Downer EDi LIMITED

FULL
FINANCIAL
REPORT
2006

Engineering and **maintaining** essential infrastructure

Contents

Downer EDI Limited Full Financial Report 2006

This publication includes Downer EDI Limited's Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2006.

It should be read in conjunction with the Downer EDI Limited Concise Annual Report 2006 which provides an overview of the key activities for the year ended 30 June 2006. The Concise Annual Report includes the message from the chairman, managing director's review, finance director's review, chief executive profiles, review of operations, board of director's profiles and sections on corporate social responsibility (health and safety, environment, employees and community), corporate governance, information for investors and Australian Stock Exchange information.

The Full Financial Report and the Concise Annual Report comprise the full annual report of Downer EDI Limited for the year ended 30 June 2006, in accordance with the Corporations Act 2001.

The Concise Annual Report 2006 is available from Downer EDI's Corporate Affairs office by request on (02) 9251 9899. Both the Concise Annual Report 2006 and the Full Financial Report 2006 can be found at the Downer EDI website: www.downeredi.com.

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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 10.00am.

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 of the Concise Annual Report 2006.

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 of the Concise Annual Report 2006.

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 of the Concise Annual Report 2006.

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). Further details on the employee discount share plan are disclosed in Note 6 to the financial statements.

Executive share option scheme ("EOS")

No options were granted under the EOS during the year. Further details on the executive share option plan are disclosed in Note 7 to the financial statements.

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%

Directors and executives remuneration report continued

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 all 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 • Vesting is dependent upon both time and performance based criteria • No exercise price is payable • The reward is the full value of the underlying share	• Participants have the right to acquire a share at a future point in time • Vesting is dependent upon both time and performance based criteria • An exercise price is payable • 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

Directors and executives remuneration report continued

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 of the Concise Annual Report 2006.

Environmental regulations

The consolidated entity's performance in relation to Environmental Regulations is contained in the Environmental Compliance section on page 43 of the Concise Annual Report 2006.

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 7.

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

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.

Income Statement

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

		Consolidated		Company	
	Note	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
Revenues	2	4,633,424	3,735,308	109,555	61,830
Other income	2	22,475	16,344	–	468
Share of net profits of associates and joint ventures accounted for using the equity method	39	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)	(105)	(101)
Employee benefits expense	2	(1,507,603)	(1,100,776)	(9,147)	(9,613)
Occupancy costs		(56,836)	(38,576)	(816)	(441)
Plant and equipment costs		(590,409)	(371,976)	–	–
Professional fees		(35,258)	(28,342)	(579)	(631)
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)	(741)	(224)
Other expenses from ordinary activities		(54,674)	(49,789)	(4,610)	(5,571)
Individually significant items	3	(293,675)	–	–	–
(Loss)/profit before income tax (benefit)/expense	2	(110,906)	148,765	93,557	45,717
Income tax benefit/(expense)	4	85,977	(25,475)	(9,967)	(7,925)
(Loss)/profit from continuing operations		(24,929)	123,290	83,590	37,792
(Loss)/profit attributable to members of the parent entity		(24,929)	123,290	83,590	37,792
Earnings per share					
Basic and diluted (cents per share)	36	(8.4)	43.0		

Notes to the financial statements are included on pages 12 to 61.

Balance Sheet

as at 30 June 2006

	Note	Consolidated		Company	
		2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Current assets					
Cash and cash equivalents	44(a)	167,895	165,972	223	68
Inventories	9	173,566	173,745	–	–
Trade and other receivables	10	948,765	940,445	415,692	328,705
Other financial assets	11	16,387	15,594	1,921	1,057
Current tax assets	12	18,421	8,954	15,295	–
Other	13	25,394	18,018	61	2,209
Non-current assets classified as held for sale	14	–	469	–	–
Total current assets		1,350,428	1,323,197	433,192	332,039
Non-current assets					
Trade and other receivables	15	–	21,646	606,265	508,459
Investments accounted for using the equity method	16	11,184	17,474	–	–
Property, plant and equipment	17	676,416	560,808	–	–
Intangibles	18	541,618	367,430	–	–
Other financial assets	19	23,020	13,429	232,322	225,281
Deferred tax assets	20	148,112	45,053	37,853	994
Other	21	9,099	11,360	–	–
Total non-current assets		1,409,449	1,037,200	876,440	734,734
Total assets		**2,759,877**	**2,360,397**	**1,309,632**	**1,066,773**
Current liabilities					
Trade and other payables	22	816,076	699,046	9,948	1,675
Borrowings	23	136,498	16,735	–	–
Other financial liabilities	24	29,608	6,302	–	–
Provisions	25	152,976	108,539	1,329	1,276
Current tax payables	26	12,239	29,414	–	26,666
Total current liabilities		1,147,397	860,036	11,277	29,617
Non-current liabilities					
Trade and other payables	27	1,436	1,566	429,350	358,203
Borrowings	28	503,782	490,037	–	–
Other financial liabilities	29	48,455	14,136	–	–
Provisions	30	61,232	61,233	498	324
Deferred tax liabilities	31	47,032	32,807	–	10
Total non-current liabilities		661,937	599,779	429,848	358,537
Total liabilities		**1,809,334**	**1,459,815**	**441,125**	**388,154**
Net assets		**950,543**	**900,582**	**868,507**	**678,619**
Equity					
Issued capital	33	846,345	669,840	846,345	669,840
Reserves	34	(17,707)	(5,399)	185	–
Retained earnings	35	121,905	236,141	21,977	8,779
Total equity		**950,543**	**900,582**	**868,507**	**678,619**

Notes to the financial statements are included on pages 12 to 61.

Statement of Recognised Income and Expense

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

		Consolidated		Company	
	Note	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
Total equity at the beginning of the financial year		900,582	794,099	678,619	652,235
Adjustment on adoption of AASB 132 and AASB 139 to:					
Retained earnings	35	(18,915)	–	–	–
Reserves	34	3,523	–	–	–
Other current period movements:					
Cash flow hedges	34	(4,803)	–	–	–
Exchange rate differences on translation of foreign operations	34	(11,213)	(5,399)	–	–
Share-based transactions	34	185	–	185	–
		869,359	788,700	678,804	652,235
(Loss)/profit after tax for the year		(24,929)	123,290	83,590	37,792
Total income and expense recognised in equity		**844,430**	**911,990**	**762,394**	**690,027**
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity (net of transaction costs)	33	176,505	36,396	176,505	36,396
Share-based transactions	33	–	2,237	–	2,237
Dividends provided for or paid	35	(70,392)	(50,041)	(70,392)	(50,041)
		106,113	(11,408)	106,113	(11,408)
Total equity at the end of the financial year		**950,543**	**900,582**	**868,507**	**678,619**

Notes to the financial statements are included on pages 12 to 61.

Cash Flow Statement

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

		Consolidated		Company	
	Note	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
Cash flows from operating activities					
Receipts from customers		4,944,967	4,055,336	440	189
Distributions from joint ventures		11,635	16,637	–	–
Interest received		6,397	4,512	41	29
Dividends received from controlled entities		–	–	55,938	40,090
Dividends received from external entities		1,142	–	–	–
Payments to suppliers and employees		(4,798,770)	(3,813,713)	(7,760)	(15,249)
Interest and other costs of finance paid		(50,815)	(43,892)	(378)	(28)
Income tax (paid)/refunded		(24,654)	(32,923)	(2,548)	2,479
Net cash provided by operating activities	44(d)	89,902	185,957	45,733	27,510
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	–	2,539
Proceeds from sale of businesses	44(b)	–	26,665	–	–
Payment for investments		(24,750)	(6,531)	–	(2,170)
Receipts from/(advances to) controlled entities		–	–	(222,970)	25,307
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	41(b)	(219,241)	(27,648)	–	–
Net cash (used in)/provided by investing activities		(384,505)	(142,258)	(222,970)	25,676
Cash flows from financing activities					
Proceeds from borrowings		948,729	612,335	71,662	–
Proceeds from issue of equity securities		142,584	17	142,584	17
Repayment of borrowings		(760,292)	(613,039)	–	(32,565)
Dividends paid		(36,854)	(20,909)	(36,854)	(20,909)
Net cash provided by/(used in) financing activities		294,167	(21,596)	177,392	(53,457)
Net (decrease)/increase in cash and cash equivalents held		(436)	22,103	155	(271)
Cash and cash equivalents at the beginning of the financial year		165,972	147,574	68	339
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	44(a)	**164,359**	**165,972**	**223**	**68**

Notes to the financial statements are included on pages 12 to 61.

Notes to the Financial Statements

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

1 SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies 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'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 22 August 2006.

Basis of preparation

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

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

Significant accounting policies

The accounting policies set out below 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 (as disclosed in Note 48), other than the accounting policies in respect of financial instruments where the transition date was 1 July 2005.

Comparative information

Where necessary comparative amounts have been reclassified and repositioned for consistency with current year accounting policy and disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current year accounting policy and disclosures, where considered material, are referred to separately in the financial statements or notes thereto.

Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of controlled entities appears in Note 40 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

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

Revenue recognition

Sale of goods

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

Engineering services contracts

(i) Construction contracts

Construction contracts are contracts specifically negotiated for the construction of an asset or combination of assets.

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

Contract revenue is measured at the fair value of the consideration received or receivable. In the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. That is, no margin is recognised until the outcome of the contract can be reliably estimated. An assessment is generally made once 25% of the contract completion is achieved.

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

Where claims with customers result in dispute and the amount in dispute is significant, and it is expected that the matters in dispute will not be resolved within 12 months from the company's semi annual reporting date, the provision will be based on the company's assessment of the risk associated with construction contracts, such provision being at least 75% of the disputed amount on each contract.

1 SUMMARY OF ACCOUNTING POLICIES CONTINUED

(ii) Other engineering services contracts (long term)

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

The stage of completion method requires management to make judgements and estimates by forecasting the final outcome of the project and it includes analysis of divergences compared to earlier assessment dates.

Where an engineering services contract is expected to make a loss, the loss is recognised as an expense immediately.

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

Rendering of services

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

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Goods and services tax

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

i) where the amount of GST incurred is not recoverable from the taxation authorities, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii) for receivables and payables which are recognised inclusive of GST.

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

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

Income tax

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

Tax consolidation

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

Cash and cash equivalents

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

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of

1 SUMMARY OF ACCOUNTING POLICIES CONTINUED

inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets

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

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Investments in associates are accounted for under the equity method in the consolidated financial statements.

Available-for-sale financial assets

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

Loans and receivables

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

Non-current asset held for sale

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

Joint ventures

Jointly controlled assets and operations

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

Jointly controlled entities

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

Property, plant and equipment

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

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Buildings	20–30 years
Plants and equipment	3–15 years
Quarries	20–25 years
Equipment under finance lease	5–15 years

Leased assets

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

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

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

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

Intangible assets

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised.

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Intellectual property

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

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible assets can be recognised, development expenditure is recognised as an expense in the period as incurred.

Impairment of assets

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

1 SUMMARY OF ACCOUNTING POLICIES CONTINUED

Payables

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

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

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

Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 47 to the financial statements.

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

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

Fair value hedges

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

Cash flow hedges

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

Embedded derivatives

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

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, redundancy and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions to defined contribution superannuation plans are expensed when incurred.

Provisions

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

Decommissioning and restoration

Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on estimated future costs.

The provision is discounted using a current market-based pre-tax discount rate.

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

Warranty

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

Foreign currency

Foreign currency transactions

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

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

Foreign operations

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

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

1 SUMMARY OF ACCOUNTING POLICIES CONTINUED

Financial instruments issued by the company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

Interest and dividends

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

Dividends

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

Share-based transactions

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

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

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

The fair value of any options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Change in accounting policies

The consolidated entity changed certain accounting policies to comply with 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 48.

The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. 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.

The consolidated entity has elected not to restate comparative information for financial instruments 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 applied to accounting for financial instruments in the current financial year are detailed above. The following accounting policies were applied to accounting for financial instruments in the comparative financial year:

Borrowings

Bills of exchange are recorded at an amount equal to the net proceeds received, with the premium or discount amortised over the period until maturity. Interest expense is recognised on an effective yield basis. Debentures, bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis. Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

Investments

Investments in controlled entities are recorded at cost. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Other investments are recorded at cost or marked to market when held for sale. Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on an accrual basis.

Payables

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

Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

Financial instruments

Debt and equity instruments

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

Derivative financial instruments

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

Foreign exchange contracts

Exchange differences on forward foreign exchange contracts to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

Interest and dividends

Interest and dividends are classified as expenses or as a distribution of profit consistent with the balance sheet classification of the related debt or equity instruments.

New Accounting Standards and UIG Interpretations

AASB 2005-9 'Amendments to Australian Accounting Standards' is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements.

