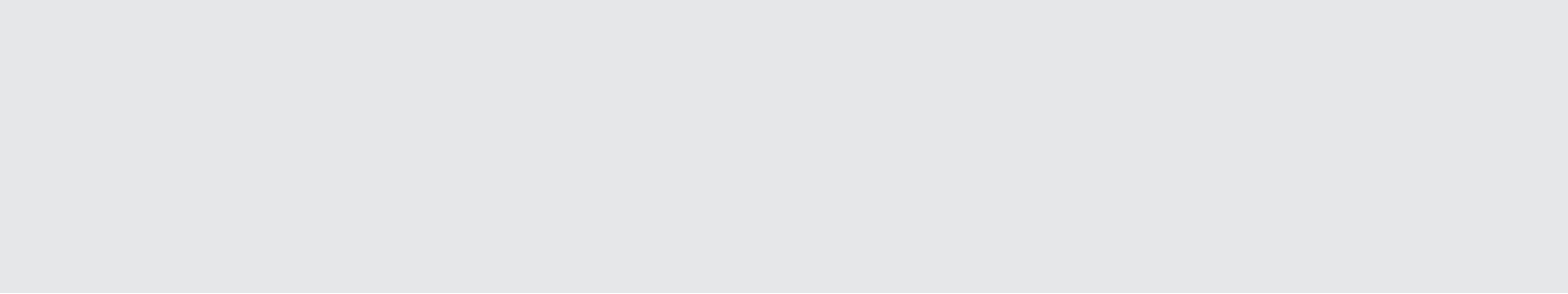




Annual Report 2009



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This Annual Report includes Downer EDI Limited's Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2009.

It should be read in conjunction with the Downer EDI Limited Annual Review 2009 which is available online and provides an overview of the key activities for the year ended 30 June 2009.

The Annual Review 2009 includes the Chairman's report, Chief Executive Officer's report, review of business activities and financial highlights.

The Annual Report 2009 and Annual Review 2009 are both available on the Downer EDI website: www.downeredi.com

Annual General Meeting

Downer EDI Limited's 2009 Annual General Meeting will be held in Sydney at:

Amora Jamison Hotel
11 Jamison Street (off George Street)
Sydney, NSW, Australia
on Thursday 15 October 2009
commencing at 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 2009. 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:

P E J Jollie AM (69)

Chairman since February 2008, Independent Non-executive Director since April 2004.



Mr Jollie is a past President of the Institute of Chartered Accountants in Australia and is a Fellow of that body as well as the Australian Institute of Company Directors. Mr Jollie holds several current directorships including ASX Markets Supervision Pty Limited. He was previously Chief Executive Officer of P&O Containers, Chairman of the Prospect Water Treatment Consortium and was Chairman of the Defence Housing Authority from 1997 to June 2003. Mr Jollie has had a long involvement in international trade having been the Australian Chair of Asia Pacific Trade Committees and a member of the Trade Policy Advisory Committees to Ministers for Trade for six years to 2002. Mr Jollie lives in Sydney.

G H Knox (52)

Managing Director and Chief Executive Officer since February 2008.



Mr Knox was previously Global Executive Director, Hatchcos Holdings; Executive Chairman Hatch Associates Pty Ltd; and Global Managing Director, Hatch Infrastructure. Mr Knox is the former President of BHP Engineering and Vice President of BHP Project Management. He is a director of the Australian Constructors Association and holds a Bachelor of Civil Engineering from the University of Western Australia and completed the Executive Program at the University of Michigan Business School. Mr Knox lives in Sydney.

S A Chaplain (51)

Independent Non-executive Director since July 2008.



Ms Chaplain is currently Chairman of the Queensland Bulk Water Supply Authority and Honeycombes Property Group Pty Limited and holds Non-executive Directorships with Canstar Cannex Pty Limited, George Street Finance Pty Limited and the Australian Youth Orchestra. She is also a member of the Federal Government's Board of Taxation and has had extensive experience as a company director over the past fifteen years. Ms Chaplain has held management positions as Head of Public Sector Client Management at ABN AMRO, Director Corporate and Project Finance at AIDC Limited and Vice President for Citibank Limited. Ms Chaplain holds a Bachelor of Arts majoring in Economics and Mandarin and an MBA from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors. Ms Chaplain lives on the Gold Coast.

P R Coates AO (63)

Independent Non-executive Director, appointed October 2008.



Mr Coates was the Chief Executive of Xstrata Coal since the company's inception as Glencore Coal in 1994 and its transition to Enx Resources in 2001 (which was acquired by Xstrata Plc in 2002). In addition to Mr Coates' considerable coal industry experience he has occupied senior positions in other commodity industries including nickel, iron ore and bauxite. Mr Coates is a past Chairman of the Minerals Council of Australia, the NSW Minerals Council and the Australian Coal Association. He was also a member of the Queensland and NSW Clean Coal Council and is a current member of the NSW Ministerial Minerals Advisory Council. He has worked closely with government as a member of the APEC 2007 Business Consultative Group and the Emissions Trading Task Group. Mr Coates is Chairman of Minara Resources Limited and Deputy Chairman and Chairman-elect of Santos Limited. He is also a director of Amalgamated Holdings Limited. Mr Coates was made a member of the Order of Australia in June 2009 and lives in Sydney.

L Di Bartolomeo (56)

Independent Non-executive Director since June 2006.



Mr Di Bartolomeo was Managing Director of ADI Limited for four years and prior to this he was Chief Executive of a number of substantial businesses for more than ten years, including six years as Managing Director of FreightCorp (now Pacific National). Mr Di Bartolomeo is a director of Australian Rail Track Corporation Limited, Macquarie Generation, Australian Super Limited, Parklands Foundation Limited and Reliance Rail Group. Mr Di Bartolomeo is a qualified civil engineer and has a Master's degree in Engineering Science, a Fellow of the Australian Institute of Management, a Fellow of the Chartered Institute of Transport and a Member of the Institution of Engineers Australia. Mr Di Bartolomeo lives in Sydney.

R M Harding (60)*Independent Non-executive Director since July 2008.*

Mr Harding is currently Chairman of Clough Limited, a Non-executive Director of Santos Limited and was previously Chairman of the Army Project Governance Board of the Department of Defence and a Non-executive Director of ARC Energy Limited. He has held management positions around the world with British Petroleum (BP), including President and General Manager of BP Exploration Australia. Mr Harding holds a Masters in Science, majoring in Mechanical Engineering. Mr Harding lives in Melbourne.

J S Humphrey (54)*Independent Non-executive Director since April 2001.*

Mr Humphrey is a Partner in Mallesons Stephen Jacques, based in Brisbane where he specialises in corporate and resource project work. Mr Humphrey is currently a Director of Horizon Oil Limited and Wide Bay Australia Limited and is a former Chairman of Villa World Limited. He was appointed to the Board of Evans Deakin Industries Limited in 2000 and, subsequently, to the Board of Downer EDI Limited. He is currently Chairman of the Audit Committee. Mr Humphrey holds a Bachelor of Laws from the University of Queensland. Mr Humphrey lives in Brisbane.

C J S Renwick AM (66)*Independent Non-executive Director since September 2004.*

Mr Renwick was Chief Executive Officer, Rio Tinto Iron Ore until December 2004 when he retired. His wide experience in the mining and resources sector spanned 35 years with the Rio Tinto Group and included Chairmanships of Hamersley Iron, the Iron Ore Company of Canada and Robe River Mining, and Managing Director of Comalco Minerals and Alumina. He is the non-executive Chairman of Coal and Allied Industries Limited and a Non-executive Director of Sims Metal Management Limited. He was a Vice President of the Australia Japan Business Co-operation Committee, and was an Executive Committee Member of the Australia-China Business Council, including National President 1997–1999. He is a Fellow of the Australian Institute of Management, a Fellow of the Australian Institute of Export and a Fellow of the Australian Academy of Technological Sciences and Engineering. Mr Renwick was a qualified barrister and solicitor and holds both Bachelor of Laws and Bachelor of Arts from the University of Melbourne. Mr Renwick lives in Melbourne.

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 Fully Performance Rights	No. of Fully Performance Options
P E J Jollie	86,333	-	-
G H Knox*	600,000	-	-
L Di Bartolomeo	47,206	-	-
S A Chaplain	13,000	-	-
P R Coates	-	-	-
R M Harding	-	-	-
J S Humphrey	54,069	-	-
C J S Renwick	30,000	-	-

* 400,000 shares are held directly by Mr Knox. In addition, 1,600,000 shares have been purchased as Mr Knox's long-term incentive and are held by CPU Share Plans Pty Ltd (Trustee of the Downer EDI Limited Deferred Employee Share Plan). The hurdle price of the first tranche of 400,000 shares was met on 1 February 2008 as a component of Mr Knox's sign-on bonus. 200,000 of these shares met the service period condition on 31 December 2008 and vested at that date. The conditions relating to these restricted shares are outlined in section 5.1 of the remuneration report.

Directors' Report

Company Secretary

The company secretarial function is responsible for ensuring that the company complies with its statutory duties and maintains proper documentation, registers and records. It also provides advice to directors and officers on corporate governance and gives practical effect to any decisions made by the Board of Directors.

Bruce Crane has been Company Secretary since August 2008. He is a Fellow of the Institute of Chartered Secretaries and the Institute of Chartered Accountants and also has qualifications in business and commerce from the University of Technology.

Principal activities

Downer EDI Limited provides comprehensive engineering and infrastructure management services to the public and private transport, energy, infrastructure, communications and resources sectors across Australia, New Zealand, the Asia Pacific region and the United Kingdom.

Review of operations

Downer EDI has delivered a solid performance with the following highlights:

- Safety performance - LTIFR: 12-year low of 1.2 per million hours worked
- Net profit after tax of \$189.4 million, an increase of 14.2%
- Total revenue of \$5.9 billion, an increase of 6.3%
- EBIT of \$304.8 million, an increase of 8.4%
- Solid operating cash flow of \$336.5 million, an increase of 21.9%
- Sound balance sheet with gearing of 38.9%
- Earnings per share of 57.9 cents, an increase of 12.9%
- Full-year dividend per share of 29 cents, an increase of 13.7%
- Work-in-hand remains strong at \$14.6 billion

The directors declared an unfranked final dividend of 16 cents per share (2008: 12.5 cents), payable on 2 October, 2009 to shareholders on the register at 1 September, 2009. The company's Dividend Reinvestment Plan will continue to be applied for this dividend with a discount of 2.5%.

Downer EDI Engineering and Consulting Services revenue was steady at \$2.1 billion, with EBIT increasing significantly by 17.6% to \$131.4 million. This is a strong result driven by a disciplined approach to risk management and synergies.

- Significant wins during the year with quality clients including Xstrata, Chorus NZ, PowerLink (QLD), Wesfarmers, Woodside and BHP Billiton;
- Strategically important bolt-on acquisitions including Corke Instrument Engineering;
- Strong tender pipeline with major opportunities in LNG, power, ports, rail, renewable energy, resources and telecommunications sectors;
- Business harnessing its reputation for delivering timely, cost-effective solutions to clients with a focus on safety and execution; and
- Consulting is leveraging its long-standing, high value reputation in the market and delivering greater value to the Group

Downer EDI Works delivered a 5.0% increase in revenue to \$1.9 billion and a 3.2% increase in EBIT to \$113.5 million. The Works businesses in Australia and New Zealand performed strongly; Works UK completed its restructure in 2009 and returned to break-even in July.

- Over 70% of turnover is derived from federal, state and local government with commitment to road and rail upgrades offsetting a softening in development and discretionary spend; and
- Continue to pursue bolt-on acquisitions to expand our capabilities and reach of our business

Downer EDI Rail increased revenue by 45.0% to \$888.9 million, while EBIT increased 32.4% to \$60.8 million. The core Rail business delivered revenue growth of more than 30% and an EBIT Margin above 8.0%.

- Strengthened key relationships with major clients including BHP Billiton, Queensland Rail and Pacific National;
- KDR Joint Venture with Keolis awarded preferred bidder for the operation and maintenance of Melbourne's Tram Network;
- Successful expansion of the Rail Solutions business, including the establishment of key technology partners; and
- Continued demand for passenger trains resulting from increased patronage and government spending on transport infrastructure

Downer EDI Mining increased revenue by 5.8% to \$1.1 billion with EBIT increasing by 5.4% to \$52.9 million. The division continues to make good progress under new Chief Executive Officer David Overall, with key focus areas including project management, systems, plant utilisation, cost base and expansion opportunities.

- Significant wins and renewals with clients including Solid Energy (NZ), BHP Mitsubishi Alliance, Wesfarmers and Peabody;
- Safety performance improving: 40% improvement in LTIFR when compared to the prior year;
- Tender pipeline of more than \$5 billion, with major opportunities on the east and west coasts of Australia;
- Successful completion of the Bio-diesel Trial which is attracting significant interest from a range of clients; and
- Our Mining Services business now represents more than 20% of Mining's turnover and compliments our core capability

Outlook

- Guidance of NPAT growth around 5.0% in the 2009/10 year
- Strong presence in growth markets including infrastructure, oil and gas, renewable energy and water
- Synergies program on track
- Strategic journey progressing well driven by excellent leadership team
- The solid pipeline of opportunities supports strong demand for our services
- We continue to monitor our end markets closely

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.

Directors' Report

Environmental regulations

Downer EDI Limited recognises its obligation to stakeholders - clients, shareholders, employees, contractors and the community - to operate in a way that advances sustainability and mitigates our environmental impact. As a corporate citizen we respect the places and communities in which we operate. Our values and beliefs are the spirit that underpins everything we do and we are committed to conduct our operations in a manner that is environmentally responsible and sustainable.

The Board oversees the company's environmental performance through regular reports. It has established a sustainability charter and strategy and has allocated internal responsibilities for reducing the impact of our operations and business activities on the environment. In addition, all Downer EDI divisions conduct regular environmental audits by independent third parties. The international environmental standard, ISO 14001, is used by Downer EDI as a benchmark in assessing, improving and maintaining the environmental integrity of its business management systems. Divisions also adhere to environmental management requirements established by customers in addition to all applicable license and regulatory requirements.

Dividends

In respect of the financial year ended 30 June 2009, the directors declared the payment of a final ordinary dividend of 16 cents per share (unfranked) to the holders of fully paid ordinary shares to be paid on 2 October 2009.

In respect of the financial year ended 30 June 2009, an interim dividend of 13.0 cents per share (unfranked) was paid to the holders of fully paid ordinary shares on 14 April 2009.

In respect of the financial year ended 30 June 2008, as detailed in the Directors' Report for that financial year, a final dividend of 12.5 cents per share (unfranked) was paid to the holders of fully paid ordinary shares on 17 October 2008.

Employee discount share plan ("ESP")

During the year, 834,000 shares have been issued under the terms of the ESP (2008:nil). Further details on the employee discount share plan are disclosed in Note 35 to the financial statements.

Executive share option scheme ("EOS") - 2006

No options were granted under the EOS during the year (2008:nil). Further details on the executive share option plan are disclosed in Note 36 to the financial statements.

Share options

No performance rights or performance options were granted to senior executives of the Downer EDI Group under the 2006 long-term incentive plan. Details of unissued shares under rights and options are as follows:

	Issuing entity	Number of shares	Class of shares	Exercise price \$	Expiry date ¹
Performance options	Downer EDI Ltd	1,081,584	Ordinary	6.72	10 November 2013
Performance rights	Downer EDI Ltd	341,221	Ordinary	-	10 November 2013

¹Subject to the satisfaction of certain performance hurdles as noted in section 4.5.1 of the remuneration report, securities vest on 30 June 2010 and will be exercisable at any time up to the seventh anniversary of the 10 November 2006 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 Secretary, 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 such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the year 11 Board meetings, five Audit and Risk Management Committee meetings, five Remuneration Committee meetings, one Risk Committee meeting, three Safety Committee meetings and one Nominations and Corporate Governance Committee meeting were held. In addition, 22 ad-hoc meetings were held in relation to disclosure, tender review and treasury matters and attended by various directors. In April 2009, the audit and risk management committee was divided into two separate committees.

Director	Board of Directors		Audit and Risk Management Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
P E J Jollie	11	11	5	5	5	5
G H Knox	11	11	4	4	5	4
S A Chaplain	11	11	5	3	5	5
P R Coates	9	8	-	-	2	2
L Di Bartolomeo	11	11	1	1	5	5
R M Harding	11	10	-	-	-	-
J S Humphrey	11	11	5	5	-	-
C J S Renwick	11	9	5	2	-	-

Director	Risk Committee		H,S&E Committee		Nominations and Corporate Governance Committee	
	Held	Attended	Held	Attended	Held	Attended
P E J Jollie	-	-	-	-	1	1
G H Knox	-	-	3	3	-	-
S A Chaplain	1	1	-	-	-	-
P R Coates	1	-	1	-	-	-
L Di Bartolomeo	1	1	-	-	1	1
R M Harding	1	1	3	2	-	-
J S Humphrey	-	-	3	1	1	1
C J S Renwick	-	-	3	3	1	1

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 of this Annual Report.

Directors' Report

Non-audit services

Downer EDI Limited is committed to audit independence. The Audit 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 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 committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

A copy of the auditor's independence declaration is set out on page 30.

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	763,907
Other audit related services	379,654
Total	<u>1,143,561</u>

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.

Remuneration report – audited

This remuneration report sets out the remuneration strategy of Downer EDI Limited for the year ended 30 June 2009 and provides information about the remuneration arrangements for directors and key management personnel, which includes the five highest remunerated company and group executives in this period. These individuals are identified in section 2 below.

This report provides the following information:

1. remuneration policy
2. directors and key management personnel details
3. relationship between remuneration policy and company performance
4. remuneration of directors and key management personnel
5. key terms of employment contracts

Summary introduction

The company's approach to remuneration recognises the diversity and complexity of the business and the need to attract and retain world-class executives in an increasingly competitive market. In keeping with best practice principles, the remuneration policy aligns remuneration outcomes with shareholder value creation and stakeholder value.

The remuneration model for the executive management team is subject to challenging targets and performance hurdles that drive achievement of critical business objectives and reward executives for achieving stretch targets. Fixed remuneration is based on competitive levels when compared to peers to ensure that Downer secures and retains a world-class management team.

The Board will continue to review the company's remuneration practices to ensure they reflect best practice and maintain Downer's high standards of governance and risk management.

1. Remuneration policy

Downer EDI's remuneration policy is based on the following core principles:

Drive performance	Variable remuneration should form a significant part of an executive's total remuneration; Reward executives for achieving or outperforming business targets; Variable remuneration should be at risk; and Variable remuneration should be linked to shareholder wealth creation.
Create shareholder wealth	Variable remuneration should consist of short-term incentives as well as long-term incentives; Incentive plans should be linked to the short-term and long-term objectives of Downer EDI; Long-term incentives should be subject to performance hurdles which drive shareholder returns; and Equity ownership of Downer EDI shares should be encouraged.
Attract and retain talent	Opportunities for variable remuneration should attract, motivate and retain high-quality executives.

During the reporting period, the company engaged a leading remuneration consultancy to review its remuneration model. The review focused on ensuring the model aligned with shareholder interests and remained market competitive, with reference to selected companies that compete for capital (financial and people) as well as competitors within the same industry sectors and/or with similar types of business as those within Downer EDI.

Directors' Report

Downer EDI targets the mix of fixed and variable remuneration as follows:

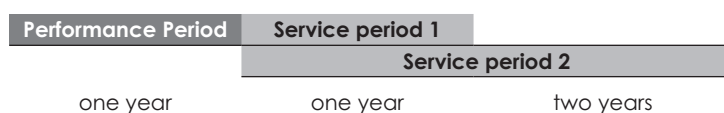
MD & CEO		Fixed		STI		LTI	
KMP's		Fixed		STI		LTI	
	%	0	20	40	60	80	100

In determining the design of each of these elements, the Board seeks to employ the following attributes:

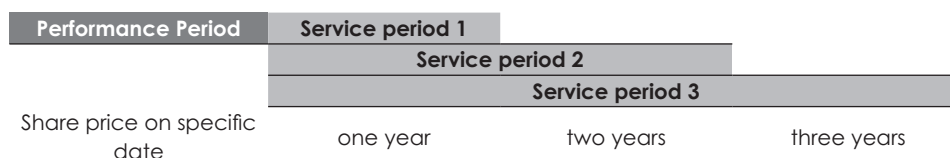
Fixed	Competitive levels when compared to peers to ensure that Downer EDI secures and retains a strong management team.
STI	Targeted KPI's that drive achievement of critical business objectives and to reward executives for achieving stretch targets.
LTI	Reward for performance over the long-term with a further service period condition to protect against short-term behaviours influencing the reward and to retain key executives. This is demonstrated by the diagram below that sets out the periods for vesting of LTI rewards.

Performance and service periods for LTI rewards

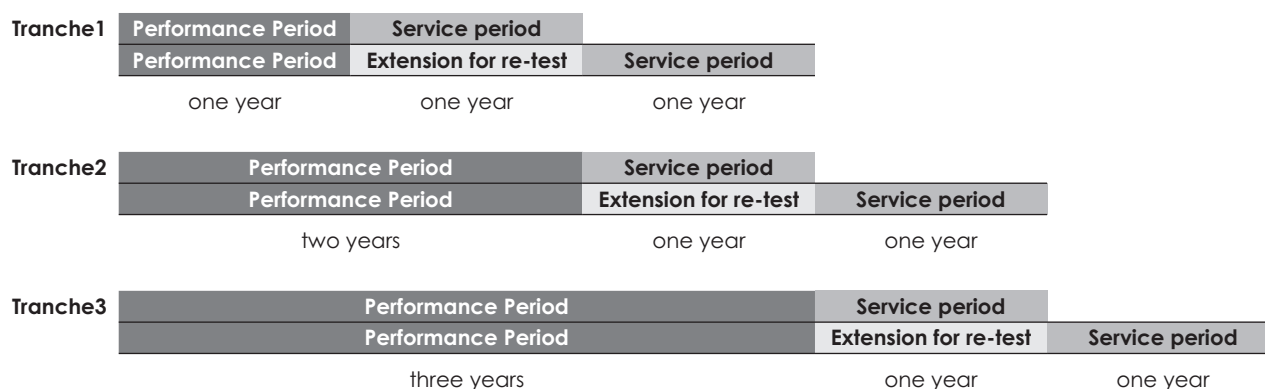
2008 EBIT and operating cash hurdle grants



2008 share price hurdle grants



2009 grants



1.1 The Board's role in remuneration

The Nominations and Corporate Governance Committee is responsible for considering and setting the remuneration for the Managing Director and Non-executive Directors. Its primary purpose includes supporting and advising the Board in fulfilling its responsibilities to shareholders in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance by:

- assessing the skills and competencies required on the Board;
- from time to time assessing the extent to which the required skills are represented on the Board;
- establishing processes for the review of the performance of individual directors and the Board as a whole;
- establishing processes for the identification of suitable candidates for appointment to the Board;
- recommending the appointment and removal of directors; and
- reviewing the remuneration of the Managing Director, Executive Directors (if any), and the Non-executive Directors of the company

The Remuneration Committee is responsible for all other executive remuneration matters. Its primary responsibility is to assist the Board in fulfilling its 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, excluding the Managing Director, and overseeing the development of executive succession plans

The Remuneration 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 Remuneration Committee's objective is to ensure that the company's approach to remuneration aligns remuneration outcomes with shareholder value creation and stakeholder value, 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.

