Downner EDi LIMITED

CONCISE
ANNUAL REPORT
2006

Engineering and **maintaining** essential infrastructure

The Concise Annual Report reflects the activity of Downer EDI Limited for the financial year 1 July 2005 to 30 June 2006. The standard currency used throughout this Report is Australian dollars, unless otherwise stated.

The Concise Annual Report is an extract from the Full Financial Report of Downer EDI Limited. The financial statements and specific disclosures included in the Concise Annual Report have been derived from the Full Financial Report of Downer EDI Limited and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Downer EDI Limited as the Full Financial Report. Further financial information can be obtained from the Full Financial Report, a copy of which, including the independent audit report, is available to all shareholders, and will be sent to shareholders without charge on request to the Company Secretary.

Please note that financial information for Downer EDI Limited, including the 2006 Concise Annual Report and the 2006 Full Financial Report, can be found at the Downer EDI website, www.downeredi.com.

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Level 3, 190 George Street SYDNEY NSW 2000
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AGM

Downer EDI Limited's 2006 Annual General Meeting will be held in Sydney at The Heritage Ballroom, The Westin Hotel, 1 Martin Place, Sydney on 1 November 2006 commencing at 10.00am. All shareholders are invited to attend and are entitled to be present.

Shareholders who are unable to attend the Annual General Meeting, but choose to vote on the proposed resolutions, are encouraged to complete a proxy form and lodge it at least 48 hours prior to the meeting. Addresses are provided in the 'Information for Investors' section of this report and on the proxy form.

Downer EDI is an Australian top-100 company, which provides comprehensive engineering and infrastructure management services to the public and private transport, energy, communications and resources sectors.

We provide total support to our customers through every stage of the life of their assets – from design, planning and project management through to operation and maintenance.

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Overview

Our people make a difference. We have over 21,000 skilled employees who have a driving passion to be the best they can be.

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Vision

Our vision is to be the preferred comprehensive supplier of engineering services, provided either directly or through strategic alliances, with the intellectual capacity to capitalise on the worldwide trend towards outsourcing.

Mission

We are uniquely engineered to work alongside our customers to help them manage the infrastructure assets for which they are held accountable throughout the life of those assets.

What we value

Our communities

Our business touches the lives of millions of people every hour of every day.

We live in the communities whose infrastructure we support.

This creates a real commitment to achieving the best results we can, as we work with our customers in understanding and meeting the needs of their stakeholders.

Respect for people

We believe in treating others the way we want to be treated.

This belief drives our relationships with customers, employees, suppliers and investors.

Accountability

We believe in accountability for delivering our results.

Success

We want to help our customer's success, which requires us to succeed.

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Group Highlights

While we were very disappointed with an after tax loss for the year of $25 million due to one-off provisions (construction contracts), the underlying performance of the company was strong and we achieved some excellent operating results, especially in our Infrastructure, Rail and Consultancy businesses.

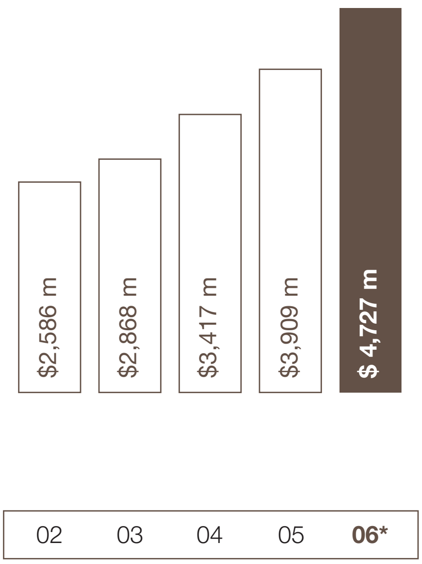
- Revenue increased to $4.6 billion, up 24%
- Underlying operating earnings (EBIT) increased to $230 million, up 22%
- Profit after tax (before provisions) increased to $138 million, up 33%
- Final ordinary dividend of 8 cents per share making total ordinary dividends for the year 20 cents per share, up 11%
- Positive and sustainable outlook
- Best ever Group safety performance – average lost time injury frequency rate (LTIFR) 2.3, down 8% on previous year and 43% over two years

* All figures reported for year ended 30 June 2006 are based on A-IFRS reporting standards

** Underlying – excludes the effects of one-off provisions

Total Turnover

Turnover for the year was $4.7 billion, up $818 million (or 21%) over the previous year. Of this increase, organic growth in our core businesses accounted for the majority of the increase, with major contributions from Engineering, Mining and Resources and Infrastructure Services.



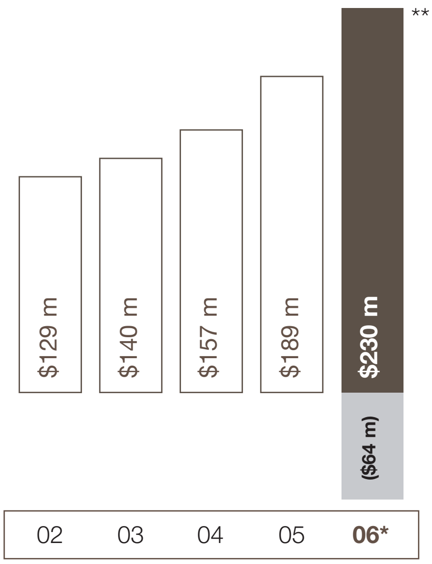
21%

▲

Total Turnover

Earnings Before Interest, Tax and Amortisation of Intangibles (EBITA)

Underlying earnings before interest and tax (ie excluding the affects of the one-off provisions) amounted to $230 million, an increase of $41 million (or 22%) over the prior year. Overall, underlying EBIT margins on a substantially larger revenue base remained flat at 5.3%.



▲ 22%**

▼ 134%

Earnings Before Interest, Tax and Amortisation of Intangibles (EBITA)

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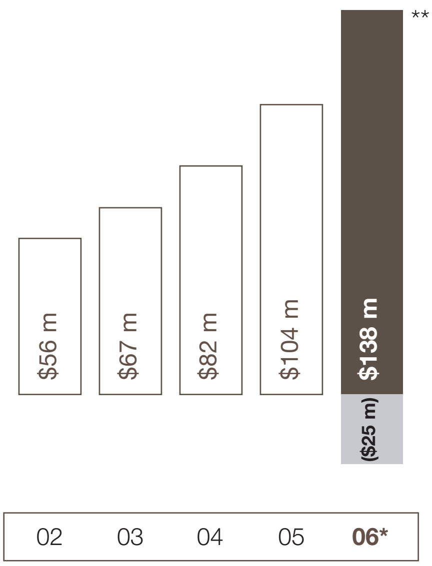
Operating Profit After Tax

The overall result was marred by non-recurring items (provisions for construction contracts) primarily relating to the Douglas Mineral Sands project for Iluka Resources. This resulted in the underlying profit after tax of $138 million being reduced to a net loss of $25 million.



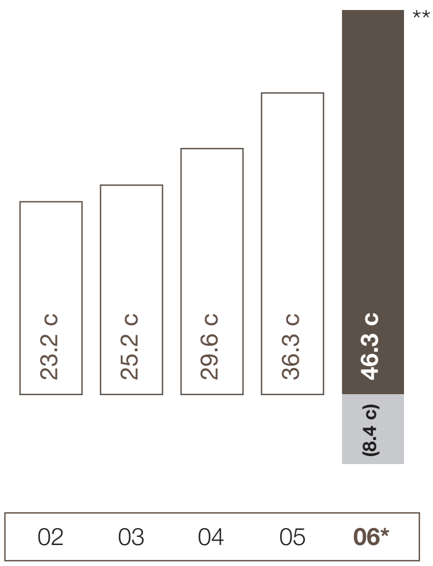
▲ 33%**

▼ 124%

Operating Profit After Tax

Earnings Per Share (EPS)

Underlying earnings per share (excluding the affects of the one-off provisions) equates to 46.3 cents, a healthy increase of 28% from the prior year actual.



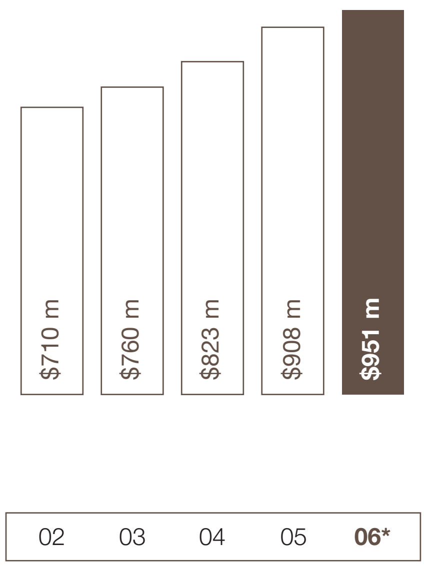
▲ 28%**

▼ 123%

Earnings Per Share

Total Shareholder Equity

Total shareholder equity increased from $900.6 million to $950.5 million, a net increase of $49.9 million. This included equity placements of $139.1 million, net of costs.



5%

▲

Total Shareholder Equity

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Chairman's Message

Despite the effects of the non-recurring items, the year's total ordinary dividends of $61 million are a strong indication of the board's confidence in the company's ability to return to profitability in the current year. Over the coming year we are determined to further re-focus our attention on creating shareholder wealth.

Dear Shareholder,

It is my pleasure to present the Downer EDI Limited 2006 Concise Annual Report. However, it is with much disappointment that I report Downer EDI's audited full year result, for the year ended 30 June 2006, is significantly below forecast. This is particularly disappointing because an adverse one-off impact masks a strong result and outlook for the overall business.

The net profit after tax (NPAT) was a loss of $25 million, due to losses associated with construction contracts in the mining and engineering divisions. The greatest impact was a non-recurring provision made in relation to the contract dispute with Iluka Resources over the Douglas Mineral Sands project.

Dividends

An unfranked final dividend per share of 8.0 cents, payable 19 October 2006, was declared by the directors on 22 August 2006. An interim dividend of 12.0 cents per share franked to 70% was paid on 13 April 2006. Total dividends for the year were 20.0 cents per share, representing an 11% increase in dividends per share when compared to last year.

Despite the effects of the non-recurring items, the year's total ordinary dividends of $61 million are a strong indication of the board's confidence in the company's ability to return to profitability in the current year.

Operating environment

While the current resources boom has received a high level of media attention throughout Australia and has been favourable for Australia's overall economic position, several issues have resulted for contractors and mine developers.

The increase in demand in the resources sector has resulted in significant skills shortages across the mining and engineering vocations, in addition to rising supply and operating costs. From the perspective of a provider of these services, this has presented challenging times and we will continue to work through these issues throughout 2007.

Board activities

The board continues to recognise the importance of maintaining an in-depth understanding and appreciation of the company's operations and management teams. This year the board held meetings in Melbourne and Cardiff, New South Wales, to view the business activities in these areas directly and meet with management.

In particular, the board toured the operations of EDI Rail in Cardiff and Kooragang Island and Roche Mining's operations at the Wambo mine in the Hunter Valley. This provided the board with a greater understanding of these divisions, as well as the opportunities and challenges facing their businesses and the industries in which they operate. The board also meets with the senior management to gain further insight into the strategies of the Group's divisions, as well as conducting rolling presentations on current and projected activities.

Peter Jollie and I also had the opportunity to attend the annual management conference with more than 100 senior management representatives from across the business in November 2005, and during the year I also visited a number of our projects.

During the year the board continued its focus on occupational health, safety and the environment. The board committee, chaired by Chris Renwick, which oversees implementation of the board charter, met twice during the year, including receiving presentations from divisional management. The Group's Occupational Health and Safety and Environmental policies have been updated to reflect the board's focus.

Capital raising

In April this year Downer EDI completed a capital raising of $125 million of ordinary equity through an institutional placement, including both Australian and offshore institutional investors. The placement of approximately 14.9 million fully paid ordinary shares was completed at $8.40 per share.

The proceeds of this capital raising were used to strengthen the balance sheet following the completion and funding of the acquisitions of Emoleum, Otraco and DMQA (these acquisitions are discussed in further detail in the Managing Director's Review and divisional sections of this report). This capital raising also assisted Downer EDI to maintain gearing (net debt to equity) within the company's target range of 42%–67%.

Immediately following the institutional placement Downer EDI announced a further Share Purchase Plan (SPP) available to all Australian and New Zealand shareholders to allow them to participate at the same price as institutional investors. Shareholders were given the option to purchase shares of up to approximately $5,000, with a total of $16.6 million raised. Shares issued pursuant to the institutional placement and SPP rank equally with existing ordinary shares on issue.

During the year a Deferred Share Plan was also undertaken for employees, with shares acquired on market, on a monthly basis, for those employees participating.

Board composition

The directors of Downer EDI were pleased to announce the appointment of Lucio Di Bartolomeo as an independent, non-executive director of the company in June 2006. Mr Di Bartolomeo, formerly Managing Director of ADI Limited (ADI), has a background in senior management and engineering, in particular in the land transport sector. In addition to his four years at the helm of ADI, Australia's largest defence company, he was for over ten years Chief Executive of a number of substantial businesses, including six years as Managing Director of FreightCorp.

Mr Di Bartolomeo is a director of Macquarie Generation, Civic Nexus Pty Ltd and has considerable experience in public private partnerships (PPPs). He is also a director of the Reliance Rail consortium involving Downer EDI, which is one of two final contenders bidding for the New South Wales Government's Rolling Stock public private partnership (PPP) to supply new carriages to the CityRail network (further details of this PPP are provided in the Managing Director's Review on page 11 of this report).

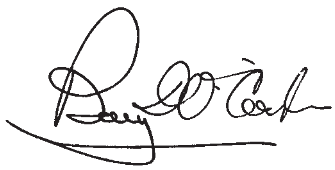
Outlook

While the majority of the year saw strong growth and performances from Downer EDI's businesses, the recent loss posed significant challenges for management and the board. In conjunction with the senior management team, the board is focused on restoring the company to profitability and is strongly encouraged by the outlook for the business.

As you are no doubt aware, the Downer EDI share price decreased by approximately 30% in value immediately following the results announcement. The board and management believe that this was an overreaction and does not truly reflect the underlying strength and outlook for the business. Several members of the management team and the board have purchased shares since the results announcement to demonstrate their belief in the strength of the business and I note that the price has recovered 15% (at the time of writing) since the 8 August 2006 announcement.

Over the coming year we are determined to further re-focus our attention on creating shareholder wealth, a record we have been proud of in previous years. We will do this through a more rigorous approach to the contracts we enter into and through more stringent strategies to mitigate risks in the business.

I would like to thank our shareholders for their ongoing support, particularly through the difficulties of the last few months, and look forward to presenting a more favourable result for Downer EDI in the half year report.



Barry O'Callaghan AO
Chairman

Managing Director's Review

We will maintain a disciplined approach to client selection and contracts and will focus on growing our service businesses in the areas of essential infrastructure. We will ensure that non-recurring items are eliminated and that growth and momentum in sales continue.

While the 2006 financial year was a strong year for the majority of Downer EDI's businesses, the overall result was marred by non-recurring items (provisions for construction contracts) primarily relating to the Douglas Mineral Sands project for Iluka Resources (Iluka). This resulted in the underlying profit of $138 million being impacted, leading to an overall net loss of $25 million.

The impact of this non-recurring item is very disappointing, particularly as it tarnishes a strong track record of ongoing profitability and masks the underlying performance of the company, as all other operating areas reported in line with or ahead of expectations.

Revenue for the year increased 24% from $3.7 billion to $4.6 billion and underlying operating earnings (EBIT) increased 22% from $189 million to $230 million. Despite the impact from the provisions, the balance sheet remains in a strong position and gearing levels at 56% are well within the stated target range of 42%–67%.

Operating cash flow for the year was $89.9 million. While down approximately $96 million on the previous year, this reflected the funding of various construction contract disputes. The underlying businesses, however, continue to generate strong cash flows.

The 2007 financial year outlook is positive with forecast revenues of $5.2 billion and forecast operating earnings (EBIT) of $275 million, leading to a forecast net profit after tax of $155 million.

Downer EDI's mining division, Roche Mining, has a significant contract disagreement relating to design, plant installation for the Douglas Mineral Sands project. This is expected to be a long and protracted dispute which could take well over 12 months to resolve. In view of the materiality of this dispute a review of Australian equivalents to International Financial Reporting Standards (A-IFRS) was undertaken and the company's accounting policy has been altered to align with the guidance notes. A review of all construction contracts was subsequently completed applying the new policy. This accounted for the majority of the non-recurring items of $199 million after providing for tax, the bulk of which relates to Iluka.

For financial year 2007, not more than 10% of Downer EDI's revenues are forecast to be derived from construction contracts of this nature, the majority relate to maintenance.

Following the construction contract provisioning, the structures of all remaining material construction contracts have been reviewed and we are pleased to report that the majority of the remaining contracts are based on an alliance or cost recovery style of contract. All projects where provisioning for disputes occurred will conclude by the end of the 2007 full year. In addition, a commercial compliance team has commenced the task of tightening risk management, including contract reviews mostly to ensure rigorous compliance for contract approvals.

Management's immediate focus is to return the company to profitability and deliver on the forecast profit for 2007. We will seek to achieve this by maintaining a disciplined approach to client selection and contracts and by focusing on growing our service businesses in the areas of essential infrastructure.

In other areas of the business, we have significantly enhanced the 'front-end' engineering design and consulting capability of Downer EDI with the acquisitions of Coomes Consulting and Duffill Watts Group. This has resulted in wider coverage of the Asian and the Pacific regions through the combined consulting entities of CPG in Asia, Duffill Watts in New Zealand and both Snowden and Coomes across Australia.

As the business continued to grow both organically and via acquisition the number of employees grew to a record 21,000, an increase of 3,400. While the number of employees grew significantly, the Lost Time Injury Frequency Rate (LTIFR) has continued to improve, decreasing from 2.5 in June 2005 to 2.3 for June 2006. Importantly, this is a 43% decrease in two years, while employee numbers have increased by 5,400 over the same period.

Operating Performance

Notwithstanding the non-recurring items relating to construction contracts, this has been a successful year for our core businesses, improving market share and securing further long term contracts, particularly in the services arena.

The underlying profit for the year highlighted strong operating performances in the EDI Rail business, Works Infrastructure and Consulting Services. This reflects the continued focus across these businesses to provide integrated and complementary services from front-end-design and technology, through to project management, operation and maintenance. In 2007 we will continue to focus on this service delivery to replicate this success throughout the remaining areas of the business.

Infrastructure

The Infrastructure division reported a strong turnover of $1.1 billion, 21% higher than last year with operating earnings (EBIT) increasing by 23.9% to $61.6 million. This positive result is a combination of strong organic growth and acquisitions, including the contribution of the Emoleum business in Australia and the move into the UK infrastructure maintenance market with the acquisition of DMQA. The Australian business of Works Infrastructure now contributes 42% of the division's turnover with solid improvements in margins in the second half of the year. The New Zealand business also continues to report strong results and a positive outlook for 2007.

Mining and Resources

The Mining and Resources division reported an overall disappointing result due to the impact of construction contract disputes, including Iluka. While this dispute relates to a fixed price contract it is worth noting that Roche Mining's open pit and underground mining activities are predominantly alliance style contracts. The overall result included a 5.5% increase in underlying turnover to $1.4 billion and a 15.6% increase in underlying EBIT to $83.6 million.

We are continuing to focus on mitigating the risk of construction contracts within the mining division by moving to a more favourable mix of alliance style and fixed price contracts. Currently, approximately half of the division's construction revenues are alliance style contracts with the remaining half fixed price contracts. We will continue to focus on shifting a greater proportion of revenues to the alliance style contracts. The majority of the fixed price contracts will be completed during 2007. Forward orders for the division stand at $2.8 billion.

The Century Resources business recorded a strong performance for the year with revenue at an all time high of $133 million.

Rail

While the Rail division reported a slight decrease in turnover, down 3.3% to $349 million, operating earnings grew substantially by 39.1% to $32.4 million with margins improving in line at 9.3%, reflecting the change in business mix to more service and maintenance based revenue and less manufacturing. The transition of the Rail business to a predominantly services business has been one of the success stories for Downer EDI over the last year.

Engineering (power and engineering services, telecommunications, consulting services)

The Engineering division reported a 25% increase in underlying turnover to $1.6 billion and an 18.3% increase in underlying EBIT to $69.1 million. However, margins were impacted by a change in the mix of business with telecommunications and electrical contracting unable to lift profit margins in a tight and competitive environment.

The Power Services business reported strong growth. The Telecommunications business in Australia remains subdued, however, the Telecommunications businesses in New Zealand and Asia reported stronger performances. Part of the non-recurring provision that impacted the final result for the year did include some construction contract provisions made in the energy systems area.

Managing Director's Review

continued

Downer EDI is well positioned to benefit from increased levels of government and private sector investment in the key growth areas of transport, energy and infrastructure. We have the size and expertise to pursue these opportunities.

Acquisitions

In line with Downer EDI's stated strategy, we have continued to improve the capabilities of our core businesses through key bolt-on acquisitions, including the Emoleum business. These acquisitions totalled $238 million.

In December 2005, Downer EDI announced its intention to acquire the Emoleum business from Rinker and ExxonMobil, this was the largest acquisition for the 2006 year. Following required approvals, this acquisition was completed in March 2006 and has now been integrated into the Works Infrastructure business. The acquisition of Emoleum provides Downer EDI with the largest road maintenance business in Australia and now enables the Work Infrastructure platform to operate nationally. Works Infrastructure Australia is now the largest non-government provider of services to the road and rail sectors in Australia.

In addition to the acquisition of Emoleum, Downer EDI also invested in two further bolt-on acquisitions, Otraco Pty Ltd (Otraco) and DMQA Ltd (DMQA).