2 RESULT FROM OPERATIONS

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 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	15,018	11,400
Engineering services contract revenue	1,194,104	1,446,934	–	–
Dividends:				
Subsidiaries	–	–	55,938	20,090
Other entities	1,194	–	–	–
Interest revenue:				
Subsidiaries	–	–	37,975	28,345
Other entities	6,391	5,038	55	30
Other revenue				
Rental income	397	164	–	–
Other	6,252	5,171	569	1,965
	4,633,424	3,735,308	109,555	61,830
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	–	468
Net income on disposal of businesses	–	4,915	–	–
Net foreign exchange gains	2,280	–	–	–
Total other income	22,475	16,344	–	468
Total revenue and other income	**4,655,899**	**3,751,652**	**109,555**	**62,298**
Net share of sales revenue in joint venture entities	71,583	157,814	–	–
Total turnover	**4,727,482**	**3,909,466**	**109,555**	**62,298**
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	488	420
Share-based transactions	185	2,237	185	-
Other employee benefits	1,425,125	1,037,106	8,474	9,193
Total employee benefits expense	1,507,603	1,100,776	9,147	9,613

3 INDIVIDUALLY SIGNIFICANT ITEMS

	Consolidated		Company	
	2006 $'000	2005 $'000	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). 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 (Note 46). 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

(a) Income tax recognised in the income statement

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Tax expense comprises:				
Current tax (benefit)/expense	(295)	66,291	13,211	7,988
Deferred tax expense relating to the origination and reversal of temporary differences	(85,682)	(40,816)	(3,244)	(63)
Total tax (benefit)/expense	(85,977)	25,475	9,967	7,925
The prima facie income tax (benefit)/expense on pre-tax accounting (loss)/profit reconciles to the income tax (benefit)/expense in the financial statements as follows:				
(Loss)/profit from operations	(110,906)	148,765	93,557	45,717
Income tax (benefit)/expense calculated at 30% of operating (loss)/profit	(33,272)	44,630	28,067	13,715
Non-allowable depreciation	229	417	–	–
Amortisation of intangible assets	80	15	–	–
Non-taxable capital gains	(1,606)	(1,234)	–	–
Exempt income	–	(198)	–	–
Non-deductible expenses	683	1,294	70	482
Dividends from within the tax group	–	–	(16,781)	(6,010)
Equity share of associates' and joint venture entities' profits	(39)	(1,463)	–	–
Effect of different rates of tax on overseas income/losses	1,760	3,340	–	–
Research and development	(1,374)	(2,389)	–	–
Other items	(2,899)	(3,035)	–	(270)
Benefits arising from previously unrecognised temporary differences	–	(1,974)	–	–
Impact of adopting tax consolidation during the period^†	(42,888)	(10,079)	–	–
	(79,326)	29,324	11,356	7,917
Under/(over) provision of income tax in previous year	(6,651)	(3,849)	(1,389)	8
Income tax (benefit)/expense attributable to operating (loss)/profit	(85,977)	25,475	9,967	7,925

* Downer EDI Limited and its wholly-owned Australian controlled entities are part of a tax consolidated group under Australian taxation law. Accordingly entities within the Group have entered into a tax sharing agreement with Downer EDI Limited as the head entity of the Australian group (refer Note 1).

^† The head entity has elected, as part of entering the tax consolidations regime (refer Note 1), to reset the tax values of various assets under prescribed tax cost base resetting rules.

4 INCOME TAXES CONTINUED

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

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
(b) Income tax recognised directly in equity				
The following current and deferred amounts were charged directly to equity during the year:				
Deferred tax:				
Revaluations of financial instruments treated as cash flow hedges	835	–	–	–
Adjustments to opening retained earnings associated with changes in accounting policies for financial instruments	(229)	–	–	–
Total charged directly to equity	606	–	–	–

5 KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel

The key management personnel of Downer EDI Limited during the year were:

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)

B Waldron (deputy chief executive officer – Downer EDI Limited, appointed 1 January 2006, chief executive officer – Infrastructure New Zealand division until 31 December 2005.)

D Cattell (chief executive officer – Infrastructure Australia division)

C Denney (chief executive officer – Engineering division, resigned 31 July 2006)

R Hackett (chief executive officer – Resources division)

R Logan (chief executive officer – Mining division)

T Pang (chief executive officer – CPG Corporation)

P Reidy (chief executive officer – Infrastructure New Zealand division, appointed 12 February 2006)

G Wannop (chief executive officer – Rail division)

Key management personnel compensation policy

The remuneration committee reviews the compensation packages of key management personnel, except for the managing director whose compensation review is performed by the nominations and corporate governance committee. Compensation packages are reviewed with due regard to performance and other relevant factors. In order to retain and attract key management personnel of sufficient calibre to facilitate the efficient and effective management of the company's operations, the remuneration committee may seek the advice of external advisers in connection with the structure of compensation packages.

Compensation and other terms of employment for the directors and key management personnel are formalised in agreements. Key management personnel are on open ended contracts with no fixed end date. The notice period under these contracts is 3 months, including the managing director. Key management personnel contracts provide for termination payments, up to a maximum 100% of base salary in very limited circumstances. Key management personnel and the managing director are entitled as part of their compensation packages to a bonus capped at up to 50% of their base salary. Payment of the bonus is dependent upon meeting the budget, business plan and other key performance measures.

The maximum aggregate compensation that could be paid to non-executive directors was determined by a resolution of shareholders and capped at the aggregate amount of $800,000 per annum, which has remained unchanged since 1998. The allocation of fees to non-executive directors within this compensation pool is a matter for the board, and is determined after consideration of a number of factors including time commitment of directors, the size and scale of the company operations, the skill sets of directors, market rates and other factors. The fees are fixed and are not linked to the financial performance of the company in any way. The right to receive retirement benefits has been frozen and these benefits are fully provided for in the financial statements.

5 KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

Key management personnel compensation

	Consolidated		Company	
	2006 $	2005 $	2006 $	2005 $
Short-term employee benefits	6,568,233	5,317,439	6,076,659	5,317,439
Post-employment benefits	569,485	352,010	569,485	352,010
Share-based transactions	184,923	5,000	184,923	5,000
	7,322,641	5,674,449	6,831,067	5,674,449

The compensation of each member of the key management personnel of the consolidated entity is set out in the tables below:

	Short-term employee benefits			Post-employment benefits	Share-based transactions	
2006	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 J 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
B Waldron	626,845	126,457	–	39,168	–	792,470
D Cattell	446,667	150,000	106,734	71,467	–	774,868
C Denney	378,340	135,000	8,696	97,843	–	619,879
R Hackett	335,407	97,500	23,785	63,937	–	520,629
R Logan	555,099	–	6,264	90,835	–	652,198
T Pang	264,975	97,556	–	–	–	362,531
P Reidy ^	129,043	–	–	–	–	129,043
G Wannop	421,500	118,800	–	37,935	–	578,235
	5,183,788	1,225,313	159,132	569,485	184,923	7,322,641

* Performance rights and options granted under the long term incentive plan

§ Appointed 22 June 2006

Resigned 2 November 2005

^ Appointed 12 February 2006

5 KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

	Short-term employee benefits			Post-employment benefits	Share-based transactions	
2005	**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 J Jollie	91,667	–	–	8,250	–	99,917
S J Gillies ^	1,524,327	502,125	20,173	38,702	–	2,085,327
Dr C K Chan	–	–	–	–	–	–
J S Humphrey	80,000	–	–	–	–	80,000
K Y Lau	–	–	–	–	–	–
C J S Renwick	61,016	–	–	–	–	61,016
B W Wong	–	–	–	–	–	–
D Cattell	350,000	120,000	95,194	56,000	1,000	622,194
C Denney	418,979	66,666	–	95,980	1,000	582,625
P Khor #	183,844	475,156	30,128	–	1,000	690,128
R Logan	544,161	64,655	7,907	92,710	1,000	710,433
B Waldron	414,698	91,743	–	44,618	1,000	552,059
	3,843,692	1,320,345	153,402	352,010	5,000	5,674,449

^ Salary includes payment of $386,300 for entitlements for previous years under employment contract

Includes a retention bonus of $311,284 paid under the terms of the acquisition of CPG Corporation Pte Ltd

* Other includes discount on shares issued under the Employee Share Plan

Long term incentive plan

The long term incentive plan for Australian key management personnel operates from 1 July 2005 to 30 June 2009. The plan consists of annual grants with performance based vesting three years from the grant date.

Under the plan, key management personnel can receive both rights and options as noted below:

Performance Rights

- Participants have the right to receive a share at a future point in time
- Vesting is dependent upon both time and performance based criteria
- No exercise price is payable
- The reward is the full value of the underlying share

Performance Options

- Participants have the right to acquire a share at a future point in time
- Vesting is dependent upon both time and performance based criteria
- An exercise price is payable
- 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 ASX100 comparator group; and
- the second portion will vest based on meeting growth hurdles in the company's earnings per share (EPS).

To vest, Downer EDI TSR percentile ranking must be between the 50th and 75th percentiles of the ASX 100 comparator group. For that first offering, a portion of the award will vest at the 50th percentile performance and increase up to 100 percent vesting at the 75th percentile performance versus the ASX comparator group.

5 KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

During the year 47,945 performance rights and 325,869 performance options in Downer EDI Limited were granted to the managing director in accordance with the long term incentive plan. Details are as follows:

	Number of shares	Grant date	Expiry date *	Exercise Price $	Fair value at grant date $
Performance options	162,935	2 November 2005	2 November 2012	6.07	1.58
Performance options	162,934	2 November 2005	2 November 2012	6.07	1.52
Performance rights	23,973	2 November 2005	2 November 2012	–	5.56
Performance rights	23,972	2 November 2005	2 November 2012	–	4.45

* 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.

6 EMPLOYEE SHARE PLAN

An employee discount share plan was instituted in June 2005 ('ESP'). In accordance with the provisions of the plan, as approved by shareholders at the 1998 annual general meeting, permanent full and part time employees of Downer EDI Limited and its subsidiary companies who have completed one year's service may be invited to participate.

During the year ended 30 June 2006, no shares were granted under the ESP. At 30 June 2005, an offer to all eligible employees had been made and acceptances for 1,118,500 shares totalling $3,523,275 had been received under the terms of the ESP. Under this offer, eligible employees were offered the right to acquire 500 shares in Downer at an issue price of $5.15 (the volume weighted average price of Downer's shares at the time of the offer) less a $1,000 discount. The discount was offered in recognition of employees' contribution to the company's performance. Under the offer, employees were required to pay the balance of $1,575 for the shares.

7 EXECUTIVE SHARE OPTION SCHEME (EOS)

The operation of the EOS is governed by the "Rules of the Downer Executive Option Scheme". Subject to the Listing Rules of the ASX, the directors at their discretion, may amend the Rules of the EOS from time to time.

The directors may offer options to executives of the company and its associated/controlled companies.

Options will be granted without charge.

The directors will determine the following matters in their discretion:

- eligibility of persons, having regard to each executive's length of service, contribution and potential contribution to the company;
- the number of options in any offer, provided that the number of shares that may be allotted on the exercise of options under the EOS will not exceed 5% of the issued capital of the company at the time of the issue of the options; and
- the exercise period and exercise price of options granted.

If the company makes a bonus issue of shares to shareholders, each unexercised option will, on exercise, entitle its holder to receive the bonus shares as if the option had been exercised before the record date for the bonus issue. If the company makes a pro rata rights issue of shares for cash to its shareholders then there is provision for adjustment of the option entitlement and exercise price of the options to overcome the diluting effect of the issue.

During the year, no options under the EOS were granted. Similarly, no executives and employees acquired any ordinary shares under the provisions of the EOS. At 30 June 2006, no options granted under the EOS remain outstanding.

The closing market price of the company's ordinary shares at 30 June 2006 was $7.44 each.

