# Full Financial Report 2007

Downer EDi
Your Infrastructure Partner

# Contents



## This publication includes Downer EDI Limited's Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2007

It should be read in conjunction with the Downer EDI Limited Concise Annual Report 2007 which provides an overview of the key activities for the year ended 30 June 2007. The Concise Annual Report includes the message from the chairman, chief executive officer's review, chief financial officer's review, review of operations, board of director's profiles and sections on corporate governance, safety, corporate social responsibility, information for investors and Australian Securities Exchange information.

The Full Financial Report and the Concise Annual Report comprise the full annual report of Downer EDI Limited for the year ended 30 June 2007, in accordance with the Corporations Act 2001.

The Concise Annual Report 2007 is available from Downer EDI's Corporate office by request on (02) 9251 9899. Both the Concise Annual Report 2007 and the Full Financial Report 2007 can be found at the Downer EDI website: www.downeredi.com

## Annual General Meeting

Downer EDI Limited's 2007 Annual General Meeting will be held in Sydney at

Shangri-La Hotel Sydney (Ballroom 2), 176 Cumberland Street, The Rocks, Sydney on 2 November 2007, commencing 10.00am.

# Directors' Report

The directors of Downer EDI Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

## Directors

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

**B D O'Callaghan AO**
chairman, non-executive director

**P E J Jollie AM**
deputy chairman, non-executive director

**B D Waldron**
executive director (appointed 1 August 2007)

**S J Gillies**
managing director (resigned 1 August 2007)

**L Di Bartolomeo**
non-executive director

**J S Humphrey**
non-executive director

**C J S Renwick AM**
non-executive director

A profile of current board members is provided in the 2007 Concise Annual Report.

## Directors' meetings

There were 10 full board meetings, 3 audit and risk sub-committee meetings, 5 remuneration sub-committee meetings, 4 corporate governance and nomination sub-committee meetings and 1 safety sub-committee meeting held during the financial year. The number of meetings attended by each director is set out in the table below:

| | Number of Meetings Attended | | | | |
|---|---|---|---|---|---|
| Director | Board of Directors | Audit and Risk Committee | Remuneration Committee | Corporate Governance and Nomination Committee | Safety Committee |
| B D O'Callaghan | 10 | 3 | 4 | 4 | 1 |
| P E J Jollie | 10 | 3 | 5 | 4 | 1 |
| S J Gillies | 10 | – | 5 | – | 1 |
| L Di Bartolomeo | 10 | – | 5 | – | 1 |
| J S Humphrey | 10 | 3 | – | 4 | 1 |
| C J S Renwick | 10 | 3 | – | – | 1 |

## Directors' shareholdings

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

| Director | No. of Fully Paid Ordinary Shares | No. of Performance Rights | No. of Performance Options |
|---|---|---|---|
| B D O'Callaghan | 30,919 | – | – |
| P E J Jollie | 10,595 | – | – |
| B D Waldron | 60,867 | – | – |
| S J Gillies | 3,116,682 | – | – |
| L Di Bartolomeo | 17,914 | – | – |
| J S Humphrey | 53,737 | – | – |
| C J S Renwick | 20,000 | – | – |

## Company secretary

The company secretary is S Mockett. A profile of the company secretary is provided in the Concise Annual Report 2007.

## Principal activities

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

## Review of operations

A review of the consolidated entity's operations is contained in the chief executive officer's review in the 2007 Concise Annual Report.

## Changes in state of affairs

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

## Subsequent events

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

## Future developments

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

## Dividends

In respect of the financial year ended 30 June 2007, the directors declared the payment of a final ordinary dividend of 8.0 cents per share (unfranked) to the holders of fully paid ordinary shares to be paid on 18 October 2007.

In respect of the financial year ended 30 June 2007, an interim dividend of 13.0 cents per share (unfranked) was paid to the holders of fully paid ordinary shares on 13 April 2007.

In respect of the financial year ended 30 June 2006, as detailed in the Directors' Report for that financial year, a final dividend of 8.0 cents per share (unfranked) was paid to the holders of fully paid ordinary shares on 19 October 2006.

## Employee discount share plan ("ESP")

In respect of the financial year ended 30 June 2007, 833,000 shares have been issued under the terms of the ESP (2006:nil). Further details on the employee discount share plan are disclosed in Note 34 to the financial statements.