Directors' Report

2. Directors and key management personnel details

The following persons acted as directors of the company during or since the end of the most recent financial year:

P E J Jollie AM (Chairman)

G H Knox (Managing Director and Chief Executive Officer)

S A Chaplain (appointed 1 July 2008)

P R Coates AO (appointed 30 October 2008)

L Di Bartolomeo

R M Harding (appointed 1 July 2008)

J S Humphrey

C J S Renwick AM

The term 'key management personnel' (KMP) is used in this remuneration report to refer to the following persons. The named persons held their current position for the whole of the most recent financial year and since the end of the financial year, except as noted:

C Bruyn (appointed Chief Executive Officer of Downer EDI Works - New Zealand & United Kingdom on 1 October 2008)

D Cattell (appointed Chief Operating Officer, Downer EDI Limited on 19 September 2008, previously Chief Executive Officer - Downer EDI Works Pty Ltd)

S Cinerari (appointed Chief Executive Officer, Downer EDI Works - Australia & Singapore on 1 October 2008)

P Graham (appointed Executive General Manager - Group Services on 1 October 2008)

W Nolan (Chief Executive Officer - Downer EDI Engineering Pty Ltd)

D O'Reilly (Chief Executive Officer - Downer EDI Mining Pty Ltd to 26 January 2009)

D Overall (appointed Chief Executive Officer - Downer EDI Mining Pty Ltd on 27 January 2009)

P Reichler (Chief Financial Officer - Downer EDI Limited)

P Reidy (Chief Executive Officer - Downer EDI Consulting to 26 January 2009)

C Setter (appointed Chief Executive Officer of Downer EDI Consulting Pty Ltd on 27 January 2009)

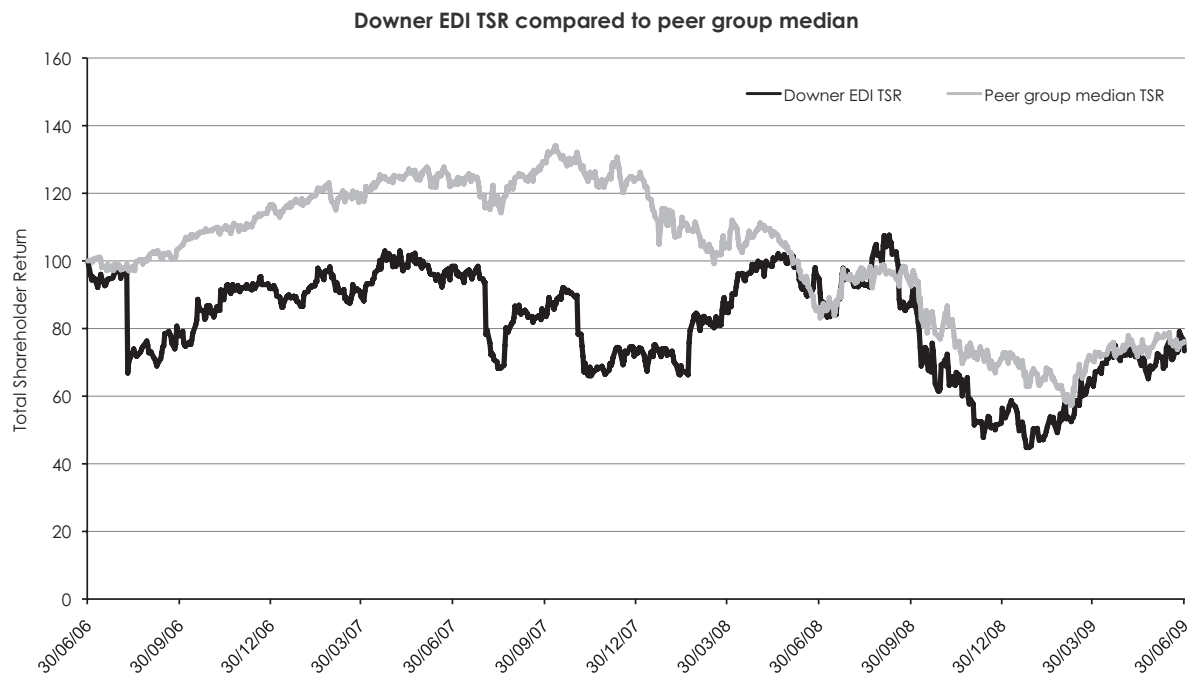
G Wannop (Chief Executive Officer - Downer EDI Rail Pty Ltd)

3. Relationship between remuneration policy and company performance

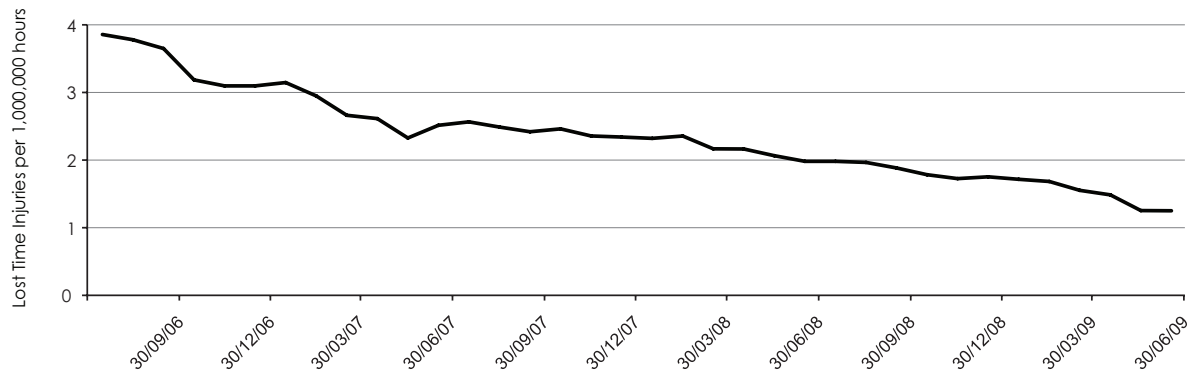
Remuneration is aligned with performance by:

- placing a significant portion of remuneration at risk using short-term and long-term incentives; and
- ensuring incentives are only awarded upon achievement of challenging financial and non-financial measures that drive strategic business objectives and ultimately create shareholder value

The company's TSR relative to the ASX 100 is a key measure for the vesting of equity under executive share plans. The following diagram shows the company's performance compared to the peer group median performance of the ASX 100 over the three-year period to 30 June 2009.



Downer EDI is committed to a 'Zero Harm' operating environment and considers this a key indicator of company performance. The chart below illustrates Downer EDI's performance on lost time injuries, an important measure, over the last three years. A portion of STI is contingent upon achievement of Zero Harm objectives (refer Section 4.2).



Directors' Report

The table below shows the performance of Downer EDI against key indicators over the last five years, including those which impact vesting of long-term incentives.

	2005	2006	2007	2008	2009
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	3,814,511	4,633,424	5,329,530	5,462,530	5,861,410
Net profit before tax	131,630	(110,906)	72,643	231,946	259,025
Net profit after tax	104,035	(24,929)	101,498	165,842	189,376
	2005	2006	2007	2008	2009
Share price at the start of the year	3.20	5.33	7.44	7.36	6.87
Share price at end of the year	5.33	7.44	7.36	6.87	5.59
Interim dividend (cents)	12cps	12cps	13cps	13cps	13cps
Franking credit level	70%	70%	0%	0%	0%
Final dividend (cents)	6cps	8cps	8cps	12.5cps	16cps
Franking credit level	50%	0%	0%	0%	0%
Basic earnings per share ² (cents)	36.3cps	(8.4cps)	31.3cps	47.9cps	54.4cps
Diluted earnings per share (cents)	36.3cps	(8.4cps)	31.3cps	47.5cps	52.7cps
Total Shareholder Return (TSR) ¹	72%	45%	2%	(3%)	(14%)
Earnings Growth rate %	28%	(124%)	507%	63%	14%

¹ TSR is calculated as the increase in share price over each year plus dividends paid (including the benefit of franking credits) plus bonus shares issued during the year, assuming that dividends and bonus shares are reinvested.

² Basic earnings per share includes ROADS.

4. Remuneration of directors and key management personnel

The remuneration structure is designed to strike an appropriate balance between fixed and variable remuneration. Consideration is given to relevant market comparisons in determining an appropriate level of fixed remuneration and the value of short and long-term incentive opportunities. The value actually received by an executive is then determined by achievement against short-term and long-term performance measures specified by the relevant committee.

4.1 Fixed remuneration

The fixed remuneration component is set at competitive levels for each executive (refer Section 2 above). Fixed remuneration is calculated on a total cost to the company basis, including the cost of employee benefits, such as motor vehicle, superannuation, car parking, together with fringe benefits tax. There are no guaranteed increases to fixed remuneration in any KMP's contract.

4.2 Short-term incentive (STI)

Downer EDI's executives participate in a short-term incentive (STI) plan, which takes the form of an annual cash bonus. A proportion of the STI may be sacrificed into the Deferred Share Plan (outlined in Section 4.3 below). The STI plan is, in general, the same for all executives. The following table outlines the major features of the plan.

Objective	To drive performance of annual business plans and objectives, at operational and group level, to achieve increased shareholder value.						
Frequency and timing	Participation is annual with performance measured over the twelve months to 30 June. Entitlements under the plan are determined in August with payment made in September.						
Key Performance Indicators (KPI's)	<p>A KPI matrix, directly linked to factors critical to the success of Downer EDI's business plan for the financial year, is developed for each executive. These KPIs include:</p> <p>Financial KPIs</p> <ul style="list-style-type: none"> • Corporate roles – group revenue, EBIT, cash generation, ROFE and EPS • Operational roles – unit revenue, EBIT, cash generation, ROFE and group EPS <p>Non-financial KPIs</p> <ul style="list-style-type: none"> • Zero Harm - safety, environmental and sustainability targets. Where a fatality or serious environmental incident occurs, the Zero Harm portion of the STI is significantly reduced <p>Individual measures for 2009 have been weighted as follows to focus executives on a limited number of critical performance drivers:</p> <table border="0"> <tr> <td>• Financial (revenue, EBIT, cash and ROFE)</td> <td>30%</td> </tr> <tr> <td>• Zero Harm</td> <td>30%</td> </tr> <tr> <td>• EPS</td> <td>40%</td> </tr> </table> <p>For financial targets, 50% of the executive's STI opportunity can be achieved by meeting set business plan targets, with the remaining 50% earned by over achievement of those targets.</p>	• Financial (revenue, EBIT, cash and ROFE)	30%	• Zero Harm	30%	• EPS	40%
• Financial (revenue, EBIT, cash and ROFE)	30%						
• Zero Harm	30%						
• EPS	40%						
Service condition	<p>New executives (either new starts or promoted employees) are eligible to participate in the STI in the year in which they commence in their position with a pro-rata entitlement.</p> <p>Where an executive's employment terminates prior to the end of the financial year, there is no STI entitlement. The exceptions to this are where the termination occurs as a result of one of the following events:</p> <ul style="list-style-type: none"> • a takeover of Downer EDI; or • by the mutual agreement of the executive and Downer EDI <p>In these exceptional circumstances the Board may approve a pro-rata STI payment.</p>						

STI opportunity in relation to the 2009 fiscal year can be up to 100% of the executive's total remuneration package (base salary plus superannuation plus non-cash benefits), other than the managing director whose STI can be up to 150% of the total fixed remuneration package (base salary plus superannuation plus non-cash benefits).

Directors' Report

The following table shows the STI's that were earned during the year ended 30 June 2009 due to the achievement of the relevant performance targets.

Executives	Short Term Incentive in respect of 2009 financial year	
	Paid %	Forfeited %
G Knox	83.3	16.7
C Bruyn	99.0	1.0
D Cattell	75.3	24.7
S Cinerari	80.0	20.0
P Graham	65.3	34.7
W Nolan	93.4	6.6
D O'Reilly	57.1	42.9
D Overall	65.0	35.0
P Reichler	65.3	34.7
P Reidy	57.1	42.9
C Setter	75.9	24.1
G Wannop	93.0	7.0

4.3 Downer EDI Deferred Share Plan (DSP)

The company operates a DSP that entitles participants to acquire Downer EDI shares with pre-tax salary or STI. The 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. Participants are not able to trade in shares held in the DSP for a period of twelve months, subject to continuing employment.

Eligible employees may elect to sacrifice a minimum of \$2,400 of salary or STI into company shares. There is a cap of 25% of gross annual salary per annum and/or 100% of STI that can be sacrificed.

Shares may be retained in the 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.

Following the announcements contained in the 2009 budget relating to tax rules governing employee share schemes, the operation of this plan has been suspended.

4.4 Long-term incentives (LTI)

Downer EDI currently operates a number of LTI plans linked to hurdle achievement and employment retention including:

- Options and rights plan (issued in 2006)
- 2008 executive share plan
- 2009 executive share plan
- Employee discount share plan

The plans need to provide a rolling period of years where performance hurdles can be met and executive retention is encouraged by the ongoing service condition. The 2009 plan assists this objective given that the performance hurdles in the 2008 plan will be difficult to meet before 2011.

The 2008 executive share plan is based on the achievement of annual share price hurdles up to and including 2011. Shares may be allocated on a pro rata basis against share price performance, however full vesting is subject to continuous employment during the period to 31 December 2014.

The Board believes that the unforeseen impact of the global financial crisis has made achievement of these hurdles arduous. Accordingly, the 2009 executive share plan is also designed to accommodate market volatility by measuring the company's performance on a market comparative basis in which performance improvement is measured against the ASX Top-100 index.

Rewards are vested over a three-year period¹ with the first, subject to performance hurdles, vesting on 31 December 2010.

This approach aims to:

- keep executives focused on the achievement of the company's long-term strategic and financial objectives while growing shareholder value in both an absolute and market comparative sense;
- drive an ownership mindset amongst executives through increased equity participation; and
- attract and retain executive talent

It is the Board's policy that no executive will limit the risk of unvested equity or vested restricted equity by entering into any arrangements with a third party. This policy against hedging of equity is enforced by a condition in plan rules that specifies that unvested equity that is hedged will not vest.

Details of the LTI plans are provided below.

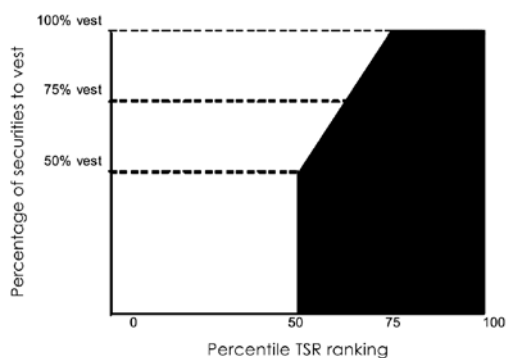
4.4.1 Options and rights plan (issued in 2006)

Downer EDI operates an options and rights plan for executives. The following table outlines the major features of the plan.

Key objective	To align executives' remuneration with growth in shareholder value and achievement of long-term business objectives.
Type of award	Each grant under this plan is divided into two pools with each pool consisting of an equal value of rights and options. Options Each option is a right to purchase one ordinary share in Downer EDI Limited at a specified exercise price. Rights Each right allows the holder to purchase one ordinary share in Downer EDI Limited at a zero exercise price.
Performance conditions	Hurdles are applied to each pool as set out below: Pool 1 vests based on the percentile ranking of Downer EDI's TSR relative to the constituents of the ASX 100 over a three-year period. Pool 2 vests based on meeting compound annual EPS growth hurdles, with reference to the average Australian Commonwealth Government three-year bond yield, over a three year period. The vesting period may extend to four years if the hurdles are not met after three years.
Rationale for choosing measures	To ensure that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its' TSR peer group and where its' financial performance, as measured by growth in EPS, has exceeded hurdles specified by the Board.

Vesting schedules

The TSR vesting schedule is depicted in the diagram below:



The EPS vesting schedule is outlined in the table below:

EPS growth	Percentage of equity that will vest
Equal to or less than the 'risk free rate of return' plus 2.5%	0% of EPS Securities will be exercisable
Greater than the 'risk free rate of return' plus 2.5%	50% of EPS securities will vest
Greater than the 'risk free rate of return' plus 5%	100% of EPS securities will vest
Above the 'risk free rate of return' plus 2.5% but below the 'risk free rate of return' plus 5%	The percentage of EPS securities that will vest will increase on a straight line basis between 50% and 100% depending on Downer EDI's actual EPS result.

Service condition

Executives must remain employed by Downer EDI throughout the entire vesting period.

¹ This excludes the Managing Director, Geoff Knox who is subject to a two-year vesting period

Directors' Report

4.4.2 Restricted share plans

Downer EDI operates two restricted share plans, under which executives are granted beneficial ownership of ordinary shares in Downer EDI Limited at the outset of the performance period. Shares are held in trust on behalf of the executive until performance and service conditions are met. These conditions, which differ under each plan, are outlined below. Shares are at risk of forfeiture and may not be sold or transferred out of the trust until performance and service conditions are met.

2008 executive share plan

The following table outlines the major features of the 2008 executive share plan.

Key objectives	To link executive rewards to the company's long-term strategic and financial objectives, and drive an ownership mindset amongst executives through increased equity participation.
Type of award	Restricted shares subject to performance and service period conditions outlined below.
Performance conditions	Two pools of shares were allocated under the plan. The performance conditions for those pools are: Pool 1: 50% vests on achievement of an EBIT target and 50% vests on achievement of an operating cash flow target for the year ended 30 June 2008. Pool 2: A share price hurdle as at 31 December in the relevant year. The share price is calculated as the 10-day volume weighted average price (VWAP) leading up to 31 December for each cycle.
Service conditions	A service condition that requires the executive to be in continuous employment for a certain period of months after the testing date.
Vesting schedule	Refer to table below (2008 executive share plan vesting schedule).
Retest	There is no retest for awards that vest on satisfaction of an EBIT or operating cash flow target. Tranches of awards subject to a share price hurdle may be retested 12 months after the first test if the hurdles are not met. If the performance hurdles are met at the retest, the tranche will vest.
Rationale for selecting measures	EBIT and operating cash flow targets apply to all participating executives. These were set as stretch targets with reference to the business forecast and were determined as critical to the turnaround from the previous two years performance. Share price hurdles were established as a link to shareholder value creation.

2008 executive share plan vesting schedule

Hurdle	Shares issued	Performance test date	Service condition
Meet EBIT target by 30 June 2008 ¹	Pro-rata 0 - 100%,	When audited 2008 figures are available	50% 31 December 2008 50% 31 December 2009
Meet Operating Cash target by 30 June 2008 ¹	Pro-rata 0 - 100%,	When audited 2008 figures are available	50% 31 December 2008 50% 31 December 2009
A\$8 share price on 31 December 2008 ²	Pro-rata 0 - 100%, A\$6 to A\$8	31 December 2008	33% 31 December 2009 33% 31 December 2010 34% 31 December 2011
A\$10 share price on 31 December 2009	Pro-rata 0 - 100%, A\$8 to A\$10	31 December 2009	33% 31 December 2010 33% 31 December 2011 34% 31 December 2012
A\$12.50 share price on 31 December 2010	Pro-rata 0 - 100%, A\$10 to A\$12.50	31 December 2010	33% 31 December 2011 33% 31 December 2012 34% 31 December 2013
A\$14.50 share price on 31 December 2011 ³	Pro-rata 0 - 100%, A\$12.50 to A\$14.50	31 December 2011	33% 31 December 2012 33% 31 December 2013 34% 31 December 2014

¹ Grants with EBIT and operating cash flow conditions were made to a limited group of executives.

² This tranche does not apply to Craig Setter or David Overall, reflecting their commencement of employment post the performance test period.

³ This tranche applies to Craig Setter and David Overall only.

Subsequent to the grant of shares under the plan, a retest has been added for all participants in relation to shares subject to share price hurdles that do not vest under the existing conditions. Details of the retest are as follows:

Hurdle	Shares issued	Performance test date	Service condition
A\$13 share price on 31 December 2011	Pro-rata 0 - 100%, A\$6 to A\$13	31 December 2011	33% 31 December 2012 33% 31 December 2013 34% 31 December 2014

Grants to individual executives vary as a result of the commencement date of their employment.

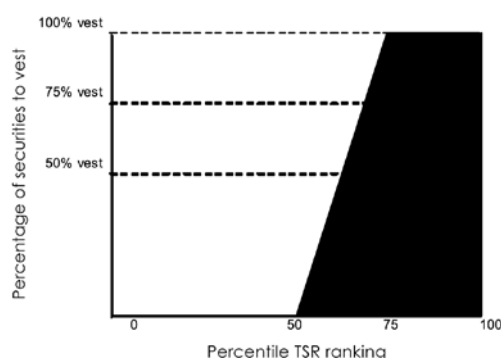
Directors' Report

2009 executive share plan

The following table outlines the major features of the 2009 executive share plan.

Key objectives	To link executive rewards to the company's long-term strategic and financial objectives, drive an ownership mindset amongst executives through increased equity participation and align executives' remuneration with growth in shareholder wealth.
Type of award	Current grant of restricted shares delivered in three equal tranches. Subsequent grants will be delivered in single tranches with a three year performance period.
Performance conditions	Percentile ranking of Downer EDI's TSR relative to the constituents of the ASX100 as at the beginning of the performance test period.
Service conditions	The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December prior to the date that the performance condition is satisfied.

Vesting schedule The vesting schedule is depicted in the diagram below:



Retest Shares that do not meet the initial relative TSR test are subject to a single retest 12 months after the first test. If the performance hurdles are met at the retest, the awards will vest. Shares that do not meet the retest are forfeited.

Rationale for choosing measures TSR was selected as a performance measure for the 2009 restricted share plan due to its strong link to shareholder value creation.
The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its' TSR peer group, the ASX 100.

4.4.3 Employee discount share plan

The company instituted an Employee Discount Share Plan in June 2005. During the year, 834,000 shares were granted under the plan (2008: nil).

Under this plan, employees have the opportunity to purchase 500 newly issued Downer EDI shares at a discount of \$2 per share from a market price determined by the Board. The objective of the plan is to encourage ownership of Downer EDI shares at all levels of the group. Accordingly, the shares are not subject to any performance conditions; however, a three year restriction period applies during which participants may not dispose of the shares. Offers under this plan are made at the discretion of the Board.

4.5 Share based payments

4.5.1 Options and rights (issued in 2006)

No performance rights or options were granted or exercised during the year ended 30 June 2009. Grants of 496,657 performance rights and 1,574,538 performance options were made in the year ended 30 June 2007 under the LTI plan. No performance rights or options lapsed during the year as a result of failed performance tests however, a number of these instruments have been forfeited due to executives leaving the group prior to the vesting date.

The following table discloses grants of options and rights affecting compensation in future periods.

Option series	Grant date	No. of instruments on issue	Expiry date ¹	Grant date fair value	Exercise price \$	Vesting date
Performance options	10/11/2006	1,081,584	10/11/2013	1.46	6.72	30/06/2009 & 30/06/2010
Performance rights	10/11/2006	341,221	10/11/2013	4.15	-	30/06/2009 & 30/06/2010

¹ The expiry date is the last date at which rights and options that rest, having met the performance conditions, can be exercised.

Testing of the performance rights and options was conducted as at 30 June 2009. No rights or options vested as a result of the testing. A retest will be performed as at 30 June 2010. All rights and options that do not vest as a result of this test will lapse.

4.5.2 Restricted shares

The table below shows the number and percentage of restricted shares that vested during the year for each grant that affects compensation in this or future reporting periods. No restricted shares lapsed as a result of failed performance tests or were forfeited during the year.

Name	2008 plan			2009 plan		
	Number of shares (EBIT/cash hurdle) ¹	% vested	Number of Shares (share price hurdle) ²	% vested	Number of shares ³	% vested
G Knox	-	-	1,600,000	12.5%	518,135	-
C Bruyn	-	-	-	-	86,957	-
D Cattell	62,500	50%	387,500	-	291,451	-
S Cinerari	-	-	-	-	100,932	-
P Graham	-	-	250,000	-	155,440	-
W Nolan	50,000	50%	250,000	-	155,440	-
D O'Reilly	50,000	50%	250,000	-	-	-
D Overall	-	-	320,000	-	145,726	-
P Reichler	50,000	50%	250,000	-	155,440	-
P Reidy	35,000	50%	175,000	-	-	-
C Setter	-	-	210,000	-	106,865	-
G Wannop	50,000	50%	250,000	-	136,011	-

¹ Grant date 29 April 2008

² Grant date 29 April 2008 except for D Overall and C Setter (27 January 2009)

³ Grant date 1 April 2009 except for C Bruyn and S Cinerari (12 June 2009)

Directors' Report

The maximum number of restricted shares that may vest in future years that will be recognised as share based payments in future years is set out below.

Maximum number of shares for the vesting year

Name	2009	2010	2011	2012	2013	2014	2015
G Knox	200,000	400,000	572,712	572,712	372,711	-	-
C Bruyn	-	-	28,986	28,986	28,985	-	-
D Cattell	31,250	60,417	176,317	226,317	197,151	50,000	-
S Cinerari	-	-	33,644	33,644	33,644	-	-
P Graham	-	16,667	101,813	135,146	118,481	33,333	-
W Nolan	25,000	41,667	101,813	135,146	118,481	33,333	-
D O'Reilly	25,000	41,667	50,000	83,333	66,667	33,333	-
D Overall	-	25,000	103,575	108,575	138,576	60,000	30,000
P Reichler	25,000	41,667	101,813	135,146	118,481	33,333	-
P Reidy	17,500	29,167	35,000	58,333	46,667	23,333	-
C Setter	-	-	58,955	82,289	105,621	46,667	23,333
G Wannop	25,000	41,667	95,337	128,670	112,004	33,333	-

The maximum value of restricted shares that may vest in future years that will be recognised as share based payments in future years is set out below. The amount reported is the value of share based payments in future years calculated in accordance with AASB 2 Share Based Payments over the vesting period.