	Consolidated		Company	
	2006 $	2005 $	2006 $	2005 $
8 REMUNERATION OF AUDITORS				
Auditor of the parent entity:				
Auditing the financial report	2,692,000	1,772,000	550,000	254,200
Taxation services	104,836	208,816	–	11,436
A-IFRS implementation	156,520	159,722	156,520	32,500
Consulting	10,000	62,158	10,000	62,158
Other services	89,644	89,304	–	–
	3,053,000	2,292,000	716,520	360,294
Other auditors:				
Auditing the financial report	714,000	635,000	–	–
Taxation services	89,800	1,136,890	–	533,637
Consulting	66,300	163,662	–	21,550
Other services	79,000	105,448	–	–
	949,100	2,041,000	–	555,187
	4,002,100	4,333,000	716,520	915,481

The auditor of Downer EDI Limited is Deloitte Touche Tohmatsu

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
9 CURRENT INVENTORIES				
Raw materials – at cost	71,129	52,552	–	–
Work in progress – at cost	13,374	37,827	–	–
Finished goods – at cost	23,806	22,090	–	–
Components and spare parts – at cost	63,101	61,276	–	–
Components and spare parts – at net realisable value	2,156	–	–	–
	173,566	173,745	–	–
10 CURRENT TRADE AND OTHER RECEIVABLES				
Trade receivables	770,624	699,952	–	–
Allowance for doubtful debts	(5,671)	(13,621)	–	–
	764,953	686,331	–	–
Amount due from customers under engineering services contracts (Note 46)	134,715	181,857	–	–
Other receivables controlled entities	–	–	415,587	326,312
Other receivables	49,097	72,257	105	2,393
	948,765	940,445	415,692	328,705

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
11 OTHER CURRENT FINANCIAL ASSETS				
Available-for-sale investments	10,635	265	–	–
Employee loans	1,043	1,057	1,043	1,057
Foreign currency forward contracts	464	6,302	–	–
Advances to joint venture entities	1,863	3,658	–	–
Other financial assets	2,382	4,312	878	–
	16,387	15,594	1,921	1,057
12 CURRENT TAX ASSETS				
Tax refunds	18,421	8,954	15,295	–
13 OTHER CURRENT ASSETS				
Prepayments	20,767	13,956	54	–
Other deposits	2,646	2,420	–	–
Other current assets	1,981	1,642	7	2,209
	25,394	18,018	61	2,209
14 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE				
Asset held for sale	–	469	–	–
15 NON-CURRENT TRADE AND OTHER RECEIVABLES				
Trade receivables	–	20,604	–	–
Amount due from customers under engineering services contracts (Note 46)	–	1,042	–	–
Other receivables controlled entities	–	–	606,265	508,459
	–	21,646	606,265	508,459
16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD				
Joint venture entities (Note 39 (b))	11,184	17,474	–	–

17 PROPERTY, PLANT AND EQUIPMENT

Consolidated 2006	Freehold Land $'000	Quarries $'000	Buildings $'000	Plant and Equipment $'000	Equipment Under Finance Lease $'000	Total $'000
As at 1 July 2005						
Cost	19,148	4,958	39,736	916,275	13,649	993,766
Accumulated depreciation	–	(2,121)	(6,249)	(423,015)	(1,573)	(432,958)
Net book value	19,148	2,837	33,487	493,260	12,076	560,808
Year ended 30 June 2006						
Additions	8,563	–	4,258	186,679	176	199,676
Disposals	(321)	–	(8)	(29,352)	(837)	(30,518)
Acquisitions of businesses	306	–	9,603	57,398	357	67,664
Depreciation expense	–	(228)	(2,607)	(103,541)	(835)	(107,211)
Reclassification	–	–	(3,209)	3,209	–	–
Net foreign currency exchange differences	(1,639)	(296)	(1,422)	(10,554)	(92)	(14,003)
Closing net book value	26,057	2,313	40,102	597,099	10,845	676,416
At 30 June 2006						
Cost	26,057	4,445	48,645	1,130,672	12,632	1,222,451
Accumulated depreciation	–	(2,132)	(8,543)	(533,573)	(1,787)	(546,035)
Closing net book value	26,057	2,313	40,102	597,099	10,845	676,416

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 2.

2005	Freehold Land $'000	Quarries $'000	Buildings $'000	Plant and Equipment $'000	Equipment Under Finance Lease $'000	Total $'000
As at 1 July 2004						
Cost	21,274	4,972	42,035	926,532	18,298	1,013,111
Accumulated depreciation	–	(1,587)	(5,063)	(451,553)	(2,574)	(460,777)
Net book value	21,274	3,385	36,972	474,979	15,724	552,334
Adoption of A-IFRS	–	–	(1,557)	(9,288)	–	(10,845)
Opening net book value	21,274	3,385	35,415	465,691	15,724	541,489
Year ended 30 June 2005						
Additions	486	–	2,264	129,348	133	132,231
Disposals	(4,464)	41	–	(7,833)	(2,482)	(14,738)
Acquisitions of businesses	2,465	–	1,168	11,817	240	15,690
Depreciation expense	–	(566)	(2,136)	(96,003)	(1,540)	(100,245)
Disposal of business	(650)	–	(3,547)	(8,838)	–	(13,035)
Net foreign currency exchange differences	37	(23)	323	(922)	1	(584)
Closing net book value	19,148	2,837	33,487	493,260	12,076	560,808
At 30 June 2005						
Cost	19,148	4,958	39,736	916,275	13,649	993,766
Accumulated depreciation	–	(2,121)	(6,249)	(423,015)	(1,573)	(432,958)
Closing net book value	19,148	2,837	33,487	493,260	12,076	560,808

18 INTANGIBLE ASSETS

	Consolidated		
2006	Goodwill $'000	Intellectual Property $'000	Total $'000
Gross carrying amount at cost			
Balance at 1 July 2005	352,526	21,870	374,396
Purchases	–	61	61
Acquisitions of businesses	179,676	–	179,676
Net foreign currency exchange differences	(4,443)	–	(4,443)
Balance at 30 June 2006	527,759	21,931	549,690
Accumulated amortisation/impairment			
Balance at 1 July 2005	–	6,966	6,966
Amortisation expense	–	1,106	1,106
Balance at 30 June 2006	–	8,072	8,072
Net Book Value			
As at 1 July 2005	352,526	14,904	367,430
As at 30 June 2006	527,759	13,859	541,618

Amortisation allocated during the year is recognised as an expense and disclosed in Note 2.

2005			
Gross carrying amount at cost			
Balance at beginning of financial year	364,304	38,855	403,159
Adoption of A-IFRS:			
Transfer of accumulated amortisation	(69,751)	–	(69,751)
Reclassification of intellectual property to goodwill	31,592	(29,890)	1,702
Adoption of A-IFRS	(38,159)	(29,890)	(68,049)
Restated balance at the beginning of financial year	326,145	8,965	335,110
Acquisitions of businesses	27,442	12,915	40,357
Derecognised on disposals of subsidiary	(1,200)	(10)	(1,210)
Net foreign currency exchange differences	139	–	139
Balance at 30 June 2005	352,526	21,870	374,396
Accumulated amortisation/impairment			
Balance at beginning of financial year	69,751	4,332	74,083
Adoption of A-IFRS:			
Transfer of accumulated amortisation	(69,751)	–	(69,751)
Reclassification of intellectual property to goodwill	–	1,702	1,702
Adoption of A-IFRS	(69,751)	1,702	(68,049)
Restated balance at the beginning of financial year	–	6,034	6,034
Amortisation expense	–	849	849
Elimination on disposals of subsidiary	–	(10)	(10)
Net foreign currency exchange differences	–	93	93
Balance at 30 June 2005	–	6,966	6,966
Net Book Value			
As at 1 July 2004	326,145	2,931	329,076
As at 30 June 2005	352,526	14,904	367,430

18 INTANGIBLE ASSETS CONTINUED

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to six groups of cash-generating units (CGU's). The carrying amount of goodwill allocated to the six cash-generating units is significant in comparison with the total carrying amount of goodwill.

	Consolidated	
	2006 $'000	**2005 $'000**
Infrastructure Services	179,084	48,733
Mining and Resources	111,059	94,048
Rail	73,883	73,883
Engineering Consultancy	72,186	39,435
Power	46,638	52,092
Telecommunications	44,909	44,335
	527,759	352,526

The recoverable amount of goodwill relating to the above cash-generating units has been assessed based on fair value less costs to sell calculations. The calculations of fair value are based on cash flow projections derived from forecasts and financial budgets approved by management covering a two-year period that incorporate best estimates of contract revenue, costs and margins.

Cash flows beyond the budget period are extrapolated using the estimated growth rate of 3% (2005: 3%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU's operate. A discount rate of 9.5% (2005: 9.4%) is applied to calculate the fair value less costs to sell.

The valuations are sensitive to changes in assumptions about operating costs, growth rates and discount rates. The discount rates represent an estimate of the rate the market would expect having regard to the time value of money and the risks specific to the group of assets. The Group's weighted average cost of capital is used for determining the discount rate.

Impact of reasonably possible changes in key assumptions

Management believes that any reasonably possible changes in the key assumptions on which the above CGU's recoverable amounts are based would not cause their respective values to fall short of their carrying amounts at 30 June 2006.

19 OTHER NON-CURRENT FINANCIAL ASSETS

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Shares in controlled entities	–	–	231,424	225,000
Available-for-sale investments	15,696	6,007	–	–
Cross currency interest rate swaps	4,030	–	–	–
Deferred consideration receivable	2,396	5,818	–	–
Other	898	1,604	898	281
	23,020	13,429	232,322	225,281

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
20 DEFERRED TAX ASSETS				
a) Deferred tax asset	148,112	45,053	37,853	994
b) Movement in deferred tax asset for the financial year:				
Balance at beginning of the financial year	109,276	76,878	994	15,787
Adoption of A-IFRS	3,256	6,841	–	(14,818)
Restated balance at beginning of the financial year	112,532	83,719	994	969
Charged to income statement as deferred income tax benefit (Note 20(d))	95,454	35,782	3,241	25
Charged to equity	467	–	–	–
Acquisitions of businesses	4,069	627	–	–
Net foreign currency exchange differences	(1,482)	(420)	–	–
Net loss transfers	–	–	33,615	–
Other	(3,750)	(10,432)	–	–
Balance at end of the financial year (gross) (Note 20(c))	207,290	109,276	37,850	994
Set-off of deferred tax assets of parent entity pursuant to set-off provisions (Note 31)	(59,178)	(64,223)	3	–
Net deferred tax assets	148,112	45,053	37,853	994
c) Deferred tax assets at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to:				
Trade and other receivables	11,321	162	–	–
Inventories	3,206	3,211	–	–
Property, plant and equipment	4,055	12,709	–	–
Equity accounted investments	3,850	3,497	–	–
Trade and other payables	16,863	3,367	1,038	444
Provisions	126,208	71,925	3,121	474
Borrowings	1,248	210	–	–
Income tax losses	39,865	3,392	33,691	–
Other	674	6,025	–	76
Under provision in prior periods	–	4,778	–	–
Total deferred tax assets (gross)	207,290	109,276	37,850	994
d) Amounts charged to income statement as deferred income tax benefit:				
Trade and other receivables	3,096	13	–	–
Inventories	449	220	–	–
Property, plant and equipment	(12,905)	10,743	–	–
Trade and other payables	7,723	(1,092)	27	(33)
Provisions	62,794	16,169	3,214	(18)
Borrowings	787	158	–	–
Income tax losses	36,260	14,779	–	76
Other	(392)	(821)	–	–
Under provision in prior periods	(2,358)	(4,387)	–	–
Charged to income statement as deferred income tax benefit	95,454	35,782	3,241	25

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
21 OTHER NON-CURRENT ASSETS				
Prepayments	8,587	9,445	–	–
Other	512	1,915	–	–
	9,099	11,360	–	–
22 CURRENT TRADE AND OTHER PAYABLES				
Trade payables	583,602	554,218	9,854	1,598
Amounts due to customers under engineering services contracts (Note 46)	170,155	90,893	–	–
Goods and services tax payable	21,000	22,826	94	77
Advances from other entities	17,612	14,557	–	–
Other	23,707	16,552	–	–
	816,076	699,046	9,948	1,675
23 CURRENT BORROWINGS				
Secured:				
Finance lease liabilities (Note 38(b))	2,738	2,542	–	–
Hire purchase liabilities (Note 38(c))	1,079	278	–	–
	3,817	2,820	–	–
Unsecured:				
Bank loans	60,722	13,915	–	–
Bank overdraft (Note 44(a))	3,536	–	–	–
US$ notes	70,621	–	–	–
Deferred finance charges	(2,198)	–	–	–
	132,681	13,915	–	–
	136,498	16,735	–	–
24 OTHER CURRENT FINANCIAL LIABILITIES				
Foreign currency forward contracts	935	6,302	–	–
Cross currency interest rate swaps	28,673	–	–	–
	29,608	6,302	–	–
25 CURRENT PROVISIONS				
Employee benefits (Note 32)	107,774	87,758	1,329	1,276
Contract claims and warranties (Note 32)	30,910	19,561	–	–
Decommissioning (Note 32)	8,479	–	–	–
Other (Note 32)	5,813	1,220	–	–
Total current provisions (Note 32)	152,976	108,539	1,329	1,276
26 CURRENT TAX PAYABLES				
Parent entity	–	8,190	–	8,190
Entities in the tax consolidated group (i)	–	18,476	–	18,476
Overseas entities	12,239	2,748	–	–
	12,239	29,414	–	26,666