## Executive share option scheme ("EOS")

No options were granted under the EOS during the year (2006:nil). Further details on the executive share option plan are disclosed in Note 35 to the financial statements.

## Share options

### 2007

During the year, 496,657 performance rights and 1,574,538 performance options were granted to senior executives of the Downer EDI group under the long term incentive plan. The issuing entity was Downer EDI Limited. Details of these unissued shares under rights and options are as follows:

| | Number of Shares | Class of Shares | Exercise Price $ | Expiry Date[1] |
|---|---|---|---|---|
| Performance options | 1,574,538 | Ordinary | 6.72 | 10 November 2013 |
| Performance rights | 496,657 | Ordinary | – | 10 November 2013 |

1 Subject to the satisfaction of certain performance hurdles as noted in section 6.3 of the remuneration report, securities vest on 30 June 2009 or 30 June 2010 and will be exercisable at any time up to the seventh anniversary of the 10 November 2006 grant date.

### 2006

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

| | Number of Shares | Class of Shares | Exercise Price $ | Expiry Date[2] |
|---|---|---|---|---|
| Performance options | 325,869 | Ordinary | 6.07 | 2 November 2012 |
| Performance rights | 47,945 | Ordinary | – | 2 November 2012 |

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

## 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 an officer or auditor.

## Directors and executives remuneration report

### 1. Remuneration principles

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

Downer EDI's remuneration principles are set out below:

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

The information in sections 2 to 7 inclusive sets out the remuneration principles, structure and payments which operated for the financial year to 30 June 2007.

## 2. Remuneration structure

The remuneration structure for executives comprises fixed and variable remuneration.

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

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

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

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

### 2.1 Base salary

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

### 2.2 Variable remuneration

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

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

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

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

For the year ended 30 June 2007, the bonus opportunity for the managing director and for the members of the senior executive team was capped up to a maximum of 50% of their base salary. However, annual bonus payments paid in 2007 in respect of the prior year were mostly in the range of 10% to 25% of base salary.

### 2.3 Remuneration

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

| | Short-Term Employee Benefits | | | Post-Employment Benefits | | Share-Based Transactions | |
|---|---|---|---|---|---|---|---|
| Executives | Salary and Fees $ | Bonus Paid in Respect of Prior Year $ | Non-Monetary $ | Super-annuation $ | Retirement Allowances $ | Other [1] $ | Total $ |
| R Guthrie [2] | 825,257 | 75,000 | 8,699 | 26,140 | 625,000 | – | 1,560,096 |
| D Cattell | 587,500 | 200,000 | 124,100 | 94,000 | – | 31,308 | 1,036,908 |
| B Waldron [3] | 821,242 | – | 19,056 | 39,127 | – | – | 879,425 |
| G Wannop | 462,250 | 129,000 | – | 53,212 | – | 22,546 | 667,008 |
| R Hackett | 481,238 | – | 47,571 | 74,033 | – | 20,140 | 622,982 |
| D O'Brien [4] | 356,159 | – | 3,766 | 53,066 | 386,349 | – | 799,340 |
| D Taylor | 325,200 | 433,488 | – | – | – | – | 758,688 |
| | 3,858,846 | 837,488 | 203,192 | 339,578 | 1,011,349 | 73,994 | 6,324,447 |

1 Performance rights and options granted under the long term incentive plan.

2 R Guthrie (resigned 9 February 2007).

3 B Waldron (finished as Deputy CEO on 11 May 2007 and reappointed as CEO on 2 August 2007).

4 D O'Brien (resigned 26 March 2007).

### 2.4 Company performance

The table below shows the performance of Downer EDI's ordinary shares over the last five years. The table represents total shareholder returns (TSR) for each year, which is the increase in share price over each year plus dividends paid (including the benefit of franking credits) during that year. The table indicates that Downer EDI has delivered a TSR of 2% for the 2007 year. During this period Downer EDI has paid unfranked dividends totalling 21.0 cents per share. A final dividend of 8.0 cents per share unfranked has been declared for the year ended 30 June 2007.

**Total Shareholder Returns**

| Year | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| TSR | 20% | 6% | 72% | 45% | 2% |

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

**Earnings Growth**

| Year | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Growth Rate % | 18% | 22% | 28% | (120%) | 507% |

### 3. Directors remuneration

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

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

The chairman receives a base fee of $175,000 per annum (inclusive of all committee fees) plus superannuation. Most of the other non-executive directors receive a base fee of $100,000 per annum (where they are not entitled to a retirement benefit) or $70,000 per annum (where they are so entitled). Fees for these non-executive directors have been set to reflect market rates and the discontinuation of retirement benefits. There is also a fee for certain committee duties: $25,000 for the chair of the audit committee; $5,000 for the chair of the remuneration committee and $25,000 for other specified additional services.