Maximum value of shares for the vesting year (\$)

Name	2009	2010	2011	2012	2013	2014	2015
G Knox	2,311,633	1,786,793	1,061,266	596,409	236,141	55,720	-
C Bruyn	5,100	103,455	103,450	81,843	43,174	13,451	-
D Cattell	1,016,560	789,733	591,191	386,873	175,531	47,235	-
S Cinerari	5,920	120,081	120,075	94,996	50,112	15,612	-
P Graham	395,737	434,800	355,088	230,671	103,665	27,311	-
W Nolan	694,451	487,836	355,088	230,671	103,665	27,311	-
D O'Reilly	694,451	487,836	355,088	230,671	103,665	27,311	-
D Overall	118,907	261,920	191,743	132,931	72,371	24,339	1,966
P Reichler	694,451	487,836	355,088	230,671	103,665	27,311	-
P Reidy	486,914	343,836	250,912	163,342	73,567	19,431	-
C Setter	48,729	132,314	127,625	99,230	54,062	18,234	1,529
G Wannop	689,130	472,171	339,423	218,191	96,988	25,221	-

4.6 Remuneration of directors and key management personnel

2009	Short-term employee benefits			Post-employment benefits	Share-based payment transactions ³		
	Salary and fees	Bonus paid or payable in respect of current year	Non-monetary	Super-annuation	Total	Options & rights	Restricted shares
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
P E J Jollie	375,000	-	-	33,750	408,750	-	-
S A Chaplain	150,000	-	-	13,500	163,500	-	-
P R Coates ¹	100,822	-	-	9,074	109,896	-	-
L Di Bartolomeo	210,000	-	-	18,900	228,900	-	-
R M Harding	150,000	-	-	13,500	163,500	-	-
J S Humphrey	140,000	-	-	12,600	152,600	-	-
C J S Renwick	165,000	-	-	14,850	179,850	-	-
Executives							
G Knox	2,000,000	2,500,000	-	-	4,500,000	-	2,311,633
C Bruyn ¹	384,288	416,273	29,573	11,675	841,809	12,782	5,100
D Cattell	1,335,296	1,129,244	224,765	46,000	2,735,305	24,271	1,016,560
S Cinerari ¹	409,035	389,917	34,725	39,809	873,486	9,929	5,920
P Graham ¹	518,931	522,263	4,259	40,703	1,086,156	-	395,737
W Nolan	695,398	746,946	37,598	62,586	1,542,528	15,342	694,451
D O'Reilly ¹	479,885	266,660	691	53,448	800,684	7,879	472,431
D Overall ²	1,431,265	243,932	5,586	17,773	1,698,556	-	118,907
P Reichler	800,000	522,263	6,429	72,000	1,400,692	11,196	694,451
P Reidy ¹	302,370	191,662	39,302	27,213	560,547	7,703	330,701
C Setter ¹	218,929	208,750	57,674	18,698	504,051	-	48,729
G Wannop	700,000	651,070	49,829	77,850	1,478,749	17,478	689,130
	10,566,219	7,788,980	490,431	583,929	19,429,559	106,580	6,783,750

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

² D Overall (appointed CEO, Downer EDI Mining Pty Ltd on 27 January 2009). Salary and fees includes \$1,125,000 sign on payment. Share based payment transactions includes \$53,975 in relation to sign on grant of 50,000 restricted shares.

³ Represents the value of vested and unvested equity expensed during the period, in accordance with AASB 2 share based payments, related to grants made to the executive. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in sections 4.4.1 and 4.4.2.

Directors' Report

2008	Short-term employee benefits				Post-employment benefits	Share based payment Transactions	
	Salary and fees	Bonus paid in respect of current year	Non-monetary	Super-annuation	Retirement allowances	Total	Other ¹
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
P E J Jollie	208,333	-	-	18,750	-	227,083	-
B D O'Callaghan ²	102,083	-	-	9,188	250,000	361,271	-
L Di Bartolomeo	172,500	-	-	15,525	-	188,025	-
J S Humphrey	106,250	-	-	9,563	-	115,813	-
C J S Renwick	116,250	-	-	10,463	-	126,713	-
R M Harding	-	-	-	-	-	-	-
S A Chaplain	-	-	-	-	-	-	-
Executives							
G Knox ³	1,208,333	1,500,000	-	-	-	2,708,333	1,071,581
B Waldron ⁴	779,181	300,000	61,912	67,011	787,500	1,995,604	-
S J Gillies ⁵	1,065,260	-	4,440	16,667	-	1,086,367	-
G Bruce ⁶	322,034	-	4,642	16,538	588,000	931,214	-
D Cattell	837,633	750,000	215,221	77,122	-	1,879,976	23,912
S Mockett	581,190	390,000	30,645	50,000	-	1,051,835	12,524
W Nolan	677,489	475,800	37,027	60,974	-	1,251,290	15,116
D O'Reilly	693,247	480,000	863	110,920	-	1,285,030	13,307
P Reichler	617,364	390,000	6,310	52,563	-	1,066,237	11,031
P Reidy	484,720	230,000	-	35,102	-	749,822	13,006
G Wannop	565,497	165,000	-	65,744	-	796,241	17,220
	8,537,364	4,680,800	361,060	616,130	1,625,500	15,820,854	1,177,697

¹ Represents the value of vested and unvested equity expensed during the period, in accordance with AASB 2 share based payments, related to grants made to the executive. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in sections 4.4.1 and 4.4.2

² B D O'Callaghan (resigned 1 February 2008). Retiring allowance of \$250,000 paid in accordance with original terms of appointment.

³ G Knox (appointed CEO and managing director on 1 February 2008). Salary and fees includes \$375,000 sign on payment.

⁴ B Waldron (appointed CEO on 2 August 2007 and resigned on 31 January 2008). Salary and wages includes payment of accrued annual leave entitlements of \$34,615. Bonus was paid in respect of 2008. The termination payment was awarded in accordance with the terms of Mr Waldron's employment contract.

⁵ S J Gillies (resigned 1 August 2007). Salary and fees includes payment accrued annual leave entitlements of \$282,692 and long service leave entitlements of \$251,889.

⁶ G Bruce (resigned 24 August 2007). Salary & fees includes payment for accrued annual leave entitlements of \$128,907 and long service leave of \$122,544. The termination payment was awarded in accordance with the terms of Mr Bruce's employment contract.

The table below lists the proportions of remuneration paid during the year ended 30 June 2009 that are performance and non-performance related as well as the percentage of remuneration comprised of options and rights.

	Performance Related	Non- Performance Related	% of Compensation for year ended 30 June 2009 Consisting of Options and Rights
Executives	%	%	%
G Knox	71%	29%	-
C Bruyn	51%	49%	1%
D Cattell	57%	43%	1%
S Cinerari	46%	54%	1%
P Graham	62%	38%	-
W Nolan	65%	35%	1%
D O'Reilly	58%	42%	1%
D Overall	20%	80%	-
P Reichler	58%	42%	1%
P Reidy	59%	41%	1%
C Setter	47%	53%	-
G Wannop	62%	38%	1%

4.7 Non-executive Directors' remuneration

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 for Non-executive Directors to maintain their independence. Non-executive Directors do not receive any STI payment or participate in any share or incentive plan operated for executives of the company.

The maximum aggregate fees approved by shareholders that can be paid to Non-executive Directors is \$2,000,000 per annum. This cap was approved by shareholders on 30 October 2008. 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.

The Chairman receives a base fee of \$375,000 per annum (inclusive of all committee fees) plus superannuation. Most of the other Non-executive Directors receive a base fee of \$150,000 per annum (where they are not entitled to a retirement benefit) or \$105,000 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 other committee duties: \$35,000 for the chair of the audit committee; \$15,000 for the chair of the H,S&E committee and the risk committee and \$60,000 for Mr Di Bartolomeo's additional services as a director of Reliance Rail.

Under his original terms of appointment, John Humphrey is 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. Once a director's accumulated reduction in base fees has reached the value of the retirement benefit, the applicable base fee reverts to the general fee level. This will apply to Mr Humphrey from 1 July 2009. 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.

Directors' Report

5. Key terms of employment contracts

All executives are on open-ended contracts with no fixed end date. The following table captures the notice periods applicable to termination of the employment of key management personnel:

	Termination notice period by Downer EDI	Termination notice period by employee	Termination payments payable under contract
CEO	12 months	12 months	12 months
Other executives	12 months	6 months	12 months

Termination payments are calculated based upon total fixed remuneration at the date of termination. No payment is payable in the event of gross misconduct.

5.1 Managing Director and Chief Executive Officer of Downer EDI Limited

Mr Knox's remuneration comprises fixed and variable components. They have been determined in accordance with the ASX Corporate Governance Council's Governance Principles and Recommendations 2007, industry best practice and the advice of independent remuneration consultants.

Short-term incentives

Mr Knox is entitled to an annual STI in the form of a cash bonus, capped at a maximum of 150% of total fixed remuneration (salary plus superannuation plus non-cash benefits) for each year. The assessment of the STI is based upon two factors of equal weighting outlined below:

- non-financial measures, based upon key business objectives, set by the Board and
- the achievement of EPS growth hurdles as shown in the following table:

EPS growth	Percentage of STI to be paid
< 4%	zero
4% - 8%	prorated from 0 - 25%
8% - 12%	prorated from 25% - 50%

Long-term incentives

Mr Knox's LTI is in the form of a grant of restricted shares. These shares are administered by the Downer EDI Tax Deferred Employee Share Plan. Mr Knox is entitled to the dividends attached to the restricted shares.

2008 Executive Share Plan

Downer EDI arranged for the purchase of 1,600,000 Downer EDI shares for the potential benefit of Mr Knox during the 2008 financial year. The restricted shares will only vest upon the satisfaction of two conditions, firstly the meeting of a set share price and secondly Mr Knox must have continued his employment with Downer EDI Limited for a specified time. The following table sets out the arrangement:

Issue date and number of shares to be issued		Hurdle price (first condition)	Vesting date and number of shares to vest (second condition)	
31 December 2007	400,000	\$5.00	31 December 2008	200,000
			31 December 2009	200,000
31 December 2008	400,000	\$7.00	31 December 2009	200,000
			31 December 2010	200,000
31 December 2009	400,000	\$10.00	31 December 2010	200,000
			31 December 2011	200,000
31 December 2010	400,000	\$12.50	31 December 2011	200,000
			31 December 2012	200,000

During the year, a retest for all shares that have not vested under the existing conditions has been added. Details of the retest are as follows:

Hurdle	Shares issued	Performance test date	Service condition
\$13 share price on 31 December 2011	Pro-rata 0 - 100%, \$5 to \$13	31 December 2011	50% 31 December 2012 50% 31 December 2013

Further details regarding the operation of the plan are detailed in section 4.4.2 above.

2009 Executive Share Plan

Mr Knox participates in the 2009 Executive Share Plan. Please refer to section 4.4.2 above for details of this plan.

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



P E J Jollie AM
Chairman

Sydney, 20 August 2009

Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Mr Peter Jollie
Chairman
The Board of Directors
Downer EDI Limited
Level 3, 190 George Street
SYDNEY NSW 2000

20 August 2009

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 report of Downer EDI Limited for the financial year ended 30 June 2009, 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



Mark Irving
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

Chief Financial Officer's Review

The 2008/09 financial year result reflects a solid underlying diversified business platform combined with an increased focus on delivering improved shareholder returns. Profit after tax of \$189.4 million is an improvement of \$23.5 million or 14.2% over the previous year. The Group has shown significant improvement over the five-year period as outlined in the Financial Performance Overview table on page 33.

Total revenue including revenue from ordinary activities plus joint venture revenue and other income for the year was \$5.9 billion, up \$354 million or 6.3 % over the previous year. Revenue from ordinary activities for the year was \$5.9 billion, up \$399 million or 7.3% over the previous year.

Earnings before interest and tax were \$304.8 million, an increase of \$23.7 million or 8.4% over the prior year.

Net interest expense for the year was \$45.8 million, down some \$3.4 million over the previous year. The reduction of net interest was the result of strong cash generation throughout the year, combined with the effects of generally lower interest rates despite increased margins on new borrowings following the global financial crisis. Depreciation and amortisation was \$141.8 million compared to additions to property, plant and equipment and intangibles of \$342 million. We continue to invest selectively in our business to satisfy our major customer's requirements.

The effective tax rate of the Group for 2009 at 26.9% is slightly lower than the previous year and has benefited from the effect of lower tax rates on overseas income, claims for research and development combined with adjustments to the previous years provisioning.

Cash flow and capital expenditure

The focus on cash management throughout the year has resulted in a solid operating cash flow of \$336.5 million. This represents 110% of EBIT and is an increase of \$60.4 million over last year. Cash flow from operations has shown an improving trend over the last five years as shown in the Financial Performance Overview table on page 33.

Working capital has increased by \$72.5 million to \$437.7 million during 2009. As a percentage of total revenue, working capital is slightly higher than the previous year at 7.4% (2008: 6.5%). As mentioned previously this area of the business has been a key focus throughout the year and we are pleased to be able to maintain this ratio of working capital in the current environment.

The Group undertook investing activities of \$321.0 million for its operations during the year. Of this amount, net additions to property, plant and equipment accounted for \$266.7 million, while a further \$51.6 million relates to the acquisitions of businesses.

The net debt for 2009 of \$518 million was an increase on the 2008 level of \$407million and reflects the investment being made in property plant and equipment combined with the business acquisitions which were undertaken during the year.

The Group's gearing, as measured by net debt to total capitalisation (net debt divided by net debt plus total equity), at 28% remains at prudent levels. On a net debt to total equity basis, gearing at 39% remains within targeted levels.

Financial position

The balance sheet has been further strengthened with net assets of the Company now at \$1,330.4 million, a net increase of \$134.0 million. Major contributors to this change include:

- After tax profit retained in the business of \$189.4 million
- An increase in reserves of \$40.9 million, primarily reflecting movements in hedging reserves and movements in foreign currencies against the Australian dollar and their effects on translating foreign subsidiary financial statements into Australian dollars
- The declaration of dividends to shareholders amounting to \$106.8 million

Net tangible asset backing per ordinary share at 217.6 cents (2008: 190.0 cents) has improved by 14.5%.

Accounting policies and basis of preparation

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

Chief Financial Officer's Review

Banking facilities and treasury risk management activities

Fitch Ratings continued Downer EDI's Investment Grade credit rating as BBB – with a stable outlook. This rating was re-affirmed in April 2009, following the annual credit review undertaken by Fitch Ratings.

As at 30 June 2009, the weighted average maturity of the Group's total debt facilities was 2.3 years compared to 2.4 years for the prior year. This contraction in maturity profile recognises the normal shortening of existing facilities over time, partly offset by the completion of several long term debt transactions in FY2009. After closing of the NZ\$150 million bond which occurred in July 2009 and repayment of maturing USPP the weighted average increases to 2.5 years.

To manage risks associated with interest rate fluctuations on the Group's debt, 64% of drawn debt is hedged at fixed interest rates as at 30 June 2009.

Total debt facilities (adjusted for the mark-to-market revaluation of relevant hedges and deferred finance charges) drawn at year end totalled \$817 million (2008: \$653 million). Term debt facilities that mature within one year total \$369 million or 29% of total debt facility limits, \$492 million or 39% within two years and \$414 million or 32% from three to 10 years. Refinancings of \$120 million of debt facilities that fall due within 12 months were completed after the end of the 2009 financial year and the balance is expected to be refinanced in the normal course of business as and when they fall due. The company continues to comply with all of its borrowing covenants.

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

The Group maintains facilities for bid, performance and retention bonds to support the ongoing operational needs of the business with an aggregate value of \$1,000 million. Bonding facilities utilised as at 30 June 2009 totalled \$781 million (2008: \$733 million).

Other than \$59 million of finance lease / hire purchase transactions and a \$10 million working capital loan, all debt and bonding facilities are provided on an unsecured basis.

Total available liquidity at year end amounted to \$757 million comprising cash of \$299 million and aggregate undrawn total debt facility limits of \$458 million.

Capital management and dividends

The dividend policy has been established to ensure that adequate capital will be available to facilitate expansion of the Group, whilst at the same time providing shareholders with a yield on their investment in both the short and medium-term.

A final 2009 ordinary dividend of 16.0 cents per share (unfranked) has been declared by the directors. This dividend has been declared in accordance with the established policy of paying out approximately 50% of profit after tax as dividends. Total dividends in respect of the 2009 year were 29.0 cents per share, an increase of 13.7% over the previous year.

The 2009 final dividend is payable on 2 October 2009. Many shareholders took advantage of the company's Dividend Reinvestment Plan (DRP) during the previous year with 27% of eligible dividends being subject to DRP. To meet continuing shareholder appetite in this area, the company's DRP will apply to the 2009 final dividend, with a 2.5% discount being offered, providing shareholders with the opportunity to reinvest their dividends in Downer EDI without incurring any brokerage costs.

The closing date for amendment/ participation in the DRP will be 1 September 2009, with the DRP pricing being based on the arithmetic average of the first 10 trading days volume weighted average price "VWAP" in September 2009.



Peter Reichler

Chief Financial Officer

Financial Performance Overview

	Five-year record for the year ended 30 June				
	2009	2008	2007	2006	2005 ¹
	\$'000	\$'000	\$'000	\$'000	\$'000
Total revenue	5,941,391	5,587,647	5,422,157	4,727,482	3,972,325
Revenue	5,861,410	5,462,530	5,329,530	4,633,424	3,814,511
Earnings before interest and tax (EBIT) (before significant items)	304,799	281,117	280,894	229,813	188,646
Earnings before interest and tax (EBIT) (after significant items)	304,799	281,117	128,661	(63,862)	188,646
Interest expense (net)	45,774	49,171	56,018	47,044	36,309
Income tax (before significant items)	69,649	66,104	63,310	45,014	27,595
Profit after tax (before significant items net of tax)	189,376	165,842	161,566	137,755	104,035
Significant one-off items net of tax	-	-	(60,068)	(162,684)	-
Profit/(loss) after tax after significant one-off items	189,376	165,842	101,498	(24,929)	104,035
Total equity	1,330,388	1,196,364	1,169,907	950,543	908,020
Net debt to equity	39%	34%	44%	56%	38%
Net debt to capitalisation (debt plus equity)	28%	25%	31%	36%	27%
Cashflow from operations including significant one-off items	336,464	276,031	106,156	89,902	185,957
Basic earnings per ordinary share on issue (cents) ²	57.9	51.3	32.0	(8.4)	36.3
Basic earnings per share before significant items (cents)	54.4	47.9	50.3	46.3	36.3
Basic earnings per share after significant one-off items (cents)	54.4	47.9	31.3	(8.4)	36.3
Diluted earnings per share (cents)	52.7	47.5	31.3	(8.4)	36.3
Closing share price (dollars)	\$5.59	\$6.87	\$7.36	\$7.44	\$5.33
Dividends per ordinary share (cents)	29.0	25.5	21.0	20.0	18.0
Dividends payout ratio as a percentage of profit after tax	50.4%	49.8%	65.9%	n/a	50.0%
Net tangible assets backing per ordinary share (cents)	217.6	190.0	187.0	130.2	182.8
Work-in-hand (millions)	14,600	11,500	9,300	6,900	6,500

¹ As previously reported under Australian Generally Accepted Accounting Principles (AGAAP).

² Earnings based on ordinary shares on issue only and excludes ROADS (ROADS not applicable until 2007)

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Income Statement

for the year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenues	3(a)	5,861,410	5,462,530	181,610	98,526
Other income	3(a)	6,403	10,183	-	-
Share of net profit of joint ventures and associates	14(b)	10,154	23,607	-	-
Finance costs	3(b)	(65,018)	(67,320)	(250)	(729)
Employee benefits expense	3(b)	(2,030,284)	(1,809,213)	(30,982)	(17,847)
Raw materials and consumables used		(1,417,057)	(1,296,704)	-	-
Subcontractor costs		(996,479)	(1,059,348)	-	-
Plant and equipment costs		(756,951)	(678,742)	-	-
Communication expenses		(58,650)	(49,514)	(2,439)	(2,292)
Occupancy costs		(96,838)	(82,277)	(1,204)	(856)
Professional fees		(43,701)	(54,419)	(3,982)	(4,753)
Travel and accommodation expenses		(68,498)	(59,254)	(1,603)	(991)
Other expenses from ordinary activities		(85,466)	(107,583)	(12,452)	(11,513)
Profit before income tax		259,025	231,946	128,698	59,545
Income tax (expense)/benefit	4	(69,649)	(66,104)	5,944	1,942
Profit after tax for the year		189,376	165,842	134,642	61,487
Profit attributable to members of the parent entity		189,376	165,842	134,642	61,487
Earnings per share (cents)					
- Basic earnings per share	6	57.9	51.3		
- Basic earnings per share (including ROADS)	6	54.4	47.9		
- Diluted earnings per share	6	52.7	47.5		

The income statement should be read in conjunction with the accompanying notes.

Balance Sheet

as at 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
ASSETS					
Current assets					
Cash and cash equivalents	8	299,463	245,790	1	1
Inventories	9	198,396	204,043	-	-
Trade and other receivables	10	1,165,458	1,114,371	422,333	379,663
Other financial assets	11	12,154	17,536	505	1,788
Current tax assets	12	13,920	7,100	13,831	-
Other assets	13	32,310	40,827	740	112
Non-current assets held for sale (Note 26)		65,587	67,958	-	-
Total current assets		1,787,288	1,697,625	437,410	381,564
Non-current assets					
Trade and other receivables	10	14,949	-	632,592	584,271
Equity-accounted investments	14	8,437	7,146	-	-
Property, plant and equipment	15	846,304	662,188	-	-
Intangible assets	16	609,970	578,725	-	-
Other financial assets	11	22,446	46,884	225,000	225,000
Deferred tax assets	12(a)	87,450	183,682	43,509	99,798
Other assets	13	6,245	7,026	-	-
Total non-current assets		1,595,801	1,485,651	901,101	909,069
Total assets		3,383,089	3,183,276	1,338,511	1,290,633
LIABILITIES					
Current liabilities					
Trade and other payables	17	946,024	993,478	15,436	22,002
Borrowings	18	215,839	145,268	168	2
Other financial liabilities	19	32,046	44,482	-	-
Provisions	20	185,570	225,803	885	414
Current tax liabilities	21	10,205	10,442	-	-
Total current liabilities		1,389,684	1,419,473	16,489	22,418
Non-current liabilities					
Trade and other payables	17	2,192	918	350,717	359,294
Borrowings	18	578,658	421,597	-	-
Other financial liabilities	19	36,812	93,489	-	-
Provisions	20	27,184	32,008	56	74
Deferred tax liabilities	21(a)	18,171	19,427	-	-
Total non-current liabilities		663,017	567,439	350,773	359,368
Total liabilities		2,052,701	1,986,912	367,262	381,786
Net assets		1,330,388	1,196,364	971,249	908,847
EQUITY					
Issued capital	22	1,078,791	1,080,559	900,188	901,956
Reserves	23	(85,124)	(125,989)	15,960	3,314
Retained earnings	24	336,721	241,794	55,101	3,577
Total equity		1,330,388	1,196,364	971,249	908,847

The balance sheet should be read in conjunction with the accompanying notes.

Statement of Recognised Income and Expense

for the year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Total equity at the beginning of the financial year		1,196,364	1,169,907	908,847	898,375
Current period movements:					
Cash flow hedges	23	14,939	(45,881)	-	-
Exchange rate differences on translation of foreign operations	23	16,333	(31,335)	-	-
Share based transactions	23	12,646	1,498	12,646	1,498
Available for sale investment	23	(3,053)	-	-	-
		1,237,229	1,094,189	921,493	899,873
Profit after tax for the financial year		189,376	165,842	134,642	61,487
Total income and expense recognised in equity		1,426,605	1,260,031	1,056,135	961,360
Transactions with equity holders in their capacity as equity holders:					
Unvested executive incentive shares	22	(27,280)	(9,791)	(27,280)	(9,791)
Contributions of equity (net of transaction costs)	22	25,512	25,033	25,512	25,033
Dividends provided for or paid	24	(94,449)	(78,909)	(83,118)	(67,755)
		(96,217)	(63,667)	(84,886)	(52,513)
Total equity at the end of the financial year		1,330,388	1,196,364	971,249	908,847

The statement of recognised income and expense should be read in conjunction with the accompanying notes.

