

1. Designing, building and commissioning the Auburn Maintenance Centre;
2. Designing, building and commissioning 78 eight-car train sets for use on the Sydney rail network; and
3. Maintaining all 78 train sets as part of a 30-year Through-Life-Support contract.

The Auburn Maintenance Centre was completed in June 2010. The first Waratah train entered passenger service on 1 July 2011 and is performing well. The second Waratah train achieved Practical Completion on 23 August 2011.

The Waratah trains are a major advance for passengers and crew with their smart technology, advanced safety and security, and improved comfort and accessibility.

The 78th Waratah train set is scheduled to enter passenger service in 2014.

OUR PEOPLE



CASE STUDY

At Downer, we are committed to providing equal opportunities for all our people and ensuring that we have a diverse and inclusive workforce. This not only meets the expectations of our shareholders and the broader community, it is good for business.

Female employees made up about 15% of the Downer workforce this year, which is consistent with last year. To optimise the number of males and females in our workforce we are undertaking a review of recruitment practices and policies with the aim of placing a stronger focus on attracting females to apply for key positions across the Group.

During the year, Downer took a number of steps to improve the diversity of our workforce, including:

- Establishing the Downer Diversity Committee;
- Introducing a Group-wide Diversity and Inclusiveness Policy; and
- Introducing paid parental leave from July 2011.



SUPPORTING THE NATIONAL BREAST CANCER FOUNDATION

On 23 March 2011, National Breast Cancer Foundation (NBCF) ambassador Fiona Welsh launched a pink haul truck at Norwich Park Coal Mine near Dysart in Central Queensland, to remind the mine's employees and their families to support breast cancer research.

The truck's tray is bright pink – the colour that has become widely linked to the breast cancer cause – making it stand out from the yellow trucks that comprise the rest of the fleet.

The initiative was supported by the mine owner BMA Coal, Downer Mining (which owns the Caterpillar 793F truck), and Duratray International, the manufacturer of the truck's tray.

Carole Renouf, the Chief Executive Officer of NBCF said: "It's wonderful to see a traditionally male-dominated industry like mining get behind the breast cancer cause. It's a testament to the fact when someone is diagnosed with breast cancer the lives of their loved ones are also directly affected. The pink truck will go a long way to helping us highlight to rural and remote communities the importance of being breast cancer aware and also of funding breast cancer research."

OUR PEOPLE

Downer employs over 20,000 people in Australia, New Zealand, the Asia-Pacific region and internationally. Our people are our greatest assets, because they deliver results for our customers, the communities in which we operate and each other.

At Downer, we value people who:

- Work in collaboration with others in our organisation and take pride in the achievements of the team;
- Strive for improvement and innovation, and have the courage to think and actively contribute new initiatives that benefit Downer overall;
- Demonstrate integrity and responsibility through honest, respectful and transparent communication;
- Strive for excellence in achieving their goals through strong leadership and commitment to the job at hand; and
- Act with responsibility and accountability for the care and protection of their peers, the business, the communities in which we operate, and the environment.

Downer operates in a labour market where there is great competition for some of our most needed skills. Our People strategy focuses on the recruitment, retention and development of the talented people needed to ensure our ongoing objectives.

The Downer Leadership Program is a values-based course that is available to everyone at Downer. It offers a dynamic learning experience combined with networking opportunities for our people. Since March 2010, more than 200 people have undertaken the course in Australia, New Zealand, Singapore and Vietnam.

The evolution of our cadet, graduate and apprenticeship development programs continues to be a high priority because these programs provide much needed skills for our future.

Downer's Port Augusta Rail facility was named the best 'Employer of Australian Apprentices' in regional South Australia at the 2010 Minister's Award for Excellence. More than 23 of Port Augusta's 190 employees are apprentices and the award recognised Downer as an organisation which demonstrates commitment, innovation and outstanding achievement in the training of Australian apprentices.

DIVERSITY AND INCLUSIVENESS

Downer is committed to ensuring that we have a diverse and inclusive workforce which fulfils our employees', customers', and shareholders' expectations while building a sustainable future for our business.

At Downer, diversity and inclusiveness means recognising and embracing individual differences in our workforce including gender, age, ethnic and cultural background and physical ability.

Diversity and inclusiveness are important to our recruitment process and to the development of our talent. However, diversity and inclusiveness are also important in many other areas of our day to day business and help to ensure a culture which respects differences and is intolerant to behaviours which are non-inclusive.

Downer has certain strategic priorities which arise from the current and emerging needs of our workforce and business. Given our current demographics and business needs, Downer's focus will be in the following three areas: gender; age; and culture.

During the year, Downer introduced a Group-wide Diversity and Inclusiveness Policy and took a number of other steps to improve the diversity of its workforce. This includes the introduction of a new paid parental leave policy for Australia and improved parental leave benefits in New Zealand. The approach in each country takes into account Government paid parental leave schemes and market practice. These are important steps in building a 'family-friendly' environment at Downer. We want to increase employee loyalty and promote higher retention rates by providing additional support for primary care givers and their families.