The acquisition of Otraco completed the investment strategy for Roche Mining's move to a full mining service provider. Otraco is the leading global supplier of earthmover tyre maintenance and consulting services, offering significant operational synergies with Roche Mining and Snowden Consulting.

The company's first European based acquisition was completed during the year with the purchase of DMQA, a privately owned business with operations in Rutherham, York and Hull in the United Kingdom. DMQA has two main divisions, DMQA Rail and DMQA Utilities, servicing a number of blue chip clients. DMQA has been re-branded Works Infrastructure United Kingdom (Works UK).

These acquisitions were funded through capital raisings of $139.1 million and through our debt facilities.

Management appointments

We continue to focus on strengthening the management team at head office and throughout the divisions. Our most recent appointments reflect the changing nature and continuing growth of the business. To enable the businesses within Downer Engineering to further improve on customer service, business opportunities, risk management and execution of key strategies, two separate divisions have now been established for Power and Telecommunications.

Effective August 2006, Ron Guthrie has been appointed to CEO of Downer Engineering and will also be responsible for the Downer Engineering Power business in addition to the corporate services of Downer Engineering. Wayne Nolan has been appointed to the newly created position of CEO Downer Telecommunications covering all of Downer EDI's telecommunication operations in Australia, New Zealand and Asia.

Left to Right **Brent Waldron** Deputy Chief Executive Officer **Carl Thompson** General Manager Commercial Services/Company Secretary **Greg Pauline** General Manager Business Development

The Downer EDI Group has a wealth of talented people and one of our key priorities is to continue to focus on ensuring that we have the management systems and procedures in place to harness and encourage this talent. The organisational structures and management teams will continue to evolve as we meet the challenge of delivering improved results for our shareholders and stakeholders.

Outlook

The outlook in 2007 for Downer EDI remains positive with the company continuing its focus on services businesses in the areas of essential infrastructure. The current amount of forward work on our books is approximately $7 billion, leaving us well placed for the year.

We will continue to focus on overcoming recent challenges evident across some areas of the business, including critical skills shortages and escalating capital and operating costs in the mining and engineering divisions.

Governments at both a State and Federal level in Australia and New Zealand have again announced a record level of investment to improve the key growth areas of transport, energy and infrastructure. In particular, the New South Wales Government has announced a record level of spending on rail and road. Downer EDI is well positioned to benefit from this increased level of Government investment and has the size and expertise to pursue these opportunities.

In August 2006, together with our alliance partners who make up the Reliance Rail consortium, we submitted our bid for the New South Wales Government's major PPP fleet replacement program involving some 600 rail cars for Sydney's CityRail network.

Our current rail vehicle supplied and maintained through EDI Rail continues to perform very well and we believe that, should our bid be successful, our forecast revenue and long-term maintenance will increase substantially through 2008 and beyond.

At the time of writing this report, the New South Wales Government had not announced the winner of this tender, however, Reliance Rail's short-listing is recognition of the quality of Reliance Rail's submission and the quality of the engineering and delivery capability of Downer EDI's Rail division. We look forward to updating shareholders on the outcome of this PPP in the latter half of 2006.

In terms of guidance, we are focused on returning the company to profitability and are forecasting revenues of $5.2 billion and operating earnings (EBIT) of $275 million, leading to a forecast Net Profit After Tax (NPAT) of $155 million. The board and management team remain confident that the opportunities in the future for Downer EDI will deliver increased profitability and returns to shareholders.

Stephen Gillies
Managing Director

Left to Right **Stephen Mockett** General Manager Human Resources **John Shuey** General Manager Corporate Affairs **Ross Moffat** General Manager Investor Relations

Finance Director's Review

The five year record table reflects the company's history of delivering sustainable growth, of both revenue and profitability, and is reflective of the underlying strength of our recurring revenue and business model.

2006 will be seen by shareholders as a year of non-performance by the company, arising specifically from one-off provisions of $285.7 million ($199 million after tax) relating to construction contract disputes. This brought what otherwise would have been another strong year for the company into a position of recording a loss after tax for the year of $24.9 million. Having regard to changes in accounting standards under A-IFRS, the materiality of the amount involved and the need to consistently apply the accounting policy across the Group, the actions taken by the company are believed to be appropriate under the circumstances.

The focus and attention generated by the one-off year end construction contract provisions have overshadowed the underlying performance of the continuing business. The five year record table reflects the company's history of delivering sustainable growth, of both revenue and profitability, and is reflective of the underlying strength of our recurring revenue and business model.

Revenue for the year was $4.6 billion, up $904 million (or 24%) over the previous year. Of this increase, organic growth in our core businesses accounted for the majority of the increase. Turnover for the year was $4.7 billion, up $818 million (or 21%) over the previous year.

By division:

- Engineering turnover increased 26% to $1,649.2 million;
- Mining and Resources turnover increased 21% to $1,656.4 million;
- Infrastructure Services turnover increased 21% to $1,078.5 million;
- Rail turnover at $348.9 million was comparable to the previous year; and
- Unallocated and inter segment eliminations accounted for the balance of group turnover.

Underlying earnings before interest and tax (ie excluding the effects of the one-off provisions noted above) amounted to $229.8 million, an increase of $41.2 million (or 22%) over the prior year. Underlying EBIT margins from our Mining and Resources and Rail core businesses have improved on the last year, while Infrastructure margins on a substantially larger revenue base remained flat. Margins from our Engineering division contracted 0.3%. Collectively, this has produced overall margins for the Group consistent with the previous year at 5.3%, but importantly, on an increased revenue base.

Net interest expense for the year was $47.0 million, which was up $10.7 million over the previous year. The level of net interest was impacted by increases in the level of working capital required to fund the expanded revenue platform, the funding of bolt on businesses acquired during the year, the funding of contract disputes noted above and the effects of a rising interest rate market. The EBIT to net interest coverage ratio stood at a healthy 4.9 times (June 2005: 5.2 times).

Depreciation and amortisation amounted to $108.3 million compared to net additions to property plant and equipment of $149.3 million. This relationship is out of character with the previous year and reflects costs associated with a fleet modernisation program in our Infrastructure operations as well as the refurbishment of drilling rigs going into service and in preparation for tender. It is expected that net capital expenditure will return to levels around our annual depreciation and amortisation charges. Depreciation rates adopted by the Group are conservative, with net gains of $16.1 million reported on disposal of property plant and equipment (2005: $8.8 million).

The effective tax rate of the Group for 2006 has been influenced by a number of items, but in particular the recognition of a further tax consolidation benefit of $42.9 million. The consolidation tax uplift process has now been completed and no further one-off benefits of this nature are expected in the future. Excluding the affects of this and other one-off items, the Group tax rate was 25%.

The effective tax rate continues to be influenced by costs not deductible for tax purposes, offset by research and development claims and over provisions from prior years (once more, primarily related to research and development claims). Profit contributions from overseas operations with tax rates lower than the Australian tax rate, such as Singapore, have also contributed to a reduced overall tax rate.

Net loss after tax including the one-off items noted above amounted to $24.9 million (excluding one-offs, after tax profit would have been $137.8 million). This compares to the 2005 restated profit after tax at $123.3 million (excluding one-off tax benefits, $113.2 million).

Accounting policies and basis of preparation

The financial statements have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and comply with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS).

Compliance with A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS). As noted in the 2005 CFO's Review, 2006 is the first year in which the company has adopted A-IFRS and your attention is drawn to note 1 of the full financial report 2006 for a detailed analysis of those accounting policies.

In particular, your attention is drawn to the accounting policy dealing with construction contracts, the affects of the adoption of which have been reflected in the significant one-off items which have had a material effect on this year's results.

Cash flow and capital expenditure

Operating cash flow for the year was $89.9 million. While down approximately $96 million on the previous year, this reduction reflects the funding of various construction contract disputes. Adding back the affects of these construction contract disputes, the underlying businesses continue to generate strong cash flows.

Funds utilised in working capital, despite a $904 million increase in revenue, have (after the provision for construction contracts) decreased by $110.7 million to $313.4 million during 2006. As a percentage of revenue, working capital has reduced to 6.7% (2005: 11%).

Net investing activities of $384.5 million over the 2006 year were higher than the 2005 level. Of this amount $219.2 million related to business acquisitions, the most significant of which was Emoleum at $151.4 million. Emoleum has been integrated into our Australian Works Infrastructure business. Net additions to property plant and equipment accounted for $149.3 million, details of which have been previously noted. Net funds in the amount of $19.2 million were also allocated to strategic investment opportunities, including $14.0 million to the Suzhou Industrial Park in China.

Left to Right **Peter Reichler** Chief Financial Officer **David Rogers** General Manager Group Finance and Acquisitions **John Davenport** General Manager Group Funding

2006 net debt of $472.4 million was an increase on the 2005 level and reflects the partial funding of the various matters noted above. Funds were also raised through various equity initiatives and we recognise the continued and valued support of our shareholders in developing the business.

The Group's gearing, as measured by net debt to capitalisation (net debt plus total equity), at 36% remains at prudent levels. On a net debt to equity basis, gearing at 56% remains within targeted levels.

Financial position

Net assets of the Group have increased from $900.6 million to $950.5 million, a net increase of $49.9 million. Major contributors to this net increase arose from:

- Dividends paid to shareholders (net of dividend reinvestment plan elections) amounting to $37.0 million;
- After tax loss retained in the business of $24.9 million;
- Equity placements of $139.1 million, net of costs;
- The issue of shares on acquisition of businesses of $3.9 million;
- Net reduction in opening total equity arising from the adoption of Australian equivalents to International Financial Reporting Standards of $18.9m; and
- A negative movement in reserves of $12.3 million, primarily reflecting movements in foreign currencies against the Australian dollar and their effects on translating foreign subsidiary financial statements into Australian dollars.

Downer EDI remains focused on improving its earnings, cash flow and balance sheet footings with a view to maintaining a BBB (stable) rating over the long term.

Banking facilities and treasury risk management activities

In November 2005, the company's long term efforts in focusing the business on engineering services and away from the more volatile construction markets were rewarded with its investment grade credit rating being raised from BBB- (positive outlook) to BBB (stable). In announcing the ratings upgrade, Fitch Ratings noted the stability and quality of the company's cash flow and its focus on long term annuity-type revenues. However, these positives were tempered by the risks posed to the Group in its more volatile non-core operations and the potential for underperforming contracts.

As a result of year end provisions in respect of construction contract disputes, Fitch Ratings placed the company's hard-earned BBB rating on Ratings Watch Negative, pending further review of the impact of these provisions on the current and prospective financial position of the Group. The outcome of this review is expected to be either retention of the rating at BBB (stable) or a downgrade to BBB- (stable).

The company remains focused on improving its earnings, cash flow and balance sheet footings with a view to maintaining a BBB (stable) rating over the long term.

As at 30 June 2006, the weighted average maturity of the Group's funded debt stood at 3.1 years, compared with 4.6 years for the prior year. This contraction in maturity profile recognises the normal shortening of existing facilities with the lapse of time and new major facilities entered into during the year, with maturities between three to four years. To manage risks associated with interest rate fluctuations on long term decisions, 68% of the Group's 30 June 2006 debt is funded debt at fixed interest rates (30 June 2005: 60%).

Debt facilities drawn at year end totalled $697 million (2005: $507 million) with a maturity profile of 24% due within 12 months (2005: 3%), 10% due within two years (2005: 14%) and 66% due from three to 13 years (2005: 83%). The debt facilities due within 12 months are expected to be refinanced in the normal course of business as they fall due. Tenures for these refinanced facilities will take into consideration the maturity profile of the remaining debt facilities. The company continues to comply with its borrowing covenants and support from the banking sector continues to be strong.

The Group's overseas operations continue to be mainly funded by way of local currency borrowings, thereby reducing the impact of movements in exchange rates. Whenever material transactions are undertaken involving currency rate exposures, the currency risk is hedged. Given the small amount of US denominated assets, exposures to US$ borrowings (both principal and interest) are fully hedged. No speculative hedge or interest rate swap contracts are entered into.

The Group also maintains $649 million in facilities in the surety market for performance bonds in respect of its operating businesses. Facilities utilised at 30 June 2006 totalled $427 million (2005: $462 million). Other than $8 million of finance lease transactions, all debt and surety facilities are provided on an unsecured basis.

Total available liquidity at year end amounted to $686 million comprising cash of $168 million and undrawn lines of $518 million.

Capital management and dividends

The dividend policy has been established to provide shareholders with a yield on their investment in both the short and medium term. This includes ensuring that adequate capital will be available to facilitate expansion of the Group.

Despite the loss for the year, shareholders should be pleased to note that a 2006 final ordinary dividend of 8.0 cents per share has been declared. This has been declared by the directors in recognition of the strength of the underlying business and the 2007 profit forecast provided to the market in August 2006. This dividend will be unfranked and reflects the elimination of franking credits that otherwise would have existed had it not been for the tax consolidation uplift. Total dividends in respect of the 2006 year amounted to 20.0 cents per share, an 11% increase over the previous year.

The 2006 final dividend is payable on 19 October 2006. Many shareholders took advantage of the company's Dividend Reinvestment Plan (DRP) during the 2006 year with 48% of eligible dividends being subject to DRP. To meet continuing shareholder appetite in this area, the company's Dividend Reinvestment Plan (DRP) applies to the 2006 final dividend, once more providing shareholders with the opportunity to reinvest their dividends in Downer EDI at a discount to market.

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The closing date for amendment/ participation in the DRP was 19 September 2006, with the DRP pricing provided to the market on 5 September 2006. As in previous years shareholders have been provided with a free option to review subsequent share price trading before submitting final DRP elections.

Total Shareholder Return (being the value of dividends paid during the 2006 year, including franking credits and the increase in the share price over the year, divided by the opening share price) represents a return in excess of 45%. Obviously events subsequent to 30 June 2006 have impacted to reduce this total shareholder return and management is focused on correcting this position.

Geoffrey Bruce
Group Finance Director

For year record for the year ended 30 June	2006 $'000	2005* $'000	2004* $'000	2003* $'000	2002* $'000
Turnover	**4,727,482**	3,972,325	3,417,491	2,867,858	2,585,636
Revenue	**4,633,424**	3,814,511	3,193,308	2,697,023	2,442,449
Earnings before interest tax and amortisation of intangibles (EBITA)	**229,813****	188,646	157,303	140,445	128,734
Interest expense (net)	**47,044**	36,309	28,546	28,826	34,113
Income tax	**45,014****	27,595	27,689	28,171	22,870
Profit after tax before significant one-off items	**137,755**	104,035	81,546	66,572	56,431
Significant one-off items net of tax	**(162,684)**	–	–	–	–
Profit (loss) after tax after significant one-off items	**(24,929)**	104,035	81,546	66,572	56,431
Total equity	**950,543**	908,020	823,029	760,191	709,565
Net debt to equity	**56%**	38%	41%	39%	63%
Net debt to capitalisation (debt plus equity)	**36%**	27%	29%	28%	39%
Trade debtors turnover (rolling 3 month average) – days	**37.3**	46.8	41.4	42.1	43.3
Cash flow from operations including significant one-off items	**89,902**	185,957	181,480	225,003	47,353
Basic earnings per share before significant one-off items (cents)#	**46.3**	36.3	29.6	25.2	23.2
Basic earnings per share after significant one-off items (cents)#	**(8.4)**	36.3	29.6	25.2	23.2
Diluted earnings per share (cents)#	**(8.4)**	36.3	29.6	24.4	22.0
Closing share price (dollars)#	**$7.44**	$5.33	$3.20	$3.08	$2.64
Dividends per ordinary share (cents)#	**20.0**	18.0	15.6	11.6	9.6
Dividend payout ratio as a percentage of profit after tax	**n/a**	50.0%	53.9%	50.3%	50.3%
Order book (millions)	**6,900**	6,500	6,400	5,500	4,500

* As previously reported under Australian Generally Accepted Accounting Principles (AGAAP).
** Excludes year end one-off provisions.
\# Comparative information has been restated to reflect the effects of the November 2003 1 for 4 share consolidation.

Downer EDi LIMITED

At a Glance

The underlying profit for the year highlighted strong operating performances from EDI Rail, Works Infrastructure and Consulting Services. This reflects the continued focus across these businesses to provide integrated and complementary services from front-end-design and technology, through to project management, operation and maintenance.

With the acquisitions of Coomes Consulting (Australia) and the Duffill Watts Group (New Zealand), the 'front-end' engineering design and consulting capability of Downer EDI has been significantly expanded. CPG's international reputation for outstanding architectural and engineering design was further recognised with the winning of prestigious Asian based and international awards.

Commencement of joint marketing and cross-selling across consulting businesses

coomes consulting

CPG CORPORATION

Duffill Watts Group

Turnover and profit contribution increased substantially from the 2005 financial year. The year was also notable due to the addition of the Emoleum business in Australia and an entry into the UK infrastructure maintenance market with the acquisition of DMQA. The revenue of the combined Works Infrastructure businesses is expected to grow to $1.5 billion in two years.

In Australia, strong business growth, employee numbers doubled

Works INFRASTRUCTURE

Turnover from Downer Engineering's Power and Engineering Services businesses increased substantially in the 2006 financial year, largely as a result of the booming resources market and increasing demand in the electricity generation and transmission sectors. The result was impacted by one-off contract provisions made in the energy systems area.

Secured significant maintenance contracts, workforce increased – over 100 apprenticeships offered

Downer ENGINEERING

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With over 21,000 employees across an extensive network of sites in the Asia Pacific region, and globally through our design, engineering and consulting businesses, Downer EDI offers strategic benefits to our government and private sector clients and our business partners.

Telecommunications

The Telecommunications businesses in New Zealand and Asia achieved their business plans for the year, while the Australian Telecommunications business under-performed, largely as a result of the level of Australia's capital spend on telecommunication networks.

Some management reorganisation, with signs of new opportunities in Australia

Downer ENGINEERING

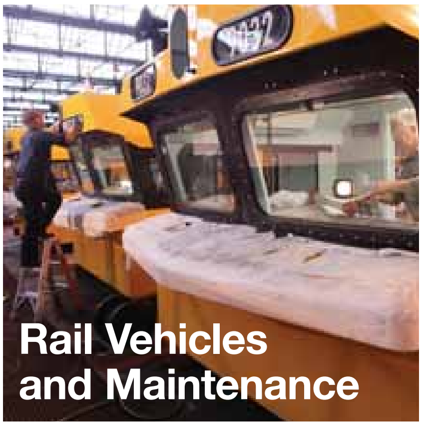
Mining and Resources

As commodity and oil prices remained strong, the financial year for 2006 was challenging, with recruitment of engineering talent and staff up 1,400 on the previous year and senior management added to manage the demand flowing through the industry. A strong operational capability has developed from a number of difficult start ups, with the benefit to be seen in future years as the outlook for mining and resources continues to look robust.

Order book a healthy $2.8 billion and a strong industry outlook

Roche MINING

Century RESOURCES



Rail Vehicles and Maintenance

EDI Rail's turnover was in line with the previous year. Operating earnings grew as a result of good management of product manufacture and improved market share in maintenance and spare parts. The Freight business remained strong and it was pleasing to see governments returning to the market for replacement railcars. Today's revenue is primarily sourced from our design, maintenance and spare parts capability.

Strong operating results, growing reputation for quality and maintenance

EDi RAIL

Review of Operations

With the acquisitions of Coomes Consulting and the Duffill Watts Group, the 'front-end' engineering design and consulting capability of Downer EDI has been significantly expanded. This has resulted in wider coverage of the Asian and the Pacific regions through the consulting entities of CPG in Singapore, China, India, ASEAN and the Middle East, Duffill Watts Group in New Zealand and both Snowden (part of Roche Mining) and Coomes Consulting across Australia.

Consulting Services

Consulting Services Review of Operations

Pang Toh Kang
President and Chief Executive Officer
CPG Corporation

Toh Kang was appointed President and CEO of CPG in January 2005, having held prior senior positions with the company. He is a trained Electrical Engineer, holds a Master of Science (Industrial Engineering) and completed the Stanford-National University of Singapore Executive Program in 1997 and INSEAD's Advanced Management Program in 2002.

Although each of Downer EDI's multi-disciplined consulting businesses has its own distinct set of capabilities and market focus, there are complementary services that will open up new opportunities. Having recognised that cross-selling could also fill gaps in the current service offering of each entity, initial integration has begun through joint marketing activities. A communications platform has been established to enable fruitful cross-selling and technical skills exchanges to occur.

CPG

The CPG Group of Companies (CPG) continues to strengthen its expertise in architectural, engineering, quantity surveying, project management and facilities management services. It is the largest and only firm in Singapore to provide the full spectrum of infrastructure and development services and during the year continued to secure major projects in Singapore and in the targeted overseas markets of China, Vietnam, India, Pakistan and the Middle East.

Architectural and Engineering

CPG's architectural and engineering design talents were affirmed by the industry with the winning of several awards in Singapore and internationally, including the prestigious ASHRAE awards (Singapore, Regional and International) and the USA Designshare Awards.

In Singapore, CPG won the design competition for the new Alexandra Hospital @ Yishun and three new hospitals overseas – Protrade and Ngoc Tam Women's and Children's hospitals in Vietnam and Linyi University Hospital in Shandong, China.

CPG was also appointed to design all 19 private luxurious villas on Treasure Island in Sentosa Cove, one of Singapore's most exclusive oceanfront residential developments.

CPG's architectural and engineering consultancy services continued to expand internationally. In Pakistan, the company secured its second project with the appointment to master plan and design a six million square feet mixed development, which will include the tallest tower in Pakistan when completed.

In Vietnam, CPG was awarded the master planning for the 6,000 hectare North West Metropolitan Area in the Cu Chi and Hoc Mon Districts and was appointed as design consultants for the new Can Tho International Airport project.