Cash Flow Statement

for the year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash flows from operating activities					
Receipts from customers		6,448,412	5,808,923	6,432	3,391
Distributions from equity accounted investments	14(b)	9,895	11,288	-	-
Interest received		18,227	16,909	6	228
Dividends received from controlled entities		-	-	152,775	73,000
Dividends received from external entities		1,390	1,089	-	-
Payments to suppliers and employees		(6,103,693)	(5,438,691)	(73,015)	(22,279)
Settlement of operational foreign exchange contracts		38,827	(27,513)	-	-
Interest and other costs of finance paid		(60,220)	(66,338)	(250)	(729)
Income tax (paid)		(16,374)	(29,636)	(1,800)	(10,295)
Net cash inflow from operating activities	27(c)	336,464	276,031	84,148	43,316
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		20,939	79,559	-	-
Proceeds from sale of assets held for sale		4,120	-	-	-
Proceeds from sale of investments		-	48	-	-
Payments for investments		(961)	-	-	-
(Advances to) controlled entities		-	-	(26,060)	(733)
Payments for property, plant and equipment		(291,745)	(260,101)	-	-
(Advances to)/receipts from joint ventures		(1,793)	2,891	-	-
Proceeds from sale of businesses		-	64,565	-	-
Payments for businesses acquired	25(b)	(51,576)	(30,683)	-	-
Net cash (used) in investing activities		(321,016)	(143,721)	(26,060)	(733)
Cash flows from financing activities					
Proceeds from borrowings		1,260,517	818,387	-	-
Proceeds from issue of equity securities		2,495	647	2,495	647
Repayment of borrowings		(1,157,909)	(889,401)	-	-
Dividends paid		(72,080)	(54,518)	(60,749)	(43,358)
Net cash inflow/(outflow) from financing activities		33,023	(124,885)	(58,254)	(42,711)
Net increase/(decrease) in cash and cash equivalents					
		48,471	7,425	(166)	(128)
Cash and cash equivalents at the beginning of the year		239,833	233,664	(1)	127
Effect of exchange rate changes		3,919	(1,256)	-	-
Cash and cash equivalents at the end of the year	27(a)	292,223	239,833	(167)	(1)

The cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 1. Summary of accounting policies

Statement of compliance

These financial statements present the consolidated results of Downer EDI Limited (ABN 97 003 872 848). The Financial Report is a general purpose Financial Report prepared in accordance with the Corporations Act 2001, Accounting Standards and 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.

The Financial Report was authorised for issue by the directors on 20 August 2009.

Rounding of amounts

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

Basis of preparation

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

The preparation of the Financial Report requires management to make judgments, 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 judgments 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.

Application of critical judgement and key sources of estimation uncertainty

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

Revenue recognition

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

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

In determining revenues and expense for construction contracts management make key assumptions regarding estimated revenues and expense over the life of the contracts. Where variations are recognised in revenue, assumptions are made regarding the probability that customers will approve variations and the amount of revenue arising from variation. In respect of costs, key assumptions regarding costs to complete contracts may include estimation of labour, technical costs, impact of delays and productivity.

Impairment of assets

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. This process has been completed and the details are set out at Note 16.

Notes to the Financial Statements

for the year ended 30 June 2009

Significant accounting policies

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.

The accounting policies set out below have been consistently applied in preparing the Financial Report for the year ended 30 June 2009, as well as the comparative information presented in these financial statements.

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 Financial Report is 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'. 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 value of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

The Financial Report includes the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

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

Revenue recognition

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, and revenue from time and material contracts recognised at the contractual rates as labour hours are delivered and direct expenses are incurred. Services rendered include international mine consulting and contracting services, maintenance and construction of roads, highways and rail infrastructure, infrastructure maintenance services, engineering and consultancy services and facilities management.

Construction contracts

(i) Construction contracts - general

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

Revenues and expenses from construction contracts are recognised in net profit by reference to the stage of completion of the contract as at the reporting date. The stage of completion is determined by reference to physical estimates, surveys of the work performed or 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 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 the income statement 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 on 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.

(ii) Construction contract - PPP (Public Private Partnership)

Revenue and expenses from the PPP construction contract are recognised in net profit by reference to the stage of completion of each separately identifiable component of the contract for the design and manufacture of rolling stock and construction of a maintenance facility. The rolling stock manufacturing contract comprises detailed engineering design, prototype development and full scale manufacture. These identifiable separate components have been determined based on:

- each component being subject to separate customer acceptance procedures; and
- the costs and revenues of each component having been identified

Contract revenue is measured at the fair value of consideration received or receivable. Contract revenue is recognised to the extent of costs incurred plus margin. Margin is recognised based on the relative risk assessment of each component and costs incurred to achieve operational milestones.

(iii) Long term engineering services contracts

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

Sale of goods

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

Other revenue

(i) Royalties

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

(ii) Dividend and interest revenue

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

(iii) Fee based revenue

Fee based revenue generated by Corporate office is recognised on an accrual basis as derived.

Notes to the Financial Statements

for the year ended 30 June 2009

Goods and services tax

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

- where the amount of GST incurred is not recoverable from the taxation authorities, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST

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

Cash flows are included in the 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, the 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 year

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 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 timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the parent entity financial statements.

Investment in associates

Investments in entities over which the consolidated entity has the ability to exercise significant influence but not control are accounted for using equity accounting principles and are carried at cost plus post-acquisition changes in the consolidated entity's share of net assets of associates, less any impairment in value.

Losses of an associate in excess of the Group's interest in an associate are recognised only to the extent that the Group has incurred legal or constructive obligation or made payments on behalf of the associate. If the associate subsequently reports profits, the consolidated entity resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised.

Available-for-sale financial assets

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

Loans and receivables

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

Fair value through profit and loss investments

Fair value through profit and loss investments are valued at fair value each reporting date based on the current bid price. Movements in fair value are taken to the income statement.

Notes to the Financial Statements

for the year ended 30 June 2009

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 down 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 expected useful lives of PPE are generally:

Buildings	20-30 years
Plant and equipment	3-25 years
Equipment under finance lease	5-15 years

Leases

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

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

Finance leases

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

Operating leases

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

Intangible assets

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Intellectual property

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 having considered contractual terms, which is not greater than 40 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

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.

Payables

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

Borrowings

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

Derivative financial instruments

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

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

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.

Notes to the Financial Statements

for the year ended 30 June 2009

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 of host contracts. This only occurs when the host contracts are not measured at fair value.

Employee benefits

Liabilities are 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. Liabilities 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. Liabilities made in respect of employee benefits which are not expected to be settled within 12 months are measured at 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 the income statement on disposal of the foreign operation.

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

Financial instruments

Debt and equity instruments

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

Transaction costs 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 equity.

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

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

Accounting for financial guarantee contracts

Financial guarantee contracts are measured initially at their fair values and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies.

Notes to the Financial Statements

for the year ended 30 June 2009

Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members of the parent entity, divided by the weighted average number of ordinary shares. Basic EPS (including ROADS) is calculated as net profit attributable to members of the parent entity, adjusted for the cost of servicing equity (other than ordinary shares), divided by the weighted average number of ordinary shares. Diluted EPS is calculated as net profit attributable to members of the parent entity divided by the total of the weighted average number of ordinary shares on issue during the period and the number of dilutive potential ordinary shares.

New accounting standards and interpretations

At the date of authorisation of the Financial Report, the standards and interpretations listed below were in issue but not yet effective. They will be applied in the Group's Financial Report related to the first annual reporting period commencing after the effective date.

Initial application of the following standards will not affect any of the amounts recognised in the Financial Report, but will change the disclosures presently made in relation to the Group and the company's Financial Report:

- AASB 101 'Presentation of Financial Statements' (revised September 2007) - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101' - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101' - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 123 'Borrowing Costs' (revised) - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123' - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 8 'Operating Segments' - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2009-2 'Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments' - Effective for annual reporting periods beginning on or after 1 January 2009

The following standards and amendments to standards have been identified as those which may impact the entity in the period of initial application. They have not been applied in preparing this Financial Report. The Group has not yet determined the potential effect of these standards on the Group's future financial reports.

- AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB3 and AASB127' - Effective for annual reporting periods beginning on or after 1 July 2009
- AASB 127 'Consolidated and Separate Financial Statements' (revised) - Effective for annual reporting periods beginning on or after 1 July 2009
- AASB 3 'Business Combinations' (revised) - Effective for annual reporting periods beginning on or after 1 July 2009
- AASB 2008-1 'Amendments to Australian Accounting Standard - Share Based Payments: Vesting Conditions and Cancellations' - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation' - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project' - Effective for annual reporting periods beginning on or after 1 January 2009
- AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' - Effective for annual reporting periods beginning on or after 1 July 2009
- AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate' - Effective for annual reporting periods beginning on or after 1 January 2009

- AASB 2008-8 'Amendments to Australian Accounting Standards – Eligible Hedged Items' - Effective for annual reporting periods beginning on or after 1 July 2009
- AASB 2009-4 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process' - Effective for annual reporting periods beginning 1 July 2009
- AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process' - Effective for annual reporting periods beginning 1 January 2010
- AASB 2009-6 "Amendments to Australian Accounting Standards" - Effective for annual reporting periods beginning 1 January 2009
- AASB 2009-7 "Amendments to Australian Accounting Standards" - Effective for annual reporting periods beginning 1 July 2009
- AASB 1 'First-time Adoption of Australian Accounting Standards' - Effective for annual reporting periods beginning 1 July 2009
- AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation' - Expected to be initially applied in the financial year ending 30 June 2010
- AASB Interpretation 17 'Distributions of Non-cash Assets to Owners', AASB 2008-13 'Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners' - Effective for annual reporting periods beginning 1 July 2009
- AASB Interpretation 18 'Transfers of Assets from Customers' - Effective for annual reporting periods beginning 1 July 2009

Notes to the Financial Statements

for the year ended 30 June 2009

Note 2. Business and geographical segment

Downer EDI's material business segments for the 2009 year are:

Mining: provides blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration. As part of a business restructure for the 2009 year, process engineering and Snowden are now managed by the Engineering group and as such are included in the Engineering Services segment. The 2008 comparatives have been restated accordingly;

Works: provides 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 and diesel multiple units, rail wagons, traction motors and rolling stock; and

Engineering Services: provides engineering and consultancy services, design, project management, facilities management, construct and maintain, specialising in telecommunications, power, process engineering, mine consulting including mine planning and optimisation management.

Unallocated comprises financing, corporate costs and revenue.

	Revenue ¹		Share of sales revenue in joint venture entities		Total revenue	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
By business segment						
Mining	1,022,790	946,192	54,069	71,541	1,076,859	1,017,733
Works	1,859,352	1,769,667	4,487	5,537	1,863,839	1,775,204
Rail	888,925	613,072	-	-	888,925	613,072
Engineering Services	2,116,132	2,101,866	15,022	37,856	2,131,154	2,139,722
Total	5,887,199	5,430,797	73,578	114,934	5,960,777	5,545,731
Eliminations	(27,462)	(45,553)	-	-	(27,462)	(45,553)
Unallocated	8,076	87,469	-	-	8,076	87,469
Total	5,867,813	5,472,713	73,578	114,934	5,941,391	5,587,647

¹ Revenue includes other income and inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods. Not separately disclosed as not considered material.

	Segment result	
	2009 \$'000	2008 \$'000
By business segment		
Mining	52,936	50,202
Works	113,543	110,012
Rail	60,765	45,904
Engineering Services	131,415	111,707
Total	358,659	317,825
Unallocated	(99,634)	(85,879)
Total profit before income tax	259,025	231,946
Income tax (expense)	(69,649)	(66,104)
Profit after tax for the year	189,376	165,842

Note 2. Business and geographical segment - *continued*

	Segment assets		Segment liabilities		Depreciation and amortisation	
	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
By business segment						
Mining	723,270	523,567	248,523	191,613	54,183	32,091
Works	1,046,340	1,132,657	407,110	537,062	53,226	46,698
Rail	615,021	450,539	273,253	275,875	7,108	7,586
Engineering Services	921,309	961,490	556,224	545,971	26,242	22,129
Total	3,305,940	3,068,253	1,485,110	1,550,521	140,759	108,504
Unallocated	77,149	115,023	567,591	436,391	1,009	9,059
Total	3,383,089	3,183,276	2,052,701	1,986,912	141,768	117,563

	Carrying value of equity accounted investments		Share of net profit of equity accounted investments		Acquisition of segment assets	
	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
By business segment						
Mining	-	-	7,773	10,290	207,742	139,689
Works	3,881	3,101	983	1,360	104,591	112,449
Rail	-	-	-	-	31,096	17,849
Engineering Services	4,556	4,045	1,398	(187)	53,754	33,642
Total	8,437	7,146	10,154	11,463	397,183	303,629
Unallocated	-	-	-	12,144	1,164	5,077
Total	8,437	7,146	10,154	23,607	398,347	308,706

The economic entity operated in five principal geographical areas - Australia, Pacific (including New Zealand, Papua New Guinea and Fiji), South East Asia (Singapore, Malaysia, Thailand, Vietnam, Indonesia and the Philippines), North East Asia (Hong Kong and China) and Other (United Kingdom, Canada and Brazil).

	Revenue ¹		Segment assets		Acquisition of segment assets	
	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
By geographic location						
Australia	4,381,913	4,031,298	2,585,009	2,423,230	333,784	251,086
Pacific	981,300	966,135	466,139	450,257	52,090	48,953
South East Asia	321,500	322,661	198,941	191,844	4,200	5,779
North East Asia	44,700	21,162	37,100	40,933	1,200	-
Other	138,400	131,457	95,900	77,012	7,073	2,888
Total	5,867,813	5,472,713	3,383,089	3,183,276	398,347	308,706

¹ Revenue includes other income and inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods. Not separately disclosed as not considered material.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 3. Profit from ordinary activities - continuing operations

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
a) Revenues				
Sales revenue				
Rendering of services	4,917,672	4,467,367	25,265	24,272
Construction contracts	855,853	831,947	-	-
Sale of goods	61,143	135,214	-	-
Interest revenue				
Other loans and receivables	18,156	16,838	42	264
Other revenue				
Other revenue	5,814	9,127	3,528	990
Rental income	1,382	931	-	-
Dividends				
Subsidiaries	-	-	152,775	73,000
Other entities	1,390	1,106	-	-
	5,861,410	5,462,530	181,610	98,526
Other income				
Net income on disposal of property, plant and equipment	1,480	10,049	-	-
Net gain on disposal of assets held for sale	777	134	-	-
Net foreign exchange gains	4,146	-	-	-
Total other income	6,403	10,183	-	-
Revenue and other income	5,867,813	5,472,713	181,610	98,526
Sales revenue from joint venture entities	73,578	114,934	-	-
Total Revenue	5,941,391	5,587,647	181,610	98,526

Note 3. Profit from ordinary activities - continuing operations - *continued*

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
b) Operating expenses				
Cost of goods sold	51,167	103,110	-	-
Finance costs on liabilities carried at amortised cost:				
Interest expense	62,269	64,837	250	729
Other finance costs	1,088	1,311	-	-
Finance lease expense	1,661	1,172	-	-
	65,018	67,320	250	729
Net foreign exchange losses	-	4,527	-	-
Net loss on revaluation of financial assets at fair value through profit or loss	-	5,295	-	-
Depreciation and amortisation of non-current assets:				
Plant and equipment (Note 15)	130,471	110,539	-	-
Buildings (Note 15)	3,446	3,279	-	-
Amortisation of leased assets (Note 15)	2,430	712	-	-
Amortisation of intellectual property (Note 16)	5,421	3,033	-	-
Total depreciation and amortisation	141,768	117,563	-	-
Doubtful debts	1,209	740	-	-
Operating lease expenses	157,461	149,733	-	-
Employee benefits expense:				
Defined contribution plans	124,539	81,746	1,009	1,080
Share based transactions	8,677	1,498	5,873	1,498
Other employee benefits	1,897,068	1,725,969	24,100	15,269
Total employee benefits expense	2,030,284	1,809,213	30,982	17,847
(Gain) arising on derivatives in a designated fair value hedge accounting relationship	(2,993)	(3,624)	-	-
Loss arising on adjustment to hedged item in a designated fair value hedge accounting relationship	2,859	2,003	-	-
	(134)	(1,621)	-	-

Notes to the Financial Statements

for the year ended 30 June 2009

Note 4. Income tax

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
a) Income tax recognised in the income statement				
Tax expense comprises:				
Current tax expense/(benefit)	66,572	27,242	(10,055)	(2,512)
Deferred tax expense relating to the origination and reversal of temporary differences	3,077	38,862	4,111	570
Total tax expense/(benefit)	69,649	66,104	(5,944)	(1,942)
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:				
Profit before income tax	259,025	231,946	128,698	59,545
Income tax expense calculated at 30% of operating profit	77,708	69,584	38,609	17,864
Non-taxable gains	786	(2,278)	-	-
Exempt income	(143)	(737)	-	-
Non-deductible expenses	464	884	3	66
Dividends from within the tax group	-	-	(45,833)	(21,900)
Equity share of associates' and joint venture entities' profits	(257)	(277)	-	-
Effect of different rates of tax on overseas income/losses	(4,518)	351	-	-
Research and development	(2,883)	(1,216)	-	-
Changes in overseas income tax rates	242	(533)	-	-
Benefits arising from previously unrecognised temporary differences	-	144	-	-
Other items	1,325	(570)	(525)	(10)
	72,724	65,352	(7,746)	(3,980)
Under provision of income tax in previous year	(3,075)	752	1,802	2,038
Income tax expense/(benefit) attributable to profit	69,649	66,104	(5,944)	(1,942)

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	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
b) Income tax recognised directly in equity				
The following current and deferred amounts were charged directly to equity during the year:				
Current tax:				
Unvested executive incentive shares	11,121	-	11,121	-
Deferred tax:				
Revaluations of financial instruments treated as:				
Cash flow hedges	(38,489)	20,307	-	-
Share based costs	(7,416)	-	(7,416)	-
Total deferred tax charged to equity	(45,905)	20,307	(7,416)	-
Total charged directly to equity	(34,784)	20,307	3,705	-

Note 5. Auditors' remuneration

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Deloitte Touche Tohmatsu earned the following remuneration from Downer EDI during the year:				
Audit and review of financial reports	2,986,615	3,236,900	735,600	792,000
Taxation services	42,264	236,770	17,555	159,200
Consulting	-	30,000	-	30,000
Other assurance services	379,654	626,000	337,135	353,902
	3,408,533	4,129,670	1,090,290	1,335,102
Other auditors:				
Audit and review of financial reports	787,053	970,800	-	-
Taxation services	721,644	298,184	316,250	-
Other services	98,716	-	-	-
	1,607,413	1,268,984	316,250	-
Total auditors remuneration	5,015,946	5,398,654	1,406,540	1,335,102

Note 6. Earnings per share

	2009	2008
	Cents per share	Cents per share
Earnings per share (EPS) from continuing operations:		
Basic EPS	57.9	51.3
Basic EPS (including ROADS)	54.4	47.9
Diluted EPS	52.7	47.5

2009	Basic EPS	Basic EPS (including ROADS)	Diluted EPS
Profit attributable to members of the parent entity (\$'000)	189,376	189,376	189,376
Profit adjustment to reflect ROADS dividends paid (\$'000)	-	(11,331)	-
Profit attributable to members of the parent entity used in calculating EPS (\$'000)	189,376	178,045	189,376
Weighted average number of ordinary shares (WANOS) on issue (No. (000's))	327,066	327,066	327,066
WANOS adjustment to reflect potential dilution for ROADS (No. (000's))	-	-	31,951*
WANOS used in the calculation of EPS (No. (000's))	327,066	327,066	359,017
Earnings per share from continuing operations (cents per share)	57.9	54.4	52.7

* The WANOS adjustment is calculated based on the issued value of ROADS divided by the closing market price of the company's ordinary shares at 30 June 2009.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 6. Earnings per share - continued

2008	Basic EPS	Basic EPS (including ROADS)	Diluted EPS
Profit attributable to members of the parent entity (\$'000)	165,842	165,842	165,842
Profit adjustment to reflect ROADS dividends paid (\$'000)	-	(11,154)	-
Profit attributable to members of the parent entity used in calculating EPS (\$'000)	165,842	154,688	165,842
Weighted average number of ordinary shares (WANOS) on issue (No. (000's))	323,137	323,137	323,137
WANOS adjustment to reflect potential dilution for ROADS (No. (000's))	-	-	25,997*
WANOS used in the calculation of EPS (No. (000's))	323,137	323,137	349,134
Earnings per share from continuing operations (cents per share)	51.3	47.9	47.5

* The WANOS adjustment is calculated based on the issued value of ROADS divided by the closing market price of the company's ordinary shares at 30 June 2008.

Note 7. Dividends

	Final 2009	Final 2008	Interim 2009	Interim 2008
a) Ordinary shares				
Dividend per share (in Australian cents)	16.0	12.5	13.0	13.0
Franking percentage	unfranked	unfranked	unfranked	unfranked
Cost (in \$'000)	52,972	40,636	42,483	42,067
Payment date	02/10/2009	17/10/2008	14/04/2009	11/04/2008
Dividend record date	01/09/2009	04/09/2008	11/03/2009	07/03/2008

The final 2009 dividend has not been declared at the reporting date, therefore is not reflected in the financial statements.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

	Quarter 4 2009	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009	Total 2009
Dividend per ROADS (in Australian cents)	1.37	1.42	1.43	1.43	5.65
New Zealand imputation credit percentage per ROADS	100%	100%	100%	100%	100%
Cost (in \$A'000)	2,746	2,839	2,868	2,878	11,331
Payment date	15/06/2009	16/03/2009	15/12/2008	15/09/2008	
	Quarter 4 2008	Quarter 3 2008	Quarter 2 2008	Quarter 1 2008	Total 2008
Dividend per ROADS (in Australian cents)	1.30	1.42	1.45	1.41	5.58
New Zealand imputation credit percentage per ROADS	100%	100%	100%	100%	100%
Cost (in \$A'000)	2,601	2,845	2,895	2,813	11,154
Payment date	15/06/2008	15/03/2008	15/12/2007	15/09/2007	

Franking credits

Franking account balance

Company	
2009	2008
\$'000	\$'000
-	-

Note 8. Cash and cash equivalents

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash at bank and in hand	288,715	199,489	1	1
Short-term deposits	10,748	46,301	-	-
	299,463	245,790	1	1

Note 9. Inventories

	2009	2008	2009	2008
Current				
Raw materials - at cost	115,348	89,220	-	-
Work in progress - at cost	6,542	48,177	-	-
Finished goods - at cost	19,862	23,036	-	-
Components and spare parts - at cost	56,644	43,270	-	-
Components and spare parts - at net realisable value	-	340	-	-
	198,396	204,043	-	-

Note 10. Trade and other receivables

	2009	2008	2009	2008
Current				
Trade receivables	743,339	788,138	-	-
Allowance for doubtful debts (Note 10(b))	(8,198)	(6,989)	-	-
	735,141	781,149	-	-
Amounts due from customers under contracts (Note 30)	382,752	284,617	-	-
Other receivables - controlled entities	-	-	421,729	379,320
Other receivables	47,565	48,605	604	343
	1,165,458	1,114,371	422,333	379,663
Non-current				
Other receivables - controlled entities	-	-	632,592	584,271
Other receivables	14,949	-	-	-
	14,949	-	632,592	584,271
Total trade and other receivables	1,180,407	1,114,371	1,054,925	963,934

a) Of the total \$743,339 thousands (2008: \$788,138 thousands) of trade receivables, \$532,799 thousands (2008: \$594,315 thousands) are current with an average of 30 days. Management considers that there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Of the total receivables of \$743,339 thousands (2008: \$788,138 thousands),

- \$nil (2008: \$60,979 thousands) are renegotiated receivables and management has assessed that these are all recoverable and no impairment has been taken.
- \$202,342 thousands (2008: \$125,855 thousands) are past due but not impaired with an average of more than 58 days. These relate to a number of customers for whom there is no recent history of default and other indicators of impairment. Management considers that no provision is required on these balances. The consolidated entity does not hold any collateral over these balances.
- \$8,198 thousands (2008: \$6,989 thousands) are impaired and have been provided for. An allowance account has been made for estimated irrecoverable trade receivable amounts arising from the past rendering of services, determined by reference to past default experience

Notes to the Financial Statements

for the year ended 30 June 2009

Note 10. Trade and other receivables - *continued*

b) Movement in the allowance for doubtful debts

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balance at beginning of financial year	(6,989)	(6,249)	-	-
Additional provisions	(5,927)	(3,854)	-	-
Amounts used	1,493	592	-	-
Amounts reversed	3,094	2,157	-	-
Foreign currency exchange differences	131	365	-	-
Balance at end of financial year	(8,198)	(6,989)	-	-

The consolidated entity has used the following basis to assess the allowance loss for trade receivables:

- i) a specific provision based on historical bad debt experience;
- ii) the general economic conditions in specific geographical regions;
- iii) an individual account by account specific risk assessment based on past credit history; and
- iv) any prior knowledge of debtor insolvency or other credit risk

c) Receivables from controlled entities include amounts arising under the Group's tax funding arrangement. The inter-company loan receivable is repayable on demand and interest is charged on the outstanding balance at market rates. There are no indications as of the reporting date that the controlled entities will not meet their payment obligations.