(i) Entities in the Australian tax consolidated group have entered into a tax sharing agreement, refer Note 1.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
27 NON-CURRENT TRADE AND OTHER PAYABLES				
Amounts due to customers under engineering services contracts (Note 46)	–	1,566	–	–
Non-trade payables to controlled entities	–	–	429,350	358,203
Other	1,436	–	–	–
	1,436	1,566	429,350	358,203
28 NON-CURRENT BORROWINGS				
Secured:				
Finance lease liabilities (Note 38(b))	3,474	5,576	–	–
Hire purchase liabilities (Note 38(c))	480	483	–	–
	3,954	6,059	–	–
Unsecured:				
Bank loans	241,677	90,253	–	–
US$ notes	258,151	393,725	–	–
	499,828	483,978	–	–
	503,782	490,037	–	–
Financing facilities				
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Bank loans/overdraft (i)	730,932	454,586	–	–
Hire purchase and lease facilities (ii)	100,414	208,817	–	–
US$ notes (iii)	328,772	393,725	–	–
	1,160,118	1,057,128	–	–
Facilities utilised at balance date:				
Bank loans/overdraft	305,935	104,168	–	–
Hire purchase and lease facilities	7,771	8,879	–	–
US$ notes	328,772	393,725	–	–
	642,478	506,772	–	–
Facilities not utilised at balance date:				
Bank loans/overdraft	424,997	350,418	–	–
Hire purchase and lease facilities	92,643	199,938	–	–
	517,640	550,356	–	–

At 30 June 2006, the consolidated entity had bank guarantees and other bank collateral facilities and insurance bond facilities totalling $648,636,000 (2005: $671,337,000) of which $222,007,000 (2005: $209,074,000) was not utilised.

i) Bank loans/overdraft

Bank loans/overdraft, while unsecured, are subject to various group guarantee arrangements, bear interest at prevailing market rates and have varying maturity dates, some extending greater than one year.

ii) Hire purchase and lease facilities

Hire purchase and lease facilities are secured by the assets financed.

iii) US$ unsecured notes

In October 1999 and December 2001 the consolidated entity issued US$95,000,000 and US$80,000,000 in unsecured notes, with varying maturities extending to 2014. In September 2004 the consolidated entity issued US$54,000,000 and US$55,000,000 in unsecured notes with varying maturities extending to 2019. Concurrent with the new issue, US$15,000,000 of the October 1999 issue was extended from an original maturity date of 2006 until 2014. The USD principal and interest have been fully hedged to Australian or New Zealand dollars, as applicable. Interest is payable to US note holders semi-annually. While unsecured, the US notes are subject to group guarantee arrangements. The fair value of the US notes is disclosed in Note 47.

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
29 NON-CURRENT OTHER FINANCIAL LIABILITIES				
Cross currency interest rate swaps	36,228	–	–	–
Advances from joint venture entities	12,227	13,562	–	–
Other	–	574	–	–
	48,455	14,136	–	–
30 NON-CURRENT PROVISIONS				
Employee benefits (Note 32)	25,661	26,303	498	324
Contract claims and warranties (Note 32)	3,218	3,215	–	–
Decommissioning (Note 32)	32,353	23,509	–	–
Other (Note 32)	–	8,206	–	–
Total non-current provisions (Note 32)	61,232	61,233	498	324
31 DEFERRED TAX LIABILITIES				
a) Deferred tax liability	47,032	32,807	–	10
b) Movement in deferred tax liability for the financial year:				
Balance at beginning of the financial year	97,030	102,934	10	17,881
Adoption of A-IFRS	677	3,207	–	(17,833)
Restated balance at beginning of the financial year	97,707	106,141	10	48
Charged to income statement as deferred income expense/(benefit) (Note 31(d))	9,772	(5,034)	(3)	(38)
Charged to equity	(139)	–	–	–
Acquisitions of businesses	378	10	–	–
Net foreign currency exchange differences	(2,526)	(676)	–	–
Other	1,018	(3,411)	(10)	–
Balance at end of the financial year (gross) (Note 31(c))	106,210	97,030	(3)	10
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (Note 20)	(59,178)	(64,223)	3	–
Net deferred tax liability	47,032	32,807	–	10
c) Deferred tax liabilities at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to:				
Property, plant and equipment	15,831	30,028	–	–
Inventories	6,854	3,591	–	–
Intangible assets	899	–	–	–
Trade and other receivables	79,955	38,822	–	2
Other current assets	4,097	–	–	–
Equity accounted investments	269	–	–	–
Trade and other payables	3,189	–	–	–
Borrowings	1,247	593	–	8
Financial liabilities	538	–	–	–
Provisions	–	21,201	–	–
Over provision	–	(5,262)	–	–
Other	(6,669)	8,057	(3)	–
Total deferred tax liabilities (gross)	106,210	97,030	(3)	10

31 DEFERRED TAX LIABILITIES CONTINUED

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
d) Amounts charged to income statements as deferred income tax expense/(benefit):				
Property, plant and equipment	7,273	(6,753)	–	–
Inventories	617	1,213	–	–
Intangible assets	899	–	–	–
Trade and other receivables	6,298	7,398	–	(329)
Other assets	292	(2,630)	–	–
Trade and other payables	3,895	–	–	–
Borrowings	593	258	–	1
Provisions	604	(90)	–	–
Under/(over) provision	(10,699)	(4,430)	–	290
Other	–	–	(3)	–
Charged to income statement as deferred income tax expense/(benefit)	9,772	(5,034)	(3)	(38)

32 PROVISIONS MOVEMENTS

	Consolidated				
	Employee benefits $'000	Decommissioning $'000	Contract claims and warranties $'000	Other $'000	Total $'000
Balance at 1 July 2005	114,061	23,509	22,776	9,426	169,772
Additional provisions recognised	119,870	479	19,145	224	139,718
Unused provision reversed	(730)	(2,106)	(98)	(1,725)	(4,659)
Utilised	(113,589)	(747)	(8,923)	(3,120)	(126,379)
Acquisitions of businesses	15,082	19,750	1,372	1,000	37,204
Net foreign currency exchange difference	(1,259)	(53)	(144)	8	(1,448)
Balance at 30 June 2006	133,435	40,832	34,128	5,813	214,208
Current (Note 25)	107,774	8,479	30,910	5,813	152,976
Non-current (Note 30)	25,661	32,353	3,218	–	61,232

	Company				
	Employee benefits $'000	Decommissioning $'000	Contract claims and warranties $'000	Other $'000	Total $'000
Balance at 1 July 2005	1,600	–	–	–	1,600
Additional provisions recognised	849	–	–	–	849
Utilised	(622)	–	–	–	(622)
Balance at 30 June 2006	1,827	–	–	–	1,827
Current (Note 25)	1,329	–	–	–	1,329
Non-current (Note 30)	498	–	–	–	498

Refer to Note 1 for accounting policies on employee benefits, contract and warranty claims and decommissioning provisions.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
33 ISSUED CAPITAL				
314,171,170 fully paid ordinary shares (2005: 291,685,155)	846,345	669,840	846,345	669,840

Fully paid ordinary share capital

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

	Consolidated/Company			
	2006		2005	
Fully paid ordinary share capital	No. ('000's)	$'000	No. ('000's)	$'000
Balance at beginning of financial year	291,685	669,840	282,037	631,207
Issue of shares through dividend reinvestment plan elections	4,965	33,530	7,543	29,123
Shares issued pursuant to institutional placement	14,881	125,000	–	–
Shares issued pursuant to share purchase plan	1,980	16,630	–	–
Issue of shares on acquisition of businesses	660	3,895	987	3,750
Issue of shares under terms of Employee Share Plan *	–	–	1,118	5,760
Payment of share issue costs	–	(2,550)	–	–
Balance at end of financial year	314,171	846,345	291,685	669,840

* In the previous financial year, under the terms of the employee share plan, acceptances for 1,118,500 shares totalling $3,523,000 were received. Under the terms of the offer a $1,000 discount was provided in recognition of each employees contribution to the company's performance. The adoption of A-IFRS requires the value of the discount to be recognised as an expense with a corresponding increase in share capital of $2,237,000.

Share options and performance rights

During the financial year 47,945 performance rights and 325,869 performance options were granted to the managing director in accordance with the provisions of the long term incentive plan. As at 30 June 2005 there were no options granted. Further details of the key management personnel long term incentive plan are contained in Note 5 to the financial statements.

34 RESERVES

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Reserves comprise:				
Foreign currency translation	(16,612)	(5,399)	–	–
Hedging	(1,280)	–	–	–
Employee benefits	185	–	185	–
Total reserves	(17,707)	(5,399)	185	–
Movement in reserves				
Foreign currency translation reserves:				
Balance at beginning of financial year	(5,399)	(11,327)	–	–
Adoption of A-IFRS transfer to retained earnings	–	11,327	–	–
Restated balance at beginning of financial year	(5,399)	–	–	–
Translation of foreign operations	(11,213)	(5,399)	–	–
Balance at end of financial year	(16,612)	(5,399)	–	–

34 RESERVES CONTINUED

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Hedging reserves:				
Balance at beginning of financial year	–	–	–	–
Initial recognition of fair value of hedges on adoption of AASB 132 and AASB 139	3,523	–	–	–
Revaluation during the year	(4,524)	–	–	–
Transferred to assets during the year	(279)	–	–	–
Balance at end of financial year	(1,280)	–	–	–
Employee benefits reserve:				
Balance at beginning of financial year	–	–	–	–
Share-based transactions	185	–	185	–
Balance at end of financial year	185	–	185	–

35 RETAINED EARNINGS

Balance at beginning of financial year	236,141	203,149	8,779	21,028
Adoption of A-IFRS	–	(40,257)	–	–
Restated balance at beginning of financial year	236,141	162,892	8,779	21,028
Adoption of AASB 139 and AASB 132	(18,915)	–	–	–
Net (loss)/profit	(24,929)	123,290	83,590	37,792
Dividends paid	(70,392)	(50,041)	(70,392)	(50,041)
Balance at end of financial year	121,905	236,141	21,977	8,779

36 EARNINGS PER SHARE (EPS)

	2006 Cents per share	2005 Cents per share
Basic earnings per share from continuing operations	(8.4)	43.0
Diluted earnings per share from continuing operations	(8.4)	43.0

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2006 No. (000's)	2005 No. (000's)
Weighted average number of ordinary shares	297,841	286,913

	2006 $'000	2005 $'000
Earnings used in the calculation of basic earnings per share from continuing operations reconciles to net (loss)/profit in the income statement as follows:		
Net (loss)/profit	(24,929)	123,290

Diluted earnings per share

The weighted average number of ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2006 No. (000's)	2005 No. (000's)
Weighted average number of ordinary shares used in the calculation of diluted EPS	297,841	286,913

The 47,945 performance rights and 325,869 performance options granted during the year do not have a material effect on the calculation of the diluted EPS.