In India, CPG will be providing full design consultancy services for Chaitanya Milan, a high-end residential project in Whitefield, Bangalore, in addition to the master planning and urban design consultancy services for a development in Gujarat.

Project Management

CPG's project management arm, PM Link, secured the contract to project manage the 250 bed Nanjing Women's & Children's Hospital and the Second Affiliated Hospital of the Kunming Medical College, both in China. PM Link was also appointed to project manage the new Singapore Alexandra Hospital @ Yishun and also a project in Jakarta for the Singapore Ministry of Foreign Affairs.

Facilities Management

CPG's facilities management arm, CPG FM, further developed its professional facilities management (FM) services in Singapore and overseas to the public and private sectors.

CPG FM was appointed by the Maritime & Port Authority as managing contractor for the new pier at Marina South and various properties of the National Parks Board. It also secured the FM contract to maintain 18 properties belonging to the Singapore Tourism Board.

In China, CPG FM (Xiamen) reported a strong year with SG$6 million worth of FM contracts, including FM consultancy for the 96,000 square metre high-end residential development, Richmond Park, and a high-end residential development in Changsha.

Left to Right **Jeffery Chau** Managing Director, CPG FM **Kok King Min** Managing Director, CPG Consultants **Lional Tseng** Chief Financial Officer, CPG Corporation **Yip Kim Seng** Managing Director, PM Link

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Doug Troon
Chief Executive Officer
Duffill Watts Group

Doug holds a degree in civil engineering and has more than 30 years experience in civil and structural engineering in New Zealand and South East Asia.

Douglas Coomes
Chief Executive Officer
Coomes Consulting Group

Douglas is a Chartered Professional Engineer (Civil) with more than 30 years experience in the urban development industry.

Outlook

The development market in Singapore is showing signs of recovery, especially in the infrastructure and high-end residential segments. While competition is strong, CPG is expected to perform well and will continue to pursue opportunities in Singapore and in niche market segments in China, India, Vietnam and the Middle East. CPG will also continue to pursue suitable Public Private Partnership (PPP) projects in the Singapore market with reputable partners.

Duffill Watts Group

The Duffill Watts Group (DWG) has enjoyed an excellent year that has included growth in both earnings and resource levels in excess of 20% over the previous year.

Growth has occurred in several areas of DWG's business including statutory and environmental planning, specialist wastewater treatment, and marine and coastal engineering divisions.

Specific achievements have comprised the design of several new waste to energy projects for South East Asia, a new bioreactor for Contact Energy to reduce the hydrogen sulphide levels in the geothermal power station cooling water discharges at Wairakei in the North Island of New Zealand, and port development work for the Port of Taranaki's new coal, oil and gas energy projects.

DWG's core work in local government infrastructure development and operations has also enjoyed another steady year with excellent prospects for further growth in the years ahead.

Outlook

Over the past year, DWG has also benefited from several cross selling opportunities that have arisen within Downer EDI. These opportunities will help underwrite the projected growth for the year ahead with an ongoing focus on securing the skilled resources required to meet this growth.

Coomes Consulting

Coomes Consulting (Coomes) joined Downer EDI in November 2005. The change in ownership has been positively embraced by executives and staff. Clients have remained loyal with ongoing and repeat business, and a number of major new clients have commissioned Coomes on their projects since the ownership change.

Coomes reported a strong result and met its 2006 targets despite the soft housing-estate market where a large portion of Coomes' fees are historically generated.

The company's regional offices in Victoria again contributed strongly to revenue. These centres in Shepparton, Albury-Wodonga, and Geelong support the Coomes distribution strategy to capitalise on the demographic and government driven growth of regional centres across Australia.

All business units, including engineering, planning, urban design and landscape architecture services, have contributed to profit. This has been possible through executive efforts in strategic marketing and the high calibre of clients. A 20% increase in revenue for 2007 is forecast to be delivered exclusively from organic growth.

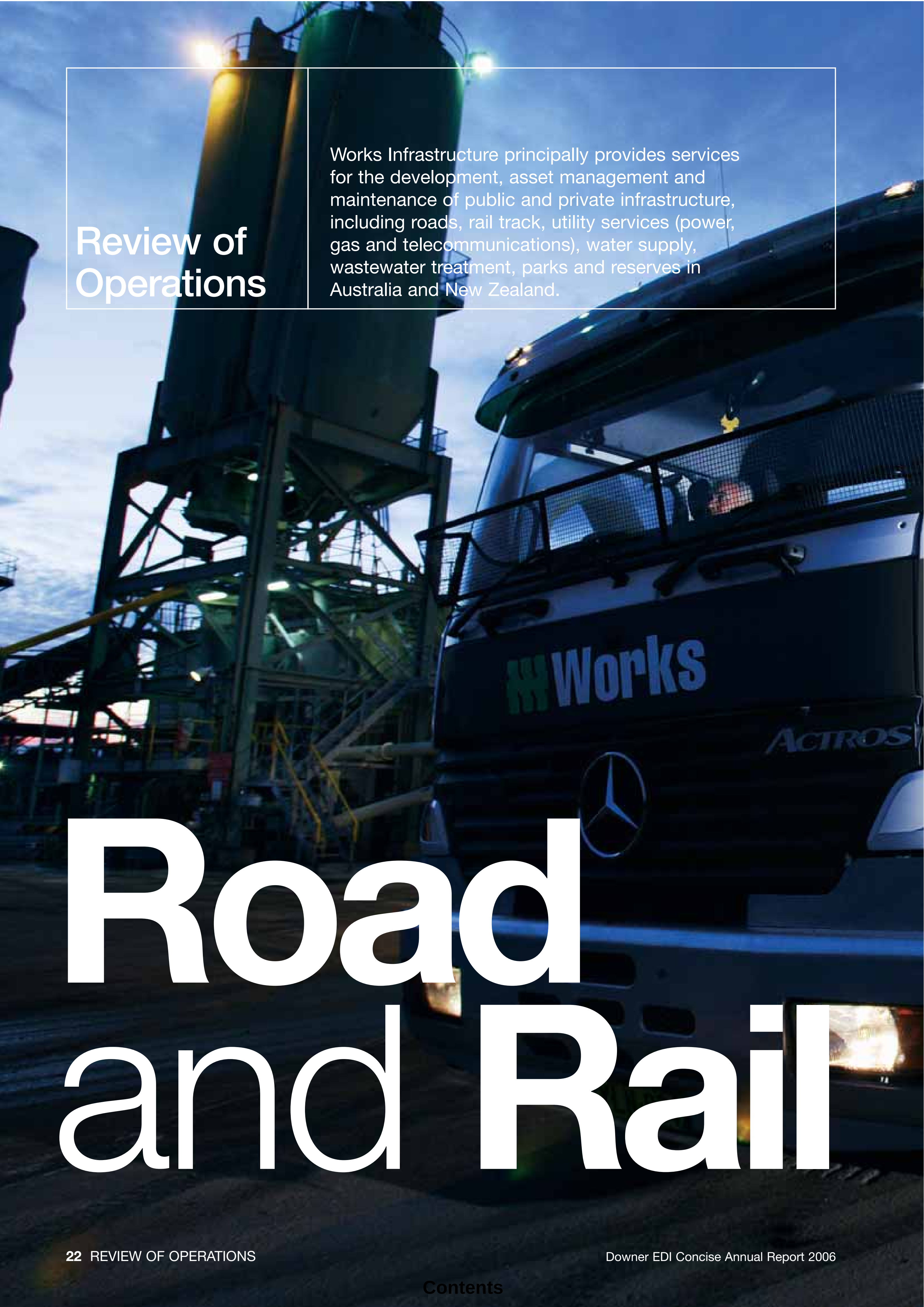
The strategic growth plan for Coomes includes adding bolt-on businesses to achieve its vision to become a national consulting practice. We anticipate that bolt-on businesses will be available in 2007 to assist in building an Australian national practice.

Outlook

The housing market in Victoria is likely to recover slowly over the next year or two. The industrial, warehouse and business park development market remains stronger and Coomes is focused on increasing its share of this work.

Strategic marketing to broader geographic and infrastructure sector markets are providing growing sources of alternative revenue particularly in the regional centres.

Left to Right **David Hunter** Deputy Chief Executive Officer, Coomes Consulting Group **Paul Chamberlain** Commercial Manager, Duffill Watts Group **Graham Belcher** Chief Financial Officer, Coomes Consulting Group



Review of Operations

Works Infrastructure principally provides services for the development, asset management and maintenance of public and private infrastructure, including roads, rail track, utility services (power, gas and telecommunications), water supply, wastewater treatment, parks and reserves in Australia and New Zealand.

Road and Rail


Works
INFRASTRUCTURE

Road and Rail

Review of Operations

David Cattell
Chief Executive Officer
Works Infrastructure Australia

David joined the Group in 1996 and was appointed CEO of Works Infrastructure Australia in 2002. He has more than 18 years experience in infrastructure project management. He holds a Bachelor of Engineering (Hons) and Master of Business Administration.

Works Infrastructure's turnover and profit contribution increased substantially from the 2005 financial year. The year was also notable due to the addition of the Emoleum business in Australia and an entry into the UK infrastructure maintenance market with the acquisition of DMQA. The revenue of the combined Works Infrastructure businesses is expected to grow to $1.5 billion in two years.

Australia

Works Infrastructure Australia has continued to expand its core business with significant growth, both organically and through acquisition.

This strategy has seen a doubling in employee numbers to over 1500. Revenue has grown by over 50%, generally from the base of existing clients. The resultant EBIT improvement was 60%.

In the first quarter of 2006 Downer EDI completed the acquisition of the Emoleum business from Rinker and ExxonMobil, announced in December 2005. Emoleum was a major Australian national road surfacing and bituminous products company which also held significant road maintenance services contracts in Victoria, Western Australia, Tasmania and Queensland. These operations have been integrated into Works Infrastructure's existing capabilities to provide Downer EDI with the largest non-government roading services business in Australia.

It is expected that as the businesses are fully integrated there will be significant opportunities to further expand revenues and returns from our investment.

Works Infrastructure now has a national footprint for both road and rail services, with a significant presence in every State and Territory. Several key road maintenance contracts have been either retained or extended during 2006 providing a sound platform for future years.

The 2006 financial year has also seen important developments in Works Infrastructure Australia's rail business. Success in key projects has seen expansion into New South Wales and Queensland. The company is well placed to take advantage of the significant opportunities that these markets are expected to offer.

Outlook

The economic outlook in Australia for the coming year is positive with continued commitment by federal and state governments to increased spending on road and rail infrastructure. The existing large backlog of road and rail projects, high international and domestic demand for resources and a shift towards greater private investment should result in many new infrastructure projects nationally. The positive economic environment is beginning to impact already, with a significant increase in secured revenue for 2007.

New Zealand

Works Infrastructure New Zealand (Works NZ) reported strong results for the year and a positive infrastructure market outlook. The business has continued its key focus on building strong partnerships with Local Authorities for network management services in the roading and water sectors and consolidating its position as a major services supplier to Transit NZ for the national roading highway network in New Zealand.

Operating strategies continued to focus on delivering improved operational performance in civil engineering services and roading/water network maintenance activities, developing people as a core competitive advantage and diversifying revenue streams.

Works Infrastructure Australia: Left to Right **Chris Murphy** Chief Financial Officer **Mark Petale** Executive General Manager Human Resources & Safety **Murray Brown** Executive General Manager Strategic Development **Sergio Cinerari** Executive General Manager Southern Region

Left to Right **Greg Murphy** Executive General Manager Western Region **Cos Bruyn** Executive General Manager Eastern Region

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Peter Reidy
Chief Executive Officer
Works Infrastructure
New Zealand

Peter holds a Bachelor of Commerce (Accounting) and has over 15 years leadership experience in the energy, distribution and manufacturing sectors in New Zealand and the United Kingdom.

Martyn Cuthbert
Chief Executive Officer
Works Infrastructure UK

Martyn is a qualified engineer with over 18 years experience in industry, the last 13 spent in infrastructure maintenance in passenger/freight rail and water treatment, and previously nuclear and oil and gas power generation.

During the year a pilot test of the network management technology system was completed, which will be delivered to three key Local Authorities during 2007. This system will assist Works NZ to deliver a competitive network management service to Local Authorities for regional roading and water assets.

New business streams were established in the water and utilities sector to diversify the portfolio of services. Both sectors are forecast to grow in future years due to the aging infrastructure, particularly water, and increased national water quality standards. Increased customer demand for more efficient roading networks, particularly in Auckland, will also drive demand.

During the year, a joint venture with Leighton Contractors was announced, operating in the civil construction market in New Zealand. At year end formal notification was received for the Manukau State Highway 20-1 motorway extension project valued at NZ$208 million over four years. Works NZ will be the major supplier of asphalt and road surfacing products and engineering services to Leighton Contractors.

The New Zealand roading market is mature, however Works NZ has a strong market share in the regional and metro roading maintenance sector. The Leighton/Works NZ joint venture arrangement should lead to further major transport network opportunities where Works NZ can provide its products and services, as the New Zealand Government lifts its expenditure on road building activities.

The national roll-out of the Works Infrastructure New Zealand new brand livery was commenced across all locations and the vehicle fleet, supporting the brand platform throughout New Zealand. The brand continues to be enhanced through the Super 14 rugby referee sponsorship which is in its second year of a three year contract. This sponsorship has delivered significant brand exposure and awareness with customers in local communities.

Outlook

In the last five years there has been population growth of approximately 15% in the urban and urbanising regions of Auckland, Waikato, Wellington, Canterbury and Otago. This growth will require substantial investment in infrastructure to deal with traffic congestion, waste handling, provision of water and energy. In addition, regional areas of New Zealand must maintain and upgrade infrastructure to retain these populations and attract new activities from a smaller rating base. It is therefore expected that government funding for essential infrastructure will increase.

The New Zealand government recently announced a significant increase in funding for the state highway network of NZ$1.5 billion over five years. This will bring certainty to large road infrastructure projects through to 2011 and will release funding pressure on regional road networks throughout New Zealand.

United Kingdom

During the year, Downer EDI made its first European based acquisition with the purchase of DMQA, a privately owned business based in England, with operations in Rotherham, York and Hull. The operations include DMQA Rail, specialising in trackside maintenance and renewals, and DMQA Utilities, primarily undertaking projects with road and water authorities. The business has been re-branded Works Infrastructure and provides Downer EDI with the opportunity to leverage its maintenance business model into the United Kingdom market.

Left to Right **Paul Kyte** General Manager Rail
Paul Taylor General Manager Central Region

Works Infrastructure New Zealand: Left to Right **Bernard Hough** General Manager Major Projects (Pacific) **Andrew Morton** General Manager Human Resources **Sandra Dodds** General Manager Corporate Services **John Beattie** General Manager, Safety, Quality, Environment and Insurance

Review of Operations

Downer Engineering is Australia's largest provider of electrical contracting and a significant supplier of mechanical contracting services. The division also designs, project manages and maintains high voltage transmission lines, gas fired combined and open cycle power stations, heat recovery steam generators and a range of other power station related systems. Its operations cover Australia, New Zealand and the Pacific.

Power and Engineering Services

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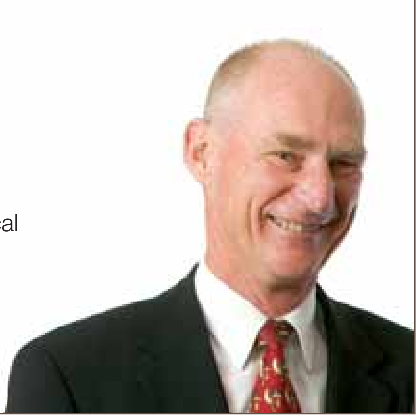
Power and Engineering Services

Review of Operations

Ron Guthrie
Chief Executive Officer
Downer Engineering

Ron Guthrie is a qualified electrical engineer with over 35 years experience in the electrical contracting industry in Australia. He holds post graduate qualifications in Business Administration and has played a leading role in industry initiatives like alliance contracting.



Performance and activities for the year

Turnover from Downer Engineering's Power and Engineering Services businesses increased substantially in the 2006 financial year, largely as a result of the booming resources market and increasing demand in the electricity generation and transmission sectors. The result was impacted by one-off contract provisions made in the energy systems area.

Downer Engineering's work in the renewable energy sector continued during the year with the completion of the Alinta windfarm at Geraldton, Western Australia and the commencement of the Emu Downs windfarm at Yambuk, Victoria. The ever increasing emphasis on renewable energy is expected to generate more opportunities for this work in the future.

In New South Wales, the strength of Downer Engineering's industrial centres of Newcastle and Wollongong was evident.

The Newcastle operation completed and shipped a total of 11 demountable substations for the Alcan Alumina Refinery expansion at Gove in the Northern Territory. Downer Engineering also played a major role in the on-site implementation works for this project which are now nearing completion.

In Wollongong, Downer Engineering's long term relationship with Bluescope Steel continued with major upgrades of the Pickle line and Temper Mill successfully completed. The next major project for Bluescope is the reline of its No. 5 Blast Furnace with the electrical design work awarded to Downer Engineering.

In Sydney, the Service operation's strong performance continued with its sixth consecutive year of growth, despite a general slowing in the market. The Service division continued to work with the Downer Telecommunications division constructing over 110 3G mobile sites for Optus and Vodafone. The Sydney Industrial operation performed strongly again this year, supported by project and maintenance works with Orica, Shell, Caltex and Sydney Water.

The Queensland operations generally saw an increase in activity. Downer Engineering's facility in the industrial centre of Gladstone carried out a variety of plant upgrades and also supported sister company Roche Mining with the construction of the new Coal Wash Plant at the Foxleigh mine. Downer Engineering also successfully performed the mechanical and electrical installation works on the Caltex Clean Fuels Project at its Lytton Refinery in Brisbane.

It is in Western Australia that the effect of the resources boom was most evident. During the year, Downer Engineering completed the final stage of the upgrade works on the massive Telfer Gold Mine. Also in the Pilbara, Downer Engineering was chosen by BHP Billiton to carry out all electrical work associated with its Rapid Growth Expansion project designed to cater for the surge in world demand for iron ore. Stage two of the work has been successfully completed and stage three will carry into the new year.

Also in the North West, Downer Engineering's long association with Woodside continued. Work is well under way on the underground cabling section of the new Train V expansion and the company is working closely with Woodside's project managers, Foster Wheeler, on the design stage of the above ground work. The main above ground work will commence during 2007 with Downer Engineering carrying out all electrical and instrumentation work.

In Perth, Downer Engineering continues to maintain the city's traffic light system. The system is a vital link in keeping Perth's traffic moving. Downer Engineering has a similar contract and responsibility for Melbourne

Left to Right **Bob Hatherley** General Manager Western Region **Paul Elliot** General Manager Finance traffic signals. During the year Downer engineering's area of responsibility in Melbourne was doubled to now cover two thirds of the system.

In Victoria, Downer Engineering provided a large construction team at short notice to assist Origin Energy to bring its Bass Gas project into operation with work completed by year end and the plant entering service.

During the year, considerable work was carried out on facilities required for the Commonwealth Games. The main areas of work were associated with the Sports and Aquatic Centre and the Melbourne Cricket Ground (MCG). Downer Engineering's major upgrade work of the MCG was completed during the year.

Downer Engineering's activities in the power transmission and distribution sector increased substantially during the year with the company now responsible for all transmission lines built in northern Queensland over the next five years, through an alliance style contract with Powerlink. A similar contract has been entered into for substations. The control and protection panels will continue to be produced in Downer Engineering's manufacturing facility in Brisbane.

At a distribution level, Downer Engineering has been providing maintenance and installation services to Ergon in the northern part of the state. This work is expected to further expand in 2007.

Western Power also has a transmission line expansion program in the pipeline. Downer Engineering is currently installing a 330kV circuit from the Southern Terminal to Kenwick substation, and is installing a 275kV line extension to tie the Alinta generators at Pinjarra into the Western Power grid.

The group's power generation business focused on project delivery during the year with the first 150MW cogeneration unit being constructed for Alinta on Alcoa's Pinjarra refinery site.

The group's largest power station contract, the 400MW combined cycle power station in Huntly, New Zealand, has been the main focus of activities during the year. It is on target for completion in early 2007.

In the process engineering area, our New Zealand business, Downer MBL, had a strong year with the award of the Stage II Protein Plant for Westland Milk Products in New Zealand, in addition to the successful completion of the Fonterra Te Awamutu Driers and Westland Stage I project. The business has continued to secure projects outside of the traditional New Zealand dairy industry and within the niche 'food processing market' with AB Mauri, Goodman Fielder and Dairy Farmers in Australia.

Outlook

The 2007 financial year is expected to see a continuation of the strength demonstrated this year in the resources market. This market is a traditional source of work for Downer Engineering's electrical services and one in which it dominates.

The buoyant oil industry will ensure that opportunities for Downer Engineering's mechanical services remain high.

The electricity generation, transmission and distribution sectors are all demonstrating a high degree of activity. Considerable further growth is expected in this market in the short term.

The buoyant market conditions will generate more alliance and negotiated contract opportunities. On-going relationships with blue chip clients will present opportunities to negotiate maintenance contracts after completion of major plants.

Left to Right **John MacLellan** General Manager New South Wales **Peter Short** General Manager Queensland **Norm Lancefield** General Manager Victoria **Russell Houlahan** General Manager Business Operations

Review of Operations

Downer Telecommunications provides communication engineering to the Australian, New Zealand and South East Asian markets. Services include facilities management, exchange centre management, field services, pay television installation, network engineering, integration of technologies, operations and a broad range of design, commission and maintenance.

Telecomm

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Telecommunications

Review of Operations

Wayne Nolan
Chief Executive Officer
Downer Telecommunications

Wayne Nolan has held management positions in the Australian and New Zealand contracting and service industries for 25 years, gaining experience across a number of engineering disciplines. He is currently responsible for all of Downer EDI's Telecommunications businesses in Australia, New Zealand and Asia.