Note 11. Other financial assets

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current				
Available-for-sale investments	2,891	7,237	-	-
Employee loans	-	700	-	700
Foreign currency forward contracts	1,405	2,159	-	-
Cross currency interest rate swaps	2,432	800	-	-
Fair value through profit and loss investments	3,197	3,228	-	-
Advances to joint venture entities	1,090	2,619	-	-
Other financial assets	1,139	793	505	1,088
	12,154	17,536	505	1,788
Non-current				
Shares in controlled entities	-	-	225,000	225,000
Available-for-sale investments	15,527	13,833	-	-
Foreign currency forward contracts	1,970	-	-	-
Cross currency interest rate swaps	3,703	-	-	-
Deferred consideration receivable	1,226	1,895	-	-
Other financial assets	20	31,156	-	-
	22,446	46,884	225,000	225,000
Total other financial assets	34,600	64,420	225,505	226,788

Investment in Reliance Rail

At 30 June 2008, other Financial Assets included \$31,132 thousand in respect of the equity accounted carrying value of the company's 49% investee, Reliance Rail. At 31 December 2008, this carrying value was reduced to zero as a result of the company's share of the investee's net assets becoming negative, largely as a result of the fair value movements in the investee's derivatives used to hedge future interest and CPI exposures. During the 6 months to 30 June 2009, the positive movement in the fair value of these derivatives has restored the investee to a positive net asset position such that the company's share of net assets amounts to \$59,033 thousands at 30 June 2009. However, given the volatility surrounding the valuation of this investment, the company has retained its \$nil carrying value at 30 June 2009.

The movement in Downer's investment is summarised below:

	Consolidated 2009 \$'000
Investment in Reliance Rail at 1 July 2008	31,132
Share of reserve movements	(31,132)
Share of profits for the period (Note 14)	59,033
Less: provision against investment	(59,033)
Investment in Reliance Rail at 30 June 2009	-

Notes to the Financial Statements

for the year ended 30 June 2009

Note 12. Tax assets

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current				
Current tax assets	13,920	7,100	13,831	-
Non-current				
a) Deferred tax assets	87,450	183,682	43,509	99,798
b) Movement in deferred tax assets for the financial year:				
Balance at beginning of the financial year	277,414	287,249	99,832	34,163
Charged to income statement as				
deferred income tax (expense) (Note 12(d))	(11,369)	(25,888)	(6,155)	(550)
Charged to equity	(40,852)	23,712	-	-
Acquisitions of businesses	427	103	-	-
Net foreign currency exchange differences	119	(3,343)	-	-
Transfers/utilisation of losses	(44,717)	1,014	(44,763)	53,809
Disposal of entities and operations	(74)	(3,781)	-	-
Other	(328)	(1,652)	-	12,410
Balance at end of the financial year (gross) (Note 12(c))	180,620	277,414	48,914	99,832
Set-off of deferred tax assets				
within the same tax jurisdiction (Note 21(b))	(93,170)	(93,732)	(5,405)	(34)
Net deferred tax assets	87,450	183,682	43,509	99,798
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	24,605	16,363	-	-
Inventories	4,678	14,796	-	-
Property, plant and equipment	7,803	4,654	-	-
Equity accounted investments	617	-	-	-
Trade and other payables	23,421	24,951	455	2,253
Provisions	52,810	92,794	3,337	3,831
Borrowings	892	501	-	-
Income tax losses	59,296	99,729	44,330	92,736
Hedges and foreign exchange movements	4,603	22,466	-	151
Other	1,895	1,160	792	861
Total deferred tax assets (gross)	180,620	277,414	48,914	99,832

Note 12. Tax assets - *continued*

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
d) Amounts charged to income statement as deferred income tax (expense)/benefit:				
Trade and other receivables	(2,422)	4,433	-	-
Inventories	1,170	(2,734)	-	-
Property, plant and equipment	9,380	3,578	-	-
Equity accounted investments	282	-	-	-
Trade and other payables	(3,383)	(9,605)	(2,188)	899
Provisions	(20,621)	207	(65)	1,446
Borrowings	724	(128)	-	-
Income tax losses	7,102	(2,113)	-	-
Hedges and foreign exchange movements	12,289	4,029	(151)	103
Other	(136)	(2,152)	(468)	(765)
Deferred tax assets in relation to prior periods	(15,754)	(21,403)	(3,283)	(2,233)
Charged to income statement as deferred income tax (expense)	(11,369)	(25,888)	(6,155)	(550)

Note 13. Other assets

Current				
Prepayments	20,842	27,189	729	111
Other deposits	4,119	4,977	9	-
Other current assets	7,349	8,661	2	1
	32,310	40,827	740	112
Non-current				
Prepayments	6,245	7,026	-	-
	6,245	7,026	-	-
Total other assets	38,555	47,853	740	112

Notes to the Financial Statements

for the year ended 30 June 2009

Note 14. Equity-accounted investments

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Equity-accounted investments (Note 14(b))	8,437	7,146	-	-

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

Name of entity	Principal activity	Country	Ownership interest	
			2009	2008
			%	%
Airfield Works Joint Venture	Airfield works	Hong Kong	49	49
BPL Downer Joint Venture	Building construction	Singapore	50	50
CHDE Joint Venture	Pumping station refurbishment	Australia	50	50
Clough Downer Joint Venture	Construction of port facilities	Australia	50	50
Cortex Downer Joint Venture	Shared conveyers and shiploader	Australia	50	50
Downer CSS Joint Venture	Telecommunications	Thailand	60	60
Downer Zublin Joint Venture	Tsing Yi Tunnel / East Lantau Tunnel	Hong Kong	50	50
Leighton Works	Road construction	New Zealand	50	50
Lantau Expressway Joint Venture	North Lantau expressway	Hong Kong	27	27
Playford Power Station Joint Venture	Refurbishment of power station	Australia	50	50
Project Westernport	Construction of bitumen storage facility	Australia	50	50
Roche Thiess Linfox Joint Venture	Contract mining; civil works and plant hire	Australia	44	44
St Ives Gold Project Joint Venture	Design and construction of mining treatment plant	Australia	50	50
Tenix Downer Joint Venture	Power transmission and distribution	Australia	50	-

Note 14. Equity-accounted investments - *continued*

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

Name of entity	Principal activity	Country	Ownership interest	
			2009 %	2008 %
Joint ventures:				
Alex Fraser Asphalt Production	Asphalt production and sales	Australia	50	50
Allied Asphalt Limited	Asphalt plant	New Zealand	50	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	50	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale & maintenance of railway rolling stock	Australia	50	50
Emulco	Emulsion plant	New Zealand	50	-
John Holland EDI Joint Venture	Research reactor	Australia	40	40
MPE Facilities Management Sdn Bhd	Facilities management consultancy service	Malaysia	50	50
Pavement Salvage (SA) Pty Ltd	Pavement repair	Australia	50	50
PT QDC Technologies	Telecommunications	Indonesia	50	50
Roche Thiess Linfox Joint Venture	Contract mining; civil works and plant hire	Australia	44	44
SIP Jiacheng Property Development Co Ltd	Property development	China	50	50
Western Lee Joint Venture	Maintenance-Alcoa	Australia	50	50
Associates:				
Aromatrix Pte Ltd	Environmental engineering and consultancy services	Singapore	33	33
Clyde Babcock Hitachi (Aust) P/L	Design, construction and maintenance of boilers	Australia	27	27
CPG-KCPT Pte Ltd	Security design consultancy services	Singapore	30	30
Reliance Rail Pty Ltd	Rail manufacturing and maintenance	Australia	49	49

Notes to the Financial Statements

for the year ended 30 June 2009

Note 14. Equity-accounted investments - *continued*

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Equity accounted investments				
Equity accounted amount of investment at the beginning of the financial year	7,146	7,899	-	-
Share of net profit	10,154	23,607	-	-
Share of distributions	(9,895)	(11,288)	-	-
Effect of foreign currency translation movement	-	(470)	-	-
Share of movement in reserves of associates	-	(12,602)	-	-
Additional interest in joint venture entities	961	-	-	-
Foreign currency exchange differences	71	-	-	-
Equity accounted investment at the end of the financial year	8,437	7,146	-	-
Share of net profit of joint venture entities and associates				
Revenue	73,578	114,934	-	-
Expenses	(63,167)	(91,050)	-	-
Profit before income tax	10,411	23,884	-	-
Income tax expense	(257)	(277)	-	-
Net profit after tax for the year	10,154	23,607	-	-
Summarised financial information of the consolidated entity's share of the above joint venture entities and associates:				
Current assets	20,015	37,589	-	-
Non-current assets	38,433	19,479	-	-
Total assets	58,448	57,068	-	-
Current liabilities	34,885	32,440	-	-
Non-current liabilities	10,042	14,590	-	-
Total liabilities	44,927	47,030	-	-
Net assets	13,521	10,038	-	-

Investments in associates

Downer EDI's 49% investment in Reliance Rail is recorded at a \$nil carrying value at 30 June 2009 (2008: \$31,132 thousand as per Note 11 - Other financial assets). The share of profits recognised amounted to \$59,033 thousand (2008: \$12,144 thousand) with a corresponding provision against the investment of \$59,033 thousand (2008: \$nil). Further information relating to the movement in the investment is disclosed in Note 11.

c) 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 29.

Note 15. Property, plant and equipment

	Consolidated				Total \$'000
	Freehold Land \$'000	Buildings \$'000	Plant and Equipment \$'000	Equipment under Finance Lease \$'000	
2009					
At 1 July 2008					
Cost	22,135	63,014	1,179,754	13,099	1,278,002
Accumulated depreciation	-	(14,395)	(599,115)	(2,304)	(615,814)
Net book value	22,135	48,619	580,639	10,795	662,188
Year ended 30 June 2009					
Additions	249	3,613	286,776	49,875	340,513
Disposals at net book value	(69)	(398)	(42,663)	-	(43,130)
Acquisition of businesses (note 25)	1,093	1,290	20,083	253	22,719
Disposals of business at net book value	-	-	(34)	-	(34)
Depreciation expense	-	(3,446)	(130,471)	(2,430)	(136,347)
Reclassifications at net book value	2,678	(2,249)	5,707	(6,136)	-
Net foreign currency exchange differences at net book value	84	110	151	50	395
Closing net book value	26,170	47,539	720,188	52,407	846,304
At 30 June 2009					
Cost	26,170	65,246	1,383,265	55,708	1,530,389
Accumulated depreciation	-	(17,707)	(663,077)	(3,301)	(684,085)
Closing net book value	26,170	47,539	720,188	52,407	846,304

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 3.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 15. Property, plant and equipment - *continued*

	Consolidated				Total
	Freehold Land	Buildings	Plant and Equipment	Equipment under Finance Lease	
2008	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2007					
Cost	28,300	53,673	1,335,167	14,213	1,431,353
Accumulated depreciation	-	(10,625)	(663,327)	(3,247)	(677,199)
Net book value	28,300	43,048	671,840	10,966	754,154
Year ended 30 June 2008					
Additions	2,977	15,049	240,344	1,599	259,969
Disposals at net book value	(7,119)	(3,296)	(58,078)	(1,017)	(69,510)
Acquisition of businesses	-	289	9,563	-	9,852
Disposals of business at net book value	(178)	(562)	(151,779)	-	(152,519)
Depreciation expense	-	(3,279)	(110,539)	(712)	(114,530)
Net foreign currency exchange differences at net book value	(1,845)	(2,630)	(20,324)	(41)	(24,840)
Assets held for sale	-	-	(388)	-	(388)
Closing net book value	22,135	48,619	580,639	10,795	662,188
At 30 June 2008					
Cost	22,135	63,014	1,179,754	13,099	1,278,002
Accumulated depreciation	-	(14,395)	(599,115)	(2,304)	(615,814)
Closing net book value	22,135	48,619	580,639	10,795	662,188

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 3.

Note 16. Intangible assets

	Consolidated		
	Goodwill \$'000	Intellectual Property / software \$'000	Total \$'000
2009			
At 1 July 2008			
Cost	573,800	15,677	589,477
Accumulated amortisation	-	(10,752)	(10,752)
Net book value	573,800	4,925	578,725
Year ended 30 June 2009			
Purchases	-	1,824	1,824
Acquisition of businesses (Note 25)	31,221	722	31,943
Reclassifications at net book value	(1,193)	1,193	-
Amortisation expense	-	(5,421)	(5,421)
Net foreign currency exchange differences at net book value	584	2,315	2,899
Closing net book value	604,412	5,558	609,970
At 30 June 2009			
Cost	604,412	24,514	628,926
Accumulated amortisation	-	(18,956)	(18,956)
Closing net book value	604,412	5,558	609,970
2008			
At 1 July 2007			
Cost	561,841	22,046	583,887
Accumulated amortisation	-	(14,336)	(14,336)
Net book value	561,841	7,710	569,551
Year ended 30 June 2008			
Purchases	(5)	248	243
Acquisition of businesses	26,517	-	26,517
Disposal of business at net book value	(1,667)	-	(1,667)
Classified as held for sale	(2,426)	-	(2,426)
Amortisation expense	-	(3,033)	(3,033)
Net foreign currency exchange differences at net book value	(10,460)	-	(10,460)
Closing net book value	573,800	4,925	578,725
At 30 June 2008			
Cost	573,800	15,677	589,477
Accumulated amortisation	-	(10,752)	(10,752)
Closing net book value	573,800	4,925	578,725

Amortisation allocated during the year is recognised as an expense and disclosed in Note 3.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 16. Intangible assets - *continued*

Allocation of goodwill to cash-generating units

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

	2009	2008
	\$'000	\$'000
Works	232,160	219,046
Mining	73,368	83,813
Rail	69,458	69,458
Consulting	90,658	73,987
Engineering	138,768	127,496
	604,412	573,800

Recoverable amount testing

The recoverable amount of the goodwill relating to the above cash-generating units has been assessed based on value in use calculations. The calculations of value in use are based on cash projections derived from forecasts and financial budgets approved by management that incorporate best estimates of contract revenue, costs and margins. For projections outside of the budget period estimates are derived from market information including general economic forecasts and industry segment forecasts.

Key assumptions

This year cash flows beyond the budget period have been extrapolated using estimated growth rates of between 0% and 8% (2008: 4%). The assumed growth rates do not exceed the expected long-term average growth rate for each of the markets in which the CGU's operate.

Discount rates of between 10.8% and 12.1% (2008: 11.8%) were applied to calculate the value in the use of each CGU. The company completed an analysis of the cost of capital and compared this with industry specific information to determine the discount factor for the entity. Following the determination of the entity discount factor, the company then derived a discount factor for each CGU. The discount rate derived for each CGU was determined after due consideration was given to the risk profile of each business unit.

In all base case calculations the analyses performed have determined that no impairment of any of the CGU's goodwill is required as at 30 June 2009.

Sensitivities

A range of discount factors and growth rates has been used to calculate sensitivities for each CGU to ensure the value in use exceeds the CGU carrying value under a broad range of economic assumptions. Where the economic assumptions indicate limited coverage, additional testing was completed to ensure that the CGU recoverable value was sufficient in any reasonably possible scenario.

The type of additional valuation sensitivities which have been completed include changes in assumptions for gross margins, operating costs, growth rates, discount rates and capital requirements.

Note 17. Trade and other payables

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current				
Trade payables	568,967	657,826	14,755	21,839
Amounts due to customers under contracts (Note 30)	263,189	230,680	-	-
Goods and services tax payable	37,327	24,186	681	163
Other	76,541	80,786	-	-
	946,024	993,478	15,436	22,002
Non-current				
Non-trade payables to controlled entities	-	-	350,717	359,294
Other	2,192	918	-	-
	2,192	918	350,717	359,294
Total trade and other payables	948,216	994,396	366,153	381,296

Notes to the Financial Statements

for the year ended 30 June 2009

Note 18. Borrowings

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current				
Secured:				
Finance lease liabilities (Note 28(c))	8,006	1,850	-	-
Hire purchase liabilities (Note 28(d))	1,576	1,512	-	-
	9,582	3,362	-	-
Unsecured:				
Bank loans	14,819	100,465	-	-
Bank overdraft (Note 27(a))	7,240	5,957	168	2
AUD medium term notes (Series I)	81,256	-	-	-
AUD medium term notes (Series II)	6,641	-	-	-
USD notes	97,792	36,326	-	-
Deferred finance charges	(1,491)	(842)	-	-
	206,257	141,906	168	2
Total current borrowings	215,839	145,268	168	2
Non-current				
Secured:				
Finance lease liabilities (Note 28(c))	45,914	5,412	-	-
Hire purchase liabilities (Note 28(d))	3,894	821	-	-
Bank Loans	10,000	-	-	-
	59,808	6,233	-	-
Unsecured:				
Bank loans	317,644	174,001	-	-
USD notes	97,912	164,635	-	-
AUD medium term notes (Series I)	-	78,264	-	-
AUD medium term notes (Series II)	106,309	-	-	-
Deferred finance charges	(3,015)	(1,536)	-	-
	518,850	415,364	-	-
Total non-current borrowings	578,658	421,597	-	-
Total borrowings	794,497	566,865	168	2

Note 18. Borrowings - *continued*

Financing facilities

At 30 June 2009, the consolidated entity had the following facilities that were not utilised at balance date:

	2009	2008
	\$'000	\$'000
Syndicated bank loan facilities	200,393	290,848
Bilateral bank loan facilities	257,695	155,143
Total unutilised loan facilities	458,088	445,991
Syndicated bank bonding facility	26,874	40,360
Bilateral bank and insurance company bonding facilities	192,716	118,117
Total unutilised bonding facilities	219,590	158,477
Total facilities that were not utilised at balance date	677,678	604,468

Syndicated loan facilities

Syndicated bank loans while unsecured, are subject to certain Group guarantee arrangements, incur interest at floating rates and have varying maturity dates, from June 2011 to May 2012.

Bilateral bank loans and overdrafts

Bilateral bank loans and overdrafts while unsecured, are subject to certain Group guarantee arrangements, incur interest at floating rates and have varying maturity dates of up to two years.

USD notes

USD unsecured notes are on issue for a total amount of USD156.5 million and are subject to certain Group guarantee arrangements. These notes mature in various tranches in 2009, 2011, 2014 and 2019. The USD principal and interest have been fully hedged to Australian or New Zealand dollars, as applicable. Interest is payable to note holders on a semi annual fixed rate basis. The fair value of the USD notes is disclosed in Note 37.

AUD medium term notes ('MTN') - Series I

During 2006 and 2007 unsecured MTN's were issued for a total amount of \$80 million. The MTN's are subject to certain Group guarantee arrangements. Interest is payable on a semi annual fixed rate basis. The notes mature in December 2009.

AUD medium term notes ('MTN') - Series II

During 2009 unsecured MTN's were issued for a total amount of \$113 million. The MTN's are subject to certain Group guarantee arrangements. The note issue amortises through even semi annual instalments, until the final maturity date in 2018. Interest is payable on a semi annual floating rate basis.

Hire purchase and lease facilities

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

Notes to the Financial Statements

for the year ended 30 June 2009

Note 19. Other financial liabilities

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current				
Foreign currency forward contracts	26,205	12,516	-	-
Cross currency interest rate swaps	4,841	30,526	-	-
Advances from joint venture entities	1,000	1,440	-	-
	32,046	44,482	-	-
Non-current				
Foreign currency forward contracts	8,568	35,753	-	-
Cross currency interest rate swaps	12,568	39,687	-	-
Advances from joint venture entities	15,676	18,049	-	-
	36,812	93,489	-	-
Total other financial liabilities	68,858	137,971	-	-

Note 20. Provisions

	Consolidated				
	Employee benefits \$'000	Decommissioning \$'000	Contract claims / warranties \$'000	Other \$'000	Total \$'000
At 1 July 2008					
Current	156,309	15,472	52,654	1,368	225,803
Non-current	15,649	12,145	996	3,218	32,008
Total	171,958	27,617	53,650	4,586	257,811
At 1 July 2008	171,958	27,617	53,650	4,586	257,811
Additional provisions recognised	167,305	11,956	2,977	1,344	183,582
Unused provision reversed	(6,133)	(8,839)	(12,410)	(1,164)	(28,546)
Utilisation of provision	(178,668)	(14,814)	(13,206)	(196)	(206,884)
Acquisition of businesses	3,953	-	-	2,636	6,589
Disposal of businesses	(234)	-	-	-	(234)
Net foreign currency exchange difference	524	(66)	236	(258)	436
At 30 June 2009	158,705	15,854	31,247	6,948	212,754
Current	139,990	8,798	29,834	6,948	185,570
Non-current	18,715	7,056	1,413	-	27,184
Total	158,705	15,854	31,247	6,948	212,754

	Consolidated				
	Employee benefits \$'000	Decommissioning \$'000	Contract claims / warranties \$'000	Other \$'000	Total \$'000
At 1 July 2008					
Current	414	-	-	-	414
Non-current	74	-	-	-	74
Total	488	-	-	-	488
At 1 July 2008	488	-	-	-	488
Additional provisions recognised	1,615	-	-	-	1,615
Utilisation of provision	(1,162)	-	-	-	(1,162)
At 30 June 2009	941	-	-	-	941
Current	885	-	-	-	885
Non-current	56	-	-	-	56
Total	941	-	-	-	941

Notes to the Financial Statements

for the year ended 30 June 2009

Note 21. Tax liabilities

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current				
Current tax overseas entities	10,205	10,442	-	-
Non-current				
a) Deferred tax liability	18,171	19,427	-	-
b) Movement in deferred tax liability for the financial year:				
Balance at beginning of the financial year	113,159	111,210	34	14
Charged to income statement as deferred income expense/(benefit) (Note 21(d))	(8,292)	12,974	(2,044)	20
Charged to equity	5,053	3,405	7,416	-
Acquisition of businesses	568	-	-	-
Net foreign currency exchange differences	(473)	(3,137)	-	-
Disposal of entities and operations	(74)	(8,879)	-	-
Other	1,400	(2,414)	(1)	-
Balance at end of the financial year (gross) (Note 21(c))	111,341	113,159	5,405	34
Set-off of deferred tax liabilities within the same tax jurisdiction (Note 12(b))	(93,170)	(93,732)	(5,405)	(34)
Net deferred tax liability	18,171	19,427	-	-
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 & equipment	2,337	7,508	(5)	(10)
Inventories	2,512	6,363	-	-
Intangible assets	83	(361)	-	-
Trade and other receivables	64,610	71,247	36	26
Other current assets	6,906	1,498	-	-
Trade and other payables	9,328	1,212	-	9
Provisions	2,901	(464)	-	-
Borrowings	121	41	-	-
Non-current assets held for sale	-	4,535	-	-
Hedges and foreign exchange movements	17,136	21,580	9	-
Other	5,407	-	5,365	9
Total deferred tax liabilities (gross)	111,341	113,159	5,405	34

Note 21. Tax liabilities - *continued*

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
d) Amounts charged to income statement as deferred income tax expense/(benefit):				
Property, plant and equipment	(353)	9,043	-	-
Inventories	(4,917)	2,251	-	-
Intangible assets	(120)	(1,260)	-	-
Trade and other receivables	5,050	(15,281)	11	11
Other assets	2,852	(1,381)	(1,730)	-
Trade and other payables	5,588	449	-	-
Borrowings	117	(438)	-	-
Provisions	3,485	(622)	-	-
Non-current assets held for sale	-	(9,329)	-	-
Hedges and foreign exchange movements	(3,439)	14,335	-	-
Deferred tax liabilities in relation to prior periods	(16,555)	15,207	(325)	9
Charged to income statement as deferred income tax (benefit)/expense	(8,292)	12,974	(2,044)	20

Notes to the Financial Statements

for the year ended 30 June 2009

Note 22. Issued capital

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Ordinary Shares				
331,077,655 ordinary shares (2008: 325,084,433)	937,259	911,747	937,259	911,747
Unvested Executive Incentive Shares				
7,725,588 ordinary shares (2008: 1,600,000)	(37,071)	(9,791)	(37,071)	(9,791)
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (2008: 200,000,000)	178,603	178,603	-	-
	1,078,791	1,080,559	900,188	901,956

Fully paid ordinary share capital

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

	Consolidated		and		Company	
	2009 000's	\$'000	2008 000's	\$'000	2008 000's	\$'000
Fully paid ordinary share capital						
Balance at beginning of financial year	325,084	911,747	321,004	886,714		
Issue of shares through dividend reinvestment plan elections	5,160	22,370	3,983	24,397		
Issue of shares on acquisition of businesses (Note 25)	-	-	97	647		
Issue of shares under terms of Employee Share Plan ¹	833	3,142	-	-		
Payment of share issue costs	-	-	-	(11)		
Balance at end of financial year	331,077	937,259	325,084	911,747		

¹ Under the terms of the offer a \$1,000 discount was provided in recognition of each employees contribution to the company's performance. Under A-IFRS, the value of the discount is recognised as an expense with a corresponding increase in share capital of \$3,142,295.