37 DIVIDENDS

	Consolidated		
	Date paid/ payable	**Cents per share**	**$'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

	Company	
	2006 $'000	**2005 $'000**
Franking account balance	–	13,457

38 COMMITMENTS FOR EXPENDITURE

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
a) Capital expenditure commitments				
Plant and equipment:				
Not longer than 1 year	61,881	21,652	–	–
Longer than 1 year and not longer than 5 years	317	9,264	–	–
	62,198	30,916	–	–
b) Lease commitments				
Non-cancellable operating leases:				
Operating leases relate to premises and plant and equipment with lease terms of between 1 to 6 years. The economic entity does not have options to purchase the leased assets at the expiry of the lease period.				
Not longer than 1 year	119,973	91,884	–	–
Longer than 1 year and not longer than 5 years	134,630	125,891	–	–
Longer than 5 years	13,431	3,520	–	–
	268,034	221,295	–	–
Finance lease liabilities:				
Finance leases relate to plant and equipment with lease terms of between 1 to 5 years. The consolidated entity has options to purchase the equipment at the conclusion of the lease arrangements.				
Not longer than 1 year	3,143	3,142	–	–
Longer than 1 year and not longer than 5 years	3,699	6,145	–	–
Minimum finance lease payments	6,842	9,287	–	–
Less: future finance charges	630	1,169	–	–
Finance lease liabilities	6,212	8,118	–	–
Included in the financial statements as:				
Current borrowings (Note 23)	2,738	2,542	–	–
Non-current borrowings (Note 28)	3,474	5,576	–	–
	6,212	8,118	–	–
c) Other expenditure commitments				
Hire purchase liabilities:				
Not longer than 1 year	1,190	317	–	–
Longer than 1 year and not longer than 5 years	509	517	–	–
Minimum hire purchase payments	1,699	834	–	–
Less: future finance charges	140	73	–	–
Hire purchase liabilities	1,559	761	–	–
Included in the financial statements as:				
Current borrowings (Note 23)	1,079	278	–	–
Non-current borrowings (Note 28)	480	483	–	–
	1,559	761	–	–

39 JOINT VENTURE OPERATIONS AND ENTITIES

a) The consolidated entity has interests in the following joint venture operations:

Name of Entity	Principal Activity	Ownership Interest 2006 %	2005 %
Airfield Works Joint Venture	Airport civil engineering	49	49
Alex Fraser Asphalt Production	Asphalt production and sales	50	–
BPL Downer Joint Venture	Construction of public facilities	50	50
China Fujian Downer Joint Venture	Construction of public facilities	50	50
China Fujian Downer McAlpine Joint Venture	Construction of public facilities	33	33
Clough Downer Joint Venture	Construction of port facilities	50	50
CPG-AMEC Facilities	Facilities management	51	51
CPG Environmental Engineering	Environmental engineering services	65	75
CPG Testing & Management Co Ltd	Environmental testing services	70	–
D'Axis Planners & Consultants	Master planning and consultancy services	60	60
Downer Crown Castle Joint Venture	Telecommunications	50	50
Downer CSS Joint Venture	Telecommunications	50	50
Downer REI Sdn Bhd	Telecommunications	50	50
Downer Universal Communications Group	Telecommunications	50	50
Downer Zublin Joint Venture	Construction	50	50
Encore Joint Venture	Road maintenance	–	50
Lantau Expressway Joint Venture	Construction	27	27
Paul Y Downer Joint Venture	Civil engineering	50	50
Playford Power Station Joint Venture	Refurbishment of power station	50	50
PT QDC Technologies	Telecommunications	50	–
SIP–CPG Facilities Management Co Ltd	Property maintenance	80	80
South Pacific Roads Joint Venture	Road maintenance	–	50
Suzhou PM Link	Project management	60	60

The following amounts represent the consolidated entity's interest in assets employed in the above joint ventures. The amounts are included in the consolidated financial statements under their respective asset categories:

	2006 $'000	2005 $'000
Current assets		
Cash and cash equivalents	3,721	2,043
Trade and other receivables	18,344	9,488
Inventories	311	5,185
Other	351	5,441
Total current assets	22,727	22,157
Non-current assets		
Property, plant and equipment	2,058	204
Intangibles	190	192
Total non-current assets	2,248	396
Total assets	24,975	22,553

39 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED

b) The consolidated entity and its controlled entities have interests in the following joint venture entities:

Name of Entity	Principal Activity	Country of Incorporation	Ownership Interest 2006 %	Ownership Interest 2005 %
Advanced Separation Engineering Australia Pty Ltd	Supply of mineral separation products	Australia	50	50
Allied Asphalt Limited	Supply of asphalt products	New Zealand	50	50
Aromatrix Pte Ltd	Environmental engineering and consulting services	Singapore	33	33
Bitumen Supplies Limited *	Supply of bitumen products	Australia	–	50
Clyde Babcock Hitachi (Aust) Pty Ltd	Design, construction and maintenance of boilers	Australia	27	27
CPG Healthcare FM Pte Ltd	Facilities management	Singapore	50	50
Duffill Watts & Tse Limited	Engineering consultancy	New Zealand	50	–
EDI Rail-Bombardier Transportation Pty Ltd	Sale of railway rolling stock	Australia	50	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	50	50
John Holland EDI Joint Venture	Design and construction of a replacement research reactor facility for ANSTO	Australia	40	40
MPE Facilities Management Sdn Bhd	Facilities management consultancy services	Malaysia	50	50
Pavement Salvage (SA) Pty Ltd	Road maintenance	Australia	50	50
Roche Thiess Linfox Joint Venture	Contract mining	Australia	44	44
Snowden Performance Management Pty Ltd	Mining management consulting	Australia	50	50
SIP Jiacheng Property Development Co Ltd	Property development	China	50	50
St Ives Joint Venture	Design and construction of mining treatment plant	Australia	50	50
Western Lee Joint Venture	Mechanical and electrical services to ALCOA	Australia	50	50
YIDA-CPG FM Co Ltd	Facilities management	China	50	50

* Remaining 50% interest in Bitumen Supplies Limited was acquired during the year, now treated as a consolidated entity (refer Note 41).

39 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Equity accounted investments				
Equity accounted amount of investment at the beginning of the financial year	17,474	21,578	–	–
Share of net profit	6,159	14,858	–	–
Share of distributions	(11,635)	(16,637)	–	–
Effect of foreign currency translation movement	1,127	(478)	–	–
Acquisition of interest in joint venture entities	2,175	47	–	–
Disposals of interest in joint venture entities	–	(1,894)	–	–
Less: Equity accounted joint venture investment prior to acquisition	(4,116)	–	–	–
Equity accounted investment at the end of the financial year (Note 16)	11,184	17,474	–	–
Share of net profit of joint venture entities				
Revenue	71,583	157,814	–	–
Expenses	64,596	140,250	–	–
Profit before income tax	6,987	17,564	–	–
Income tax expense	828	2,706	–	–
Net profit	6,159	14,858	–	–
Summarised financial information of the consolidated entity's share of the above joint venture entities:				
Current assets	24,949	49,914	–	–
Non-current assets	30,240	19,564	–	–
Total assets	55,189	69,478	–	–
Current liabilities	31,498	41,054	–	–
Non-current liabilities	11,591	12,637	–	–
Total liabilities	43,089	53,691	–	–
Net assets	12,100	15,787	–	–

Contingent liabilities and capital commitments

The consolidated entity's share of the contingent liabilities and expenditure commitments of joint venture entities are included in Note 45.

40 CONTROLLED ENTITIES

Name of Controlled Entity	Country of Incorporation	Ownership Interest	Ownership Interest
		2006	2005
Beckbell Pty Ltd	Australia	100%	100%
Bitumen Supplies Limited *	New Zealand	100%	50%
Brown & Thomson Northland Limited *	New Zealand	100%	–
Cendrill Supply Pty Limited	Australia	100%	100%
Century Administration Pty Limited	Australia	100%	100%
Century Drilling Limited	Australia	100%	100%
Century Drilling & Energy Services (NZ) Ltd *	New Zealand	100%	100%
Century Energy Services Pty Limited	Australia	100%	100%
Century Resources International Pty Limited	Australia	100%	100%
Century Resource Services Limited *	New Zealand	100%	100%
Choad Pty Ltd	Australia	100%	–
Civil & Structural Group Services Limited *	New Zealand	100%	–
Commspec (NZ) Limited *	New Zealand	100%	100%
Construction Professionals Pte Ltd *	Singapore	100%	100%
Coomes Consulting Group Pty Limited	Australia	100%	–
Coomes Consulting Group Unit Trust	Australia	100%	–
CPG Advisory (Shanghai) Co. Ltd #	China	100%	100%
CPG Consultants Pte Ltd *	Singapore	100%	100%
CPG Consultants (India) Pvt Ltd #	India	100%	100%
CPG Corp Philippines Inc #	Philippines	100%	100%
CPG Corporation Pte Ltd *	Singapore	100%	100%
CPG Facilities Management Pte Ltd *	Singapore	100%	100%
CPG Facilities Management (Xiamen) Co. Ltd *	China	100%	100%
CPG Holdings Pte Ltd *	Singapore	100%	100%
CPG Hubin (Suzhou) Pte Ltd *	Singapore	100%	100%
CPG Investments Pte Ltd *	Singapore	100%	100%
CPG Laboratories Pte Ltd *	Singapore	100%	100%
DCE Limited *	New Zealand	100%	100%
Dean Adams Consulting Pty Ltd	Australia	100%	100%
Delris Pty Ltd	Australia	100%	100%
DGL Investments Ltd *	New Zealand	100%	100%
DMQA Training Limited #	United Kingdom	100%	–
Downer Australia Pty Ltd	Australia	100%	100%
Downer Bitumen Surfacing Limited *	New Zealand	100%	100%
Downer Connect Limited *	New Zealand	100%	100%
Downer Connect Pty Ltd	Australia	100%	100%
Downer Construction (Australia) Pty Limited	Australia	100%	100%
Downer Construction (Fiji) Limited *	Fiji	100%	100%
Downer Construction (Hong Kong) Limited *	Hong Kong	100%	100%
Downer Construction (New Zealand) Limited *	New Zealand	100%	100%
Downer Construction (PNG) Limited *	PNG	100%	100%
Downer Construction Tonga Ltd §	Tonga	100%	100%
Downer EDI Finance Pty Ltd	Australia	100%	100%
Downer Electrical Pty Ltd	Australia	100%	100%
Downer Energy Systems Pty Ltd	Australia	100%	100%
Downer Engineering Company Pty Limited	Australia	100%	100%
Downer Engineering Group Pty Limited	Australia	100%	100%
Downer Engineering Limited *	New Zealand	100%	100%

40 CONTROLLED ENTITIES CONTINUED

Name of Controlled Entity	Country of Incorporation	Ownership Interest	Ownership Interest
		2006	2005
Downer Engineering (Malaysia) Sdn Bhd *	Malaysia	100%	100%
Downer Engineering Power Limited *	New Zealand	100%	100%
Downer Engineering Power Pty Limited	Australia	100%	100%
Downer Engineering (Singapore) Pte Ltd *	Singapore	100%	100%
Downer Engineering Thailand Ltd #	Thailand	100%	100%
Downer Engineering Holdings (Thailand Ltd) #	Thailand	100%	100%
Downer Group Construction (Malaysia) Sdn Bhd *	Malaysia	100%	100%
Downer Group Finance Pty Limited	Australia	100%	100%
Downer Holdings Pty Ltd	Australia	100%	100%
Downer MBL Limited *	New Zealand	100%	100%
Downer MBL Pty Limited	Australia	100%	100%
Downer Power Transmission Pty Ltd	Australia	100%	100%
Duffill Watts & Davis Limited *	New Zealand	100%	–
Duffill Watts & Hanna Limited *	New Zealand	100%	–
Duffill Watts & King Limited *	New Zealand	100%	–
Duffill Watts Indonesia Limited #	Indonesia	100%	–
Duffill Watts Pte Limited *	Singapore	100%	–
Eco-Energy Solutions Pty Ltd	Australia	100%	100%
EDICO Pty Ltd	Australia	100%	100%
EDI Distribution Pty Ltd	Australia	100%	100%
EDI Rail Pty Ltd	Australia	100%	100%
EDI Rail Investments Pty Ltd	Australia	100%	100%
EDI Rail (Maryborough) Pty Ltd	Australia	100%	100%
EDI Rail V/Line Maintenance Pty Ltd	Australia	100%	100%
Emoleum Road Services Pty Limited	Australia	100%	–
Emoleum Roads Group Pty Limited	Australia	100%	–
Emoleum Services Pty Limited	Australia	100%	–
Environmental Operations Limited *	New Zealand	100%	–
Evans Deakin Industries Pty Ltd	Australia	100%	100%
Faxgroove Pty Ltd	Australia	100%	100%
Fellows Enterprises Pte Limited *	Singapore	100%	–
FM Technology Pte Ltd *	Singapore	100%	100%
Gaden Drilling Pty Limited	Australia	100%	100%
Indeco Consortium Pte Ltd *	Singapore	100%	100%
Killbeen Pty Ltd	Australia	100%	100%
Miningtek Consultants & Services Limited §	British Virgin Isl.	100%	100%
Otraco Brasil Gerenciamento de Pneus Ltda #	Brazil	100%	–
Otraco Canada Inc #	Canada	100%	–
Otraco Chile SA #	Chile	100%	–
Otraco International Pty Limited	Australia	100%	–
Otracom Pty Ltd	Australia	100%	–
Pauanui Lakes Development Limited *	New Zealand	100%	100%
Pavement Salvage Operations Pty Ltd	Australia	100%	100%
Pavement Technology Pty Ltd	Australia	100%	100%
Peridian Asia Pte Ltd *	Singapore	100%	–
PM Link Pte Ltd *	Singapore	100%	100%
Primary Producers Improvers Pty Ltd	Australia	100%	100%
P T Century Dinamik Drilling §	Indonesia	100%	100%