Performance and activities for the year

The Telecommunications businesses in New Zealand, Singapore, Thailand and Malaysia reported stronger performances for the year compared to the previous year, while the Australian telecommunications business remained subdued, largely as a result of the level of capital spend in Australia.

During the year, Downer Engineering's Telecommunications businesses were brought under a unified senior management structure across all geographic operations. This will enable the group to benefit from synergies in strategy, experience and resources.

In New Zealand, turnover of Downer Engineering's Telecommunications business grew a respectable 13%, reflecting increased activity with its major customer, Telecom New Zealand, and completion of a major optical fibre network build for Auckland's commuter rail system.

Downer Engineering consolidated its position as the leading supplier of technical services to Telecom New Zealand, with business growth across all segments reflecting robust network deployment activity. It played a pivotal role in helping Telecom New Zealand exceed its ambitious broadband penetration targets, with connections more than doubling during the year.

With the Field Services Contract entering its third year, the maturing relationship with Telecom New Zealand has lead to a number of joint initiatives that will create further value for both parties in the coming year.

During the year Downer Engineering grew its internal facilities management capabilities and is now well placed to extend this business into new markets.

In addition to Telecom New Zealand, Downer Engineering is responsible for ensuring the ongoing operation of safety-of-life radio services for both the Department of Conservation and Maritime New Zealand and has been an integral link in maintaining and extending capabilities for mobile radio operator Teamtalk.

The outlook for New Zealand looks strong for 2007 as the value growth initiatives with Telecom New Zealand are implemented and Downer Engineering continues to leverage its core competencies into new markets and broaden its client base.

In Australia, Downer Engineering continued to consolidate its market position by successfully renegotiating an extension to its contract to provide telecommunications engineering services to Telstra. It will continue to deliver a diverse range of services including copper and optical fibre network repair and maintenance, and telephony installation and maintenance in the important New South Wales country 'patch'.

In the subscription TV business stream the highlight has been the securing of a multi-year contract with Foxtel to install and maintain consumer premises equipment.

Left to Right **John Luhrs** Corporate Services Manager Telecommunications
Andrew Watson General Manager Telecommunications Asia

Downner Engineering's wireless systems business has continued to expand, having secured contracts with Nokia to build 3G mobile sites in Western Australia, New South Wales and South Australia for Optus and 2G sites for Telstra. The joint venture with transmission site owner Crown Castle delivered wireless broadband installations to Unwired and mobile build projects to Optus.

At the regional level, Downer Engineering continues to provide optical fibre network installation and maintenance services to various regional and national carriers.

In Asia, Downer Engineering currently operates in Thailand, Malaysia, and Indonesia. The outlook for the Asian region is extremely positive, with significant growth in mobile network capacity being planned to substitute for low fixed line penetration. Downer Engineering will continue to expand its services to major customers in current markets and is evaluating new market opportunities in the region for strategic growth.

In Thailand, Downer Engineering operates both in its own right, to undertake fixed line projects, and in a joint venture providing mobile network engineering services. Achievements during the year include a mobile network deployment for the Communications Authority of Thailand, and several cable projects for the Telephone Organisation of Thailand. Both the mobile and fixed line telephony markets continue to provide strong long term opportunities for Downer Engineering.

In Malaysia, Downer Engineering continues to provide mobile telephony engineering services to operators Maxis and Digi through a joint venture.

In Indonesia, Downer Engineering entered into a joint venture to take advantage of the strong growth in mobile network deployment. Major projects to build mobile base station sites are in progress for a number of the large mobile carriers and telecommunications equipment vendors. The outlook for Indonesia is positive with significant opportunity limited only by a shortage of sufficient skilled resources.

Outlook

The overall outlook for Downer Engineering's Telecommunications business in its key markets is positive. Telecom New Zealand is continuing to invest in infrastructure to meet strong growth in broadband, which is expected to benefit Downer's New Zealand business. In Asia, growth in mobile tele-density is leading to strong mobile network construction in the key markets of Thailand and Indonesia. Telstra's reduction in network spending in Australia and tight margins are likely to continue to present challenges for service providers, however growth is expected in a continuing deployment program of 3G mobile networks for Telstra, Optus and Unwired.

Left to Right **Michael Newman** General Manager Telecommunications Australia **Hamish Guild** General Manager Telecommunications New Zealand **Trevor White** Group Finance Manager Telecommunications

Review of Operations

Roche Mining and Century Resources are two of the largest and most experienced providers of services in their respective markets. Roche's portfolio of services includes consulting, mining (open cut and underground), mine management, process engineering and blasting services, while Century provides land drilling services to the oil, gas and geothermal markets in Australia, New Zealand and South East Asia.

Mining and Resources

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Mining and Resources

Review of Operations

Brent Waldron
Acting Chief Executive Officer
Roche Mining

Brent Waldron is Deputy CEO of Downer EDI and is currently Acting CEO of Roche Mining. He holds Bachelor of Commerce (Accounting) and Master of Commerce (Hons) degrees and has extensive management experience in the retail, forestry, engineering and banking sectors.

Performance and activities for the year

Underlying turnover in the Mining and Resources division was up 5.5% to $1.4 billion, compared to the previous year, with Roche Mining's (Roche) performance aided by the high levels of activity in the minerals sector and a strong performance by Century Resources (Century).

Underlying profitability increased, with the exception of some process engineering projects. Shortages of both professional and trade skills and other cost escalations hindered Roche's ability to deliver some process engineering contracts on time and on budget. These impacts, together with a major dispute with Iluka Resources over the design and plant installation for the Douglas Mineral Sands project, have been accounted for in the 2006 full year Downer EDI results.

The division is clearly focused on mitigating the risk of construction contracts by moving to a more favourable mix of alliance style contracts, currently around half. The majority of Roche's fixed price contracts will be completed during 2007.

Recent new and renewed contracts for both Roche and Century have substantially increased the forward order book, currently standing at $2.8 billion, with continuing positive indicators.

Roche Mining

Following on from the addition of internationally recognised mining consulting group, Snowden, in December 2004, Roche further expanded the company's services within the mining industry in March 2006 by acquiring Otraco International, a leading tyre management and consulting business in the mining sector. Otraco's primary capabilities are on site tyre management, tyre consultancy and training services.

Another significant development for Roche was the creation of the umbrella 'Process Engineering' group, integrating the capabilities and resources of its three engineering businesses for design and product development (Roche Mining (MT)), design, construct and maintain (Roche Mining (JR)) and design and consulting (QCC Resources).

The creation of the Process Engineering group has optimised Roche's front-end engineering capabilities, with projects in the past year including the design, project management, build and commissioning of the coal handling processing plants for Xstrata Coal and Camberwell Coal, management of the BeMaX Gingko floating concentrator relocation and upgrade, the Paulsen's Gold plant upgrade of the crushing operations, the Wodgina Tantalum plant upgrade and the upgrade of the Emily Ann Nickel processing plant for client LionOre.

During the year, the Wet Concentrator Plant of Iluka's Douglas Project reached practical completion and the Mineral Separation Plant is undergoing commissioning with an expected practical completion during the fourth quarter 2006.

The group also expanded its international position, continuing works at the Kenmare-Moma mineral sands project and securing new contracts to supply products and technology packages to the RGB Mineral Huanuni tin operation in Bolivia, the CVG Ferrominera Orinco CA in Venezuela and with PT Sugico Graha in Indonesia.

Roche Mining also received formal recognition for the development of their innovative mineral processing equipment, winning the Premier of Queensland's "Smart Award" for 2005 in the Manufacturing category.

The awarding of long term contracts to manage product supply and blasting services at AMCI Australia Limited's Broadlea Coal Mine and the environmentally sensitive and technically challenging Donaldson Coal Mine follows unprecedented growth in capabilities

Roche Mining: Left to Right **John Gooding** Executive General Manager Underground Operations **Denis O'Brien** Executive General Manager Mining **Ross Rinella** Executive General Manager Business Development

Left to Right **Ole Elsaesser** Chief Financial Officer **Don Taylor** Executive General Manager Plant **Kelvin Ryan** Executive General Manager Human Resources

Robert Hackett
Chief Executive Officer
Century Resources

Robert Hackett is a qualified Civil Engineer and holds a Master of Business Administration. He has qualifications, skills and experience with large multinational corporations in the heavy engineering, drilling and merchant banking sectors and has served as CEO of Century Resources since 1998.

and market share by Roche's explosives and blasting service unit, Roche Blasting Services.

New open cut mining contracts include a 5.8 year contract with Idemitsu Coal Pty Ltd to start up the Boggabri Open Cut Coal Mine in New South Wales, a contract to provide load and haul mining services at the West Whundo copper mine and a long term alliance contract with Fortescue Metals Group Ltd to provide services in mine planning, engineering equipment selection and purchasing, site establishment, pre-production mining and ongoing mining production at the Cloud Break and Christmas Creek deposits in the Pilbara region.

Works commenced at the Millennium open cut coal mine project in Central Queensland with a $160 million alliance contract with Excel Coal.

Significant sales growth in underground mining has strengthened Roche's market position with recent contracts including a four year alliance contract for the recommissioning and operation of the Pillara mine in the Pilbara region of Western Australia with the Lennard Shelf Joint Venture for TeckCominco and Falconbridge and a contract extension at Oxiana's Golden Grove project.

Century Resources: Left to Right
Louis Tapa Deputy Chief Operations Officer
Peter Goeldner Chief Financial Officer

Roche was also awarded a major contract extension to provide underground mining services at the Argyle Underground Diamond Mine, following a decision by Rio Tinto to extend the life of the Argyle mine until 2018.

Snowden

Snowden also had a very positive year working on approximately 140 projects including feasibility and pre-feasibility studies, geotechnical engineering, resource evaluation, mine planning and designs, project management, independent expert reports, valuations, due diligence, business improvement and performance management, technical training and mentoring, exploration project management and information technology. Snowden's projects were spread across the world in all continents except Antarctica.

Snowden's major projects during the financial year were for BHP Billiton, Rio Tinto, CVRD, Skye Resources, Kumba, BHP Billiton Mitsubishi Alliance, Industrial Development Corporation, Placer Dome, Falconbridge, Hope Downs, BCL, European Nickel, Integra Mining, Luismin, First Quantum Nickel, Fortescue Mining Group, Barrick Gold, Newcrest and Aim Resources.

Snowden Consulting: Left to Right
Dr Phil Snowden Executive Consultant
Mark Warren Executive General Manager

Century Resources

The 2006 financial year was one of consolidation of systems, people and field processes following a doubling of revenue in the previous year and a substantial reactivation of the entire rig fleet in response to strong client demand and attractive rig rate and fee pricing.

Employee numbers peaked at just over 1,000, reflecting the substantial increase in the company's operations in Indonesia.

Relative to prior years, new and renewed contracts are on more advantageous terms, of a longer duration and with favourable provisions for negotiated periodic pricing adjustments.

High oil and gas prices, a resurgence in the New Zealand geothermal sector, a step up in activity in the Indonesian geothermal, oil and gas sectors and high levels of activity in north east India continued to generate highly favourable supply and demand dynamics for Century. The company's positioning as a premium service provider, with high productivity, best in market equipment and superior HS&E systems, is being recognised in terms of both pricing and activity. Century is consistently delivering lowest total well cost for its clients.

Outlook

The outlook for the Australian mining and resources industry remains positive with ongoing international demand and continuing increases in commodity prices, in particular coal and iron ore. Century Resources is also well positioned to benefit from the ongoing demand for oil and gas, with high prices forecast to remain. The focus for the coming year will be on securing skilled resources to meet the needs of these demands.

Review of Operations

EDI Rail is Australia's leading provider of passenger and freight rollingstock and associated maintenance, offering services in the design, manufacture, refurbishment, overhaul and maintenance of diesel electric locomotives, electric locomotives, electric and diesel multiple units, rail wagons, traction motors and rollingstock and related services.

Rail Vehicles and Maintenance


VOLTAGE
NO ENTRY
PHONE
SMOKING PROHIBITED
DANGER
ELECTRICAL EQUIPMENT

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Rail Vehicles and Maintenance

Review of Operations

Guy Wannop
Chief Executive Officer
EDI Rail

Guy Wannop holds a PHD in Engineering and has close to 30 years of senior management experience working in Australia, USA and South Africa. Guy has worked across a diverse range of industries including engineering, manufacturing and security.

Performance and activities for the year

The Freight business stream of EDI Rail secured new locomotive build and long term maintenance contracts during the 2006 financial year while the Passenger business was heavily involved in preparing bids for the New South Wales RailCorp PPP. The Parts and Accessories business stream continued to enjoy strong year on year growth.

EDI Rail's turnover was in line with the previous year. Operating earnings grew substantially with margins improving, reflecting the change of business mix to more service and maintenance based revenue and less manufacturing. Two thirds of the revenue continues to be generated from the Freight business.

During the year, several important contracts were successfully completed, including the balance of the 31 trains ordered by the Perth Transit Authority from the EDI Rail/Bombardier Joint Venture. These trains were built in our Maryborough facility and delivered on time and on cost to the customer.

The trains have entered revenue service and have been well received by both the Perth Transit Authority and its customers. The trains will be fully maintained for 15 years at the purpose built facility at Nowergup.

In the second half of the year, EDI Rail completed the supply and commissioning of 14 heavy duty diesel electric locomotives for BHP Billiton Iron Ore. These locomotives are supporting BHP Billiton's increased exports of iron ore from the Pilbara region of Western Australia. By year end, EDI Rail had received a follow on order from BHP Billiton to supply a further ten locomotives under the same contract. These additional locomotives, to be delivered in 2007, will be supplied with isolated cabs which will enhance the amenities and comfort for the crew.

EDI Rail's Maryborough plant in Queensland retooled the passenger train building facility at the end of the Perth Transit Authority contract to enable production of 24 electric trains ordered by Queensland Rail (QR) to meet increased passenger volumes on the Gold Coast and Sunshine Coast lines. By year end, the first vehicle had entered the phase of final testing. After qualifying tests and commissioning it is expected that the train will be accepted for passenger revenue running by Queensland Rail on time early in 2007.

Work to rebuild the Cairns Tilt Train (damaged in an accident in November 2004) continued during the year with several cars nearing completion by year end. It is anticipated that this work will be completed in 2007.

Left to Right **Danny Broad** Executive General Manager Freight **Neil Langridge** Chief Financial Officer **David Williamson** Executive General Manager Passenger

The last of the 11 narrow gauge Diesel Electric locomotives for QR were delivered from the Maryborough facility early in the year. These locomotives will join the existing 38 locomotives being supported by EDI Rail under a maintenance support contract with QR. By year end, a further order for similar Diesel Electric locomotives was received from Queensland Rail and will commence delivery in 2007.

EDI Rail's Cardiff facility in Newcastle completed four Diesel Electric locomotives for Pacific National. After a successful handover, the locomotives joined Pacific National's coal fleet and will be maintained under the collaborative maintenance contract with Pacific National. Prior to year end, production commenced on building an order for 11 Diesel Electric AC powered locomotives for SCT Logistics. This contract integrates the latest locomotive technology from EDI Rail's technology partner Electro Motive Diesels (EMD). EDI Rail has been an associate of EMD, the former General Motors subsidiary, for more than 50 years.

Reliance Rail submitted a bid to RailCorp in October 2005 for the financing, design, construction and maintenance of 33 eight-car double deck passenger trains and 26 eight-car single deck passenger trains for use in the Sydney CityRail network. Reliance Rail is the consortium formed by Downer EDI with AMP Capital, ABN Amro and Babcock and Brown to bid on this public private partnership (PPP) procurement.

Subsequent to the original bid, RailCorp revised certain specifications and terms of the proposals and requested the four bidders for the single deck trains (Siemens, Bombardier, United Group (bidding as Star Transit) and Reliance Rail) and two bidders for the double deck trains (Reliance Rail and Star Transit) submit new bids at the end of February 2006. In May 2006, RailCorp announced that single deck trains did not provide good value, and requested Reliance Rail and Star Transit bid for an increased quantity of 72 available double deck trains, on a 'winner take all' basis. The revised bids were submitted on 10 August 2006.

Outlook

With the Millennium Train continuing to be the most reliable train on the New South Wales network, EDI Rail's position as a leading provider of passenger rail cars and their long term maintenance has been further enhanced and stands the company in good stead for the public private partnership procurement process in New South Wales.

The continued demand for increased export quantities of iron ore and coal also stands EDI Rail in a strong position to gain opportunities to build and maintain additional locomotives and freight wagons. The ongoing investment by the Federal Government to upgrade the rail infrastructure on the East Coast of Australia is creating a resurgence in rail traffic and the rail industry. EDI Rail, with its well positioned national coverage of rail maintenance facilities, is well positioned to take advantage of the expected growth of rail traffic.

Left to Right **Martin Camp** General Manager Manufacturing **Mark Baxter** General Manager Engineering **Alex Moro** General Manager Parts and Accessories

Corporate Social Responsibility

The 12 month Lost Time Injury Frequency Rate (LTIFR) across the company was at a record low in 2006 with a rate of 2.3 (2005: 2.5), a decrease of 8%, and importantly a 43% decrease since 2004. Employee numbers have increased by 5,400 to over 21,000 in the same period.

Occupational health and safety

Downer EDI is committed to the health and safety of its employees through adherence to the company's occupational health and safety (OHS) policy[1]. The board of Downer EDI, through its health, safety and environment committee, reviews its policies and oversees the company's safety performance.

The 12 month Lost Time Injury Frequency Rate (LTIFR) across the company was at a record low in 2006 with a rate of 2.3 (2005: 2.5), a decrease of 8%, and importantly a 43% decrease since 2004. Employee numbers have increased by 5,400 to over 21,000 in the same period.

This improved result continues the trend of recent years and reflects consistent efforts across the company's divisions to improve on their safety performance. Medically treated injury frequency rates also improved in most operations and the overall rate improved 15.5% to 18.5. There were no fatalities for the period.

Each division has strong management commitment, and documented safety management systems and procedures with continuously improving targets.

Each year, challenging goals and plans are set for the divisions and individual business units. Management systems are reviewed periodically and regular safety audits carried out by operating personnel, supervisors, customers and independent auditors.

Works Infrastructure in Australia instituted its "SafetyWorks" program in order to stimulate employee involvement in improving safety.

The initiative is specifically designed to improve the competency of managers and supervisors in delivering leadership in OHS. A product of the initiative was the establishment of the "SafetyWorks" website which allows all employees to access information about safety and health relevant to both the workplace and to their home lives.

Works Infrastructure Australia was a finalist in the 2005 Workplace Safety Awards in Tasmania (best workplace health and safety management system category) and received preferred contractor status from Norske Skog because of its safety systems and management.

Works Infrastructure Australia's safety management system continued to be certified under AS/NZS/ISO 4801.

In New Zealand, Works Infrastructure was formally recognised for consistent safety management excellence through an award from the Accident Compensation Corporation. Works Infrastructure is the first New Zealand company to have achieved the Corporation's safety management practices tertiary standard, the highest possible standard, over six consecutive years. They won the 2005 Manukau Business Excellence Safety Award and are finalists again in 2006.

Works Infrastructure New Zealand's current LTIFR is 1.1 per million hours worked and this is acknowledged by industry as 'best practice'. During the current year, the management focus will shift from a systems based safety program to a values based approach to further reduce minor injuries and develop empowerment in the front line. The 'Team up to Safety' program will encourage greater risk identification by all staff.

Roche Mining has introduced new company wide Health, Safety and Environmental (HSE) awards which recognise HSE achievement and innovation across the company.
The awards are performance based and include four categories: Best HSE Innovation; Best Overall Health and Safety Performance; Best Overall Environmental Performance; and Best HSE Performance for a Short Term Project.

The Roche project team at the Commodore Open Cut Coal Mine won the Queensland Department of Natural Resources and Mines award for best safety management in South East Queensland for the second year running.

Century Resources' safety and environment performance continued to be in line with industry leading peers in its markets. The South East Asia business unit in particular continued to produce outcomes comparable to industry world's best practice. Across the division, the LTIFR and total recordable injury frequency rate (TRIFR) for 2006 was 1.36 and 10.17 respectively per million hours worked.

Century's HSE focus continues to be on cultural and behavioural change through use of training programs, including 'Think Safe, Work Safe, Home Safe', a theme which has also been adopted and applied by Downer Engineering's Telecommunications business in New Zealand.

Downer Telecommunications in New Zealand has also developed a program, encapsulated in a safety handbook 'Your Connection to Protection' distributed to all employees, combined with the upgrade and implementation of their certified health and safety training program.

Downer Engineering's Power business has seen substantial increases in employees in recent years necessitating the appointment of a National Health Safety and Environment Manager to the division. The Queensland Power business is taking a leading role in the systematic reporting of workplace near misses as an effective way of identifying where improvements can be made.

1 Both the Occupational Health and Safety Policy and the 'Environment Statement' contained within Downer EDI's Code of Conduct are posted on the company's website www.downeredi.com

EDI Rail's program of safety and environmental management awards across the company's business sites continues to encourage improved performance. It is one of a number of initiatives taken by management designed to heighten awareness and recognise achievement.

Environment

Downer EDI's 'Environment Statement'[1] is the foundation for the company's commitment to the protection of the environment.

Downer EDI is committed to using its best endeavours to conduct its operations in a manner that is environmentally responsible and sustainable, and to rigorously protect the environment in all its business activities. The board oversees the company's environmental performance through a regular review of reports and incidents. All aspects of environmental performance must be reported through senior management to the board.

The international environmental management standard, ISO 14001, is utilised by Downer EDI as a benchmark in assessing, improving and maintaining the environmental integrity of its business management systems. The care of the environment is a paramount concern and this is reflected in the activities, business practices and procedures of each division. Divisions also adhere to the environmental management requirements established by customers in addition to all applicable licence and regulatory requirements. These principles are applied to all Downer EDI operating and manufacturing business sites as well as those that are operated on behalf of customers.