Note 22. Issued capital - *continued*

	Consolidated		and		Company	
	2009				2008	
	000's	\$'000			000's	\$'000
Unvested executive incentive shares						
Balance at beginning of financial year	1,600	(9,791)			-	-
Unvested executive incentive shares transactions	6,126	(27,280)			1,600	(9,791)
Balance at end of financial year	7,726	(37,071)			1,600	(9,791)

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust under the Long Term Incentive Plan. Dividends from the unvested executive incentive shares accrue to the benefit of executives from the time they are purchased up until when vesting occurs or until the shares are forfeited.

	Consolidated			
	2009		2008	
	000's	\$'000	000's	\$'000
Redeemable optionally adjustable distributing securities				
Balance at beginning of financial year	200,000	178,603	200,000	178,603
ROADS issued during the year	-	-	-	-
Balance at end of financial year	200,000	178,603	200,000	178,603

ROADS are perpetual, redeemable, exchangeable preference shares.

During the year ended 30 June 2007, Works Infrastructure Finance (NZ) Limited (a wholly-owned subsidiary of Downer EDI Limited) issued 200 million ROADS, each having a face value of NZ\$1 for a total of NZ\$200 million.

Each ROADS entitles holders to a non-cumulative fully imputed dividend which is in preference to any dividends paid on ordinary shares. ROADS rank in priority to ordinary shares for payment of dividends and for a return of capital on winding up.

The ROADS dividend may be increased or decreased on Reset Dates, the first of which occurs on 15 June 2012. On that date the ROADS will be either reset for a further period or at the election of the issuer will be either redeemed or exchanged into ordinary shares of Downer EDI at a 2.5% discount to the weighted average sale price of ordinary shares traded on the ASX during the 20 business days immediately preceding the date of exchange.

The non-cumulative dividend is paid quarterly on the ROADS. Payment of dividends is at the discretion of directors and is subject to the directors declaring or otherwise resolving to pay a dividend and there being no impediment under the Corporations Act 2001 to the payment.

Share options and performance rights

During the financial year no performance rights (2008: nil) or performance options (2008: nil) were granted to senior executives of the Downer EDI group under the long term incentive plan. Further details of the key management personnel long term incentive plan are contained in remuneration report.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 23. Reserves

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Reserves comprise:				
Foreign currency translation	(36,129)	(52,462)	-	-
Hedging	(61,902)	(76,841)	-	-
Employee benefits	15,960	3,314	15,960	3,314
Available for sale investment	(3,053)	-	-	-
Total reserves	(85,124)	(125,989)	15,960	3,314
Movement in reserves				
Foreign currency translation reserve:				
Balance at beginning of financial year	(52,462)	(21,127)	-	-
Translation of foreign operations	16,333	(31,335)	-	-
Balance at end of financial year	(36,129)	(52,462)	-	-
Hedging reserve:				
Balance at beginning of financial year	(76,841)	(30,960)	-	-
Revaluation during the year	14,939	(46,603)	-	-
Transferred to assets during the year	-	722	-	-
Balance at end of financial year	(61,902)	(76,841)	-	-
Employee benefits reserve:				
Balance at beginning of financial year	3,314	1,816	3,314	1,816
Share based transactions	12,646	1,498	12,646	1,498
Balance at end of financial year	15,960	3,314	15,960	3,314
Available for sale investment reserve:				
Balance at beginning of financial year	-	-	-	-
Revaluation during the year	(3,053)	-	-	-
Balance at end of financial year	(3,053)	-	-	-

Note 24. Retained earnings

Balance at beginning of financial year	241,794	154,861	3,577	9,845
Net profit	189,376	165,842	134,642	61,487
Dividends paid	(94,449)	(78,909)	(83,118)	(67,755)
Balance at end of financial year	336,721	241,794	55,101	3,577

Note 25. Acquisition of businesses

a) Summary of acquisitions

2009

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition \$'000
Controlled entities:				
AC Consulting Ltd	Engineering consulting	1 July 2008	100	1,812
Advanced Separation Engineering	Mineral separation technology	10 July 2008	100	317
HRS Ltd	Rail maintenance	17 July 2008	100	4,610
Lowan Management Pty Ltd	Acquisition of patents	26 February 2009	100	13

Businesses:

APMS	Asphalt manufacturing	1 December 2008		8,645
Excell Corporation	Open space management	30 September 2008		21,958
Corke Instrumentation Engineering	Instrumentation	1 May 2009		9,531
Downer Universal Communication Group	Telephony maintenance	30 January 2009		665

2008

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition \$'000
Controlled entities:				
John Piper Traffic Pty Ltd	Traffic consultants	1 July 2007	100	2,850
DJC & Associates	Trainers	31 March 2008	52	130
Apex Consultants Limited	Consultant engineering	31 March 2008	100	4,764
Sachs Infrastructure	Rail infrastructure	27 June 2008	100	2,319

Businesses:

Bruce Wallace	Consultant engineering	27 August 2007		1,228
Highway Systems	Road marking	1 November 2007		4,182
Pavement Treatments Limited	Road surface rejuvenation	1 November 2007		2,875
CSL Traffic	Traffic light management	29 February 2008		7,098
Douglas Gow and Associates	Specialising in surveying	1 April 2008		1,465
Cable Talk	Telephony maintenance	23 May 2008		3,078

Notes to the Financial Statements

for the year ended 30 June 2009

Note 25. Acquisition of businesses - *continued*

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Purchase consideration				
Cash paid	49,422	30,671	-	-
Ordinary shares (Note 22)	-	647	-	-
Purchase price adjustment	(1,711)	-	-	-
Deferred purchase consideration	-	2,404	-	-
Total purchase consideration	47,711	33,722	-	-
Fair value of net identifiable assets acquired (Note 25(c))	16,490	7,205	-	-
Goodwill (Note 16)	31,221	26,517	-	-

The acquisitions for the year have been provisionally accounted for at 30 June 2009. 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 and market positioning in expanding markets.

b) Purchase consideration

Outflow of cash to acquire businesses, net of cash acquired

Cash consideration	49,422	30,671	-	-
Net cash and cash equivalents acquired (Note 25(c))	(279)	(238)	-	-
Cash paid – deferred post acquisition settlement	2,433	250	-	-
Outflow of cash	51,576	30,683	-	-

Note 25. Acquisition of businesses - *continued*

c) Assets and liabilities acquired

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

	Book Value \$'000	Fair Value \$'000
Current assets		
Cash and cash equivalents	279	279
Inventories	1,499	1,499
Trade and other receivables	12,956	12,956
Other financial assets	146	146
Total	14,880	14,880
Non-current assets		
Property, plant and equipment	22,719	22,719
Intangibles	722	722
Other financial assets	191	191
Deferred tax assets	427	427
Total	24,059	24,059
Current liabilities		
Trade and other payables	14,434	14,434
Borrowings	89	89
Provisions	6,258	6,258
Current tax payables	62	62
Total	20,843	20,843
Non-current liabilities		
Borrowings	105	105
Provisions	331	331
Financial liabilities	602	602
Deferred tax liabilities	568	568
Total	1,606	1,606
Net identifiable assets acquired	16,490	16,490

Note 26. Disposal of business

On 27 October 2007, Downer EDI Limited entered into a sale agreement with MB Holding Company LLC (MB Holding) to divest 51% of its Century Resources business, the company's oil, gas and geothermal drilling division. The sale of 51% of the business was completed on 31 December 2007 and the results were consolidated until that date.

The sale agreement grants an option to MB Holding to purchase the remaining 49% of the shares at any time prior to 1 July 2010. In the event MB Holding call option is not exercised, Downer EDI Limited is able to exercise a put option at any time only between 1 July 2010 and 30 September 2010. The remaining 49% of the business has been classified as held for sale.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 27. Cash flow statement - additional information

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
a) Reconciliation of cash and cash equivalents				
For the purpose of the cash flow statement, cash comprises:				
Cash	288,715	199,489	1	1
Short term deposits	10,748	46,301	-	-
	299,463	245,790	1	1
Bank overdrafts (Note 18)	(7,240)	(5,957)	(168)	(2)
	292,223	239,833	(167)	(1)

b) Non-cash financing and investing activities

During the current financial year \$25,512,000 (2008: \$25,044,000) in equity was issued in respect of:

- i) Dividend reinvestment plan elections \$22,370,000 (2008: \$24,397,000)
- ii) Issue of shares on acquisition of businesses \$nil (2008: \$647,000)
- iii) Issue of shares under the terms of Employee Share Plan \$3,142,000 (2008: \$nil)

During the financial year the group acquired \$49,730,000 of equipment under finance leases. This acquisition will be reflected in the cash flow statements over the term of the finance lease via lease repayments.

Note 27. Cash flow statement - additional information - *continued*

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
c) Reconciliation of profit after tax to net cash flows from operating activities				
Profit after tax for the year	189,376	165,842	134,642	61,487
Adjustments for:				
Share of joint ventures and associates profits net of distributions	(259)	(12,319)	-	-
Depreciation and amortisation of non-current assets	141,768	117,563	-	-
Amortisation of deferred costs	1,088	1,311	-	-
Profit on sale of other non-current assets	(1,480)	(10,049)	-	-
Profit on disposal of businesses and investments	(777)	(134)	-	-
Gain on revaluation of financial assets	-	5,295	-	-
Foreign exchange (gain)/ loss	(4,146)	4,527	-	-
(Decrease)/increase in income tax payable	(6,635)	(10,828)	(2,381)	1,942
Movement in deferred tax balances	94,995	18,209	(2,662)	(10,295)
Equity settled share-based transactions	8,677	1,498	5,873	1,498
Payment for unvested executive incentive shares	(27,280)	(9,791)	(27,280)	(9,791)
Settlement of operational foreign exchange contracts	38,827	(27,513)	-	-
Other	1,880	249	(2,023)	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current trade and other receivables	(8,250)	(51,349)	(24,981)	(22,934)
Current inventories	7,992	(35,892)	-	-
Other current assets	9,714	(18,924)	(604)	(21)
Other financial assets	1,883	-	700	(862)
Non-current trade and other receivables	-	518	-	-
Non-current financial assets	669	-	-	13,361
Other non-current assets	346	-	-	-
Increase/(decrease) in liabilities:				
Current trade and other payables	(60,589)	171,042	2,412	10,476
Current provisions	(47,161)	37,404	470	(956)
Non-current trade and other payables	906	5,136	-	-
Non-current provisions	(5,080)	(75,764)	(18)	(589)
Net cash provided by operating activities	336,464	276,031	84,148	43,316

Notes to the Financial Statements

for the year ended 30 June 2009

Note 28. Commitments

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
a) Capital expenditure commitments				
Plant and equipment:				
Within one year	2,704	75,793	-	-
	2,704	75,793	-	-

b) Operating lease commitments

Non-cancellable operating leases related to premises and plant and equipment with lease terms of between 1 to 6 years.

Within one year	106,894	93,923	-	-
Between one and five years	210,365	130,912	-	-
Greater than five years	37,795	5,060	-	-
	355,054	229,895	-	-

c) Finance lease commitments

Finance leases relate to plant and equipment with lease terms of between 1 to 5 years.

Within one year	11,971	3,703	-	-
Between one and five years	55,436	4,289	-	-
Minimum finance lease payments	67,407	7,992	-	-
Future finance charges	(13,487)	(730)	-	-
Finance lease liabilities	53,920	7,262	-	-
Included in the financial statements as:				
Current borrowings (Note 18)	8,006	1,850	-	-
Non-current borrowings (Note 18)	45,914	5,412	-	-
	53,920	7,262	-	-

d) Other expenditure commitments

Hire purchase liabilities:

Within one year	1,608	1,174	-	-
Between one and five years	3,929	1,289	-	-
Greater than five years	57	-	-	-
Minimum hire purchase payments	5,594	2,463	-	-
Future finance charges	(124)	(130)	-	-
Hire purchase liabilities	5,470	2,333	-	-

Included in the financial statements as:

Current borrowings (Note 18)	1,576	1,512	-	-
Non-current borrowings (Note 18)	3,894	821	-	-
	5,470	2,333	-	-

Note 29. Contingent liabilities

Consolidated		Company	
2009	2008	2009	2008
\$'000	\$'000	\$'000	\$'000
780,678	733,028	-	-

i) The consolidated entity has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for wholly owned controlled entities.

In the ordinary course of business:

ii) The company and certain controlled entities are called upon to give guarantees and indemnities in respect of the performance by counter parties, 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.

iii) Some entities in the Group are subject to 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.

iv) 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.

v) Certain members of the Group have the normal contractor's liability in relation to services and construction contracts. This liability may include litigation by or against the Group and/or joint venture arrangements in which the Group has an interest. It is not possible to estimate the financial effects of these claims should they be successful. The directors are of the opinion that adequate allowance has been made and that disclosure of any further information about the claims would be prejudicial to the interests of the Group.

Note 30. Rendering of services and construction contracts

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Contracts in progress as at reporting date:				
Costs incurred plus recognised profits less recognised losses to date	7,563,974	6,476,755	-	-
Less: progress billings	(7,444,411)	(6,422,818)	-	-
Net amount	119,563	53,937	-	-
Recognised and included in the financial statements as amounts due:				
From customers under contracts Current (Note 10)	382,752	284,617	-	-
To customers under contracts Current (Note 17)	(263,189)	(230,680)	-	-
Net amount	119,563	53,937	-	-

Note 31. Subsequent events

Works Finance (NZ) Ltd (a wholly-owned subsidiary of Downer EDI Limited) issued NZD150,000 thousand's unsecured senior ranking bonds on 14th July 2009. The bonds mature on 15th September 2012.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 32. Controlled entities

Name of controlled entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
Advanced Separation Engineering Australia Pty Ltd	Australia	100	-
AC Consulting Pty Ltd	Australia	100	-
Beckbell Pty Ltd	Australia	100	100
CA Facilities Pte Ltd	Singapore	51	51
Capital City Hire Ltd	New Zealand	100	-
CBP New Zealand Ltd	New Zealand	100	-
Cendrill Supply Pty Limited	Australia	100	100
Century Administration Pty Ltd	Australia	100	100
Chan Lian Construction Pte Ltd	Singapore	100	100
Chang Chun Ao Da Technical Consulting Co Ltd	China	100	100
Choad Pty Ltd	Australia	100	100
Construction Professionals Pte Ltd	Singapore	100	100
Coomes Consulting Group Unit Trust	Australia	100	100
Corke Instrument Engineering (Australia) Pty Ltd	Australia	100	-
CPG Advisory (Shanghai) Co. Ltd	China	100	100
CPG Australia Pty Limited	Australia	100	100
CPG Consultants (India) Pvt Ltd	India	100	100
CPG Consultants (Macau) Pte Ltd	Singapore	100	100
CPG Consultants Pte Ltd	Singapore	100	100
CPG Consultants Qatar W.L.L	Qatar	100	-
CPG Consultants Vietnam Co Ltd	Vietnam	100	100
CPG Corp Philippines Inc	Philippines	100	100
CPG Corporation Pte Ltd	Singapore	100	100
CPG Environmental Engineering Co. Ltd	China	75	75
CPG Facilities Management (Xiamen) Co. Ltd	China	100	100
CPG Facilities Management Pte Ltd	Singapore	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
CPG New Zealand Ltd	New Zealand	100	100
CPG Traffic Pty Ltd	Australia	100	100
D'Axis Planners & Consultants Co. Ltd	China	60	60
DCE Limited	New Zealand	100	100
Dean Adams Consulting Pty Ltd	Australia	100	100
DEDIR (Hong Kong) Ltd	Hong Kong	100	100
DGL Investments Ltd	New Zealand	100	100
DJC & Associates Limited	New Zealand	100	100
DMQA Training Limited	United Kingdom	100	100
Downer Australia Pty Ltd	Australia	100	100
Downer Construction (Fiji) Limited	Fiji	100	100
Downer Construction (New Zealand) Ltd	New Zealand	100	100
Downer Construction Tonga Ltd	Tonga	100	100
Downer EDI Consulting Pty Ltd	Australia	100	-
Downer EDI Engineering - QCC Pty Ltd	Australia	100	100
Downer EDI Engineering (PNG) Ltd	PNG	100	100
Downer EDI Engineering Communications Limited	New Zealand	100	100
Downer EDI Engineering Company Pty Limited	Australia	100	100
Downer EDI Engineering Construction (Australia) Pty Ltd	Australia	100	100
Downer EDI Engineering CWH Pty Limited	Australia	100	100
Downer EDI Engineering Electrical Pty Ltd	Australia	100	100

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
Downer EDI Engineering Group (Malaysia) Sdn Bhd	Malaysia	100	100
Downer EDI Engineering Group Ltd	New Zealand	100	100
Downer EDI Engineering Group Pty Limited	Australia	100	100
Downer EDI Engineering Holdings Pty Ltd	Australia	100	100
Downer EDI Engineering Limited	New Zealand	100	100
Downer EDI Engineering Power Limited	New Zealand	100	100
Downer EDI Engineering Power Pty Limited	Australia	100	100
Downer EDI Engineering Pty Ltd	Australia	100	100
Downer EDI Engineering Telco Services Sdn Bhd	Malaysia	100	100
Downer EDI Engineering Transmission Pty Ltd	Australia	100	100
Downer EDI Engineering-Projects Pty Ltd	Australia	100	100
Downer EDI Finance Pty Ltd	Australia	100	100
Downer EDI Group Finance (NZ) Limited	New Zealand	100	100
Downer EDI Limited	United Kingdom	100	100
Downer EDI Mining Pty Ltd	Australia	100	100
Downer EDI Mining Services (Pty) Ltd	South Africa	100	100
Downer EDI Mining-Blasting Services Pty Ltd	Australia	100	100
Downer EDI Mining-Mineral Technologies Pty Ltd	Australia	100	100
Downer EDI Mining-Minerals Exploration Pty Ltd	Australia	100	100
Downer EDI Rail (Hong Kong) Ltd	Hong Kong	100	100
Downer EDI Rail Pty Ltd	Australia	100	100
Downer EDI Resource Holdings Ltd	Australia	100	100
Downer EDI Services Pty Ltd	Australia	100	-
Downer EDI Works (Hong Kong) Limited	Hong Kong	100	100
Downer EDI Works Ltd	New Zealand	100	100
Downer EDI Works Pte Ltd	Singapore	100	100
Downer EDI Works Pty Ltd	Australia	100	100
Downer EDI Works Vanuatu Limited	Vanuatu	100	100
Downer Energy Systems Pty Ltd	Australia	100	100
Downer Engineering (Malaysia) Sdn Bhd	Malaysia	100	100
Downer Engineering (Singapore) Pte Ltd	Singapore	100	100
Downer Engineering Holdings (Thailand Ltd)	Thailand	100	100
Downer Engineering Thailand Ltd	Thailand	100	100
Downer Group Finance International Pty Ltd	Australia	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 NZ Finance Pty Ltd	Australia	100	100
Downer PPP Investments Pty Ltd	Australia	100	100
Duffill Watts Indonesia Limited	Indonesia	100	100
Duffill Watts Pte Limited	Singapore	100	100
EDI Rail (Maryborough) Pty Ltd	Australia	100	100
EDI Rail Investments Pty Ltd	Australia	100	100
EDI Rail PPP Maintenance Pty Ltd	Australia	100	100
EDI Rail V/Line Maintenance Pty Ltd	Australia	100	100
EDICO Pty Ltd	Australia	100	100
Emoleum Road Services Pty Limited	Australia	100	100
Emoleum Roads Group Pty Limited	Australia	100	100
Emoleum Services Pty Limited	Australia	100	100

Notes to the Financial Statements

for the year ended 30 June 2009

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
Evans Deakin Industries Pty Ltd	Australia	100	100
Faxgroove Pty Ltd	Australia	100	100
FM Technology Pte Ltd	Singapore	100	100
Gaden Drilling Pty Limited	Australia	100	100
H.R.S. New Zealand Ltd	New Zealand	100	-
Indeco Consortium Pte Ltd	Singapore	100	100
Locomotive Demand Power Pty Ltd	Australia	100	100
Lowan (Management) Pty Ltd	Australia	100	100
Miningtek Consultants & Services Limited	British Virgin Isl.	100	100
MPE Facilities Management Sdn Bhd	Malaysia	50	50
New Zealand Vegetation Control Ltd	New Zealand	100	-
On Track Services New Zealand Ltd	New Zealand	100	-
Otraco Brasil Gerenciamento de Pneus Ltda	Brazil	100	100
Otraco Canada Inc	Canada	100	100
Otraco Chile SA	Chile	100	100
Otraco International Pty Limited	Australia	100	100
Otracom Pty Ltd	Australia	100	100
P T Otraco Indonesia	Indonesia	100	100
Pavement Salvage Operations Pty Ltd	Australia	100	100
Pavement Technology Pty Ltd	Australia	100	100
Peridian Asia Pte Ltd	Singapore	100	100
Peridian India Pvt Ltd	India	100	-
PM Link Pte Ltd	Singapore	100	100
Primary Producers Improvers 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	100
Richter Drilling Indonesia Pty Limited	Australia	100	100
Richter Drilling (PNG) Limited	PNG	100	100
RIMTEC Pty Ltd	Australia	100	100
Rimtec USA Inc	USA	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 Mining (MT) Brazil Pty Ltd	Brazil	100	100
Roche Mining (MT) Holdings 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 (PNG) Ltd	PNG	100	100
Roche Services Pty Ltd	Australia	100	100
RPC IT Pty Ltd	Australia	100	100
RPC Roads Pty Ltd	Australia	100	100
Sach Infrastructure Pty Ltd	Australia	100	100
Scanbright Pty Ltd	Australia	100	100
Shanghai CPG Architectural and Design Co. Ltd	China	100	100
Sillars (B&CE) Ltd	United Kingdom	100	100
Sillars (FRC) Ltd	United Kingdom	100	100

Note 32. Controlled entities - *continued*

Name of controlled entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
Sillars (TMWC) Ltd	United Kingdom	100	100
Sillars (TMWD) Ltd	United Kingdom	100	100
Sillars Holdings Limited	United Kingdom	100	100
Sillars Road Construction Ltd	United Kingdom	100	100
Singleton Bahen Stansfield Pty Ltd	Australia	100	100
SIP-CPG Facilities Management Co. Ltd	China	100	100
Snowden Consultoria Do Brasil Limitada	Brazil	100	-
Snowden Mining Industry Consultants Inc.	Canada	100	100
Snowden Mining Industry Consultants Limited	United Kingdom	100	100
Snowden Mining Industry Consultants Pty Ltd	Australia	100	100
Snowden Mining Industry Consultants (Pty) Ltd	South Africa	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
Southern Asphalters Pty Ltd	Australia	100	100
Starblake Pty Ltd	Australia	100	100
Suzhou PM Link Co Ltd	China	60	60
TSE Wall Arlidge Ltd	New Zealand	100	100
TSG Architects Pte Ltd	Singapore	100	100
Waste Solutions Limited	New Zealand	100	100
Works Infrastructure (Holdings) Limited	United Kingdom	100	100
Works Infrastructure (UK) Limited	United Kingdom	100	100
Works Finance (NZ) Limited	New Zealand	100	100
Works Infrastructure Ltd - Fiji Branch	Fiji	100	100

Notes to the Financial Statements

for the year ended 30 June 2009

Note 33. Related party information and key management personnel disclosures

a) Key management personnel compensation:

Details of key management personnel compensation are disclosed in Note 34 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 Mallesons 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 \$233,334 (2008: \$180,177).

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 3 to the financial statements. Aggregate amounts receivable from and payable to wholly owned subsidiaries are disclosed in Notes 10 and 17 of the financial statements. Amounts contributed to the defined contribution plan are disclosed in Note 3 to the financial statements.

Other transactions occurred during the financial year between entities in the wholly owned group 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 32 to the financial statements.

Equity interests in associates and joint ventures:

Details of interests in associates and joint ventures are disclosed in Note 14 to the financial statements.

e) Controlling entity:

The parent entity of the group is Downer EDI Limited.

Note 33. Related party information and key management personnel disclosures - *continued*

f) Key management personnel equity holdings:

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

	2009		
	Balance at 1 July 2008	Net change	Balance at 30 June 2009
	No.	No.	No.
2009			
P E J Jollie	82,029	4,304	86,333
L Di Bartolomeo	26,233	20,973	47,206
J S Humphrey	53,786	283	54,069
C J S Renwick	30,000	-	30,000
S A Chaplain	-	13,000	13,000
G H Knox	400,000	200,000	600,000
C Bruyn	10,000	(9,500)	500
D Cattell	525,136	(467,327)	57,809
W Nolan	500	25,500	26,000
S Cinerari	6,793	(5,450)	1,343
D O'Reilly	-	25,500	25,500
P Reichler	167,456	32,800	200,256
P Reidy	2,095	18,094	20,189
G Wannop	55,147	(8,083)	47,064
	1,359,175	(149,906)	1,209,269

S A Chaplain and R M Harding appointed 1 July 2008. P R Coates appointed 30 October 2008.