40 CONTROLLED ENTITIES CONTINUED

Name of Controlled Entity	Country of Incorporation	Ownership Interest 2006	Ownership Interest 2005
P T Ogspiras Bina Drilling §	Indonesia	100%	100%
P T Otraco Indonesia §	Indonesia	100%	–
QCC Resources Pty Ltd	Australia	100%	100%
Rayfall Pty Ltd	Australia	100%	100%
Rayjune Pty Ltd	Australia	100%	100%
REJV Services Pty Ltd	Australia	100%	100%
Reussi Pty Limited	Australia	100%	–
Richter Drilling Indonesia Pty Limited	Australia	100%	100%
Richter Drilling International Pty Limited	Australia	100%	100%
Richter Drilling (PNG) Limited *	PNG	100%	100%
Rimtec Pty Ltd	Australia	100%	–
Rimtec USA Inc #	USA	100%	–
Roche Blasting Services Pty Limited	Australia	100%	100%
Roche Bros (Hong Kong) Ltd *	Hong Kong	100%	100%
Roche Bros. Superannuation Pty Ltd	Australia	100%	100%
Roche Castings Pty Ltd	Australia	100%	100%
Roche Contractors Pty Limited	Australia	100%	100%
Roche Highwall Mining Pty Limited	Australia	100%	100%
Roche Holdings (NZ) Limited *	New Zealand	100%	100%
Roche Mining (JR) Pty Limited	Australia	100%	100%
Roche Mining (Laos) Company Limited #	Laos	100%	–
Roche Mining (MT) Brazil Pty Ltd #	Brazil	100%	100%
Roche Mining (MT) Holdings Pty Ltd	Australia	100%	100%
Roche Mining (MT) Pty Ltd	Australia	100%	100%
Roche Mining (MT) India Pvt Ltd *	India	100%	100%
Roche Mining (MT) South Africa (Pty) Ltd *	South Africa	100%	100%
Roche Mining (MT) USA Inc. #	United States	100%	100%
Roche Mining Pty Limited	Australia	100%	100%
Roche Mining NC SAS #	New Caledonia	100%	100%
Roche Mining (NZ) Limited *	New Zealand	100%	100%
Roche Mining (PNG) Ltd #	PNG	100%	100%
Roche Services Pty Ltd	Australia	100%	100%
Rockdrill Contractors Pty Ltd	Australia	100%	100%
RPC IT Pty Ltd	Australia	100%	100%
RPC Roads Pty Ltd	Australia	100%	100%
Scanbright Pty Ltd	Australia	100%	100%
Snowden Mining Industry Consultants Pty Ltd	Australia	100%	100%
Snowden Mining Industry Consultants Pty Ltd *	South Africa	100%	100%
Snowden Mining Industry Consultants Inc. *	Canada	100%	100%
Snowden Mining Industry Consultants Limited *	United Kingdom	100%	100%
Snowden Mining Technologies Limited §	British Virgin Isl.	100%	100%
Snowden Technologies Pty Ltd	Australia	100%	100%
Snowden Training Pty Ltd *	South Africa	100%	100%
Starblake Pty Ltd	Australia	100%	100%
Tas21 Pty Limited	Australia	100%	100%
Technic Industries Limited *	New Zealand	100%	100%
Total Construction Limited *	New Zealand	100%	–
TSG Architects Pte Ltd *	Singapore	100%	100%

40 CONTROLLED ENTITIES CONTINUED

Name of Controlled Entity	Country of Incorporation	Ownership Interest	Ownership Interest
		2006	**2005**
Waste Solutions Limited *	New Zealand	100%	–
Waste Technology Group Limited *	New Zealand	100%	–
Winstanley Pty Limited	Australia	100%	100%
Works Infrastructure (Holdings) Limited #	United Kingdom	100%	–
Works Infrastructure Limited *	New Zealand	100%	100%
Works Infrastructure Pty Limited	Australia	100%	100%
Works Infrastructure (UK) Limited #	United Kingdom	100%	–

* Audited by associate firms of Deloitte Touche Tohmatsu

\# Audited by firms other than Deloitte Touche Tohmatsu

§ Audit not required in local jurisdiction

41 ACQUISITION OF BUSINESSES

(a) Summary of acquisitions

Names of Businesses Acquired	Principal Activity	Date of Acquisition	Proportion of Shares Acquired %	Cost of Acquisition $'000
Current Financial Year				
Controlled entities:				
Duffill Watts & King Limited	Engineering and consultancy services	31 July 2005	100%	21,247
Coomes Consulting Group	Engineering and consultancy services	28 October 2005	100%	10,389
Peridian Asia Pte Ltd	Architectural and consultancy services	15 September 2005	100%	389
Bitumen Supplies Limited *	Supply of bitumen products	1 July 2005	50%	4,618
Emoleum	Road maintenance services	28 February 2006	100%	151,402
DMQA	Rail infrastructure management	28 February 2006	100%	19,098
Otraco	Earthmover tyre consultancy services	28 February 2006	100%	20,343
Businesses:				
QDC Technologies	Telecommunication engineering services	1 July 2005	50%	1,454
Vitra Engineering	Electrical engineering services	1 July 2005	–	3,717
Kerb Qic	Pavement and roads maintenance services	4 October 2005	–	1,242

* Remaining 50% interest of Bitumen Supplies Limited acquired during the year.

Names of Businesses Acquired	Principal Activity	Date of Acquisition	Proportion of Shares Acquired %	Cost of Acquisition $'000
Prior Financial Year				
Controlled entities:				
Commspec (NZ) Limited	Telecommunications	1 July 2004	100%	1,414
Miningtek Consultants & Services Limited (t/as Snowden)	Mining consultancy services	20 December 2004	100%	14,805
Pavement Salvage Pty Ltd	Road maintenance services	11 March 2005	100%	10,959
Businesses:				
Bitumen Sealed Services	Bitumen sealing services	29 October 2004	–	2,514
DPC Services	Bitumen manufacturing and distribution	14 December 2004	–	5,314
DBT Workshop	Mining engineering services	15 December 2004	–	2,198
Earthex	Bitumen sealing services	30 September 2004	–	1,080
Roche Eltin Joint Venture	Contract mining services	17 February 2005	–	1,957

41 ACQUISITION OF BUSINESSES CONTINUED

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Purchase consideration				
Cash paid	221,008	33,034	–	–
Ordinary shares	3,895	3,750	–	–
Deferred purchase consideration	13,432	3,457	–	–
Total purchase consideration	238,335	40,241	–	–
Fair value of net identifiable assets acquired (refer (c) below)	62,775	22,024	–	–
Less: equity accounted JV investment prior to acquisition	4,116	–	–	–
Net assets acquired	58,659	22,024	–	–
Goodwill	179,676	18,217	–	–

The initial accounting for these acquisitions has been determined provisionally at 30 June 2006 due to differences between book and fair value determinations and, in certain instances, earn out consideration being based on future profits, estimates of which have been made.

Goodwill has arisen on acquisitions because of the capacity of the businesses to generate recurring revenue streams in the future through proven track records, customer relationships and market positioning in expanding markets.

(b) Purchase consideration

Outflow of cash to acquire subsidiary, net of cash acquired				
Cash consideration	221,008	33,034	–	–
Less: net cash and cash equivalents acquired	3,267	4,350	–	–
Cash paid/(receivable) – deferred post acquisition settlement	1,500	(1,036)	–	–
Outflow of cash	219,241	27,648	–	–

41 ACQUISITION OF BUSINESSES CONTINUED

c) Assets and liabilities acquired

The assets and liabilities arising from the acquisitions are as follows:

	Emoleum		Other acquisitions		Total fair value on acquisition
	Book Value $'000	Fair Value $'000	Book Value $'000	Fair Value $'000	$'000
Current assets					
Cash and cash equivalents	3,535	3,535	2,638	2,638	6,173
Inventories	30,988	7,451	12,270	12,270	19,721
Trade and other receivables	62,236	61,959	23,603	23,603	85,562
Tax assets	232	232	575	575	807
Other financial assets	1,229	723	364	364	1,087
Other	–	506	2,238	2,238	2,744
Total	98,220	74,406	41,688	41,688	116,094
Non-current assets					
Investments accounted for using the equity method	1,870	1,870	305	305	2,175
Property, plant & equipment	47,250	44,798	22,866	22,866	67,664
Other financial assets	–	–	48	48	48
Deferred tax assets	3,261	3,261	808	808	4,069
Other	–	–	55	55	55
Total	52,381	49,929	24,082	24,082	74,011
Current liabilities					
Trade and other payables	52,229	53,963	13,431	13,431	67,394
Borrowings	–	–	15,247	15,247	15,247
Other financial liabilities	–	–	3,623	3,623	3,623
Provisions	11,467	16,581	2,873	2,873	19,454
Current tax payables	–	–	1,253	1,253	1,253
Total	63,696	70,544	36,427	36,427	106,971
Non-current liabilities					
Borrowings	–	–	2,231	2,231	2,231
Provisions	–	17,500	250	250	17,750
Deferred tax liabilities	–	–	378	378	378
Total	–	17,500	2,859	2,859	20,359
Net identifiable assets acquired	**86,905**	**36,291**	**26,484**	**26,484**	**62,775**

42 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 and 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 and 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

	Engineering	Mining and Resources	Infrastructure Services	Rail	Total
Segment result	**2006 $'000**	**2006 $'000**	**2006 $'000**	**2006 $'000**	**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	**2005 $'000**	**2005 $'000**	**2005 $'000**	**2005 $'000**	**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

42 SEGMENT INFORMATION CONTINUED

	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

	Engineering	Mining and Resources	Infrastructure Services	Rail
Other Segment Information	**2006 $'000**	**2006 $'000**	**2006 $'000**	**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

	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.

42 SEGMENT INFORMATION CONTINUED

	Revenue from External Customers		Segment Assets		Acquisition of Segment Assets	
Geographic Segments	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
Australia	3,368,310	2,646,972	2,292,013	1,577,508	294,198	102,891
Pacific	995,211	842,530	174,079	442,713	88,824	50,978
South East Asia	251,175	209,881	55,867	282,899	49,605	17,518
North East Asia	31,101	52,269	217,938	57,277	7	1,747
Other	10,102	–	19,980	–	16,721	–
	4,655,899	3,751,652	2,759,877	2,360,397	449,355	173,134

The economic entity operated in four principal geographical areas – Australia, Pacific (including New Zealand, Papua New Guinea and Fiji), South East Asia (Singapore, Malaysia, Thailand, Vietnam, Indonesia and the Philippines) and North East Asia (Hong Kong and China).

43 RELATED PARTY AND KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Key management personnel compensation:
Details of key management personnel compensation are disclosed in Note 5 to the financial statements.

b) Other transactions with directors:
A director of the company, J S Humphrey, has an interest as a partner in the firm Malleson Stephen Jaques, solicitors.
This firm renders legal advice to the consolidated entity in the ordinary course of business under normal commercial terms and conditions.
The amount of fees paid and recognised was $6,304 (2005: $63,291).

c) Transactions within the wholly owned group:
Details of dividend and interest revenue derived by the parent entity from wholly owned subsidiaries are disclosed in Note 2 to the financial statements. Aggregate amounts receivable from and payable to wholly owned subsidiaries are disclosed in Notes 10, 15 and 27 to the financial statements. Amounts contributed to the defined contribution plan are disclosed in Note 2 to the financial statements.

Other transactions occurred during the financial year between entities in the wholly owned group are on normal commercial terms.

d) Equity interests in related parties:

Equity interests in subsidiaries:
Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 40 to the financial statements.

Equity interests in associates and joint ventures:
Details of interests in associates and joint ventures are disclosed in Note 39 to the financial statements.

e) Controlling entity:
The parent entity of the group is Downer EDI Limited.

f) Key management personnel equity holdings

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

	Balance at 1 July 2005	Net other change	Balance at 30 June 2006
2006	**No.**	**No.**	**No.**
B D O'Callaghan	15,302	1,750	17,052
P E J Jollie	10,000	595	10,595
S J Gillies	2,631,463	13,804	2,645,267
L Di Bartolomeo	–	–	–
J S Humphrey	2,911	701	3,612
C J S Renwick	–	–	–
D Cattell	500,500	115	500,615
C Denney	358,185	(225,000)	133,185
R Hackett	1,093,652	(41,901)	1,051,751
R Logan	1,310,186	42	1,310,228
T Pang	185,207	(65,478)	119,729
P Reidy	–	1,014	1,014
G Wannop	40,500	2,824	43,324
B Waldron	60,867	–	60,867
	6,208,773	**(311,534)**	**5,897,239**

43 RELATED PARTY AND KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

No fully paid ordinary shares were granted as compensation during the year (2005: nil) and no shares are held nominally by any of the directors (2005: nil).

	Balance at 1 July 2004	Net other change	Balance at 30 June 2005
2005	**No.**	**No.**	**No.**
B D O'Callaghan	15,112	190	15,302
S J Gillies *	2,950,024	(318,561)*	2,631,463
J S Humphrey	2,785	126	2,911
P E J Jollie	–	10,000	10,000
D Cattell	755,000	(254,500)	500,500
C Denney	230,769	127,416	358,185
R Logan	913,830	396,356	1,310,186
B Waldron	38,461	22,406	60,867
P Khor	238,457	130,955	369,412
	5,144,438	**114,388**	**5,258,826**

* Of the net reduction in equity held, 424,978 relates to the expiration of options over issued shares granted by a third party.