There were no significant issues of regulatory non-compliance during the reporting period.

The Australian Government's Energy Efficiency Opportunities Act 2006 took effect from 1 July 2006. An internal review to meet the requirements of the legislation in the required timeframe is ongoing.

Works Infrastructure New Zealand achieved its first combined Integrated Business Management system certification, confirming that the company's ISO 9001 Quality Management Standard (quality), ISO 14001 Environment Management Standard (environment) and NZS 4801 safety systems and processes are integrated and aligned with the AS/NZS 4360 Risk Management Standard. Works Infrastructure New Zealand was also reconfirmed to the Enviro-Mark business excellence diamond standard (the highest possible standard) for its combined safety and environmental systems implementation.

Works Infrastructure Australia continued its certification under ISO 14001 (environment) and the accreditation of its business under the ISO 9001 (quality). Additionally, the business introduced a project management system which provides for the assessment of risk prior to activities being undertaken and ensures that risk registers are used as a mechanism to identify and control risks associated with the company's activities.

Roche Mining met the requirements to upgrade its Environmental Management System certification to the ISO140001:2004 standard. The upgrade followed an external surveillance audit conducted by Bureau Veritas Quality International involving the Baal Bone, Werris Creek and Cracow operations and the Brisbane head office.

Roche Mining, through the Roche Thiess Linfox joint venture (RTL JV), was awarded the prestigious 2005 Victorian Engineering Excellence Award for the Morwell River Diversion project at the Yallourn mine in the Latrobe Valley. The project involved an innovative design solution that ultimately saved the client millions of dollars and preserved a greater portion of the natural environment.

Century Resources continued its consultation program with industry bodies with presentations to groups including Primary Industries and Resources (South Australia), Natural Resources & Mines (Queensland), Department of Consumer & Employer Protection (Western Australia) and petroleum and regulatory authorities in New Zealand and Indonesia to ensure that the highest level of environmental and safety compliance is being achieved.

CPG in Singapore was appointed by the Public Utilities Board as the Watershed Manager responsible for master planning and redeveloping the environmental aspects of the various water authorities in Singapore's Eastern Water Catchment. In China, CPG Environment (Suzhou) was awarded the 'Environment Engineering Design Certificate' issued by the Ministry of Construction of China to allow a foreign company to provide environmental engineering services throughout China.

Downer Engineering is a leader in the design, building and maintenance of energy efficient power and co-generation plants, and has made substantial inroads into the emerging renewable energy sector, in particular wind power. The year saw completion of the Alinta windfarm at Geraldton, Western Australia and the commencement of the Emu Downs windfarm at Yambuk, Victoria, part of the largest windfarm in the southern hemisphere.

1 Both the Occupational Health and Safety Policy and the 'Environment Statement' contained within Downer EDI's Code of Conduct are posted on the company's website www.downeredi.com

Employees

With over 21,000 talented employees engaged across its global operations, Downer EDI is focused on building 'The Downer Way' – one multifaceted culture that enables the Group to achieve its goals.

Downer EDI is dedicated to the development of this diverse, multi-cultural group of people and recognises building leadership capability at all levels of its business as the critical catalyst in doing so.

The introduction of Balanced Scorecard throughout the Group will better integrate its management systems in line with its strategic goals, enabling the development of aligned human resources practices across the businesses.

During the year, as a Group, a number of areas received attention:

- Adoption, investment and training to use modern and current equipment and technologies;
- Investment in training and personnel development; and
- The use of our investment in sport sponsorship in New Zealand to promote teamwork and pride as a strong philosophy for business success.

Works Infrastructure in New Zealand continued with its employee development and engagement programs to support the company's strategy of developing key talent as a core competitive advantage. Their innovative people development strategies are designed to build the necessary skills that will help employees at home, at work and in the role they perform for customers in the local community. They are finalists in the 2006 Manukau Business Excellence Awards, in the Employer of Choice category.

The acquisition of Emoleum in March 2006 saw Works Infrastructure Australia's employee numbers increase from about 850 to over 1500. The competency levels of operational personnel are monitored throughout the division and the division's internal Registered Training Organisation carries out extensive competency based training and assessment of employees in the road construction and maintenance areas of the business.

At **Roche Mining**, the company has continued its commitment to attract and retain the right people in preparation for the future growth. Projects to develop and build its skilled workforce include those specifically aimed at university graduates such as the Roche Graduate Development Program, the Vacation Student Scheme and the Roche Scholarship Program.

Roche's employee development initiatives also include the adoption of more flexible work practices, demonstrated in schemes such as the casual 'hot seat' program at the Wambo open cut coal mine. Roche provided two weeks of operator training to several mothers from the local community in order that they become permanent part-time operators covering shift changes.

Since commencing mine work at Sepon in Laos, Roche has successfully recruited 80% of its workforce locally, with almost 40% being women. To facilitate communication with its predominantly non English-speaking workforce, cross-cultural training manuals have been produced and the company employs interpreters to assist with the daily communications necessary to maintain safety and production standards.

Roche has also designed and offered a unique intensive Open Cut Examiners (OCE) training program. Acknowledging the growing shortage of skilled personnel within the industry, Roche responded positively by devising the fast track program in conjunction with Kurri Kurri TAFE and DAMSTRA, a leading training provider to the mining industry. Upon completion of the program and statutory exams, the participants are qualified to act as OCEs on site.

Century Resources continued to commit resources to providing quality training and career development opportunities. For 2006, training and development of field based employees increased by 27% across the business relative to prior year. Focus areas have been leadership and personnel management, risk management and cultural awareness, in addition to the core industry skills covered under the National Drilling Industry Competency Standards.

In September 2005, Century's Australian Business Unit received an award from the Australian Government's Equal Opportunity for Women in the Workplace Agency in the category of 'Outstanding EEO Practice for the Advancement of Women in a Non-Traditional Role/Area'.

Downer Engineering has achieved industry recognition for its apprenticeship program with over 100 apprenticeships offered Australia-wide. One of its apprentices won the National Apprentice of the Year Award in November 2005. Again in 2006, Downer Engineering's Sydney operation has two of its apprentices as finalists in the 2006 NSW Apprentice of the Year Awards to be held in September.

Downer Engineering has also established a Business Support Services operation to consolidate business processes throughout the

expanding businesses within the division. This has seen the recruitment of National Systems, National HR and National HS&E management roles to the team.

At **EDI Rail**, a comprehensive roadshow covering all the division's sites was successfully implemented to help familiarise employees with the 'Work Choices Legislation' prior to the legislation coming into effect late March 2006. EDI Rail also has a strong focus on traineeships and apprenticeship programs and in the Hunter Region of New South Wales, has established a training alliance with HunterNet Group Training Company to source all apprentice requirements.

Community involvement

Downer EDI is committed to acting responsibly as a corporate citizen and views this as being imperative for all its business divisions. Through the company's policies and procedures it endeavours to ensure all employees deal effectively and appropriately with the communities in which the different businesses operate.

The company provides support to the local communities through community donations and employment programs and seeks to be responsive to community views and concerns.

Within New Zealand, **Works Infrastructure's** national presence ensures that it is an integral member of the many communities in which the company operates. Its focus is on helping to create better sustainable communities and in support of this it undertakes a number of programs designed to help both the company's employees and the local communities grow, succeed and shape their future. Programs initiated during the year included:

- Sponsoring "Safe at Schools" booklets;
- Literacy development program for employees; and
- Recruiting and training school children and prospective employees in safety awareness.

In Australia, Works Infrastructure has a range of community, youth and skills based programs. Examples include involvement as a participating company in the Beacon Foundation's skills development program for youth 'at risk' in Tasmania and continued sponsorship of the Little League of the Western Australian Football Association.

Roche Mining continued to demonstrate its commitment to developing relationships with indigenous communities. Roche furthered its support and sponsorship of the Yachad Accelerated Learning Project (YALP), a program aimed at helping school students, particularly those in indigenous communities, achieve their full potential.

Roche also collaborated with the Art Gallery of Western Australia and mining partners AngloGold Ashanti and Carey Mining in sponsoring an innovative program to develop future Australian leaders in indigenous arts, a key area of economic advancement for indigenous communities.

Roche was invited to become a participant in the Centre for Appropriate Technology's (CAT) 2006 Fellowship Program. CAT is the national indigenous science and technology organisation whose purpose is to secure sustainable livelihoods for these communities through the use of appropriate technology. The Fellowship Program will involve two Roche employees travelling to remote Australia and offering their specialist skills and knowledge to support challenging sustainability projects.

Roche demonstrated its strong support for the communities and employees affected by Cyclone Larry by making a group corporate donation of $20,000 to the Premier of Queensland's Cyclone Larry Relief Appeal. In response to the disaster, the company also organised an employee payroll contribution scheme which raised additional funds. More than 50% of permanent Roche employees at the Century Mining Alliance in remote north-west Queensland were affected by the cyclone, with some losing their homes and many enduring serious property damage.

Downer Engineering's community focus continues to be on education and youth. The company has sponsored a national scholarship with the Youth Off The Streets (YOTS) program. The program celebrates the gifts and strengths of young people from the Australian community who exhibit extraordinary promise but who lack the personal support networks and resources that will allow them to fulfil that potential.

Two four-year placements in Queensland's Smart State Engineering Scholarship program have been supported, as part of the Queensland Government's 'Engineer your Future' campaign, and the division continues to support the electrical engineering scholarship program with the University of NSW Co-op Program.

EDI Rail was the first company in New South Wales, in partnership with TAFE's Hunter Institute, to take up the Federal Government's initiative for 'Competition Manufacturing Training', which involves EDI Rail staff providing lectures at TAFE for supervisors and team leaders. The division has also been invited to be an 'industry partner' with the New South Wales Government's 'In-school Traineeship and Apprenticeship' initiative.

Board of Directors

Barry O'Callaghan AO

(70) was appointed as a non-executive director in May 1998 and is Chairman of the board. Mr O'Callaghan is a barrister and solicitor and a past consultant to the national law firm Corrs Chambers Westgarth 2002-2005, a Partner from 1960-2002, Chairman of Partners of the Melbourne office from 1993–1999 and Manager of the Property and Development Division from 1965–1992. He serves as Chairman of Mercy Health and Aged Care Inc and is a non-executive director of the Selpam Group and Monterey Investments. He was formerly a non-executive director of the Linfox Group, Hudson Conway Limited, the Royal Melbourne Institute of Technology Graduate School of Business and the Committee for Melbourne, and a former Chairman of Xavier College Council.

Peter Jollie AM

(66) was appointed as a non-executive director in April 2004 and is Deputy Chairman. Mr Jollie is a Past President of the Institute of Chartered Accountants and is a fellow of that body as well as the Australian Institute of Company Directors. Mr Jollie holds several current directorships. He was previously CEO of P&O Containers, Chairman of the Prospect Water Treatment consortium and was the Chairman of the Defence Housing Authority from 1997 to June 2003. Mr Jollie has had a long involvement in international trade having been a member of the Trade Policy Advisory Committee to Ministers for Trade for six years to 2002.

Stephen Gillies

(46) is Managing Director of the company. Mr Gillies holds a Bachelor's Degree in business with a major in accounting and finance and has over 20 years experience in construction, manufacturing, retailing and financial services. Mr Gillies spent a number of years with General Motors in finance before joining Cable Price Downer Limited in 1988. He has been Managing Director of Downer since 1996.

Mr Lucio Di Bartolomeo

(52) was appointed as a non-executive director of the company in June 2006. Mr Di Bartolomeo is a qualified civil engineer and has a Master's degree in Engineering Science; a Fellow of the Australian Institute of Management; Fellow of the Chartered Institute of Transport and a Member of the Institution of Engineers Australia. Mr Di Bartolomeo was Managing Director of ADI Limited (ADI) for four years and prior to this he was Chief Executive of a number of substantial businesses for over ten years, including six years as Managing Director of FreightCorp (now Pacific National). Mr Di Bartolomeo is a director of Civic Nexus Pty Ltd, the company appointed to redevelop Melbourne's Spencer Street Station precinct, and was recently appointed a director of Macquarie Generation. He is also a director of the Reliance Rail consortium, one of two final contenders bidding for the New South Wales Government's Rolling Stock PPP to supply new carriages to the CityRail network.

John Humphrey

(51) was appointed as a non-executive director of the company in April 2001. He holds a Bachelor of Laws degree from the University of Queensland. Mr Humphrey is a Partner in Mallesons Stephen Jacques based in Brisbane where he specialises in corporate and resource project work. Mr Humphrey is currently Chairman of Villa World Limited, and a director of Horizon Oil NL. He was appointed to the board of Evans Deakin Industries Limited in 2000 and, subsequently, to the board of Downer EDI Limited.

Christopher Renwick AM

(63) was appointed as a non-executive director of the company in September 2004. Mr Renwick was a qualified barrister and solicitor and holds both Bachelor of Laws and Bachelor of Arts degrees from the University of Melbourne. Mr Renwick was Chief Executive Officer, Rio Tinto Iron Ore until December 2004 when he retired from Rio Tinto. His wide experience in the mining and resources sector spanned 35 years with the Rio Tinto group and included chairmanships of Hamersley Iron, the Iron Ore Company of Canada and Robe River Mining, and Managing Director of Comalco Minerals & Alumina. He was a vice-president of the Australia Japan Business Co-operation Committee, and was an executive committee member of the Australia-China Business Council, including National President 1997–1999. He is a fellow of the Australian Institute of Management, a fellow of the Australian Institute of Export and a fellow of the Australian Academy of Technological Sciences and Engineering. Mr Renwick was made a Member of the Order of Australia in the Queen's Birthday Honours in June 2006.

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Corporate Governance

This report outlines Downer EDI's approach to corporate governance in the context of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

The board is committed to best practice in corporate governance and its ability to add value to the company and its shareholders.

Board charter and policies

The foundation of Downer EDI's approach to corporate governance is the adoption of a board charter, committee charters and board policies. These provide a guide to roles, responsibilities and best practice in the way the board functions and the company conducts its business. The following charters and policies have been reviewed and adopted by the board:

- Board charter
- Audit and risk management committee charter
- Nomination and corporate governance committee charter
- Remuneration committee charter
- Health, safety and environment charter
- Corporate code of conduct
- Directors' code of conduct
- Securities trading policy
- Disclosure policy
- Shareholder communication policy

Principle 1: Lay solid foundations for management and oversight

The board charter sets out the principles for the operation of the board of directors and describes the functions of the board and those functions delegated to management. The business of Downer EDI is managed under the direction and oversight of the board, with management of Downer EDI's day-to-day operations delegated to the managing director and the senior management team.

The primary goal set by the board is the enhancement of long-term shareholder value through excellent performance.

The board aims to achieve this objective by:

- reviewing and monitoring strategic plans and budgets, and setting long-term goals and policies;
- reviewing and approving Downer EDI strategies as developed by management;
- monitoring the performance of Downer EDI against financial objectives and operational goals;
- ensuring that appropriate recruitment and retention employment and succession strategies are in place;
- approving and monitoring the progress of major capital expenditure, acquisitions and divestitures and capital management;
- reviewing the managing director and senior management performance, conduct and reward;
- ensuring that the major risks of Downer EDI's businesses have been assessed and appropriate controls have been put in place and are working;
- supervising external reporting and disclosure;
- ensuring that Downer EDI has policies and procedures to satisfy its legal and other responsibilities; and
- determining the level of dividends and franking.

The board oversees the company's strategic direction and control by ensuring that management has in place appropriate processes for risk assessment, management and internal control and monitoring performance against agreed benchmarks. The board works with senior management as collaborators in advancing the interests of Downer EDI.

Principle 2: Structure the board to add value

Board composition

The composition of the board is determined using the following principles:

- the board comprises a majority of non-executive directors;
- the chairman of the board should be a non-executive director;
- the directors should possess a relevant and broad range of skills, qualifications and experience;
- the board should meet on a regular basis;
- the board should comprise at least three directors, but not more than fifteen; and
- the members should bring their independent judgement and scrutiny to Downer EDI's business, management and performance.

The composition of the board is assessed by the nominations and corporate governance committee to ensure it meets these principles and to ensure the required skills for the business are represented on the board.

As at the date of this statement, the board under the chairmanship of Barry O'Callaghan, comprises 6 members: 5 non-executive directors and 1 full-time executive director, Stephen Gillies, the managing director of Downer EDI Limited. A profile of each board member, which outlines their qualifications and experience, is provided on pages 46 and 47 of this report.

Board independence

The directors have an overriding duty to act in the best interests of the company, avoid situations of conflict of interest, and not use their position for personal benefit. Under the board charter, directors are required to promptly disclose possible conflicts of interest, interests in contracts, other directorships or offices held, possible related party transactions and sales or purchases of the company's shares. If a possible conflict of interest arises, the director concerned declares a possible conflict of interest, does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Directors must keep the board advised, on an ongoing basis, of any interests that could potentially conflict with those of the company.

The ASX Principles of Good Corporate Governance recommend that a majority of the board should be independent directors. Under the board charter, some examples of where a director is not considered independent are set out below:

- the director has been a principal in a material supplier of professional services to the company;
- the director represents a shareholder with more than a 5% relevant interest in Downer EDI; and
- the director is or has in the last 3 years been an executive of the company.

The definition of independent director adopted by the board is not materially different from that recommended by the ASX in the Principles of Good Corporate Governance.

Board meetings

The board meets regularly for scheduled meetings and on other occasions to deal with specific matters that require attention between meetings. The agenda for meetings is prepared in conjunction with the chairman and managing director and the regular business of the board includes review of business plans, financial performance, major strategic issues and investments, governance and compliance matters, regular presentations by operational management and consideration of occupational health, safety and environmental reports.

Committees of the board

The board has established committees to assist it meet its responsibilities. These committees review matters on behalf of the board and make recommendations for consideration by the full board. The board has established charters for the operation of its committees and minutes of committee meetings are reported to the full board.

Period of office

Each director (apart from the managing director) is required to retire by rotation, with one third of the board retiring each AGM. No director can serve more than three years without offering themselves for re-election.

Principle 3: Promote ethical and responsible decision making

Downer EDI recognises the need for directors and management to observe the highest standards of behaviour and business ethics when engaging in corporate activity. As part of this commitment, the board has adopted a directors' code of conduct and approved the corporate code of conduct for all employees.

Corporate code of conduct

This sets out the standards that the company will adhere to whilst conducting its business and applies to both directors and employees. The code includes:

- commitment to shareholders;
- compliance with relevant laws;
- environment protection;
- occupational health & safety;
- equal employment;
- confidentiality;
- conflicts of interest guidance; and
- general conduct.

Directors' code of conduct

This sets out the standards that each director will adhere to whilst conducting their duties and is in addition to the corporate code of conduct and statutory responsibilities. The code requires directors to act honestly, in good faith and generally observe the duties and exercise the powers vested in them with due care and diligence.

Securities trading policy

This sets out the policy for directors and senior management for dealing in the company's securities. It stipulates that directors and relevant employees should:

- never engage in short term trading in the company's securities;
- not deal in company securities while in the possession of price sensitive information;
- notify the compliance officer of any material intended transactions involving the company's securities; and
- restrict their buying and selling of the company's securities having regard to restrictive 'trading windows'.

The current shareholdings of directors are shown on page 53 of this report.

Principle 4: Safeguard integrity in financial reporting

The managing director and the group finance director provided the board with statements on Downer EDI's financial reports and compliance with the Corporations Act and accounting standards. The statements support the declarations required to be made by directors in respect of Group results.

Audit and risk management committee

Members: John Humphrey (chairman), Barry O'Callaghan, Peter Jollie and Chris Renwick.

The audit and risk management committee assists the board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and reporting practices of the company, and such other duties as directed by the board. The committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders, and on the company's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements. The committee is directly responsible for the appointment, compensation, and oversight of the external auditors engaged to prepare an audit report on the financial statements of the company.

The objectives of the audit and risk management committee are:

- assisting the board to discharge its responsibility to exercise due care, diligence and skill in relation to Downer EDI's:
  - reporting of financial information to shareholders;
  - application of accounting policies;
  - financial management;
  - internal control systems;
  - risk management systems;

- business policies and practices;
- protection of the company's assets; and
- compliance with applicable laws, regulations, standards and best practice guidelines;

- providing a formal forum for communication between the board of directors, senior financial management of the company and the external auditors;
- facilitating the maintenance of the independence of the external auditor;
- improving the quality of internal and external reporting of financial and non-financial information; and
- fostering an ethical culture throughout the company.

The audit and risk management committee comprises four independent non-executive directors with relevant financial, commercial, legal and risk management experience. John Humphrey and Barry O'Callaghan are qualified legal practitioners with extensive experience as public company directors. John Humphrey has served on several public company audit committees for over 12 years and Barry O'Callaghan has been chairman of public company audit committees for over 17 years.

Peter Jollie is a qualified accountant and a past president (and Fellow) of the Institute of Chartered Accountants as well as a Fellow of the Australian Institute of Company Directors. Chris Renwick has a legal and corporate chief executive background particularly in the resources and mining sectors. He was CEO of Rio Tinto Iron Ore and held directorships of other mining companies. He has had 35 years experience with the Rio Tinto group, and has sat on various trade bodies including the Australia-China Business Council.

The audit and risk management committee generally invites the managing director, group finance director and external auditor to attend committee meetings. It also meets with and receives reports from the external auditors concerning any matters that arise in connection with the performance of their respective roles, including adequacy of internal controls. Executive management is excluded from part of these meetings to allow frank discussion between the committee and the external auditor. Downer EDI currently does not have an internal audit function that covers all of its operations. Our external auditors' strategy reflects this fact and they work closely with management and the board to ensure that audit resources are used to their maximum potential.