	2008		
	Balance at 1 July 2007	Net change	Balance at 30 June 2008
	No.	No.	No.
2008			
P E J Jollie	10,595	71,434	82,029
L Di Bartolomeo	9,414	16,819	26,233
J S Humphrey	33,737	20,049	53,786
C J S Renwick	20,000	10,000	30,000
G H Knox	-	400,000	400,000
D Cattell	508,532	16,604	525,136
S Mockett	60,867	2,918	63,785
W Nolan	500	-	500
P Reichler	10,379	157,077	167,456
P Reidy	1,044	1,051	2,095
G Wannop	49,093	6,054	55,147
	704,161	702,006	1,406,167

S J Gillies, B D O'Callaghan, R Hackett and T Pang are not included in the 2008 key management personnel equity holdings as they resigned or are no longer key management personnel during the financial year.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 33. Related party information and key management personnel disclosures - *continued*

Key management personnel equity holdings in performance options issued by Downer EDI Limited are as follows:

	2009		
	Balance at	Net change	Balance at
	1 July 2008		30 June 2009
	No.	No.	No.
2009			
D Cattell	34,863	-	34,863
W Nolan	22,038	-	22,038
C Bruyn	24,481	-	24,481
S Cinerari	19,016	-	19,016
D O'Reilly	19,401	-	19,401
P Reichler	16,082	-	16,082
P Reidy	18,957	-	18,957
G Wannop	25,106	-	25,106
	179,944	-	179,944

	2008		
	Balance at	Net change	Balance at
	1 July 2007		30 June 2008
	No.	No.	No.
2008			
S J Gillies ¹	325,869	(325,869)	-
D Cattell	34,863	-	34,863
S Mockett	18,260	-	18,260
W Nolan	22,038	-	22,038
D O'Reilly	19,401	-	19,401
P Reichler	16,082	-	16,082
P Reidy	18,957	-	18,957
G Wannop	25,106	-	25,106
	480,576	(325,869)	154,707

¹ S J Gillies performance options have been forfeited as he resigned 1 August 2007.

Note 33. Related party information and key management personnel disclosures - *continued*

Key management personnel equity holdings in performance rights issued by Downer EDI Limited are as follows:

	2009		
	Balance at 1 July 2008	Net change	Balance at 30 June 2009
	No.	No.	No.
2009			
D Cattell	11,000	-	11,000
C Bruyn	7,724	-	7,724
W Nolan	6,953	-	6,953
S Cinerari	6,000	-	6,000
P Reichler	5,074	-	5,074
D O'Reilly	6,121	-	6,121
P Reidy	5,988	-	5,988
G Wannop	7,921	-	7,921
	56,781	-	56,781
	2008		
	Balance at 1 July 2007	Net change ²	Balance at 30 June 2008
	No.	No.	No.
2008			
S J Gillies ¹	47,945	(47,945)	-
D Cattell	11,000	-	11,000
S Mockett	5,761	-	5,761
W Nolan	6,953	-	6,953
P Reichler	5,074	-	5,074
D O'Reilly	6,121	-	6,121
P Reidy	5,988	-	5,988
G Wannop	7,921	-	7,921
	96,763	(47,945)	48,818

¹ S J Gillies performance rights have been forfeited as he resigned 1 August 2007.

² The net change relates to performance rights granted during the year.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 34. Key management personnel compensation

Key management personnel compensation

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Short-term employee benefits	18,845,630	13,579,224	10,854,272	7,966,727
Post-employment benefits	583,929	2,241,630	274,877	1,891,768
Share-based payments	6,890,330	1,177,697	4,453,848	1,095,136
	26,319,889	16,998,551	15,582,997	10,953,631

Note 35. 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. Further details of the employee discount share plan are contained in the remuneration report.

Note 36. 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 at 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 (2008: nil). Similarly, no executives or employees acquired any ordinary shares under the provisions of the EOS. At 30 June 2009, no options granted under the EOS remain outstanding.

The closing market price of the company's ordinary shares at 30 June 2009 was \$5.59 (2008: \$6.87) each.

Note 37. Financial instruments

a) Capital risk management

The consolidated entity's objectives when managing capital are to safeguard the consolidated entity's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The consolidated entity's overall strategy remains unchanged from 2008.

The capital structure of the consolidated entity consists of debt, cash and cash equivalents and equity. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with industry, the consolidated entity monitors capital on the basis of the gearing ratio determined as the proportion of net debt to equity. During the years ended 30 June 2009 and 30 June 2008, the gearing ratios were as follows:

	Consolidated	
	2009	2008
	\$'000	\$'000
Current borrowings	215,839	145,268
Non-current borrowings	578,658	421,597
Gross debt ¹	794,497	566,865
Adjustment for swap hedges and deferred finance charges	22,659	85,739
Less: Cash and cash equivalents	(299,463)	(245,790)
Net debt	517,693	406,814
Equity ²	1,330,388	1,196,364
Net debt to equity ratio	38.9%	34.0%

¹ Gross debt is defined all as long and short term borrowings

² Equity includes all capital and reserves

b) Financial risk management objectives

The consolidated entity's Corporate Treasury function provides treasury 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. These financial risks include market risk, credit risk and liquidity risk.

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 (outright forwards and options) to hedge the exchange rate risk arising from cross border trade flows and debt service obligations;
- ii) Cross currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings; and
- iii) Interest rate swaps to mitigate the risk of rising interest rates.

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.

c) Accounting policies

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

Notes to the Financial Statements

for the year ended 30 June 2009

Note 37. Financial instruments - *continued*

(d) Foreign currency risk management

The consolidated entity 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.

The carrying amount of the consolidated entity's significant foreign currency denominated financial assets and financial liabilities at the reporting date is as follows:

	Financial assets		Financial liabilities	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Consolidated				
US dollars (USD) ¹	38,214	32,854	32,610	49,047
New Zealand dollars (NZD)	1,499	3,197	149	-
Great British pounds (GBP)	198	7,683	51	6
Euro (EUR)	1,787	1,910	5,529	6,350
Chinese yuan (CNY)	-	1,620	1,689	-
Korean won (KRW)	2,915	-	-	-
Swiss franc (CHF)	928	-	-	-
Singapore dollars (SGD) ¹	504	-	38	-
UAE dirham (AED)	3,019	-	1,241	-

¹ The above table excludes foreign currency financial assets and liabilities which have been hedged back into Australian dollars.

Note 37. Financial instruments - *continued*

Foreign currency forward contracts

It is the policy of the consolidated entity to enter into foreign exchange contracts to cover specific foreign currency payments and receipts.

The following table summarises by currency the Australian dollar (AUD) value (unless otherwise stated) of major forward exchange contracts outstanding as at reporting date:

Outstanding contracts	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
	2009	2008	2009 FC'000	2008 FC'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Buy USD / Sell AUD								
Less than 3 months	0.7259	0.9022	12,202	177,460	16,809	196,692	(1,681)	(5,397)
3 to 6 months	0.7243	0.8626	149,086	9,303	205,835	10,785	(19,380)	(1,868)
Later than 6 months	0.7359	0.8110	171,735	213,204	233,367	262,906	(8,374)	(34,739)
			333,023	399,967	456,011	470,383	(29,435)	(42,004)
Buy AUD / Sell USD								
Less than 3 months	0.6992	0.9063	207	1,617	296	1,784	39	101
3 to 6 months	0.7059	0.9113	1,403	482	1,988	529	240	20
Later than 6 months	0.7345	-	1,401	-	1,907	-	133	-
			3,011	2,099	4,191	2,313	412	121
Buy EUR / Sell AUD								
Less than 3 months	0.5538	0.5969	3,302	10,332	5,962	17,310	(199)	(74)
3 to 6 months	0.5448	0.5979	5,941	3,816	10,905	6,383	(469)	(304)
Later than 6 months	0.5331	0.5425	52,091	66,021	97,714	121,698	(2,594)	(5,927)
			61,334	80,169	114,581	145,391	(3,262)	(6,305)
Buy CNY / Sell USD								
Less than 3 months	-	6.8839	-	1,652,136	-	249,325	-	1,620
3 to 6 months	6.7843	-	1,628,239	-	240,001	-	(1,689)	-
			1,628,239	1,652,136	240,001	249,325	(1,689)	1,620
Buy KRW / Sell USD								
3 to 6 months	1,379.0	-	5,963,000	-	4,324	-	463	-
Later than 6 months	1,376.0	-	31,965,000	-	23,230	-	2,452	-
			37,928,000	-	27,554	-	2,915	-

Notes to the Financial Statements

for the year ended 30 June 2009

Note 37. Financial instruments - *continued*

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 eliminate the risk of adverse movements in foreign exchange rates related to foreign currency denominated borrowings.

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

Outstanding contracts	Weighted average interest rate		Weighted average exchange rate		Contract value		Fair value	
	2009 %	2008 %	2009	2008	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Buy USD / Sell AUD								
Less than 1 year	7.6	5.6	0.6867	0.5187	32,764	67,476	(4,984)	(30,258)
1 to 2 years	-	7.6	-	0.6867	-	32,764	-	(8,202)
2 to 5 years	6.8	6.8	0.7218	0.7218	2,771	2,771	(176)	(490)
5 years or more	8.1	8.1	0.6828	0.6828	112,836	112,836	(8,552)	(20,294)
Total					148,371	215,847	(13,712)	(59,244)
Buy SGD / Sell AUD								
2 to 5 years	7.0	-	1.1845	-	50,654	-	59	-
Total					50,654	-	59	-

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

Buy USD / Sell NZD								
Less than 1 year ¹	3.6	-	0.6530	-	67,430	-	666	-
1 to 2 years	-	9.5	-	0.6530	-	66,740	-	(8,761)
Total					67,430	66,740	666	(8,761)

¹ This amount has been translated into AUD which has impacted the change in value.

The above cross currency interest rate swaps contracts are designated and effective as fair value hedges.

Note 37. Financial instruments - *continued*

Foreign currency sensitivity analysis

The following table details the range of sensitivity to an increase and decrease in the Australian dollar against the relevant currencies. These are the ranges used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

A positive number indicates an increase in profit and equity and a negative number indicates a decrease in profit and equity.

	Profit/loss ⁽¹⁾		Equity ⁽²⁾	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Consolidated				
USD impact				
0.60 against AUD	11,939	5,989	143,275	95,119
0.98 against AUD	(6,119)	(957)	(73,428)	(17,326)
EUR impact				
0.48 against AUD	(95)	94	20,666	6,001
0.62 against AUD	35	(115)	(7,638)	(7,809)
CNY impact				
- 10% against USD	-	-	32,846	3,735
+ 10% against USD	-	-	(26,868)	(3,628)
NZD impact				
1.10 against AUD	183	162	-	-
1.29 against AUD	(43)	(318)	-	-
GBP impact				
0.38 against AUD	-	1,830	-	41
0.50 against AUD	-	(263)	-	(7)
SGD impact				
1.00 against AUD	79	-	-	-
1.20 against AUD	(12)	-	-	-
KRW impact				
- 10% against AUD	-	-	4,057	-
+ 10% against AUD	-	-	(3,314)	-

⁽¹⁾ This is mainly attributable to the exposure outstanding on foreign currency investments, receivables and payables at year end in the consolidated entity.

⁽²⁾ This is mainly as a result of the changes in fair value of forward foreign exchange contracts designated as cash flow hedges.

In the above sensitivity analysis, changes have been made to the spot foreign exchange rate only (forward points and discount factors have been kept constant).

Notes to the Financial Statements

for the year ended 30 June 2009

Note 37. Financial instruments - *continued*

e) Interest rate risk management

The company and the consolidated entity are exposed to interest rate risk as entities borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and hedging is undertaken through interest rate swap contracts.

The company and the consolidated entity's exposures to interest rates on financial assets and financial liabilities are detailed in the table below:

	Weighted average effective interest rate		Consolidated		Company	
	2009	2008	2009	2008	2009	2008
	%	%	\$'000	\$'000	\$'000	\$'000
Floating interest rates - Cash flow exposure						
Bank overdraft	4.8	7.0	7,240	5,957	(168)	2
Bank loans	5.5	7.1	111,015	89,969	-	-
USD notes ¹	3.6	10.0	69,906	59,291	-	-
AUD medium term notes - Series I & II ²	4.0	7.1	87,897	78,264	-	-
Cash and cash equivalents	4.6	6.2	(299,463)	(245,790)	(1)	(1)
Other receivables from controlled entities	7.0	8.4	-	-	(1,054,386)	(963,934)
Other payables to controlled entities	7.0	8.4	-	-	350,717	381,296
Cash flow exposure - total			(23,405)	(12,309)	(703,838)	(582,637)
Fixed interest rates - Fair value exposure						
Bank loans ³	6.0	5.3	231,448	184,497	-	-
USD notes ⁴	7.8	7.0	125,797	141,670	-	-
AUD medium term notes - Series II ⁵	7.2	-	106,309	-	-	-
Finance lease	8.2	-	59,390	-	-	-
Fair value exposure - total			522,944	326,167	-	-

¹ The interest rate disclosed reflects fixed rate USD notes swapped into NZD floating rate.

² The interest rate disclosed reflects fixed rate AUD medium term notes - Series I swapped into floating rate and a portion of Series II that was issued as and remains floating rate.

³ The interest rate disclosed reflects AUD and SGD floating rate bank loans swapped into fixed rate.

⁴ The interest rate disclosed reflects fixed rate USD notes swapped into AUD fixed rate.

⁵ The interest rate disclosed reflects floating rate AUD medium term notes - Series II (remaining portion) swapped into AUD fixed rate.

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 outstanding. 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.

Note 37. Financial instruments - *continued*

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	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2009 %	2008 %	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
AUD interest rate swaps						
Less than 1 year	6.6	5.7	20,859	154,000	(90)	800
1 to 2 years	5.2	-	180,000	-	(3,579)	-
2 to 5 years	5.1	-	133,747	-	3,570	-
			334,606	154,000	(99)	800
SGD interest rate swaps						
Less than 1 year	2.1	3.2	17,114	22,873	25	(268)
1 to 2 years	1.8	3.0	4,279	7,624	12	(82)
2 to 5 years	2.2	-	8,557	-	25	-
			29,950	30,497	62	(350)
USD interest rate swaps						
Less than 1 year	1.4	-	18,591	-	121	-
			18,591	-	121	-

The above interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges.

Outstanding fixed for floating contracts	Weighted average interest rate (including margin)		Notional principal amount		Fair value	
	2009 %	2008 %	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
AUD interest rate swaps						
Less than 1 year	3.9	-	80,000	-	1,185	-
1 to 2 years	-	7.4	-	80,000	-	(1,674)
			80,000	80,000	1,185	(1,674)
NZD interest rate swaps						
Less than 1 year	1.3	-	67,430	-	444	-
			67,430	-	444	-

The above interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated and effective as fair value hedges.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 37. Financial instruments - *continued*

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

A selected percentage to increase or decrease the closing interest rates represents management's assessment of the possible change in interest rates. A positive number indicates an increase in profit and equity and a negative number indicates a decrease in profit and equity.

	Consolidated		Company	
	2009 ⁴ \$'000	2008 ³ \$'000	2009 \$'000	2008 \$'000
Increase in rate				
Profit or loss ¹	(1,278)	(860)	7,037	2,447
Equity ²	6,541	1,352	-	-
Decrease in rate				
Profit or loss	320	862	(1,759)	(2,447)
Equity	(1,667)	(1,390)	-	-

¹ This is mainly attributable to the company's and consolidated entity's exposure to interest rates on its variable rate borrowings.

² This is mainly on account of the change in valuation of the interest rate swaps and cross currency interest rate swaps held by the consolidated entity.

³ 2008 sensitivities have been based on increases and decreases of the base rate by 5.0%.

⁴ 2009 sensitivities have been based on an increase on the interest rate by 1.0% per annum and a decrease on the interest rate by 0.25% per annum.

(f) Equity price risk management

The consolidated entity is exposed to equity price risks arising from equity investments. Equity investments are held for trading purposes and are categorised as fair value through profit and loss investments.

Equity price risk sensitivity

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

A 5.0% increase or decrease in the equity index is used and represents management's assessment of the possible change in equity price. A positive number indicates an increase in profit and equity and a negative number indicates a decrease in profit and equity.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Profit or loss impact:				
Fair value through profit or loss investments	52	257	-	-

g) 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 credit worthy counterparties. The consolidated entity's 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. Refer to Note 10 for details on credit risk arising from trade and other receivables.

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 have minimum credit ratings of no less than AA- other than one counterparty that is rated BBB+.

Credit risk from cash balances with banks and financial institutions is managed by Group Treasury in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties (with a credit ratings of no less than AA-) and within credit limits assigned to each counterparty.

Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year subject to approval of the Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to financial instruments.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the company's and the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

h) Liquidity risk management

Liquidity risk arises from the possibility that the company and the consolidated entity are unable to settle a transaction on the due date. The ultimate liquidity risk management rests with the Board of Directors, who have built an appropriate risk management framework for the company's and the consolidated entity's short, medium and long-term funding and liquidity management requirements.

The company and the consolidated entity manage liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and liabilities. Included in Note 18 is a listing of committed undrawn facilities that the company and the consolidated entity have at their disposal to manage liquidity risk.

Notes to the Financial Statements

for the year ended 30 June 2009

Note 37. Financial instruments - *continued*

Liquidity risk tables

The following table details the company's and the consolidated entity's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on contractual maturities. The tables include both interest and principal cash flows.

	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
Consolidated 2009						
Financial liabilities:						
Trade and other payables	568,967	-	-	-	-	-
Bank overdraft	7,240	-	-	-	-	-
Bank loans	33,642	240,879	90,488	5,373	5,199	14,555
USD notes	103,723	6,973	9,381	6,832	6,832	101,678
AUD Medium term notes (Series I)	82,854	-	-	-	-	-
AUD Medium term notes (Series II)	10,507	18,533	17,841	17,149	16,457	58,953
Finance lease and hire purchase liabilities	14,166	12,598	12,250	11,225	22,762	-
Derivative instruments ¹						
Cross currency interest rate swaps						
Receive leg	(106,041)	(9,511)	(63,575)	(6,832)	(6,832)	(101,678)
Pay leg	114,284	13,411	67,207	8,885	8,885	119,867
Interest rate swaps	297	(227)	1,378	1,716	1,320	1,848
Foreign currency forward contracts	25,050	4,549	2,263	300	-	-
Total	854,689	287,205	137,233	44,648	54,623	195,223
Consolidated 2008						
Financial liabilities:						
Trade and other payables	657,826	-	-	-	-	-
Bank overdraft	6,030	-	-	-	-	-
Bank loans	118,289	13,621	187,621	-	-	-
USD notes	48,075	89,426	5,840	7,826	5,721	89,708
AUD MTN	5,708	82,854	-	-	-	-
Finance lease and hire purchase liabilities	4,877	2,365	1,224	1,380	417	193
Cross currency interest rate swaps						
Receive leg	(48,075)	(89,426)	(5,840)	(7,826)	(5,721)	(89,708)
Pay leg	86,930	100,330	8,870	11,500	8,682	127,413
Interest rate swaps	1,535	594	-	-	-	-
Foreign currency forward contracts	14,443	16,158	27,077	26,880	4,021	-
Total	895,638	215,922	224,792	39,760	13,120	127,606

¹ Includes assets and liabilities

Note 37. Financial instruments - *continued*

	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
Company 2009						
Financial liabilities:						
Trade and other payables	39,305	24,550	24,550	24,550	24,550	350,717
Total	39,305	24,550	24,550	24,550	24,550	350,717*
Company 2008						
Financial liabilities:						
Trade and other payables	53,855	30,181	30,181	30,181	30,181	359,294
Total	53,855	30,181	30,181	30,181	30,181	359,294*

* The non-current trade payables of the company is subject to a stream of interest cash flows in perpetuity. The weighted average effective interest rate on these trade payables is 7.0% (2008: 8.4%).

i) 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.

	Carrying amount		Fair value	
	2009 \$'000	2008 ¹ \$'000	2009 \$'000	2008 ¹ \$'000
Total debt	735,107	141,670	700,798	158,117

¹ 2008 figures only include USD notes.

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 term of the instruments.

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

Directors' Declaration

for the year ended 30 June 2009

In the opinion of the directors of Downer EDI Limited:

- (a) the financial statements and notes set out on pages 35 to 105 are in accordance with the Australian Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) the financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;
- (b) there are reasonable grounds to believe that Downer EDI will be able to pay its debts as and when they become due and payable; and
- (c) 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



P E J Jollie AM

Chairman

20 August 2009, Sydney

Independent Auditor's Report

for the year ended 30 June 2009

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent Auditor's Report to the Members of Downer EDI Limited

Report on the Financial Report

We have audited the accompanying financial report of Downer EDI Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 35 to 106.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report

for the year ended 30 June 2009

Deloitte.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Downer EDI Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 29 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Downer EDI Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Mark Irving
Partner
Chartered Accountants
Sydney, 20 August 2009

Sustainability Performance Summary 2008/09

Targets

Relentlessly pursue Zero Harm to our employees and the communities in which we operate:

- *Reduce Incidents*
Our commitment to developing a values based safety culture delivered a 12-year low in Lost Time Injury Frequency Rate (LTIFR) and a continued reduction in Medical Treatment Injury Frequency Rate (MTIFR).
Whilst we have made significant progress on our journey toward Zero Harm, we are reminded daily of the need to remain vigilant in our approach to safety.
- *Reduce Infringements*
Governance procedures have been streamlined across the Group to mitigate risk where possible and enhance risk management procedures.
- *Reducing our Ecological Footprint*
A company wide approach has been developed to capture, analyse and report energy and greenhouse gas information. We continue to reduce the carbon intensity of our operations through the development of energy efficient products and services.
Partnering with our community, clients and suppliers to optimise stakeholder value and eco-efficiency.
- *Increasing Shareholder Worth*
Declining injuries and enhanced systems continue to deliver increased shareholder value.
- *Enduring Stakeholder Value*
We are committed to addressing the key environmental, social and governance issues concerning our stakeholders to deliver a sustainable business into the future.
- *Contributing to community*
We are committed to providing our clients and the community with environmentally, economically and socially sustainable cities.

Corporate Governance

for the year ended 30 June 2009

Downer EDI's approach to Corporate Governance

In keeping with the Company's commitment to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition), ("ASX Principles"). Downer EDI continued to enhance its corporate governance framework during the year.

Highlights include the further strengthening of its risk management processes and instituting a review of its Board and Committee charters and its corporate policies.

Recommendations from the review included updating policies and procedures to better reflect the changing circumstances of Downer EDI and the evolution of its corporate governance practices. These changes are currently being implemented under the oversight of the Nominations and Corporate Governance Committee.

The directors of Downer EDI are committed to ensuring that the company maintains an effective system of corporate governance which is an integral part of the company's culture and business practices.

Downer EDI's Corporate Governance Framework

The Company's corporate governance framework provides the platform from which:

- the Downer EDI Board is accountable to shareholders for the operations, performance and growth of the company
- Management is accountable to the Board
- the risks of Downer EDI's business are identified and managed
- Downer EDI communicates with its shareholders and the larger investment community

Compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations

It is the Board's opinion that throughout the year ending 30 June 2009, Downer EDI complied with the recommendations contained in the ASX Principles.

This corporate governance statement is organised under headings reflecting the ASX Principles. The foundation of Downer EDI's approach to corporate governance is the adoption of a board charter, committee charters and board policies. These provide a guide to roles, responsibilities and best practice in the way the board functions and the company conducts its business. The Board has adopted the following charters and policies:

- Board Charter
- Audit Committee Charter
- Risk Committee Charter
- Nomination and Corporate Governance Committee Charter
- Remuneration Committee Charter
- Health, Safety and Environment Committee Charter
- Corporate Code of Conduct
- Directors' Code of Conduct
- Securities Trading Policy
- Disclosure Policy
- Shareholder Communication Policy
- Sustainability Policy

Principle 1: Lay solid foundations for management and oversight

The Board Charter sets out the principles for the operation of the Board of Directors and describes the functions of the board and those functions delegated to management. The business of Downer EDI is managed under the direction and oversight of the board, with day-to-day management of Downer EDI's operations delegated to the Chief Executive Officer and Managing Director, and through him to the Executive Leadership Team and Senior Executives.

The primary goal set for management by the board is to focus on shareholder value. The board provides strategic guidance and oversees management through:

- setting appropriate goals for the conduct, performance and reward of the Executive Leadership Team (Chief Executive Officer and Managing Director, and Senior Management)
- approving appropriate recruitment, retention and succession strategies
- reviewing and approving strategies, budgets, plans and policies
- reviewing and ongoing monitoring of the performance of Downer EDI against financial objectives and operational goals and strategies
- working with management on key issues, including major tenders, capital expenditure, acquisitions and divestments, restructuring, funding and capital management
- supervising external reporting and disclosure
- approving policies and procedures to satisfy its legal and other responsibilities, including business and financial risks, occupational health and safety and environmental and sustainability issues

Senior management evaluation

Senior Executives of Downer EDI participate in Downer EDI's performance management process. Key individual performance targets linked to the business plan and overall corporate objectives are agreed with the Chief Executive Officer and Managing Director. The Senior Executives receive periodic feedback on progress against these targets.