SUPPORTING INDIGENOUS COMMUNITIES

Downer understands the importance of contributing to the development and sustainability of regional economies through job creation, and wherever possible the procurement of local goods and services. This is particularly the case with regard to indigenous communities. Because of the locations in which we operate, we are well-placed to provide these communities with opportunities for economic participation through employment and skills development. We also encourage contribution to the communities where our projects are based through involvement in local community groups, schools and events. Our community support program gives preference to local initiatives that reflect our organisational values.

In Australia, we employed over 90 new indigenous employees during the 2011 financial year and 16 per cent of the Downer Mining workforce in Western Australia is now indigenous. We are involved in a very successful partnership with Fortescue Metals Group, the Federal Department of Employment Education, the Australian Children's Trust and Kimberley TAFE to provide training for members of the Fitzroy Crossing community who work at Fortescue's Christmas Creek mine. The first 11 recruits started on site in December 2010 and a further 24 recruits graduated in May 2011.

ENVIRONMENTAL SUSTAINABILITY



CARBON DISCLOSURE LEADERSHIP INDEX

Downer has been included in the Carbon Disclosure Leadership Index (Australia and New Zealand) for the second year running and is the only contracting organisation listed in the index.

The Carbon Disclosure Project (CDP) is an independent not-for-profit organisation sponsored by governments and major investment institutions. It was established in 2000 to accelerate solutions to climate change by putting relevant information at the heart of business, policy and investment decisions.

About 3,000 organisations in over 60 countries around the world now measure and disclose their greenhouse gas emissions and climate change strategies through the CDP.

The CDP assessment covers four areas: strategy, governance, stakeholder communications and performance. Companies scoring over 70% are included in the Carbon Disclosure Leadership Index.

OUR APPROACH

Understanding and managing our environmental impacts throughout the lifecycle of our products and services is fundamental to our long-term business success. We believe that our ability to manage these impacts, and to identify opportunities to assist our clients to do the same, will deliver long term environmental benefits for all.

Effective management of environmental risk is fundamental to the way we do business and embedded into our overall risk management processes. We are committed to the development of robust environmental management systems which are developed in accordance with the requirements of AS/NZS ISO 14001:2004 and place an emphasis on effective control and continual improvement. Our objective is to achieve an appropriate balance between economic and environmental sustainability outcomes.

Raising awareness of environmental issues is a key factor in facilitating behaviour change towards more sustainable practices and fostering the development of innovative solutions. Environmental advocacy has been the focus of our environmental network over the past year which culminated in the inaugural Downer Environment Week being launched in June 2011 to coincide with World Environment Day. The purpose of the event was to raise awareness of key environmental issues and challenges, and inspire and motivate individuals and work teams to take positive steps towards sustainability and environmental excellence in their homes, communities and workplaces.

CLIMATE CHANGE

We recognise that climate change presents a serious challenge to business, society and the natural environment. We are committed to participating in climate change solutions by developing processes and technology to reduce our emissions and overall energy consumption. We also embrace the opportunity to assist our customers to manage the challenges that climate change represents for the global community.

Each of our divisions is required to develop and implement resource efficiency plans which detail objectives and targets for the reduction of energy consumption, greenhouse gas (GHG) emissions, water consumption and waste generation. We are also developing key performance indicators for environmental parameters that are related to specific business or financial metrics. These will provide our people with information relating to the eco-efficiency of their products, services or process.

As Australia transitions to a carbon-constrained marketplace, the growth of our sustainable development platform will continue to be a key differentiator for us. Fundamental to this is our position as one of the largest and most experienced electrical service providers in the renewable energy market, our sustainable asphalt products and our award-winning methods for cost-effectively reducing our mining customers' exposure to climate change through the delivery of robust commercial and practical solutions for GHG emissions management and increasing energy efficiency.



DOWNER NEW ZEALAND WINS 2011 GREEN RIBBON AWARD – ENVIRONMENTALLY RESPONSIBLE LARGE ORGANISATION CATEGORY

The Green Ribbon Awards are presented by the Minister for the Environment to recognise the outstanding contributions of individuals, organisations, businesses and communities to protecting and enhancing New Zealand's environment.

Downer New Zealand received the award for setting an example in environmental responsibility by implementing a wide ranging environmental sustainability program across our operations. Our initiatives focus on education, reduced resource use, energy efficiency, waste and water minimisation, and incentivising sustainable achievements. We have adopted energy efficient technology upgrades and are using best practice erosion and sediment control. We have also implemented site-based Sustainable Development Action Plans incorporating targets for fuel and energy efficiency. Our sustainability progress is measured with regular environmental audits and reporting, and a commitment to continual improvement ensures that progress will continue to be made.



Celebrating excellence and innovation in energy efficiency and renewable energy

Winner



2011

Premier's ClimateSmart Sustainability Awards

SAFETY

TRIFR
REDUCTION

11.8%

LTIFR
SUSTAINED AT

<1

OUR APPROACH

Caring for and protecting our people continues to be of the utmost importance to us. Our objective is to equip our people with the systems, knowledge and support networks that they require to work more safely and efficiently, and to feel empowered to suggest and implement changes to improve.