Occupational health, safety and the environment

As part of the audit and risk management committee's overall responsibility, the board has established a health, safety and environment sub-committee which oversees the implementation of the board's occupational health, safety and environment charter. The committee is chaired by Chris Renwick and members are Barry O'Callaghan, John Humphrey and Stephen Gillies. The committee met twice during the year, including receiving presentations from divisional management and reviewing Group policies and reports. The Group's Occupational Health and Safety and Environmental policies have been updated to reflect the board's focus.

Principle 5: Make timely and balanced disclosure

Downer EDI is committed to ensuring adherence to regulatory requirements and best practice to ensure timely provision of equal access to material information about the company. The board has a continuous disclosure policy to ensure that the procedures for identifying and disclosing material and price sensitive information are in accordance with the Corporations Act and ASX listing rules. No departures from this policy were noted during the reporting period.

Through the continuous disclosure policy, Downer EDI seeks to ensure that:

- all investors have equal and timely access to material information;
- announcements and media releases are expressed in a clear and objective manner to allow investors and the financial community to assess the impact of the information when making investment decisions; and
- commentary on the financial results includes information that is needed by an investor to make an informed assessment of Downer EDI's activities and performance.

Disclosure committee

The company has established a disclosure committee consisting of the chairman, managing director and company secretary to oversee disclosure of information by the company.

The powers and responsibilities of the disclosure committee are:

- to establish procedures for the mandatory notification to the disclosure committee of information that may be required to be disclosed pursuant to law (domestic or foreign) or the rules of any securities or other exchange in which the company is a participant; or information that may be desirable to disclose having regard to considerations of social responsibility or reputational risk;
- to make decisions concerning the content of disclosure of disclosable information;
- to provide formal assurance to the board that all disclosable information has been the subject of consideration by the committee; and
- to formulate and recommend to the board changes to the Company's continuous disclosure policy and procedures, having regard to changes in applicable law, legal obligations arising through participation in relevant markets and evolving corporate governance standards.

The committee meets on an ad hoc basis as required throughout the year.

Results announcements

Downer EDI follows a calendar of regular disclosures to the share market:

- full year results announcement issued to the market (late August);

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- annual report sent to shareholders (late September);
- annual general meeting held and the chairman's and managing director's addresses are announced to the market (early November);
- half year results announcement issued to the market (mid-February); and
- half year report sent to shareholders (mid-March).

Principle 6: Respect the rights of shareholders

Communications

The board has established guidelines for shareholder communications. This includes:

- using the company's website www.downeredi.com to promote and facilitate shareholder communications;
- all news releases and announcements to the ASX/NZX, financial presentations, annual and half yearly reports, chairman and managing director presentations to AGMs and company newsletters are available on the website;
- improving shareholder participation in meetings by use of technology and considering corporate governance council guidelines for meetings and notices;
- audio web casting of the annual results presentations to analysts;
- comprehensive information about Downer EDI and its services and activities are available from the website, or can be mailed on request;
- direct mailings to shareholders; and
- increased use of email to respond to shareholder queries and concerns.

Attendance of external auditor at annual general meetings

As standard procedure, Downer EDI's external auditor attends the company's annual general meeting and is available to answer any questions that shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of its audit report.

Principle 7: Recognise and manage risk

As part of the audit and risk management committee's role, the committee and board seek to identify and minimise potential risks and exposure of Downer EDI, both internally and externally. In this way, the board ensures appropriate:

- management focus is given to risk identification, measurement and reporting;
- strategies are in place for mitigation of risk;
- segregation of duties, employment and training of suitably qualified and experienced personnel; and
- scope and work programs of external auditors are established, in conjunction with recommendations from the audit and risk management committee.

Risk management

Downer EDI has risk management policies and guidelines in place, including interest rate management, foreign exchange risk management, credit risk management and also covering operational and decision-making risks, to minimise the risks that arise through its activities.

Risk management groups are operating to focus on risk management strategies in particular on tendering, operational, contractual, execution and counterparty issues. This included the establishment of a corporate compliance team in 2006 to further tighten risk management and engagement of outside consultants to review risk management across the Group and advise on improvements in risk management systems.

Internal controls

Downer EDI has established controls at the board, executive and business unit levels that are designed to safeguard Downer EDI's interests and ensure the integrity of reporting (including accounting, financial reporting, environment, occupational health and safety, and other internal control policies and procedures). These controls are designed to ensure that Downer EDI complies with regulatory requirements and community standards.

Sign-off by managing director and group finance director

The integrity of the company's financial reporting depends upon the existence of a sound system of risk oversight and management and internal controls. The board receives appropriate sign-off from the managing director and group finance director in this regard. The company continues to monitor and, where appropriate, upgrade control systems to improve their efficiency and effectiveness.

Principle 8: Encourage enhanced performance

Nomination and corporate governance committee

Members: John Humphrey (Chairman), Barry O'Callaghan and Peter Jollie.

The nomination and corporate governance committee's primary purpose is to support and advise the board in fulfilling its responsibilities to shareholders in ensuring that the board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance by:

- assessing the skills and competencies required on the board;
- from time to time assessing the extent to which the required skills are represented on the board;
- establishing processes for the review of the performance of individual directors and the board as a whole;
- establishing processes for the identification of suitable candidates for appointment to the board; and
- recommending the appointment and removal of directors.

The committee reviews the remuneration of the managing director, executive directors (if any), and the non-executive directors of the company.

The committee is also responsible for reviewing the company's corporate governance policies and procedures.

Board performance evaluation

The board is committed to an improvement program involving reviews of its performance, usually in consultation with an external consultant.

Senior management evaluation

Senior executives of Downer EDI participate in Downer EDI's performance management process. Key individual performance targets linked to the business plan are agreed with the managing director. The senior executives receive periodic feedback on progress against these targets.

Facilitation of board/ management performance

Downer EDI management provides detailed papers for board meetings and attend meetings to give presentations and answer any questions the directors may have. Divisional CEO's present the division business plans to the board as part of the annual business planning cycle. Directors are encouraged to have maximum exposure to operating businesses and periodically schedule board meetings at locations that permit a more detailed view of operations. During the reporting period, the board met in the Hunter Valley in NSW where they developed a more detailed understanding of Roche Mining's open cut mining operations and EDI Rail's operations at Cardiff and Kooragang Island. The April 2006 board meeting was also held at the offices of Works Infrastructure Australia in Melbourne and coincided with discussions with management following the Emoleum purchase. Some directors also attend the annual conference of the company's 100 senior managers.

New directors

All new directors are provided with a formal letter of appointment together with copies of charters and an information pack on Downer EDI and background reading on directors' duties, rights and responsibilities as well as the company's various policies and guidelines. New directors also meet with key senior executives to gain further background on the company's business operations and group structure.

Director education

Directors are encouraged to attend director training and professional development courses, as appropriate, at Downer EDI's expense.

Access to information and independent professional advice

Directors are entitled to full access to information required to discharge their responsibilities. With the prior approval of the chairman, each director has the right to seek independent legal and other professional advice at the company's expense in connection with their position as a director. This includes advice on any aspect of Downer EDI's operations or undertakings so that they can fulfil their duties and responsibilities as directors.

Indemnity of directors and officers

The directors and officers are indemnified by the company, to the extent permitted by law, for liabilities and legal costs incurred by that person under a deed of access, insurance and indemnity approved by shareholders in 1998. Directors and officers also have the benefit of a policy of insurance, purchased by the company, against certain liabilities they may incur in carrying out their duties.

Principle 9: Remunerate fairly and responsibly

Directors' remuneration

The maximum aggregate remuneration that could be paid to non-executive directors was determined by a resolution of shareholders in general meeting in 1998. This was capped at $800,000 in the aggregate. The Directors' Report on page 56 shows the remuneration of directors which for non-executive directors, in the aggregate, totalled $512,300. Non-executive directors do not participate in any equity incentive schemes.

The company's constitution allows for retiring non-executive directors to receive a retiring allowance, subject to the limitations under the Corporations Act. Consistent with the ASX Corporate Governance Council Principles, the right to retirement benefits has been frozen and has been fully provided for in the financial statements and has not been offered to directors appointed in the last two years.

Remuneration committee

Members: Peter Jollie (chairman), Barry O'Callaghan, Lucio Di Bartolomeo and Stephen Gillies.

The role of the remuneration committee is to review and make recommendations to the board in respect of:

- an executive remuneration and incentive policy;
- the remuneration of the company secretary, all senior executives reporting directly to the managing director and all employees of the company whose potential remuneration exceeds $250,000 per annum;
- an executive incentive plan;
- an equity based incentive plan;
- superannuation arrangements;
- recruitment, retention, performance measurement and termination policies and procedures for the group finance director, the company secretary and all senior executives reporting directly to the managing director;
- the disclosure of remuneration in applicable public materials including ASX filings and the annual report; and
- retirement payments.

The remuneration of the managing director, executive directors (if any) and the non-executive directors form part of the responsibilities of the nomination and corporate governance committee.

Principle 10: Recognise the legitimate interest of stakeholders

The board is aware of the interests of all stakeholders and seeks to balance these interests with a view to achieving long-term value for Downer EDI shareholders in a socially responsible manner. The legitimate interests of stakeholders are covered in the code of conduct.

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Directors' Report

The directors of Downer EDI Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the directors of the company during or since the end of the financial year are:

B D O'Callaghan AO (chairman, non-executive)

P E J Jollie AM (deputy chairman, non-executive)

S J Gillies (managing director)

L Di Bartolomeo (non-executive, appointed 22 June 2006)

J S Humphrey (non-executive)

K Y Lau (deputy chairman, non-executive, resigned 2 November 2005)

C J S Renwick AM (non-executive)

A profile of current board members is provided on pages 46 and 47.

Directors' meetings

There were 9 full board meetings, 2 audit and risk sub-committee meetings, 4 remuneration sub-committee meetings, 1 corporate governance and nomination sub-committee meeting and 2 safety sub-committee meetings held during the financial year. The number of meetings attended by each director is set out in the table below.

Number of meetings attended

Directors	Board of Directors	Audit and Risk Committee	Remuneration Committee	Corporate Governance and Nomination Committee	Safety Committee
B D O'Callaghan	9	2	4	1	2
P E J Jollie	9	2	4	–	–
S J Gillies	9	–	4	–	2
L Di Bartolomeo *	–	–	–	–	–
J S Humphrey	9	2	–	1	2
K Y Lau	1 #	–	–	1	–
C J S Renwick	9	2	–	–	2

\# 3 meetings held while a director

* No meetings held in the financial year after becoming a director

Directors' shareholdings

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

Director	No. of Fully Paid Ordinary Shares	No. of Performance Rights *	No. of Performance Options *
B D O'Callaghan	25,052	–	–
P E J Jollie	10,595	–	–
S J Gillies	2,995,267	47,945	325,869
L Di Bartolomeo	9,100	–	–
J S Humphrey	33,612	–	–
C J S Renwick	20,000	–	–

* Performance rights and options were granted during the year under the terms of the long term incentive plan

Company secretary

The company secretaries are C D Thompson and B J Crane. A profile of the current company secretaries is provided on page 71.

Principal activities

The principal activities of the consolidated entity are that of a multi-disciplinary, multi-national supplier of select engineering services, operating chiefly in the infrastructure, energy, and resource sectors. The consolidated operations of the Group include providing comprehensive engineering and infrastructure management services to the mining, power, rail, resource, road and telecommunications sectors in Australia, New Zealand, Asia, Europe and the Americas.

Review of operations

A review of the consolidated entity's operations is contained in the managing director's review on pages 8 to 11.

Changes in state of affairs

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

Subsequent events

There has not been any matter or circumstance other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Dividends

In respect of the financial year ended 30 June 2006, the directors declared the payment of a final ordinary dividend of 8.0 cents per share (unfranked) to the holders of fully paid ordinary shares to be paid on 19 October 2006.

In respect of the financial year ended 30 June 2006, an interim dividend of 12.0 cents per share (franked to 70%) was paid to the holders of fully paid ordinary shares on 13 April 2006.

In respect of the financial year ended 30 June 2005, as detailed in the Directors' Report for that financial year, a final dividend of 12.0 cents per share (franked to 70%) was paid to the holders of fully paid ordinary shares on 19 October 2005.

Employee discount share plan ("ESP")

In respect of the financial year ended 30 June 2006, no shares have been issued under the terms of the ESP (2005: $3,523,000).

Executive share option scheme ("EOS")

No options were granted under the EOS during the year.

Share options

During the year 47,945 performance rights and 325,869 performance options were granted to the managing director under the long term incentive plan following approval by shareholders at the 2005 annual general meeting. The issuing entity was Downer EDI Limited. Details of these unissued shares under rights and options are as follows:

	Number of shares	Class of shares	Exercise price $	Expiry date *
Performance options	325,869	Ordinary	6.07	2 November 2012
Performance rights	47,945	Ordinary	–	2 November 2012

* Subject to the satisfaction of certain performance hurdles as noted in section 6.3 of the remuneration report, securities vest on 30 June 2008 or 30 June 2009 and will be exercisable at any time up to the seventh anniversary of the 2 November 2005 grant date.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretaries, C D Thompson and B J Crane, all executive officers of the company and of any related body corporate against a liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as an officer or auditor.

Directors and executives remuneration report

1. Remuneration principles

The board recognises that Downer EDI's performance is dependent on the quality of its people. In order to achieve its financial and operating objectives, Downer EDI must be able to attract, retain and motivate highly skilled executives, in an employment environment of significant competition for such people.

Downer EDI's remuneration principles are set out below:

- Competitive remuneration arrangements should be provided to attract, retain and motivate executive talent;
- A significant portion of executives' remuneration should be linked to performance in creating value for shareholders; and
- Create a culture of share ownership amongst executives and employees generally to align their interests more closely with shareholders.

The information in sections 2 to 7 inclusive sets out the remuneration principles, structure and payments which operated for the financial year to 30 June 2006.

2. Remuneration structure

The remuneration structure for executives comprises fixed and variable remuneration.

- Fixed remuneration is made up of base salary, superannuation and other benefits.
- Variable remuneration consists of an annual short term incentive plan which is tied to performance and is at risk. It also includes eligibility to the long term incentive plan, which is tied to shareholder value creation, is at risk and detailed later in this report.

The remuneration structure is designed to strike an appropriate balance between fixed and variable remuneration. Consideration is given to the performance of individual executives and to the performance of the company. The remuneration committee determines the base salaries of the senior executive team (the nominations committee in the case of the managing director) and determines the parameters for variable remuneration.

Other than the allocation via the long term incentive plan, no shares, options or other securities were issued during the year to executives as part of their remuneration.

All remuneration received by the managing director and key management personnel is summarised in sections 2 and 3 of this report.

2.1 Base salary

Base salaries are determined by reference to appropriate benchmark information, taking into account an individual's responsibilities, performance, qualifications, experience and geographic location.

2.2 Variable remuneration

The board believes that well designed and managed short term plans are important elements of employees' and executives' remuneration, providing incentives for them to strive to improve Downer EDI's performance for the benefit of shareholders.

The proportion of variable remuneration changes from executive to executive but takes into account responsibilities, performance and experience. All variable remuneration is ultimately tied to performance.

Under the Short Term Incentive (STI) Plan, performance is measured chiefly through financial performance, in particular through satisfaction of the divisional budget and business plan and, where relevant, the Group budget and business plan.

Provided the base criteria are met (being the satisfaction of the budget and business plan) STI's may also be influenced by other key performance indicators ("KPI's") which vary depending upon the executive's position within the organisation. For example, other key performance indicators may include safety performance (e.g. a reduction in the lost time injury frequency rate), improvement in equipment availability, reductions in cost of funding or improvement in working capital management. These additional KPI's are usually focused on operational performance with particular relevance to the executive's position.

For the year ended 30 June 2006, the bonus opportunity for the managing director and for the members of the senior executive team was capped up to a maximum of 50% of their base salary. However, annual bonus payments paid in 2006 in respect of the prior year were mostly in the range of 10% to 25% of base salary.

2.3 Remuneration

The table below sets out remuneration for the most highly remunerated executives in both Downer EDI and the consolidated Downer EDI Group. They are, in order, Deputy CEO for Downer EDI Limited, CEO Works Infrastructure Australia, CEO Roche Mining, CEO Downer Engineering, CEO EDI Rail, Executive General Manager – Telecommunications and Managing Director of Peridian Asia Pte Ltd.

	Short-term employee benefits			Post-employment benefits		
	Salary and fees $	Bonus paid in respect of prior year $	Non-monetary $	Super-annuation $	Other * $	Total $
Executives						
B Waldron	626,845	126,457	–	39,168	–	792,470
D Cattell	446,667	150,000	106,734	71,467	–	774,868
R Logan	555,099	–	6,264	90,835	–	652,198
C Denney	378,340	135,000	8,696	97,843	–	619,879
G Wannop	421,500	118,800	–	37,935	–	578,235
S Woellner	385,001	–	–	29,429	401,299	815,729
D Taylor #	237,156	364,527	–	–	–	601,683
	3,050,608	894,784	121,694	366,677	401,299	4,835,062

* Employment cessation benefits
# Commenced 15 September 2005. Bonus was in respect of 2006 year, paid in accordance with the terms of the purchase agreement for the underlying business.

2.4 Company performance

The table below shows the performance of Downer EDI's ordinary shares over the last five years. The table represents total shareholder returns (TSR) for each year, which is the increase in share price over each year plus dividends paid (including the benefit of franking credits) during that year. The table indicates that Downer EDI has delivered a TSR of 45% for the 2006 year. During this period Downer EDI has paid dividends totalling 24.0 cents per share, franked to 70%. A final dividend of 8.0 cents per share unfranked has been declared for the year ended 30 June 2006.

Total Shareholder Returns 2002 – 2006

Year	2002	2003	2004	2005	2006
TSR	20%	20%	6%	72%	45%

The chart below shows Downer EDI earnings (net profit/(loss) after tax) growth rate for each year over the last 5 years.

Earnings Growth 2002 – 2006

Year	2002	2003	2004	2005	2006
Growth Rate %	24%	18%	22%	28%	(120%)

3. Directors' remuneration

The maximum aggregate fees approved by shareholders that can be paid to non-executive directors is $800,000 per annum. This cap has remained unchanged since 1998. The allocation of fees to non-executive directors within this remuneration pool is a matter for the board. The allocation of fees has been determined after consideration of a number of factors including the time commitment of directors, the size and scale of the company's operations, the skill sets of board members, the quantum of fees paid to non-executive directors of comparable companies, participation in committee work and other factors.

Fees for non-executive directors are fixed and are not linked to the financial performance of the company in any way. The board believes this is necessary so that board members maintain their independence. In addition, non-executive directors do not receive any bonus payment nor participate in any share or incentive plan operated for executives of the company.

The chairman receives a base fee of $175,000 per annum (inclusive of all committee fees) plus superannuation. Most of the other non-executive directors receive a base fee of $100,000 per annum (where they are not entitled to a retirement benefit) and $70,000 per annum (where they are so entitled). Fees for these non-executive directors have been set to reflect market rates and the discontinuation of retirement benefits. There is also a fee for certain committee duties: $10,000 for the chair of the audit committee; $5,000 for the chair of the remuneration committee and $10,000 for other specified additional services. KY Lau, as a nominee representative of a previous substantial shareholder, was not paid directors' fees during his time in office.

Under their original terms of appointment, Barry O'Callaghan, and John Humphrey were eligible for certain retirement benefits. Consistent with the ASX Corporate Governance Council Principles, the right to these retirement benefits has been frozen and has been fully provided in the financial statements. Other non-executive directors are not entitled to retirement benefits. All non-executive directors are entitled to payment of statutory superannuation entitlements in addition to directors' fees.

Details of all fees and accrued benefits paid/payable to directors during the 2006 year are set out in the following table. Stephen Gillies is the managing director and each of the other directors is a non-executive director.

	Short-term employee benefits			Post-employment benefits	Share-based transactions	
	Salary and fees $	Bonus paid in respect of prior year $	Non-monetary $	Super-annuation $	Other $	Total $
B D O'Callaghan*	175,000	–	–	15,750	–	190,750
P E Jollie	115,000	–	–	10,350	–	125,350
S J Gillies	1,546,912	500,000	13,653	135,000	184,923	2,380,488
L Di Bartolomeo	–	–	–	–	–	–
J S Humphrey+	80,000	–	–	7,200	–	87,200
K Y Lau^	–	–	–	–	–	–
C J S Renwick	109,000	–	–	–	–	109,000
	2,025,912	500,000	13,653	168,300	184,923	2,892,788

* Barry O'Callaghan's retirement benefit has been capped at $250,000
+ John Humphrey's retirement benefit has been capped at the aggregate of his base directors' fees for the 3 years to 30 June 2005 – which is $185,000
^ Resigned 2 November 2005

4. Contract terms for executives

All executives, as well as the managing director, are on open-ended contracts with no fixed end date.

The notice period under executive contracts is 3 months. For the managing director, the notice period is also 3 months.

In addition to the notice requirement, the contracts for executives and for the managing director provide for termination payments capped at 100% of base salary, but this applies only in very limited circumstances.

The executives (unless otherwise stated) were employed throughout the reporting period and no termination payments (unless otherwise stated) were made.

5. Employee share scheme

In addition to the remuneration arrangements outlined above, the company instituted in June 2005, an Employee Discount Share Plan. During the year no shares were granted under the plan.

6. Remuneration committee

The remuneration committee operates under the delegated authority of Downer EDI's board of directors.

The committee is comprised of three independent non-executive directors, (being Peter Jollie (chairman), Barry O'Callaghan and Lucio di Bartolomeo) and the managing director – Stephen Gillies.