44 NOTES TO THE CASH FLOW STATEMENT

	Consolidated		Company	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
a) Reconciliation of cash and cash equivalents				
Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows (refer Note 1):				
Cash	141,404	120,003	223	68
Short term deposits	26,491	45,969	–	–
Bank overdrafts (Note 23)	(3,536)	–	–	–
	164,359	165,972	223	68
b) Businesses disposed				
During the previous financial year the Roche Castings operations (principal business activity – castings foundry) was disposed. Details of the disposal were as follows:				
Consideration: Cash and cash equivalents	–	26,665	–	–
Book value of net assets disposed:				
Current assets				
Trade and other receivables	–	10,628	–	–
Inventories	–	818	–	–
Other	–	78	–	–
Total current assets	–	11,524	–	–
Non-current assets				
Property, plant and equipment	–	13,035	–	–
Intangibles	–	1,199	–	–
Total non-current assets	–	14,234	–	–
Total assets	–	25,758	–	–

44 NOTES TO THE CASH FLOW STATEMENT CONTINUED

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current liabilities				
Trade and other payables	–	2,966	–	–
Provisions	–	1,042	–	–
Total current liabilities	–	4,008	–	–
Total liabilities	–	4,008	–	–
Net assets disposed	–	21,750	–	–
Net cash inflow on disposal:				
Cash and cash equivalents consideration	–	26,665	–	–

c) Non-cash financing and investing activities

During the current financial year, $37,425,000 in equity was issued in respect of:

i) Dividend reinvestment plan elections 33,530,000 (2005: $29,123,000);

ii) Issue of shares under the terms of Employee Share Plan $Nil (2005: $3,523,000); and

iii) Issue of shares on acquisition of business $3,895,000 (2005: $3,750,000).

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
d) Reconciliation of (loss)/profit after tax to net cash flows from operating activities:				
(Loss)/profit for the year	(24,929)	123,290	83,590	37,792
Share of joint ventures profits net of distributions	5,476	1,779	–	–
Depreciation and amortisation of non-current assets	108,317	101,094	–	–
Amortisation of deferred costs	1,352	1,078	100	–
Profit on sale of investments	(4,083)	(2,622)	–	(468)
Profit on sale of other non-current assets	(16,112)	(8,807)	–	–
Gain on revaluation of financial assets	142	–	–	–
Foreign exchange (gain)/loss	(347)	(338)	–	225
(Decrease)/increase in income tax payable	(27,689)	16,808	(18,893)	10,544
(Decrease) in deferred tax balances	(84,704)	(26,417)	(6,751)	(63)
Equity settled share-based transactions	185	2,237	185	2,237
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current trade and other receivables	78,205	(114,556)	(19,074)	1,926
Current inventories	19,761	(36,945)	–	–
Other current assets	(3,130)	(17,784)	24	(357)
Other financial assets	633	–	–	–
Non-current trade and other receivables	21,912	(3,558)	–	(21,140)
Other non-current assets	(297)	(1,281)	–	–
Increase/(decrease) in liabilities:				
Current trade and other payables	9,261	128,791	6,325	(3,174)
Current provisions	25,793	18,707	53	(12)
Non-current trade and other payables	(37)	(506)	–	–
Non-current provisions	(19,807)	4,987	174	–
Net cash provided by operating activities	89,902	185,957	45,733	27,510

45 CONTINGENT LIABILITIES

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
i) The consolidated entity has bank guarantees, bid bonds and performance bonds, issued in respect of contract performance in the normal course of business for wholly owned controlled entities	426,629	462,263	421,224	349,822
ii) Termination benefits under service agreements	894	889	–	–
	427,523	463,152	421,224	349,822

In the ordinary course of business:

iii) The company and certain controlled entities are called upon to give guarantees and indemnities in respect of the performance by counterparties including controlled entities and related parties of their contractual and financial obligations. Other than as noted above, these guarantees and indemnities are indeterminable in amount.

iv) There exists in some members of the consolidated entity the normal design liability in relation to completed design and construction projects. The directors are of the opinion that there is adequate insurance to cover this area and accordingly, no amounts are recognised in the financial statements.

v) Controlled entities have entered into various partnerships and joint ventures under which the controlled entity could ultimately be jointly and severally liable for the obligations of the partnership or joint venture.

vi) Controlled entities are subject to claims and counter claims with respect to projects and services provided.

46 ENGINEERING SERVICES CONTRACTS

For engineering services contracts in progress as at reporting date:

Engineering services work in progress	5,576,689	3,395,022	–	–
Less: provision for contract claims and disputes (Note 3)	285,675	–	–	–
Engineering services work in progress net of provision for contract claims and disputes	5,291,014	3,395,022	–	–
Progress billings and advances received	5,465,172	3,378,922	–	–
Less: advances received	138,718	74,340	–	–
Progress billings	5,326,454	3,304,582	–	–
Amount disclosed in balance sheet	(35,440)	90,440	–	–
Recognised and included in the financial statements as amounts due:				
From customers under engineering services contracts:				
Current (Note 10)	134,715	181,857	–	–
Non-current (Note 15)	–	1,042	–	–
To customers under engineering services contracts:				
Current (Note 22)	(170,155)	(90,893)	–	–
Non-current (Note 27)	–	(1,566)	–	–
Amount disclosed in balance sheet	(35,440)	90,440	–	–

47 FINANCIAL INSTRUMENTS

Financial risk management objectives

The consolidated entity's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated entity.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies, which provide written principles on the use of financial derivatives. Reviews are undertaken to ensure compliance with policies and exposure limits.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity may enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including:

i) forward foreign exchange contracts to hedge the exchange rate risk arising on the import of materials and plant and equipment from overseas countries;

ii) cross currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings;

iii) forward interest rate contracts to manage interest rate risk; and

iv) interest rate swaps to mitigate the risk of rising interest rates.

Significant accounting policies

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

Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and currency swap agreements.

Forward foreign exchange contracts

It is the policy of the consolidated entity to enter into foreign exchange contracts to cover specific foreign currency payments and receipts within 70% to 100% of the exposure generated. The consolidated entity also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions up to 12 months. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

47 FINANCIAL INSTRUMENTS CONTINUED

The following table summarises by currency the Australian dollar value of forward exchange contracts outstanding as at reporting date:

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2006	2005	2006 FC'000	2005 FC'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Buy US dollars								
Less than 3 months	0.7373	0.7431	12,564	21,983	17,039	29,678	(112)	(254)
3 to 6 months	0.7524	0.7512	2,037	11,574	2,708	15,295	39	(63)
Later than 6 months	0.7415	0.7637	6,923	10,160	9,337	13,304	29	24
			21,524	43,717	29,084	58,277	(44)	(293)
Sell US dollars								
Less than 3 months	0.7477	0.7613	2,640	1,287	3,531	1,700	(26)	12
3 to 6 months	0.7442	0.7678	933	13,077	1,254	16,640	(4)	(262)
Later than 6 months	0.7404	–	6,727	–	9,085	–	(26)	–
			10,300	14,364	13,870	18,340	(56)	(250)
Buy Japanese yen								
Less than 3 months	79.5298	73.2600	880,698	203,385	11,074	2,426	(679)	(351)
3 to 6 months	–	78.6400	–	438,305	–	5,532	–	(257)
Later than 6 months	82.0780	75.2257	180,838	1,958,979	2,203	26,054	(8)	(2,177)
			1,061,536	2,600,669	13,277	34,012	(687)	(2,785)
Buy Euros								
Less than 3 months	–	0.5818	–	2,414	–	3,977	–	(303)
3 to 6 months	0.5968	0.5779	6,130	3,569	10,272	6,192	298	(529)
Later than 6 months	0.5858	0.5968	753	6,130	1,286	10,171	23	(101)
			6,883	12,113	11,558	20,340	321	(933)
Sell South African rands								
3 to 6 months	–	4.7221	–	2,196	–	465	–	(34)
Later than 6 months	–	4.7320	–	3,660	–	774	–	(57)
			–	5,856	–	1,239	–	(91)
Buy Great Britain pounds								
Less than 3 months	–	0.4072	–	345	–	845	–	(32)
Buy Canadian dollars								
Less than 3 months	–	0.9353	–	298	–	319	–	17
Sell New Zealand dollars								
Less than 3 months	1.2233	–	55	–	45	–	–	–
Buy Indonesian rupiahs								
Less than 3 months	34.3200	–	2,360	–	69	–	–	–
3 to 6 months	34.3578	–	1,931	–	56	–	–	–
			4,291	–	125	–	–	–
Sell Indonesian rupiahs								
Less than 3 months	35.4000	–	4,657	–	132	–	(5)	–

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is $471,000 (2005: unrealised losses of $6,302,000). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective. In 2005 the unrealised losses were deferred in the balance sheet as other liabilities.

47 FINANCIAL INSTRUMENTS CONTINUED

Hedges of anticipated future transactions

The consolidated entity has entered into contracts to purchase materials from suppliers and has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future transactions.

Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

Interest rate swap contracts

The consolidated entity uses interest rate swap contracts in managing interest rate exposure. Under the interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of rising interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balance at the start of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Outstanding floating for fixed contracts	Average interest rate (including margin)	Notional principal amount	Fair value
	2006 %	2006 $'000	2006 $'000
5 years or more	5.714	70,000	1,492

From 1 July 2005, interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges, therefore, interest rate swaps outstanding at 30 June 2005 were recognised as financial liabilities (and deferred in equity) on adoption of the accounting policies specified in Note 1.

Outstanding fixed for floating contracts	Average interest rate (including margin)		Average exchange rates		Notional principal amount		Fair value	
	2006 %	2005 %	2006	2005	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Buy USD/Sell NZD								
2 to 5 years	8.16	7.80	0.6530	0.6530	69,219	77,250	2,538	(2,888)

Interest rate swap contracts (in combination with cross currency swap contracts) exchanging fixed rate interest for floating rate interest are designated and effective as fair value hedges.

Cross currency interest rate swaps

Under cross currency swap contracts, the consolidated entity has agreed to exchange specified principal and interest foreign currency amounts at agreed future dates at specified exchange rates. Such contracts enable the consolidated entity to mitigate the risk of adverse movements in foreign exchange rates.

The following table details the equivalent Australian dollar ('AUD') cross currency swaps (in combination with interest rate swaps) outstanding as at reporting date:

Outstanding Contracts	Average interest rate		Average exchange rates		Contract value		Fair value	
	2006 %	2005 %	2006	2005	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Buy USD/Sell AUD								
Less than 1 year	7.74	–	0.5306	–	98,946	–	(28,674)	–
1 to 2 years	–	6.34	–	0.5306	–	98,946	–	(33,563)
2 to 5 years	7.94	6.20	0.6338	0.6338	100,241	100,241	(24,280)	(24,318)
5 years or more	7.96	7.66	0.6735	0.6735	139,196	139,196	(11,947)	(3,890)
Total					338,383	338,383	(64,901)	(61,771)

47 FINANCIAL INSTRUMENTS CONTINUED

Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at reporting date:

			Fixed interest rate maturity							
2006	**Weighted average effective interest rate %**	**Variable interest rate $'000**	**Less than 1 year $'000**	**1 to 2 years $'000**	**2 to 3 years $'000**	**3 to 4 years $'000**	**4 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets:										
Cash and cash equivalents	3.95	167,895	–	–	–	–	–	–	–	167,895
Trade receivables	–	–	–	–	–	–	–	–	922,769	922,769
Foreign currency forward contracts	–	–	–	–	–	–	–	–	464	464
Cross currency interest rate swaps	–	–	–	–	–	–	–	–	4,030	4,030
Other financial assets	–	–	–	–	–	–	–	–	34,913	34,913
Other receivables	–	–	–	–	–	–	–	–	49,097	49,097
		167,895	**–**	**–**	**–**	**–**	**–**	**–**	**1,011,273**	**1,179,168**
Financial liabilities:										
Trade payables	–	–	–	–	–	–	–	–	753,757	753,757
Foreign currency forward contracts	–	–	–	–	–	–	–	–	935	935
Cross currency interest rate swaps	–	–	–	–	–	–	–	–	64,901	64,901
Bank overdraft	6.84	3,536	–	–	–	–	–	–	–	3,536
Other financial liabilities	–	–	–	–	–	–	–	–	12,227	12,227
Bank loans	6.20	302,399	–	–	–	–	–	–	–	302,399
Finance lease liabilities	7.01	–	2,738	1,487	1,873	114	–	–	–	6,212
Hire purchase liabilities	7.94	–	1,079	318	156	6	–	–	–	1,559
US$ notes *	8.29	74,535	70,621	–	47,081	30,266	–	106,269	–	328,772
Employee benefits provision	–	–	–	–	–	–	–	–	133,435	133,435
Other provisions	–	–	–	–	–	–	–	–	80,773	80,773
		380,470	**74,438**	**1,805**	**49,110**	**30,386**	**–**	**106,269**	**1,046,028**	**1,688,506**

* Interest rate swaps have been entered into for the purposes of managing exposure to interest rate fluctuations. The interest rate swaps' notional principal amounts are equal to the principal amounts of the US$ notes. The US$ notes interest rate repricing maturities have been reflected after considering the effect of various interest rate swaps.