The Downer Zero Harm Management System has been established to ensure that all activities which may have an impact on the safety and health of the people associated with our operations, products and services, the communities in which we work, and the environment, are carried out in a manner that will not result in harm.

Our health and safety performance is monitored through the measure of Lost Time Injury Frequency Rate (LTIFR)¹ and Total Recordable Injury Frequency Rate (TRIFR)². At 30 June 2011 we maintained a LTIFR below one with a result of 0.93 and a TRIFR reduction of 11.8 per cent with a result of 7.17. Our goal is to continue to sustain our LTIFR below one and to reduce our TRIFR below five by the end of financial year ending 2013. To achieve these results we will continue to implement our Zero Harm strategy with particular focus on visible and active leadership, development of culture, capability and implemented management systems.

DEVELOPMENT OF ORGANISATIONAL CULTURE

Over the past four years we have developed and grown our Zero Harm culture significantly. This is evidenced by a demonstrable reduction in injuries, incidents and disruption to our operations.

Our management team has made a clear commitment to continue this improvement which will require a higher degree of personal responsibility from all of our people for their own behaviour and safety, the safety of our work teams, our environment and in turn the business as a whole.

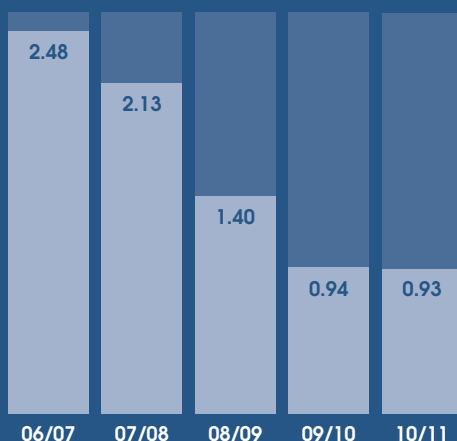
We are aiming to implement a "Fair Go" culture program across our Group which will be supported by visible and active leadership. This will allow our people to be informed and create trust and accountability.

A Fair Go culture is one where clear expectations of acceptable and unacceptable behaviours are established, positive recognition is provided to reinforce desired behaviours and training, counselling and coaching is available to help everyone perform in line with desired expectations. Such a culture will ensure that the care and protection of our people is balanced with the need to focus on shareholder value.

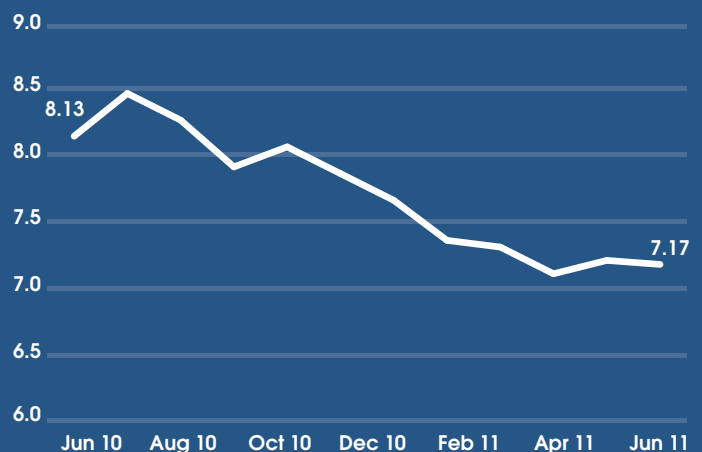
- 1 Lost time injuries (LTIs) are defined as diseases or occurrences that result in a fatality, permanent disability or time lost from one day/shift or more. The LTIFR is the number of LTIs per million hours worked.
- 2 TRIFR is the number of fatal injuries + lost-time injuries + medically treated injuries per million hours worked.

Published safety statistics may be subject to change due to updates in incident classifications and amendments to hours worked.

LOST TIME INJURY FREQUENCY RATE (LTIFR) PER MILLION HOURS WORKED



TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR) PER MILLION HOURS WORKED



CORPORATE OFFICES

DOWNER GROUP OFFICE

Downer EDI Limited
Level 2, Trinitii III
Trinitii Business Campus
39 Delhi Road
North Ryde NSW 2113
Australia
T +61 2 9468 9700
F +61 2 9813 8915
ABN 97 003 872 848

DOWNER AUSTRALIA

Level 11
468 St Kilda Road
Melbourne VIC 3004
Locked Bag 130
Melbourne 8004
Australia
T +61 3 9864 0800
F +61 3 9864 0801

DOWNER NEW ZEALAND

14 Amelia Earhart Avenue
Airport Oaks
Auckland 2022
New Zealand
T +64 9 256 9810
F +64 9 256 9811

DOWNER MINING

Level 7, 104 Melbourne Street
South Brisbane QLD 4101
Australia
T +61 7 3026 6666
F +61 7 3026 6060

DOWNER RAIL

2B Factory Street
Granville NSW 2142
Australia
T +61 2 9637 8288
F +61 2 9897 2305

www.downergroup.com

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