The committee's primary responsibility is to assist the board in fulfilling its corporate governance and oversight responsibilities with respect to:

- providing sound remuneration and employment policies and practices that enable Downer EDI Group companies to attract and retain high quality executives who are dedicated to the interests of Downer EDI's shareholders;
- fairly and responsibly rewarding executives, having regard to the interest of shareholders, Downer EDI's performance, the performance of the relevant executive and employment market conditions; and
- evaluating potential candidates for executive positions, including the chief executive, and overseeing the development of executive succession plans.

The nominations and corporate governance committee is responsible for considering and setting the remuneration for the managing director. The remuneration committee is responsible for all other executive remuneration matters.

The committee has the resources and authority appropriate to discharge its duties and responsibilities, including the authority to engage external professionals, on terms it determines appropriate, without seeking approval of the board or management.

The committee's objective is to ensure that the company's approach to remuneration aligns remuneration outcomes and shareholder wealth creation, assists in retaining executives, is consistent with current market practice, is financially appropriate and in keeping with the company's commitment to good corporate governance principles. The remuneration policy is based on the following principles:

- variable remuneration should form a significant part of an executive's remuneration;
- variable remuneration should be linked to shareholder wealth creation and should be at risk;
- variable remuneration should consist of short term incentives as well as long term incentives;
- equity participation should be encouraged in the organisation to encourage a culture of share ownership; and
- appropriate hurdles should be put in place to assess whether variable remuneration should vest.

Remuneration for senior executives involves three components:

- a fixed remuneration component;
- a short term incentive component; and
- a long term incentive component.

6.1. Fixed remuneration

A fixed remuneration component should be set at competitive levels for each executive within the market range. These market ranges are determined, where available, by reference to appropriate comparable companies. The fixed remuneration component is calculated on a total cost to the company basis with the cost of employee benefits such as motor vehicle, superannuation, car parking, together with fringe benefits tax being included. There are no guaranteed increases to fixed remuneration in any senior executive's contract.

6.2. Short term incentive

The short term incentive which is payable by way of an annual bonus, is a cash payment (subject to the arrangement set out at paragraph 7 below). Short term incentive payments can be up to 50% of the executive's base salary and are tied to performance in relation to a number of areas including financial and non-financial targets.

6.3. Long term incentive (LTI)

The long term incentive plan was introduced as part of the Group's remuneration policy and has been designed to increase equity participation and to align executives' remuneration with growth in shareholder wealth. It ensures that the incentives drive a share ownership mindset amongst executives with the grant set at appropriate levels. Sustained performance will be encouraged by linking the vesting of long term incentive awards to hurdles which reflect shareholder value creation. The instruments chosen for delivery of long term incentives are a blend of performance rights and performance options. Set out below is an overview of the rights and options instruments used in this program.

Performance Rights	Performance Options
• Participants have the right to acquire a share at a future point in time	• Participants have the right to acquire a share at a future point in time
• Vesting is dependent upon both time and performance based criteria	• Vesting is dependent upon both time and performance based criteria
• No exercise price is payable	• An exercise price is payable
• The reward is the full value of the underlying share	• The reward is equal to the growth in the underlying share price
	• Generally provides a greater reward where there is significant growth in share price
	• Rewards in a flat to poor market can be non-existent

Each grant of performance rights and performance options will be divided into 2 portions with different hurdles being applied to each portion as set out below:

- the first portion will vest based on the company's total shareholder return (TSR) as measured against the ASX 100 comparator group; and
- the second portion will vest based on meeting growth hurdles in the company's earnings per share (EPS).

Grants of 47,945 performance rights and 325,869 performance options have been made under the long term incentive plan during the year ended 30 June 2006. To vest, Downer EDI TSR percentile ranking must be between the 50th and 75th percentiles of the ASX 100. For that first offering, a portion of the award will vest at 50th percentile performance and increase up to 100 percent vesting at 75th percentile performance. Having regard to changes taking place in Australian long term incentive plan design, the committee will undertake further reviews of the LTI design as considered necessary, including vesting provisions, to determine if any changes to the plan should be considered for future grants.

Satisfaction of the EPS hurdle will be determined by reference to internal targets established by the remuneration committee.

Summary of long term incentive plan

Grants may be made in the financial year ending 30 June 2007 under the long term incentive plan on the following basis:

Year ending 30 June 2007

Australian executives

- Annual grants with performance based vesting three years from grant date
- Operates from 1 July 2006 to 30 June 2009
- Assessment at 30 June 2009
- Criteria is total shareholder return ranking within a peer group of companies plus EPS growth
- <25th percentile = 0%
  25th – 50th percentile = 0%
  50th – 75th percentile = 50% – 100%
  >75th percentile = 100%

The intention is (subject to local law and regulatory requirements) to extend the application of this plan to overseas based executives.

7. Downer EDI Deferred Share Plan

The remuneration committee has also instituted a Deferred Share Plan ("DSP").

The Downer EDI DSP enables employees of Downer EDI in Australia to purchase Downer EDI shares with pre-tax salary or bonuses. Those shares are purchased on-market, in the ordinary course of trading on the ASX, by the Downer EDI plan trustee and held in trust for the participant.

Eligibility to participate in the DSP is determined by the Downer EDI board.

Shares may be retained in the Downer EDI DSP while a participant remains an employee of a Downer EDI Group company, however, taxation deferral benefits currently only apply for a maximum of 10 years. If a participant ceases to be employed by any Downer EDI Group company, the Downer EDI DSP trustee must either transfer the relevant shares to the participant or sell the shares and distribute the net proceeds of sale to them.

Withdrawal of shares from the Downer EDI DSP and transfer to a participant or sale requires the approval of the Downer EDI board.

Participants are entitled to any dividend, return of capital or other distribution made in respect of Downer EDI shares held in the plan on their behalf. The Downer EDI DSP trustee may allow participants to participate in any pro rata rights and bonus issues of shares made by Downer EDI or sell such rights (if renounceable) or bonus shares on behalf of the participants and distribute the cash proceeds of such sale.

Participants may direct the trustee how to vote on any shares held on the participant's behalf. In the absence of such directions, the shares will not be voted.

With selected executives (determined by the remuneration committee), a minimum of 25% of any bonus payment (the short term incentive) must be applied to the acquisition of shares under the DSP.

Rounding of amounts

The company is of a 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, unless otherwise stated, been rounded off to the nearest thousand dollars.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability the directors of Downer EDI Limited support the principles of good corporate governance.

The consolidated entity's performance in relation to Corporate Governance is contained in the Corporate Governance section on pages 48 to 52.

Environmental regulations

The consolidated entity's performance in relation to Environmental Regulations is contained in the Environmental Compliance section on page 43.

Non-audit services

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

The board of directors has considered the position and, in accordance with the advice from the audit and risk committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed below do not compromise the external auditors' independence, based on advice received from the audit and risk committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's "Professional Statement F1 – Professional Independence", including reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

A copy of the auditor's independence declaration is set out on page 59.

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

	$
Tax consulting	136,000
A-IFRS implementation and other accounting advisory	310,000
Total	446,000

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

On behalf of the directors

B D O'Callaghan
Director

S J Gillies
Director

Sydney, 22 August 2006

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Independence Declaration

Mr Barry O'Callaghan
Chairman
The Board of Directors
Downer EDI Limited
Level 3, 190 George Street
SYDNEY NSW 2000

22 August 2006

Dear Sir

DOWNER EDI LIMITED

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

As lead audit partner for the audit of the financial statements of Downer EDI Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner, Sydney

Liability limited by a scheme approved under Professional Standards Legislation.

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Income Statement

for the **financial year** ended 30 June 2006

		Consolidated	
	Note	**2006 $'000**	**2005 $'000**
Revenues	2	4,633,424	3,735,308
Other income	2	22,475	16,344
Share of net profits of associates and joint ventures accounted for using the equity method		6,159	14,858
Finance costs		(57,515)	(43,974)
Changes in inventories of finished goods and work in progress		(81,866)	(72,407)
Communication expenses		(48,983)	(23,076)
Employee benefits expense	2	(1,507,603)	(1,100,776)
Occupancy costs		(56,836)	(38,576)
Plant and equipment costs		(590,409)	(371,976)
Professional fees		(35,258)	(28,342)
Raw materials and consumables used		(1,143,623)	(1,202,664)
Subcontractor costs		(846,122)	(639,841)
Travel and accommodation expense		(56,400)	(46,324)
Other expenses from ordinary activities		(54,674)	(49,789)
Individually significant items	3	(293,675)	–
(Loss)/profit before income tax (benefit)/expense	2	(110,906)	148,765
Income tax benefit/(expense)	4	85,977	(25,475)
(Loss)/profit from continuing operations		(24,929)	123,290
(Loss)/profit attributable to members of the parent entity		(24,929)	123,290
Earnings per share			
Basic and diluted (cents per share)		(8.4)	43.0

Notes to the financial statements are included on pages 64 to 69.

- While the 2006 financial year was a strong year for the majority of Downer EDI's businesses, the overall result was marred by non-recurring items (provisions for construction contracts) primarily relating to the Douglas Mineral Sands project for Iluka Resources. This resulted in the underlying profit after tax of $138 million being reduced to a net loss of $25 million.
- Revenue for the year of $4.6 billion was up $904 million (or 24%) over the previous year. Of this increase, organic growth in our core businesses accounted for the majority of the increase. Turnover* for the year was $4.7 billion, up $818 million (or 21%) over the previous year. Major contributors to the growth in revenue were: Engineering increased 26% to $1,649 million, Mining & Resources increased 21% to $1,656 million and Infrastructure Services increased 21% to $1,078 million.

  * Turnover is defined as total revenue plus our net share of sales revenues of joint venture entities.
- Underlying earnings before interest and tax (ie excluding the affects of the one-off provisions) amounted to $229.8 million, an increase of $41.2 million (or 22%) over the prior year. Overall, underlying EBIT margins on a substantially larger revenue base remained flat at 5.3%. Improvement in EBIT margins were noted in the Mining and Resources and Rail core businesses. Margins from the Engineering division contracted 0.3%.
- Net interest expense for the year was $47.0 million, which was up $10.7 million over the previous year. The level of net interest was influenced by increases in the level of working capital required to fund the expanded revenue platform, the funding of bolt on businesses acquired during the year, the funding of contract disputes and the affects of a rising interest rate market. The EBIT to net interest coverage ratio stood at a healthy 4.9 times (June 2005: 5.2 times).
- Depreciation and amortisation amounted to $108.3 million and compares to net additions to property plant and equipment of $149.3 million. This relationship is out of character with the previous year and reflects costs associated with a fleet modernisation program in our Infrastructure operations as well as the refurbishment of drilling rigs going into service and in preparation for tender. It is expected that net capital expenditure will return to levels around our annual depreciation and amortisation charges. Depreciation rates adopted by our Group are conservative, with net gains of $16.1 million reported on disposal of property, plant and equipment (2005: $8.8 million).
- The effective tax rate of the Group for 2006 has been influenced by a number of items, but in particular the recognition of a further tax consolidation benefit of $42.9 million. The consolidation tax uplift process has now been completed and no further one-off benefits of this nature are expected. Excluding the affects of this and other one-off items, the Group tax rate was 25%. The effective tax rate continues to be influenced by costs not deductible for tax purposes, offset by research and development claims and over provisions from prior years (once more primarily related to research and development claims). Profit contributions from overseas operations with tax rates lower than the Australian tax rate, such as Singapore, have also contributed to a reduced overall tax rate.
- Net loss after tax including the one-off items disclosed in Note 3 amounted to $24.9 million (excluding one-offs, after tax profit would have been $137.8 million). This compares to the 2005 restated profit after tax at $123.3 million (excluding one-off tax benefits, $113.2 million).
- Despite the loss for the year, shareholders should be pleased to note that a 2006 final ordinary share dividend of 8.0 cents per share has been declared. This has been declared by the directors in recognition of the strength of the underlying business and the 2007 profit forecast provided to the market in August 2006. This dividend will be unfranked and reflects the elimination of franking credits that otherwise would have existed had it not been for the tax consolidation uplift. Total dividends in respect of the 2006 year amounted to 20.0 cents per share, an 11% increase over the previous year.

Balance Sheet

as at 30 June 2006

	Consolidated	
	2006 $'000	**2005 $'000**
Current assets		
Cash and cash equivalents	167,895	165,972
Inventories	173,566	173,745
Trade and other receivables	948,765	940,445
Other financial assets	16,387	15,594
Current tax assets	18,421	8,954
Other	25,394	18,018
Non-current assets classified as held for sale	–	469
Total current assets	1,350,428	1,323,197
Non-current assets		
Trade and other receivables	–	21,646
Investments accounted for using the equity method	11,184	17,474
Property, plant and equipment	676,416	560,808
Intangibles	541,618	367,430
Other financial assets	23,020	13,429
Deferred tax assets	148,112	45,053
Other	9,099	11,360
Total non-current assets	1,409,449	1,037,200
Total assets	**2,759,877**	**2,360,397**
Current liabilities		
Trade and other payables	816,076	699,046
Borrowings	136,498	16,735
Other financial liabilities	29,608	6,302
Provisions	152,976	108,539
Current tax payables	12,239	29,414
Total current liabilities	1,147,397	860,036
Non-current liabilities		
Trade and other payables	1,436	1,566
Borrowings	503,782	490,037
Other financial liabilities	48,455	14,136
Provisions	61,232	61,233
Deferred tax liabilities	47,032	32,807
Total non-current liabilities	661,937	599,779
Total liabilities	**1,809,334**	**1,459,815**
Net assets	**950,543**	**900,582**
Equity		
Issued capital	846,345	669,840
Reserves	(17,707)	(5,399)
Retained earnings	121,905	236,141
Total equity	**950,543**	**900,582**

Notes to the financial statements are included on pages 64 to 69.

- Net assets of the Group have increased from $900.6 million to $950.5 million, a net increase of $49.9 million. Major contributors to this net increase arose from:
  1. Dividends paid to shareholders (net of dividend reinvestment plan elections) amounting to a reduction of $37.0 million;
  2. After tax loss retained in the business, a reduction of $24.9 million;
  3. Equity placements of $139.1 million, net of costs;
  4. The issue of shares on acquisition of businesses of $3.9 million;
  5. Net reduction in opening total equity arising from the adoption of Australian equivalents to International Reporting Standards of $18.9 million; and
  6. A negative movement in reserves of $12.3 million, primarily reflecting movements in foreign currencies against the Australian dollar and their effects on translating foreign subsidiary financial statements into Australian dollars.
- 2006 net debt of $472.4 million (including relevant hedges) was an increase over the 2005 level and reflects the funding of working capital, acquisitions, strategic investments and capital expenditure. Funds were also raised through various equity initiatives.
- The Group's gearing as measured by net debt to capitalisation (net debt plus total equity) at 36% remains at prudent levels. On a net debt to equity basis, gearing at 56% remains within targeted levels.
- The Group's order book is approximately $6.9 billion (2005: $6.5 billion) leaving the Group well placed for the 2007 financial year.
- As at 30 June 2006, the weighted average maturity of the Group's funded debt stood at 3.1 years, compared with 4.6 years for the prior year. This contraction in maturity profile recognises the normal shortening of existing facilities with the lapse of time and major new facilities entered into during the year, with maturities between 3 to 4 years. To manage risks associated with interest rate fluctuations on long term decisions, 68% of the Group's 30 June debt is funded at fixed interest rates (30 June 2005: 60%).
- Debt facilities drawn at year end totalled $697 million (2005: $507 million) with a maturity profile of 24% due within 12 months (2005: 3%), 10% due within two years (2005: 14%) and 66% due from three to thirteen years (2005: 83%). The debt facilities due within 12 months are expected to be refinanced in the normal course of business as they fall due. Tenures for these refinanced facilities will take into consideration the maturity profile of the remaining debt facilities. The company continues to comply with its borrowing covenants and support from the banking sectors continues to be strong.
- The balance sheet, despite the effects of non-recurring items, is the strongest it has ever been and is a product of existing and ongoing focus.

Statement of Recognised Income and Expense

for the **financial year** ended 30 June 2006

	Consolidated	
	2006 $'000	**2005 $'000**
Total equity at the beginning of the financial year	900,582	794,099
Adjustment on adoption of AASB 132 and AASB 139 to:		
Retained earnings	(18,915)	–
Reserves	3,523	–
Other current period movements:		
Cash flow hedges	(4,803)	–
Exchange rate differences on translation of foreign operations	(11,213)	(5,399)
Share-based transactions	185	–
	869,359	788,700
(Loss)/profit after tax for the year	(24,929)	123,290
Total income and expense recognised in equity	**844,430**	**911,990**
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity (net of transaction costs)	176,505	36,396
Share-based transactions	–	2,237
Dividends provided for or paid	(70,392)	(50,041)
	106,113	(11,408)
Total equity at the end of the financial year	**950,543**	**900,582**

Notes to the financial statements are included on pages 64 to 69.

Cash Flow Statement

for the **financial year** ended 30 June 2006

	Consolidated	
	2006 $'000	**2005 $'000**
Cash flows from operating activities		
Receipts from customers	4,944,967	4,055,336
Distributions from joint ventures	11,635	16,637
Interest received	6,397	4,512
Dividends received from external entities	1,142	–
Payments to suppliers and employees	(4,798,770)	(3,813,713)
Interest and other costs of finance paid	(50,815)	(43,892)
Income tax paid	(24,654)	(32,923)
Net cash provided by operating activities	89,902	185,957
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	48,102	19,872
Proceeds from sale of investments	5,526	12,849
Proceeds from sale of businesses	–	26,665
Payment for investments	(24,750)	(6,531)
Payment for property, plant and equipment	(197,383)	(127,123)
Receipts from/(advances to) joint ventures	3,241	(11,734)
Payment of obligations acquired under business acquisitions	–	(28,608)
Payment for businesses acquired	(219,241)	(27,648)
Net cash (used in) investing activities	(384,505)	(142,258)
Cash flows from financing activities		
Proceeds from borrowings	948,729	612,335
Proceeds from issue of equity securities	142,584	17
Repayment of borrowings	(760,292)	(613,039)
Dividends paid	(36,854)	(20,909)
Net cash provided by/(used in) financing activities	294,167	(21,596)
Net (decrease)/increase in cash and cash equivalents held	(436)	22,103
Cash and cash equivalents at the beginning of the financial year	165,972	147,574
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(1,177)	(3,705)
Cash and cash equivalents at the end of the financial year	**164,359**	**165,972**

Notes to the financial statements are included on pages 64 to 69.

- Operating cash flow for the year was $89.9 million. While down approximately $96 million on the previous year, this reduction reflects the funding of various construction contract disputes. Adding back the affects of these construction contract disputes, the underlying businesses continue to generate strong cash flows.
- Funds utilised in working capital, despite a $904 million increase in revenue, have during 2006 (after the provision for construction contracts) decreased by $110.7 million to $313.4 million. As a percentage of revenue, working capital has reduced to 6.7% (2005: 11%).
- Net investing activities of $384.5 million over the 2006 year were higher than the 2005 level. Of this amount $219.2 million related to business acquisitions, the most significant of which was Emoleum at $151.4 million. Emoleum has been integrated into our Australian Works Infrastructure business. Net additions to property, plant and equipment accounted for $149.3 million. Net funds in the amount of $19.2 million were also allocated to strategic investment opportunities, including $14 million to the Suzhou Industrial Park in China.
- The Group maintains $649 million in facilities from the surety market for performance bonds used by a number of its operating businesses. Facilities utilised at 30 June 2006 totalled $427 million (2005: $462 million). Other than $8 million of finance lease transactions, all debt and surety facilities are provided to the group on an unsecured basis.
- Total available liquidity at year end amounted to $686 million comprising cash of $168 million and undrawn lines of $518 million.
- Cash at the end of the financial year is represented by cash on hand of $141 million and investments in money market instruments of $27 million.
- Cash flows from financing activities reflect net proceeds from borrowings over the year of $188 million as well as $143 million generated from equity initiatives. Cash dividends paid on ordinary shares were $37 million (2005: $21 million). Participation, net of withholding taxes, represented 48% (2005: 59%) of the ordinary share dividends paid during the year. The company's DRP applies to the 2006 final dividend, once more providing shareholders with the opportunity to reinvest their dividends in Downer EDI at a discount to the market.

Notes to the Financial Statements

For the **financial year** ended 30 June 2006

1 SUMMARY OF ACCOUNTING POLICIES

Basis of preparation

The concise financial report has been prepared in accordance with the Corporations Act 2001 and AASB 1039 'Concise Financial Reports'. The concise financial report, including the financial statements and specific disclosures included in the concise financial report, has been derived from the full financial report of Downer EDI Limited.

A full description of the accounting policies adopted by the consolidated entity is provided in the 2006 financial statements, which form part of the full financial report.

All amounts are presented in Australian dollars.

The consolidated entity changed certain accounting policies to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition, except for the adoption of AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement' where the transition date was 1 July 2005. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is detailed in Note 8.

The accounting policies set out in Note 1 of the full financial report have been consistently applied in preparing the financial statements for the year ended 30 June 2006, as well as the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004, the consolidated entity's date of transition to A-IFRS, other than the accounting policies in respect of financial instruments where the transition date was 1 July 2005.

Change in accounting policies

The consolidated entity has not restated comparative information for financial instruments, including derivatives, within the scope of Accounting Standards AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement', as permitted on the first-time adoption of A-IFRS. The accounting policies for financial instruments applicable for the comparative information are consistent with those adopted and disclosed in the 2005 full financial report. The impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in Notes 34, 35 and 48 in the full financial report.