47 FINANCIAL INSTRUMENTS CONTINUED

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2005:

			Fixed interest rate maturity				
2005	Average interest rate %	Variable interest rate $'000	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Non-Interest bearing $'000	Total $'000
Financial assets:							
Cash and cash equivalents	4.70	165,972	–	–	–	–	165,972
Trade receivables	16.74	–	1,188	968	–	901,299	903,455
Foreign currency forward contract	–	–	–	–	–	6,302	6,302
Other financial assets	7.75	3,675	–	–	–	19,046	22,721
Other receivables	–	–	–	–	–	72,257	72,257
		169,647	**1,188**	**968**	**–**	**998,904**	**1,170,707**
Financial liabilities:							
Trade payables	–	–	–	–	–	646,677	646,677
Foreign currency forward contracts	–	–	–	–	–	6,302	6,302
Bank loans	4.49	104,168	–	–	–	–	104,168
Finance lease liabilities	6.62	–	2,542	5,576	–	–	8,118
Hire purchase liabilities	6.92	–	278	483	–	–	761
US$ notes *	7.74	77,250	–	222,775	93,700	–	393,725
Employee entitlements	–	–	–	–	–	114,061	114,061
Provisions	–	–	–	–	–	55,711	55,711
Other financial liabilities	–	–	–	–	–	14,136	14,136
		181,418	**2,820**	**228,834**	**93,700**	**836,887**	**1,343,659**

* Interest rate swaps have been entered into for the purposes of managing exposure to interest rate fluctuations. The interest rate swaps' notional principal amounts are equal to the principal amounts of the US$ notes. The US$ notes interest rate repricing maturities have been reflected after considering the effect of various interest rate swaps.

47 FINANCIAL INSTRUMENTS CONTINUED

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. The consolidated entity measures credit risk on a fair value basis.

Trade accounts receivable consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, insurance cover is purchased.

The consolidated entity does not have any significant credit risk exposure to any single counterparty. The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The credit risk on recognised financial assets of the consolidated entity is generally the carrying amount, net of any amounts which have been allowed for doubtful debts.

Fair value of financial instruments

The carrying amount of financial assets and financial liabilities, except for the financial liability disclosed below, recorded in the financial statements approximates their fair values (2005: net fair value).

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

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

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

iii) The fair value of derivative instruments included in hedging assets and liabilities are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

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

The following table details the fair value (2005: net fair value) of financial liabilities:

	Carrying amount		Fair value	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**
Financial liabilities:				
Borrowings	328,772	393,725	343,200	357,713

Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

48 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).

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 the following reconciliations and the notes that accompany the reconciliations.

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

		Consolidated	
	Note	**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	ii	19,606	–
Write-back of intellectual property amortisation	ii	252	–
Other	i, ii	(385)	–
Recognition of deferred tax assets using the balance sheet approach	iii	(4,019)	(5,993)
Recognition of decommissioning and make good provisions	iv	(16,564)	(16,124)
Fair value adjustment for plant and equipment at deemed costs	iv	(6,202)	(6,502)
Property, plant and equipment reclassified as non-current assets held for sale	vii	(169)	(311)
Reversal of depreciation for assets reclassified as held for sale	vii	43	–
Total equity under A-IFRS		**900,582**	**794,099**

	Company	
	30 June 2005 $'000	**1 July 2004 $'000**
Total equity under previous AGAAP	678,619	652,235
A-IFRS adjustments	–	–
Total equity under A-IFRS	**678,619**	**652,235**

48 IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

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

		Consolidated	Company
	Note	**30 June 2005 $'000**	**30 June 2005 $'000**
Profit after tax under previous AGAAP *		**104,035**	**40,029**
Add/(deduct) adjustments (net of tax) for:			
Write-back of goodwill amortisation	ii	19,606	–
Write-back of patent amortisation	ii	252	–
Movement in deferred tax liabilities	iii	1,974	–
Decommissioning expense	iv	(440)	–
Share-based transactions	vi	(2,237)	(2,237)
Disposal of assets reclassified as held for sale	vii	142	–
Reversal of depreciation for assets reclassified as held for sale	vii	43	–
Other	i, ii, iv	(85)	–
Profit after tax under A-IFRS		**123,290**	**37,792**

* Reported financial results for the year ended 30 June 2005

48 IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

(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.

Notes to the reconciliations of income and equity

i) Business combinations

On initial adoption of A-IFRS, the directors have elected not to restate business combinations that occurred before 1 July 2004. The effects of the adoption of A-IFRS on the financial report associated with business combinations including those acquired during the financial year ended 30 June 2005, will be limited to the recognition of additional deferred tax assets and deferred tax liabilities (refer Income tax section below) and the cessation of goodwill amortisation (refer Goodwill section below).

ii) Goodwill and other intangible assets

The adoption of A-IFRS has been assessed as having no material effect on the net carrying amount of intangible assets. Under A-IFRS, goodwill is not subject to amortisation, but must be tested for impairment annually. All intangible assets have been subject to an impairment test. This impairment test has been performed at the appropriate cash-generating unit (CGU) levels and supported the carrying values of intangible assets within each CGU. Accordingly, under A-IFRS, the amortisation charge for 2005 was decreased by $19,606,000.

Under AASB 138 'Intangible Assets', costs incurred during the research phase of the development of an intangible asset are expensed. The group's previous AGAAP policy allows for the capitalisation of research and development costs where future benefits are expected beyond reasonable doubt. Accordingly, on A-IFRS transition the derecognition of $31,592,000 in previously capitalised intellectual property has been recognised as an increase in the carrying amount of goodwill. Under A-IFRS, the amortisation charge for 2005 was decreased by $252,000.

iii) Income tax

Under AASB 112 'Income Taxes', a balance sheet approach is adopted and temporary differences are identified for each asset and liability rather than accounting for the effects of timing and permanent differences between taxable income and accounting profit.

Applying AASB 112 lead to increases in deferred tax assets and deferred tax liabilities as a consequence of the following:

— recognition of deferred taxes associated with fair value adjustments in relation to business combinations;

— recognition of deferred tax assets relating to decommissioning and make good provisions;

— classification and measurement of assets as 'current assets – non-current assets classified as held for sale';

— plant and equipment restated using fair value as its deemed cost; and

— reclassification from opening consolidated deferred tax liabilities to opening consolidated deferred tax assets.

The cumulative effect on the financial position at 30 June 2005 was to increase deferred tax assets by $7,005,000, and to increase deferred tax liabilities by $1,233,000. The effect on the profit and loss for the financial year ended 30 June 2005 was a decrease in tax expense of $2,167,000 represented by a movement in deferred tax liabilities of $1,974,000 and the tax effect of other expenses including decommissioning.

iv) Property, plant and equipment

As permitted by the first-time adoption provisions in AASB 1, the directors have elected, where appropriate, to deem the fair value of certain items of plant and equipment at 1 July 2004 to be cost for accounting purposes. Consequently, the fair value adjustment on adoption of A-IFRS resulted in a decrease in plant and equipment of $9,288,000 ($6,502,000 net of tax).

Under AASB 116 'Property, Plant and Equipment', entities are required to include costs associated with the dismantling, removal and restoration of property, plant and equipment. An amount of $22,876,000 ($16,124,000 net of tax) was recognised as a liability in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'. The consequent impact on the profit and loss for the financial year ended 30 June 2005 was an increase in the related expense and provision of $633,000 ($440,000 net of tax).

v) Revenue from ordinary activities

Although not affecting the net profit of the consolidated entity, adoption of A-IFRS resulted in a number of transactions being recorded on a "net" rather than a "gross" basis. In addition, the adoption of A-IFRS results in the reclassification of proceeds from sale of non-current assets from revenue from ordinary activities to other income and expense items in the income statement.

vi) Share-based transactions

For the financial year ended 30 June 2005, share-based transactions of $2,237,000 which were not recognised under AGAAP have now been recognised as an expense under A-IFRS, with a corresponding increase in equity. There was no effect on consolidated total equity.

vii) Non-current assets held for sale

Under AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', a non-current asset will be classified as held for sale if its carrying amount is to be recovered principally through a sale transaction rather than through continued use. The asset will be measured at the lower of carrying amount and fair value, less costs to sell.

Applying the policy required by AASB 5 would result in some items within property, plant and equipment being reclassified to 'Current assets – non-current assets classified as held for sale' at 1 July 2004. The measurement of the assets under AASB 5 resulted in a $311,000 fair value reduction in opening retained earnings.

viii) Foreign currency translation reserves: cumulative translation differences

On initial application of A-IFRS, the directors have elected to apply the exemption in AASB 1 'First time adoption of Australian Equivalents to International Financial Reporting Standards' relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operations represented in the opening foreign currency translation reserve of $11,327,000 were deemed to be zero at the date of transition to A-IFRS and the balance transferred to consolidated retained earnings. There is no effect on the consolidated total equity.

ix) Retained earnings

With limited exceptions, adjustments on first-time adoption of A-IFRS have been recognised directly in retained earnings at the date of transition. Adjustments arising from the change of accounting policy by adopting AASB 132 and AASB 139 are also recognised directly in retained earnings at 1 July 2005.

48 IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

Effect of changes in accounting policy on adoption of AASB 132 and AASB 139:

x) Derivative financial instruments

On initial adoption of AASB 132 and AASB 139 the consolidated entity has measured at fair value all forward foreign currency exchange contracts put in place to manage its exposure to foreign currency movements arising on the import/export of engineering goods and services.
On transition forward exchange contracts, where applicable, have been designated into an effective hedge relationship with the underlying item. The remaining forward exchange contracts have been fair valued independently of the underlying item.

On initial adoption of AASB 132 and AASB 139 the consolidated entity has designated and measured at fair value all currency and interest rate swaps put in place to manage foreign currency and interest rate risk associated with foreign currency denominated borrowings. These hedges have been recognised on adoption as either effective cash flow or effective fair value hedges, as applicable.

The initial adoption of AASB 132 and AASB 139 has resulted in the recognition at 1 July 2005 of consolidated hedge liability of $69,537,000 consisting of cash flow hedge liability $65,440,000 and fair value hedge liability of $4,097,000.

xi) Other financial assets and financial liabilities

On initial adoption of AASB 132 and AASB 139 the consolidated entity has determined the most appropriate classification and measurement basis for all financial assets and liabilities.

The key changes are as follows:

Ongoing fair value adjustments are required to gross debt and associated hedge liabilities. On initial adoption gross debt has decreased by $69,248,000 as a result of these fair value adjustments.

The application of the amortised cost and fair value basis to the measurement of financial assets has resulted in a reduction of carrying value of non-current receivables by $15,103,000 at 1 July 2005.

Directors' Declaration

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

The directors declare that:

a) the attached financial statements and notes thereto comply with Accounting Standards;

b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;

c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001;

d) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

e) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.
On behalf of the directors

B D O'Callaghan
Director

S J Gillies
Director

Sydney, 22 August 2006

Independent Audit Report

To the Members of Downer EDI Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Downer EDI Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 8 to 62. The consolidated entity comprises 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 true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. 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 financial report.

Audit approach

We have conducted an independent audit of the 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 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 performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

Audit Opinion

In our opinion, the financial report of Downer EDI Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

22 August 2006

Corporate Directory

Corporate Head Office

Downer EDI Limited

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190 George Street
SYDNEY NSW 2000
AUSTRALIA

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AUSTRALIA

Tel: 61 2 9966 2400
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Engineering Division (Telecommunications)

Australia – Division Head Office

Downer Connect Pty Ltd
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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
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Mt Wellington
AUCKLAND
NEW ZEALAND

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Fax: 64 9 270 7680

Infrastructure Division

Australia – Division Head Office

Works Infrastructure Pty Ltd
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AUSTRALIA

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New Zealand – Division Head Office

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NEW ZEALAND

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Rotherham
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Mining Division

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Roche Mining Pty Ltd
104 Melbourne Street
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Snowden Consulting

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49 Campbell Avenue
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Rail Division

Australia – Division Head Office

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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.

Contents



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