Corporate Governance

for the year ended 30 June 2009

Principle 2: Structure the Board to add value

Board composition

The Board comprises the Chairman, Peter Jollie, six independent Non-executive Directors and one Executive Director (the CEO and Managing Director, Geoff Knox). Details of the members of the Board, including their skills, experience, status and their term of office are set out in the Directors' Report.

The Chairman is an Independent Director. He is appointed by and provides leadership to the Board. His role is to ensure that a high standard of values, processes and constructive interaction is maintained. The Chairman represents the views of the Board to the shareholders and conducts the Annual General Meeting.

The composition of the Board is assessed by the Nominations and Corporate Governance Committee to ensure the balance of skills required for the business is represented on the Board.

Board independence

The directors have an overriding duty to act in the best interests of the company, avoid situations of conflict of interest, and not use their position for personal benefit. Under the Board Charter, directors are required to promptly disclose possible conflicts of interest, interests in contracts, other directorships or offices held, related party transactions and sales or purchases of the Company's shares.

If a situation may give rise to a possible conflict of interest, the director concerned must declare it. Once a potential or actual conflict of interest has been declared by a director, that director will not receive board papers relevant to that item and the director must not be present at the meeting whilst the item is considered. Directors must keep the board advised, on an ongoing basis, of any interests that could potentially conflict with those of the company.

The ASX Principles recommend that a majority of the Board should be independent directors. Seven of the eight directors on the Downer EDI Board are independent. Under the terms of the Board Charter, Downer EDI considers a director to be independent unless any of the following apply in respect of the Director:

- the director is a substantial shareholder of Downer EDI or an officer of or otherwise associated directly with, a substantial shareholder of Downer EDI
- the director has been employed in an executive capacity within Downer EDI or another Group company in the last three years, or been a director after ceasing to hold any such employment
- within the last three years, the director has been a principal of a material professional adviser, a material consultant to Downer EDI or another Group member or an employee materially associated with the services provided by such adviser or consultant to Downer EDI
- the director is a material supplier or customer of Downer EDI or another Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- the director has a material contractual relationship with Downer EDI or another Group member other than as a director

Period of office

Each director is required to retire by rotation, with one third of the Board retiring at each Annual General Meeting. No Non-executive Director can serve more than three years without offering themselves for re-election.

Board meetings

The Board meets regularly for scheduled meetings and on other occasions to deal with specific matters that require attention between meetings. In addition to attending Board and Committee meetings, Non-executive Directors allocate time for strategy and budget sessions, preparation for meetings and inspection of operations. The agenda for meetings is prepared in conjunction with the Chairman and the Chief Executive Officer and Managing Director and the regular business of the Board includes review of business performance and plans, Zero Harm (including safety, environment and sustainability issues), shareholder value (including financial performance), people and culture matters, client engagement issues, major strategic issues and investments, governance and compliance matters, and regular presentations by operational management.

The reports to the Board are based on the "Top down Reporting" (TdR) methodology which uses a traffic light coding to determine the level of information and detail reported to the Board.

Committees of the Board

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

Committee	Chair	Members
Audit	J S Humphrey	S A Chaplain P E J Jollie C J S Renwick
Disclosure	P E J Jollie	J S Humphrey G H Knox B J Crane (Company Secretary)
Health, Safety & Environment	C J S Renwick	P R Coates R M Harding J S Humphrey G H Knox
Remuneration	P E J Jollie	S A Chaplain P R Coates L Di Bartolomeo G H Knox
Risk	R M Harding	S A Chaplain P R Coates L Di Bartolomeo
Nominations and Corporate Governance	P E J Jollie	L Di Bartolomeo J S Humphrey C J S Renwick

The number of meetings and the attendances by each of the members of the various committees to which they are appointed is set out in the Directors' Report.

The Nominations and Corporate Governance Committee

The Nominations and Corporate Governance Committee's primary purpose is to support and advise the Board on fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance. The Committee's responsibilities include:

- assessing the skills and competencies required on the Board
- from time-to-time assessing the extent to which the required skills are represented on the Board
- establishing processes for the review of the performance of individual directors and the Board as a whole
- establishing processes for the identification of suitable candidates for appointment to the Board
- recommending the appointment and appropriateness of directors
- reviewing the company's corporate governance policies and procedures

During the year, Annabelle Chaplain, Peter Coates and Mike Harding joined the Board. Their skills, experience and competencies are outlined in the Directors' Report and complement those of existing directors.

The Nominations and Corporate Governance Committee Charter requires that the committee is comprised of at least three directors, the majority of which are Independent Non-executive Directors. The number of meetings and the attendances by each of the members of the Nomination and Corporate Governance Committee are set out in the Directors' Report.

Corporate Governance

for the year ended 30 June 2009

Board performance evaluation

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

During the year, the Board welcomed the three new members discussed above, revised its' committee structure and membership and has scheduled a performance review and evaluation during the 2009/10 year.

Facilitation of board performance

Downer EDI senior management provides detailed papers for Board meetings and attend meetings to give presentations and answer any questions the directors may have. Divisional Chief Executive Officers present the divisional business plans to the Board as part of the annual business planning cycle and when larger or complex tenders relating to their respective division are being considered.

Directors are encouraged to have maximum exposure to operating businesses. This is achieved through periodic visits and Board meetings at locations that permit a more detailed view of operations and through the Directors' roles on the various Board committees.

New directors

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

Directors' continuing education

Directors are encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge.

Access to information and independent professional advice

Directors are entitled to full access to information required to discharge their responsibilities. With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the company's expense in connection with his or her position as a director. This includes advice on any aspect of Downer EDI's operations or undertakings so that they can fulfil their duties and responsibilities as directors. The directors also have access to the Company Secretary for all Board and governance-related issues.

Principle 3: Promote ethical and responsible decision making

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

Directors' Code of Conduct

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

Corporate Code of Conduct

This formalises the standards that all employees of Downer EDI, including directors, will adhere to whilst conducting its business and includes:

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

The Corporate Code of Conduct also sets out the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Securities Trading Policy

This sets out the policy for directors and Senior Management for dealing in the Company's securities. It stipulates that directors and relevant employees must:

- never engage in short term trading in the company's securities
- not deal in company securities while in the possession of price sensitive information
- notify the Company Secretary of any planned material transactions involving the company's securities
- conduct any buying or selling of the company's securities having regard to restrictive 'trading windows'.

Downer EDI provides a summary of the Directors' Code of Conduct and main provisions of the Corporate Code of Conduct and the Securities Trading Policy on its website at www.downeredi.com.

The current shareholdings of directors and key management personnel are shown in note 33 of the Financial Statements.

Corporate Governance

for the year ended 30 June 2009

Principle 4: Safeguard integrity in financial reporting

The Chief Executive Officer and Managing Director and the Chief Financial Officer provided the Board with statements on Downer EDI's financial reports and compliance with the Corporations Act 2001 and accounting standards. The statements support the declarations required to be made by directors in respect of Group results.

Audit Committee

During the year ended 30 June 2009, Downer EDI separated the Risk Management function from the Audit function through the establishment of a Board Risk Committee.

The Audit Committee assists the Board in fulfilling its responsibility for the oversight of the quality and integrity of the accounting, auditing, and reporting practices of the Company, and such other duties as directed by the Board.

The Audit Committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders. The Audit Committee and the Board are responsible for the appointment, compensation and oversight of the external auditors engaged to prepare an audit report on the financial statements of the company as well as the appointment and oversight of the internal audit function.

The Audit charter provides that the responsibilities of the committee include:

- review of the scope of the annual audit plans of the external auditors and internal auditor and oversight of the work performed by the auditors throughout the year
- consideration and recommendations to the Board on significant policies and material estimates and judgements in financial reports
- review and recommendations to the Board for the adoption of the company's half year and annual financial statements
- reviewing the effectiveness and performance of the internal and external auditors
- fostering an ethical culture throughout the Company

The Audit Committee comprises four Independent Non-executive Directors with relevant financial, commercial, legal and risk management experience as outlined in their profiles in the Directors' Report. The number of meetings and the attendances by each of the members of the Audit Committee are set out in the Directors' Report.

The external audit firm partner in charge of the Downer EDI audit generally attends Audit Committee meetings by invitation, together with the Chief Executive Officer and Managing Director, and the Chief Financial Officer. The Audit Committee also meets with and receives reports from the internal and external auditors concerning any matters that arise in connection with the performance of their respective roles, including adequacy of internal controls. Executive Management is excluded for part of these meetings to allow frank discussion between the Audit Committee and the external auditor.

During the year, Downer EDI continued to focus on the implementation of its internal audit function, which covers all of Downer EDI's operations and is implemented through internal audit staff and supplemented as required by external service providers.

Downer EDI provides a summary the Audit Committee charter on its website at www.downeredi.com.

Principle 5: Make timely and balanced disclosure

Downer EDI is committed to ensuring adherence to regulatory requirements and best practice to ensure timely provision of equal access to material information about the Company, including its financial position, performance, ownership and governance.

The Board has a Continuous Disclosure Policy in place to ensure that the procedures for identifying and disclosing material and price-sensitive information are in accordance with the Corporations Act 2001 and ASX Listing Rules.

Through its Continuous Disclosure Policy, Downer EDI seeks to ensure that:

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

Disclosure Committee

The Company has a Disclosure Committee consisting of the Chairman, Chairman of the Audit Committee, the Chief Executive Officer and Managing Director and the Company Secretary. The Disclosure Committee oversees disclosure of information by the Company. The powers and responsibilities of the Disclosure Committee are:

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

The Disclosure Committee meets on an informal basis as required throughout the year. Results announcements for Downer EDI follow a calendar of regular disclosures to the share market including:

- Full Year Results announcement issued to the market (August)
- Annual Report sent to shareholders (September)
- Annual General Meeting at which the Chairman's and Chief Executive Officer and Managing Director's addresses are provided to the market (October)
- Half Year Results announcement issued to the market (February)
- Half Year Report sent to shareholders (March)

Downer EDI provides a summary of the main provisions of the Continuous Disclosure Policy on its website at www.downeredi.com.

Corporate Governance

for the year ended 30 June 2009

Principle 6: Respect the rights of shareholders

Communications

The Board has established guidelines for shareholder communications which include:

- using the company's website www.downeredi.com to promote and facilitate shareholder communications
- all media releases and announcements to the ASX/NZX, financial presentations, Annual and Half Yearly Reports, Chairman's and Chief Executive Officer and Managing Director's Annual General Meeting presentations and company newsletters are available on the website
- improving shareholder participation in meetings through technology and considering ASX Corporate Governance Council guidelines for meetings and notices
- audio webcasting of the Annual and Half Year Results presentations to analysts
- comprehensive information about Downer EDI and its services and activities are available from the website, and can be mailed on request
- direct mailings to shareholders
- increased use of email to respond to shareholder queries and concerns

Attendance of external auditor at Annual General Meetings

As standard procedure, Downer EDI's external auditor attends the company's Annual General Meeting and is available to answer any questions that shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

Downer EDI provides a description of the guidelines to promote communication with shareholders on its website at www.downeredi.com.

Principle 7: Recognise and manage risk

Risk Committee

Downer EDI has established a Risk Committee to assist the Board in its oversight of:

- Downer EDI's risk profile and risk policies
- the effectiveness of the systems of internal control and framework for risk management
- Downer EDI's compliance with applicable legal and regulatory requirements
- the risk reporting included in Downer EDI's Annual Reports

As part of the Committee's role, it and the Board seek to identify and minimise potential risks and exposure of Downer EDI, both internally and externally. In this way, the Board ensures appropriate:

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

Risk management

To mitigate the risks that arise through its activities, Downer EDI has risk management policies and guidelines in place, that cover interest rate management, foreign exchange risk management, credit risk management, and operational and decision-making risk management.

Risk management groups focus on developing risk management strategies for tendering, operational, contractual, execution and counterparty issues. The divisional risk management groups report to a central risk management group which is responsible for strategy, monitoring implementation of risk management plans and integrating risk management into the business processes of the Group.

The Group has an established corporate compliance team to monitor risk management and uses external consultants to assist with the ongoing review of risk management across the Group. The Group has also established principles for the Company to follow to ensure that contract formation and contract management processes are maintained and improved.

Management reports regularly to the Board on the effectiveness of Downer EDI's management of its material business risks.

Internal controls

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

Sign-off by the Chief Executive Officer and Managing Director and the Chief Financial Officer

The integrity of the Company's financial reporting depends upon the existence of a sound system of risk oversight and management and internal controls. The Board has received assurances from the Chief Executive Officer and Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act, 2001, is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Corporate Governance

for the year ended 30 June 2009

Principle 8: Remunerate fairly and responsibly

The Nominations and Corporate Governance Committee and the Remuneration Committee are responsible for recommending and reviewing remuneration arrangements for the Chief Executive Officer and Managing Director, Executive Directors, Non-executive Directors and Senior Executives of the Company.

Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board in respect of:

- Executive remuneration and incentive policy
- the remuneration of the Company Secretary, all Senior Executives reporting directly to the Chief Executive Officer and Managing Director and all employees of the company whose base remuneration exceeds (currently) \$350,000 per annum
- Executive incentive plans
- equity-based incentive plans
- superannuation arrangements
- recruitment, retention, performance measurement and termination policies and procedures for the Chief Financial Officer, the Company Secretary and all Senior Executives reporting directly to the Chief Executive Officer and Managing Director
- the disclosure of remuneration in applicable public materials including ASX filings and the Annual Report
- retirement payments

The Remuneration Committee charter requires that the committee will comprise at least three members consisting of a majority of independent Non-executive Directors. The number of meetings and the attendances by each of the members of the Remuneration Committee are set out in the Directors' Report.

The remuneration of the Chief Executive Officer and Managing Director, Executive Directors and the Non-executive Directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Structure of Remuneration

The maximum aggregate fees approved by shareholders that can be paid to Non-executive Directors is \$2,000,000 per annum. This cap was approved by shareholders on 30 October 2008. The Directors' Report shows the amount of remuneration paid to Directors and Non-executive Directors. The total amount of remuneration paid to Non-executive Directors during the 2008-2009 financial year was \$1,406,996.

The Company's Constitution allows for retiring Non-executive Directors to receive a retiring allowance, subject to the limitations under the Corporations Act. Consistent with the ASX Principles, the right to retirement benefits, where applicable, was frozen in 2005. However, because remuneration arrangements for some Non-executive Directors were in place prior to 2005, where such retirement benefits have been paid, information about the payments has been fully provided in the financial statements. Directors entitled to a retirement benefit are paid a reduced fee. Once a director's accumulated reduction in base fees has reached the value of the retirement benefit, the applicable base fee reverts to the general fee level. This will apply to Mr Humphrey from 1 July 2009. The retirement benefit has not been offered to Non-executive Directors appointed subsequently.

Non-executive Directors do not participate in any equity incentive schemes.

The remuneration structure for Executive Directors and Senior Executives is designed to achieve a balance between fixed and variable remuneration taking into account the performance of the individual and the performance of the Company. The Executive Directors receive payment of equity-based remuneration as short and long-term incentives. Further details regarding Executive Directors and Senior Executive remuneration are set out in the Remuneration Report.

Downer EDI has a policy which prohibits entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme.

Key features of the current Downer EDI employee share plans and details of Downer EDI shares beneficially owned by directors are provided in the Remuneration Report which forms part of the Directors' Report.

Information for Investors

Downer EDI Shareholders

Downer EDI had 19,037 ordinary shareholders as at 17 August 2009.

The largest shareholder, HSBC Custody Nominees (Australia) Limited, holds 23.01% of the 331,077,655 fully paid ordinary shares issued at that date. Downer EDI has 17,376 shareholders with registered addresses in Australia.

Securities Exchange Listing

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

Company Information

The company's website www.downeredi.com offers comprehensive information about Downer EDI and its services. The site also contains news releases and announcements to the ASX, financial presentations, Annual and Half Year Reports and company newsletters. Downer EDI printed communications for shareholders include the Annual Report and Half Yearly Report. These are available on request.

Dividends

Dividends are determined by the Board of Directors having regard to a range of circumstances within the business operations of Downer EDI. The directors expect that the policy of paying out dividends of approximately 50% of profit after tax will be maintained. The level of franking on dividends is dependent on the level of taxes paid in future years to the Australian Taxation Office.

International shareholders can use Computershare's Global Payments System to receive dividend payments in the currency of their choice at a nominal cost to the shareholder.

Dividend Reinvestment Plan (DRP)

Downer EDI's Dividend Reinvestment Plan is a mechanism to allow shareholders to increase their shareholding in the company without the usual costs associated with share acquisitions, such as brokerage. Details of the Dividend Reinvestment Plan are available from the company's website or the Easy Update website - www.computershare.com.au/easyupdate/dow.

Share Registry

Shareholders and investors seeking information about Downer EDI shareholdings or dividends should contact the company's Share Registrar:

Computershare Investor Services Pty Ltd (Computershare)
Level 5/115 Grenfell Street
ADELAIDE SA 5000
Tel: 1300 556 161 (within Australia) +61 3 9415 4000 (outside Australia)
Fax: 1300 534 987 (within Australia) +61 3 9473 2408 (outside Australia)

www.computershare.com

Shareholders must give their holder number (SRN/HIN) when making inquiries. This number is recorded on issuer sponsored and CHESS statements.

Update Your Shareholder Details

Shareholders can update their details (bank accounts, DRP elections, tax file number and email addresses) on line at www.computershare.com.au/easyupdate/dow.

Shareholders will require their holder number (SRN/HIN) and postcode to access this site.

Tax File Number Information

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

Information for Investors

Lost Issuer Sponsored Statement

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

Annual Report Mailing List

Shareholders must choose to receive a Downer EDI Annual Report and Half Year Report by writing to Computershare Investor Services Pty Ltd at the address provided. Alternatively shareholders may choose to receive these publications electronically.

Change of Address

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

Auditor

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

Registered Office and Principal Administration Office

Downer EDI Limited
Level 3/190 George Street
SYDNEY NSW 2000
Tel: +61 2 9240 9000
Fax: +61 2 9251 1987

Australian Securities Exchange Information as at 17 August 2009

Number of holders of equity securities

Ordinary share capital

331,077,655 fully paid listed ordinary shares were held by 19,037 shareholders. All issued ordinary shares carry one vote per share.

Substantial shareholders

Ordinary shareholders	Fully paid	
	Number of shares	%
The Capital Group Companies, Inc.	28,129,963	8.50
Barclays Global Investors Australia Limited	23,208,727	7.01
AXA Asia Pacific Holdings Limited	21,535,463	6.50
Schroder Investment Management Australia Limited	17,232,929	5.21

Australian Securities Exchange Information as at 17 August 2009 - *continued*

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 17 August 2009

Range of holdings	Number of shareholders	Shareholders %	Units	Shares %
1 - 1,000	9,373	49.2	5,100,225	1.5
1,001 - 5,000	7,746	40.7	17,830,818	5.4
5,001 - 10,000	1,161	6.1	8,185,093	2.5
10,001 - 100,000	681	3.6	15,068,447	4.5
100,001 and over	76	0.4	284,893,072	86.1
Total	19,037	100	331,077,655	100.0
Holding less than a marketable parcel of shares	448			

Downer EDI Limited's twenty largest shareholders: ordinary and fully paid

Name	Number	%
HSBC Custody Nominees (Australia) Limited	76,193,115	23.01
JP Morgan Nominees Australia Limited	57,622,098	17.40
National Nominees Limited	53,377,639	16.12
Citicorp Nominees Pty Ltd	18,202,098	5.50
ANZ Nominees Limited - Cash Income Account	12,877,230	3.89
Cogent Nominees Pty Limited	8,764,526	2.65
Computershare Plan Co Pty Ltd	8,267,425	2.50
UBS Nominees Pty Ltd	7,950,740	2.40
Tarrow Pty Ltd	4,068,787	1.23
HSBC Custody Nominees (Australia) Limited - Account 2	4,025,991	1.22
AMP Life Ltd	3,365,072	1.02
Queensland Investment Corporation	3,082,290	0.93
RBC Dexia Investor Services Australia Nominees Pty Limited - GSJBW Account	2,964,644	0.90
ANZ Nominees Limited - SL Cash Income Account	2,486,715	0.75
Tasman Asset Management Ltd	1,929,377	0.58
Citicorp Nominees Pty Ltd - CFS WSLE INDUSTRIAL SHR Account	1,559,444	0.47
Australian Reward Investment Alliance	1,414,278	0.43
Brispot Nominees Pty Ltd - House Head Nominee No 1 Account	1,249,484	0.38
Invia Custodian Pty Limited - GSJBW Managed Account	1,232,143	0.37
Citicorp Nominees Pty Limited - CFSIL CWLTH AUST SHS 23 Account	967,978	0.29
Total for top 20 shareholders	271,601,074	82.04

On-market buy-back

There is no current on-market buy-back.

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**DOWNER EDI
GROUP OFFICE**

DOWNER EDI LTD

Level 3, 190 George Street
Sydney NSW 2000
Australia
T +61 2 9240 9000
F +61 2 9240 9056
ABN 97 003 872 848

**DOWNER EDI
CONSULTING**

AUSTRALIA

Level 3, 190 George Street
Sydney NSW 2000
T +61 2 9240 9000
F +61 2 9251 4845

CPG CORPORATION

238B Thomson Road #18-00
Tower B, Novena Square
Singapore 307685
T +65 6357 4888
F +65 6357 4188

CPG AUSTRALIA

24 Albert Road
South Melbourne VIC 3205
Australia
T +61 3 9993 7888
F +61 3 9993 7999

CPG NEW ZEALAND

23 Taranaki Street
Wellington 6141
New Zealand
T +64 4 894 7800
F +64 4 894 7881

SNOWDEN

87 Colin Street
West Perth WA 6005
Australia
T +61 8 9213 9213
F +61 8 9322 2576

**DOWNER EDI
ENGINEERING**

AUSTRALIA

Level 7, 76 Berry Street
North Sydney NSW 2060
T +61 2 9966 2400
F +61 2 9955 9649

NEW ZEALAND

2 Carmont Place
Mt Wellington
Auckland
T +64 9 270 6774
F +64 9 270 7680

**DOWNER EDI
MINING**

AUSTRALIA

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

**DOWNER EDI
RAIL**

AUSTRALIA

2B Factory Street
Granville NSW 2142
T +61 2 9637 8288
F +61 2 9637 6783

**DOWNER EDI
WORKS**

AUSTRALIA

Level 2, 650 Lorimer Street
Port Melbourne VIC 3207
T +61 3 8645 0800
F +61 3 8645 0840

NEW ZEALAND

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

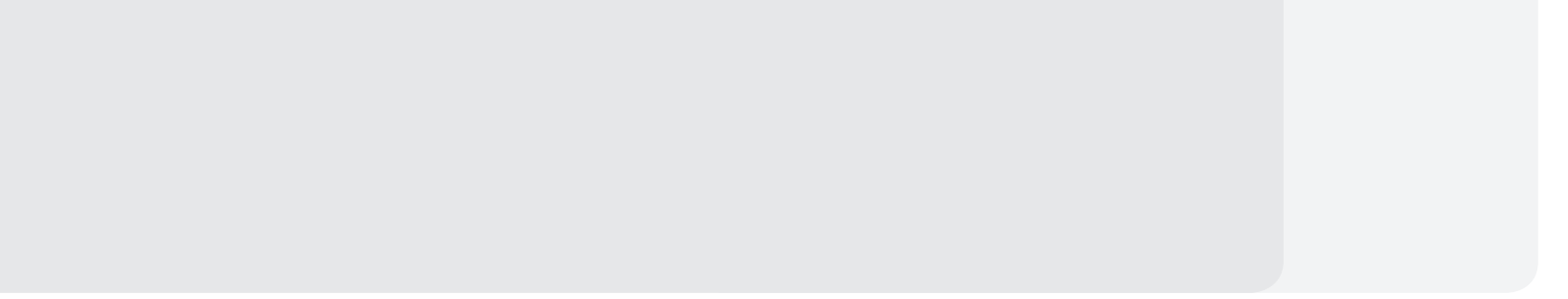
SINGAPORE

11 Lorong 3 Toa Payoh
Block B, 03-16
Jackson Square
T +65 6517 0757

UNITED KINGDOM

Warwick Road
Maltby
Rotherham
South Yorkshire S66 8EW
T +44 1709 819 929
F +44 1709 819 126

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Downer EDI Ltd
Level 3, 190 George Street
Sydney NSW 2000
Australia
T +61 2 9240 9000
F +61 2 9240 9056
ABN 97 003 872 848