2 RESULT FROM OPERATIONS

	Consolidated	
	2006 $'000	**2005 $'000**
Result before income tax includes the following items of revenue:		
Revenue		
Sales revenue:		
Sale of goods	91,366	91,836
Rendering of services	3,333,720	2,186,165
Engineering services contract revenue	1,194,104	1,446,934
Dividends: other entities	1,194	–
Interest revenue: other entities	6,391	5,038
Other revenue		
Rental income	397	164
Other	6,252	5,171
	4,633,424	3,735,308
Other income		
Net income on disposal of property, plant and equipment	16,112	8,807
Net income on disposal of investments	4,083	2,622
Net income on disposal of businesses	–	4,915
Net foreign exchange gains	2,280	–
Total other income	22,475	16,344
Total revenue and other income	**4,655,899**	**3,751,652**
Net share of sales revenue in joint venture entities	71,583	157,814
Total turnover	**4,727,482**	**3,909,466**
Result before income tax includes the following items of expense:		
Expenses		
Cost of sales	72,648	72,185
Interest:		
Other entities	52,981	40,512
Finance lease charges	454	835
Depreciation of non-current assets:		
Plant and equipment	103,541	96,003
Buildings	2,607	2,136
Quarries	228	566
Leased assets	835	1,540
Amortisation of intellectual property	1,106	849
Operating lease rental expenses	133,182	105,085
Net foreign exchange losses	–	657
Other finance costs	4,080	2,627
Employee benefits expense:		
Defined contribution plans	82,293	61,433
Share-based transactions	185	2,237
Other employee benefits	1,425,125	1,037,106
Total employee benefits expense	1,507,603	1,100,776

3 INDIVIDUALLY SIGNIFICANT ITEMS

	Consolidated	
	2006 $'000	**2005 $'000**
The follow material items are relevant to an understanding of the Group's financial performance:		
Provision for contract claims and disputes *	(285,675)	–
PPP tender expense	(8,000)	–
Total significant items before income tax	(293,675)	–
Tax attributable to significant items	88,103	–
Tax consolidation uplift	42,888	–
Total significant items after income tax	(162,684)	–

* The provision for contract claims and disputes has been made following a review of the Group's construction contracts accounting policy (refer Note 1 of the full financial report). In determining the provision, the company has had regard to factors including variations of scope, delays, prolongation, skills shortages and the delay in acknowledgment of contract disputes by customers. The provision is largely related to the Douglas Mineral Sands project and the amount has been offset against amounts due under engineering services contracts (refer Note 46 of the full financial report). A significant portion of the provision relates to costs already incurred. The balance represents estimated costs to complete which includes allowances for legal and consulting costs related to the recovery of disputed amounts.

4 INCOME TAXES

Income tax recognised in the income statement		
Tax expense comprises:		
Current tax (benefit)/expense	(295)	66,291
Deferred tax expense relating to the origination and reversal of temporary differences	(85,682)	(40,816)
Total tax (benefit)/expense	(85,977)	25,475

5 NON-AUDIT SERVICES

	Consolidated	
	2006 $	**2005 $**
Auditor of the parent entity:		
Taxation services	104,836	208,816
A-IFRS Implementation	156,520	159,722
Consulting	10,000	62,158
Other services	89,644	89,304
	361,000	520,000
Other auditors:		
Taxation services	89,800	1,136,890
Consulting	66,300	163,662
Other services	79,000	105,448
	235,100	1,406,000
	596,100	1,926,000

The auditor of Downer EDI Limited is Deloitte Touche Tohmatsu

6 DIVIDENDS

	Date paid/ payable	Cents per share	Consolidated $'000
Not recognised 2006 financial year:			
2006 Final dividend			
Subsequent to the 30 June 2006 reporting date, the company announced a final dividend in respect of ordinary shares for the financial year (unfranked)	19 Oct 2006	8.0	25,134
Recognised 2006 financial year:			
2006 Interim dividend			
Subsequent to the 31 December 2005 reporting date, the company announced an interim dividend in respect of ordinary shares for the half year (70% franked)	13 Apr 2006	12.0	35,390
2005 Final dividend			
Subsequent to the 30 June 2005 reporting date, the company announced a final dividend in respect of ordinary shares for the financial year (70% franked)	19 Oct 2005	12.0	35,002
Recognised 2005 financial year:			
2005 Interim dividend			
Subsequent to the 31 December 2004 reporting date, the company announced an interim dividend in respect of ordinary shares for the half year (50% franked)	22 Apr 2005	6.0	17,325
2004 Final dividend			
Subsequent to the 30 June 2004 reporting date, the company announced a final and special dividend in respect of ordinary shares for the financial year (50% franked)	19 Oct 2004 (Ordinary)	9.6	27,075
	19 Oct 2004 (Special)	2.0	5,641
		11.6	32,716

7 SEGMENT INFORMATION

Information on business segments:

	External		Inter-Segment (i)		Total	
Segment Revenue	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
Engineering	1,610,220	1,255,917	2,122	10,160	1,612,342	1,266,077
Mining & Resources	1,627,406	1,273,496	315	1,521	1,627,721	1,275,017
Infrastructure Services	1,062,282	859,835	11,179	7,200	1,073,461	867,035
Rail	348,004	360,194	–	–	348,004	360,194
Total of all segments					4,661,528	3,768,323
Eliminations					(13,616)	(18,881)
Unallocated					7,987	2,210
Consolidated revenue					4,655,899	3,751,652
Net share of sales revenue in joint venture entities:						
Engineering					36,907	39,266
Mining & Resources					28,727	97,744
Infrastructure Services					5,049	20,804
Rail					900	–
Total Turnover					4,727,482	3,909,466

(i) Inter-segment sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods

7 SEGMENT INFORMATION CONTINUED

Segment Result	Engineering 2006 $'000	Mining and Resources 2006 $'000	Infrastructure Services 2006 $'000	Rail 2006 $'000	Total 2006 $'000
Operating segment result	69,115	83,657	61,610	32,389	246,771
Significant items	(57,490)	(228,185)	–	–	(285,675)
Segment result	11,625	(144,528)	61,610	32,389	(38,904)
Unallocated					(72,002)
Total (loss) before income tax					(110,906)
Income tax benefit					85,977
Result for the year					(24,929)

Segment Result	Engineering 2005 $'000	Mining and Resources 2005 $'000	Infrastructure Services 2005 $'000	Rail 2005 $'000	Total 2005 $'000
Operating segment result	54,827	71,100	49,576	23,258	198,761
Significant items	–	–	–	–	–
Segment result	54,827	71,100	49,576	23,258	198,761
Unallocated					(49,996)
Total profit before income tax					148,765
Income tax expense					(25,475)
Result for the year					123,290

	Assets		Liabilities	
Segment Assets & Liabilities	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
Engineering	758,593	757,924	252,042	350,702
Mining and Resources	917,825	793,236	303,957	270,239
Infrastructure Services	701,233	429,099	266,958	149,620
Rail	261,569	292,452	101,179	109,622
Total of all segments	2,639,220	2,272,711	924,136	880,183
Unallocated	120,657	87,686	885,198	579,632
Consolidated	2,759,877	2,360,397	1,809,334	1,459,815

Other Segment Information	Engineering 2006 $'000	Mining and Resources 2006 $'000	Infrastructure Services 2006 $'000	Rail 2006 $'000
Carrying value of investments accounted for using the equity method	8,075	149	2,960	–
Share of net profit/(loss) of associates and joint venture entities accounted for under the equity method	(765)	6,052	665	207
Acquisition of segment assets	49,376	136,981	257,371	3,394
Depreciation and amortisation of segment assets	13,811	57,634	31,211	5,282

7 SEGMENT INFORMATION CONTINUED

	Engineering	Mining and Resources	Infrastructure Services	Rail
	2005 $'000	2005 $'000	2005 $'000	2005 $'000
Carrying value of investments accounted for using the equity method	11,276	810	5,388	–
Share of net profit of associates and joint venture entities accounted for under the equity method	4,649	8,536	1,673	–
Acquisition of segment assets	21,384	70,066	76,230	5,146
Depreciation and amortisation of segment assets	12,101	62,119	22,022	4,596

The economic entity operated predominantly in five business segments:

Engineering – provides engineering and consultancy services (design, project management, facilities management, construct and maintain) specialising in telecommunications, power and process engineering.

Mining and Resources – provides international mine consulting and contracting services, including mine planning, optimisation management and modelling, materials processing consulting and infrastructure, drilling and blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration, oil, gas, geothermal and mineral drilling activities.

Infrastructure Services – including the performance of maintenance and construction of roads and highways, construction and maintenance of rail infrastructure including tracks, signals and overhead electrification and infrastructure maintenance services including utilities, water supply, sewage and waste water treatment, refuse disposal, street cleaning and the tending of parks and gardens.

Rail – provides rolling stock and associated maintenance services including the design, manufacture, refurbish, overhaul and maintenance of diesel electric locomotives, electric locomotives, electric and diesel multiple units, rail wagons, traction motors and rolling stock generally.

Unallocated – results include financing and corporate costs, net of other income.

8 IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005 (refer Note 1 of the full financial report). An explanation of how the transition from previous Australian Generally Accepted Accounting Principles (AGAAP) to A-IFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in Note 48 of the full financial report.

(a) Reconciliation of total equity as presented under previous AGAAP to that under A-IFRS

	Consolidated	
	30 June 2005 $'000	1 July 2004 $'000
Total equity under previous AGAAP	908,020	823,029
Add/(deduct) adjustments (net of tax) for:		
Write-back of goodwill amortisation	19,606	–
Write-back of intellectual property amortisation	252	–
Other	(385)	–
Recognition of deferred tax assets using the balance sheet approach	(4,019)	(5,993)
Recognition of decommissioning and make good provisions	(16,564)	(16,124)
Fair value adjustment for plant and equipment at deemed costs	(6,202)	(6,502)
Property, plant and equipment reclassified as non-current assets held for sale	(169)	(311)
Reversal of depreciation for assets reclassified as held for sale	43	–
Total equity under A-IFRS	**900,582**	**794,099**

Directors' Declaration

For the **financial year** ended 30 June 2006

(b) Reconciliation of profit after tax under previous AGAAP to that under A-IFRS

	Consolidated
	30 June 2005 $'000
Profit after tax under previous AGAAP *	**104,035**
Add/(deduct) adjustments (net of tax) for:	
Write-back of goodwill amortisation	19,606
Write-back of patent amortisation	252
Movement in deferred tax liabilities	1,974
Decommissioning expense	(440)
Share-based transactions	(2,237)
Disposal of assets reclassified as held for sale	142
Reversal of depreciation for assets reclassified as held for sale	43
Other	(85)
Profit after tax under A-IFRS	**123,290**

* Reported financial results for the year ended 30 June 2005

(c) Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the previous AGAAP.

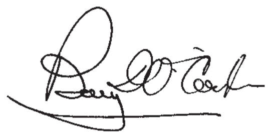
The directors declare that:

a) the attached financial statements and notes thereto comply with Accounting Standard AASB 1039 'Concise Financial Reports'; and

b) the attached financial statements and notes have been derived from the full financial report of the company.

Signed in accordance with a resolution of the directors.

On behalf of the directors



B D O'Callaghan
Director

S J Gillies
Director

Sydney, 22 August 2006

Contents

Independent Audit Report

To the Members of Downer EDI Limited

Scope

The concise financial report and directors' responsibility

The concise financial report of Downer EDI Limited comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, and accompanying notes for the consolidated entity for the year ended 30 June 2006 as set out on pages 60 to 69. The consolidated entity comprises both Downer EDI Limited (the company) and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039 "Concise Financial Reports". This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the concise financial report.

Audit approach

We have conducted an independent audit of the concise financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We have also performed an independent audit of the full financial report of the company for the year ended 30 June 2006. Our audit report on the full financial report was signed on 22 August 2006, and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report, and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report that were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the concise financial report of Downer EDI Limited for the year ended 30 June 2006 complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

JA Leotta
Partner, Sydney
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Sydney, 22 August 2006

Information for Investors

Downner EDI shareholders

At 30 August 2006, Downer EDI had 19,779 ordinary shareholders. The largest shareholder, AXA Asia Pacific Holdings Ltd, holds approximately 9.89% of the 314,171,170 fully paid shares issued at that date. Downer EDI has 18,431 shareholders with registered addresses in Australia.

Stock exchange listing

Downer EDI is listed on the Australian Stock Exchange under the 'Downer EDI' market call code 3965, with ASX code DOW, and is secondary listed on the New Zealand Exchange with the ticker code DOW NZ.

Dividend policy

Dividends are determined by the board of directors having regard to a range of circumstances within the business operation of Downer EDI. The directors expect that the policy of paying out dividends of approximately 50% of profit after tax will be able to be maintained. The level of franking on dividends is dependent on the level of taxes paid in future years to the Australian Taxation Office. The directors expect that this will occur in the financial year ending 30 June 2008.

Dividend Reinvestment Plan

Downer EDI's Dividend Reinvestment Plan is a mechanism to allow shareholders to increase their shareholding in the company, without the usual costs associated with share acquisitions such as brokerage.
It also offers a purchase price which is at a discount (currently 5%) to the market price over the relevant period. Details of the Dividend Reinvestment Plan are available from the company's website or from the Company Secretary.

Share registry

Shareholders and investors seeking information about Downer EDI shareholding or dividends should contact our Share Registrar:

Computershare Investor Services Pty Ltd (Computershare)

Level 11/115 Grenfell Street
ADELAIDE SA 5000

Tel: 1300 556 161
Fax: 61 8 8236 2305

Shareholders must give their security holder reference number when making inquiries. This is recorded on issuer sponsored and CHESS statements.

Tax File Number information

Providing your Tax File Number (TFN) to Downer EDI is not compulsory. However, for shareholders who have not supplied their TFN, Downer EDI is required to deduct tax at the top marginal rate plus Medicare levy from unfranked dividends paid to investors resident in Australia. For more information please contact our Share Registrar.

Lost share certificates

You are advised to contact Computershare immediately, in writing, if your issuer sponsored statement has been lost or stolen.

Annual Report mailing list

Shareholders can choose NOT to receive a Downer EDI Concise Annual Report and Half Yearly Report by writing to Computershare Registry Services Pty Ltd at the address provided. A form will be sent to you for this purpose. Should you choose this option, you will continue to receive Notices of Meetings and Proxy forms.

Change of address

So that we can keep you informed, and protect your interests in Downer EDI, it is important that you inform Computershare of any change of your registered address.

Company information

Our internet site **www.downeredi.com** offers comprehensive information about Downer EDI and its services. Also, the site carries news releases and announcements to ASX, financial presentations, annual and half yearly reports and company newsletters. Downer EDI printed communications for shareholders include the Annual Report and Half Yearly Report. A number of divisional publications are produced. These are available on request.

Company Secretaries

Mr C D Thompson

Carl joined Downer EDI in April 2004. He has qualifications from University of Melbourne in Law and Commerce and he was, for 12 years prior to joining the company, a partner in the law firm Corrs Chambers Westgarth. He has well over 20 years experience in the law and has advised numerous companies on a range of corporate and commercial matters. He has also sat on a number of boards of both private and publicly listed companies.

Mr B J Crane

Bruce joined Downer EDI in 2001 following the acquisition of Evans Deakin Industries where he had been in general and financial management for a number of years.
He is a fellow of the Institute of Chartered Secretaries and the Institute of Chartered Accountants and also has qualifications in Business and Commerce from the University of Technology. He has over 25 years experience as a public and private company secretary and director.

Auditor

Deloitte Touche Tohmatsu
Level 3/225 George Street
SYDNEY NSW 2000

Registered Office and Principal Administration Office

Downer EDI Limited
Level 9/190 George Street
SYDNEY NSW 2000

Tel: 61 2 9251 9899
Fax: 61 2 9251 4845

Australian Stock Exchange Information

as at 30 August 2006

Number of holders of equity securities

Ordinary share capital

314,171,170 fully paid listed ordinary shares were held by 19,779 shareholders. All issued ordinary shares carry one vote per share.

Substantial shareholders

	Fully Paid	
	Number	**%**
Ordinary shareholders:		
AXA Group	31,077,937	9.89
Barclays Global Investors	21,133,493	6.73
Fidelity Investments	19,161,317	6.10
The Capital Group Companies, Inc.	18,225,011	5.80
State Street Global Advisers	17,838,492	5.68
Total	**107,436,250**	**34.20**

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 30 August 2006

Range of holdings	Shareholder Number	Shareholders %	Shares Number	Shares %
1 – 1,000	8,397	42.5	4,574,240	1.46
1,001 – 5,000	9,032	45.7	21,294,119	6.78
5,001 – 10,000	1,462	7.4	10,316,105	3.28
10,001 – 100,000	800	4.0	16,493,537	5.25
100,001 and over	88	0.4	261,493,169	83.23
Total	**19,779**	**100.0**	**314,171,170**	**100.00**
Holding less than a marketable parcel of shares	216		5,873	

Downer EDI Limited: Twenty largest shareholders: ordinary and fully paid

Ordinary shareholders	Number	%
Westpac Custodian Nominees	70,380,550	22.40
Chase Manhattan Nominees	48,100,086	15.31
National Nominees Limited	43,931,629	13.98
ANZ Nominees Limited	16,341,869	5.20
HSBC Custody Nominees (Australia) Limited	15,689,078	4.99
Tarrow Pty Limited	11,450,511	3.64
Citicorp Nominees Pty. Limited	11,261,339	3.58
Cogent Nominees Pty. Limited	6,659,896	2.12
Bond Street Custodians Limited	3,492,094	1.11
IAG Nominees Pty. Limited	3,186,652	1.01
Woodross Nominees Pty Ltd	2,841,400	0.90
Elise Nominees Pty Limited	2,391,457	0.76
UBS Nominees Pty. Limited	2,102,174	0.67
Victorian Workcover Authority	1,775,643	0.57
RBC Global Services Australia Nominees Limited	1,646,133	0.52
RBC Dexia Investor Services Australia Nominees Pty Limited	1,099,835	0.35
Westpac Financial Services Limited	1,097,650	0.35
Swan Holdings Limited	940,170	0.30
Transport Accident Commission	917,249	0.29
Mr BS Patterson & Mrs GM Patterson	891,642	0.28
Total for top 20 shareholders	**246,197,057**	**78.33**

Contents

Corporate Directory

Corporate Head Office

Downer EDI Limited

Level 3
190 George Street
SYDNEY NSW 2000
AUSTRALIA

Tel: 61 2 9251 9899
Fax: 61 2 9251 4845

ABN 97 003 872 848

Engineering Division (Power)

Australia – Division Head Office

Downer Engineering Group Pty Ltd
Level 7
76 Berry Street
NORTH SYDNEY NSW 2060
AUSTRALIA

Tel: 61 2 9966 2400
Fax: 61 2 9955 9649

Engineering Division (Telecommunications)

Australia – Division Head Office

Downer Connect Pty Ltd
Level 5
436 Victoria Road
GLADESVILLE NSW 2111
AUSTRALIA

Tel: 61 2 9879 8400
Fax: 61 2 9817 2502

New Zealand – Division Head Office

Downer Connect Ltd
2 Carmont Place
Mt Wellington
AUCKLAND
NEW ZEALAND

Tel: 64 9 270 6801
Fax: 64 9 270 7680

Infrastructure Division

Australia – Division Head Office

Works Infrastructure Pty Ltd
Level 11
468 St Kilda Road
MELBOURNE VIC 3000
AUSTRALIA

Tel: 61 3 9864 0800
Fax: 61 3 9864 0801

New Zealand – Division Head Office

Works Infrastructure Ltd
14 Amelia Earhart Avenue
Airport Oaks
AUCKLAND
NEW ZEALAND

Tel: 64 9 256 9810
Fax: 64 9 256 9811

United Kingdom – Division Head Office

Works Infrastructure Ltd
Warwick Road
Maltby
Rotherham
SOUTH YORKSHIRE S66 8EW
UNITED KINGDOM

Tel: 44 1709 819 929
Fax: 44 1709 819 126

Mining Division

Australia – Division Head Office

Roche Mining Pty Ltd
104 Melbourne Street
SOUTH BRISBANE QLD 4101
AUSTRALIA

Tel: 61 7 3026 6666
Fax: 61 7 3026 6060

Snowden Consulting

87 Colin Street
WEST PERTH WA 6005

Tel: 61 8 9481 6690
Fax: 61 8 9322 2576

Resources Division

Australia – Division Head Office

Century Drilling Ltd
49 Campbell Avenue
WACOL QLD 4076
AUSTRALIA

Tel: 61 7 3718 4444
Fax: 61 7 3879 3322

Rail Division

Australia – Division Head Office

EDI Rail Pty Ltd
2B Factory Street
GRANVILLE NSW 2142
AUSTRALIA

Tel: 61 2 9637 8288
Fax: 61 2 9637 6783

Consulting Services

CPG Corporation Pte Ltd

238B Thomson Road #18-00
Tower B, Novena Square
SINGAPORE 307685

Tel: 65 6357 4888
Fax: 65 6357 4188

Coomes Consulting Group

24 Albert Road
SOUTH MELBOURNE VIC 3205
AUSTRALIA

Tel: 61 3 9993 7888
Fax: 61 3 9993 7999

Duffill Watts Group

382 Manukau Road
Epsom
AUCKLAND
NEW ZEALAND

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The expressions "Downer", "Downer EDI" and "Group" used in this report refer to Downer EDI Limited, comprising Downer Engineering Group Pty Limited (trading as Downer Engineering), Works Infrastructure Limited (trading as Works Infrastructure), Works Infrastructure Pty Ltd (trading as Works Infrastructure), Roche Mining Pty Limited (trading as Roche Mining), Century Drilling Limited (trading as Century Resources), Evans Deakin Industries Pty Limited (includes EDI Rail Pty Limited), CPG Corporation Pte Ltd, Coomes Consulting Group Pty Limited, Duffill Watts & King Limited (Duffill Watts Group) and Group subsidiary companies. The order of this list is random and does not indicate strategic importance or financial status.

The term "Division" refers to the divisions of Downer EDI Limited comprising: Infrastructure Division, Engineering Division, Mining and Resources Division and Rail Division.

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