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

Details of all fees and accrued benefits paid/payable to directors during the 2007 year are set out in the following table. Stephen Gillies was the managing director and each of the other directors is a non-executive director.

| | Short-term Employee Benefits | | Post-Employment Benefits | Share-Based Transactions | |
|---|---|---|---|---|---|
| | Salary and Fees $ | Non-Monetary $ | Super-annuation $ | Other[1] $ | Total $ |
| B D O'Callaghan | 175,000 | – | 15,750 | – | 190,750 |
| P E J Jollie | 115,000 | – | 10,350 | – | 125,350 |
| S J Gillies (resigned 1 August 2007) | 1,533,869 | 6,407 | 135,000 | 280,070 | 1,955,346 |
| L Di Bartolomeo | 100,000 | – | 9,000 | – | 109,000 |
| J S Humphrey | 102,500 | – | 9,225 | – | 111,725 |
| C J S Renwick | 100,000 | – | 9,000 | – | 109,000 |
| | 2,126,369 | 6,407 | 188,325 | 280,070 | 2,601,171 |

1 Performance rights and options granted under the long term incentive plan.

### 4. Contract terms for executives

All executives, except for the chief executive officer, are on open-ended contracts with no fixed end date. The chief executive officer is for a period of up to 12 months.

The standard notice period under executive contracts is 3 months. For the chief executive officer, the notice period is also 3 months.

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

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

### 5. Employee share scheme

In addition to the remuneration arrangements outlined above, the company instituted in June 2005 an Employee Discount Share Plan. During the year 833,000 shares were granted under the plan (2006:nil).

### 6. Remuneration committee

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

The committee is comprised of three independent non-executive directors, (being Peter Jollie (chairman), Barry O'Callaghan and Lucio Di Bartolomeo).

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

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

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

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

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

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

Remuneration for senior executives involves three components:

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

**6.1 Fixed remuneration**

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

**6.2 Short term incentive**

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

**6.3 Long term incentive (LTI)**

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

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

Each grant of performance rights and performance options is divided into 2 pools with each pool consisting of equal numbers of rights and options and with different hurdles being applied to each pool as set out below:

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

Grants of 496,657 performance rights and 1,574,538 performance options have been made under the long term incentive plan during the year ended 30 June 2007. The TSR pool will vest as to 50% of the award in the event that TSR ranking is 50% of the TSR of ASX 100, increasing on a straight line basis with 100% of award vesting if TSR is 75%.

The EPS pool will vest as to 50% of the award in the event that EPS growth for the period is equal to the risk free rate of return (RFRR) plus 2.5% (currently approximately 8.5%). The award will vest as to 100% in the event the EPS growth in the period equals the RFRR plus 5%.

## 7. Downer EDI Deferred Share Plan

The company also operates a Deferred Share Plan ("DSP").

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

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

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

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

**7. Downner EDI Deferred Share Plan continued**

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

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

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

## Rounding of amounts

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

## Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability the directors of Downer EDI Limited support the principles of good corporate governance. The consolidated entity’s performance in relation to Corporate Governance is contained in the Corporate Governance section in the 2007 Concise Annual Report.

## Environmental regulations

The consolidated entity’s performance in relation to Environmental Regulations is contained in the Environmental Compliance section in the 2007 Concise Annual Report.

## Non-audit services

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

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

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

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia’s 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 7.

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

| | $ |
|---|---:|
| Tax consulting | 192,032 |
| Other audit related services | 244,214 |
| Total | 436,246 |

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

On behalf of the directors

B D O’Callaghan
Director

Sydney, 21 August 2007

# Independence Declaration

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

21 August 2007

Dear Sir

**DOWNER EDI LIMITED**

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

As lead audit partner for the audit of the financial statements of Downer EDI Limited for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner

Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

# Income Statement

for the year ended 30 June 2007

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2007<br>$'000 | 2006<br>$'000 | 2007<br>$'000 | 2006<br>$'000 |
| Revenues | 3 | 5,329,530 | 4,633,424 | 95,077 | 109,555 |
| Other income | 3 | 32,385 | 22,475 | 139 | – |
| Share of net profit of joint ventures and associates | 15(b) | 4,638 | 6,159 | – | – |
| Finance costs | | (68,593) | (57,515) | (537) | – |
| Employee benefits expense | 3 | (1,666,221) | (1,507,603) | (14,643) | (9,147) |
| Raw materials and consumables used | | (1,488,728) | (1,143,623) | – | – |
| Subcontractor costs | | (872,393) | (846,122) | – | – |
| Plant and equipment costs | | (661,275) | (590,409) | – | – |
| Changes in inventories of finished goods and work in progress | | (74,587) | (81,866) | – | – |
| Communication expenses | | (44,574) | (48,983) | (214) | (105) |
| Occupancy costs | | (60,050) | (56,836) | (832) | (816) |
| Professional fees | | (54,012) | (35,258) | (380) | (579) |
| Travel and accommodation expenses | | (64,300) | (56,400) | (1,137) | (741) |
| Other expenses from ordinary activities | | (86,944) | (54,674) | (7,077) | (4,610) |
| Individually significant items | 4 | (152,233) | (293,675) | – | – |
| **Profit/(loss) before income tax** | | 72,643 | (110,906) | 70,396 | 93,557 |
| Income tax benefit/(expense) | 5 | 28,855 | 85,977 | (16,175) | (9,967) |
| **Profit/(loss) from continuing operations** | | 101,498 | (24,929) | 54,221 | 83,590 |
| **Profit/(loss) attributable to members of the parent entity** | | 101,498 | (24,929) | 54,221 | 83,590 |
| **Earnings per share (cents)** | | | | | |
| – basic | 7 | 31.3 | (8.4) | | |
| – diluted | 7 | 31.3 | (8.4) | | |

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

# Balance Sheet

as at 30 June 2007

| | Note | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Company 2007 $'000 | Company 2006 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 9 | 242,746 | 167,895 | 127 | 223 |
| Inventories | 10 | 177,543 | 173,566 | – | – |
| Trade and other receivables | 11 | 1,090,420 | 948,765 | 486,333 | 415,692 |
| Other financial assets | 12 | 19,118 | 16,387 | 2,650 | 1,921 |
| Current tax assets | 13 | 2,297 | 18,421 | – | 15,295 |
| Other assets | 14 | 26,558 | 25,394 | 91 | 61 |
| **Total current assets** | | 1,558,682 | 1,350,428 | 489,201 | 433,192 |
| **Non-current assets** | | | | | |
| Trade and other receivables | 11 | 518 | – | 729,223 | 606,265 |
| Equity-accounted investments | 15 | 7,899 | 11,184 | – | – |
| Property, plant and equipment | 16 | 754,154 | 676,416 | – | – |
| Intangible assets | 17 | 569,551 | 541,618 | – | – |
| Other financial assets | 12 | 84,309 | 23,020 | 238,361 | 232,322 |
| Deferred tax assets | 13(a) | 197,079 | 148,112 | 34,149 | 37,853 |
| Other assets | 14 | 7,835 | 9,099 | – | – |
| **Total non-current assets** | | 1,621,345 | 1,409,449 | 1,001,733 | 876,440 |
| **Total assets** | | **3,180,027** | **2,759,877** | **1,490,934** | **1,309,632** |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 18 | 848,791 | 816,076 | 15,800 | 9,948 |
| Borrowings | 19 | 193,685 | 136,498 | – | – |
| Other financial liabilities | 20 | 18,803 | 29,608 | – | – |
| Provisions | 21 | 196,851 | 152,976 | 1,371 | 1,329 |
| Current tax liabilities | 22 | 16,467 | 12,239 | – | – |
| **Total current liabilities** | | 1,274,597 | 1,147,397 | 17,171 | 11,277 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 18 | 877 | 1,436 | 574,725 | 429,350 |
| Borrowings | 19 | 499,309 | 503,782 | – | – |
| Other financial liabilities | 20 | 109,404 | 48,455 | – | – |
| Provisions | 21 | 104,893 | 61,232 | 663 | 498 |
| Deferred tax liabilities | 22(a) | 21,040 | 47,032 | – | – |
| **Total non-current liabilities** | | 735,523 | 661,937 | 575,388 | 429,848 |
| **Total liabilities** | | **2,010,120** | **1,809,334** | **592,559** | **441,125** |
| **Net assets** | | **1,169,907** | **950,543** | **898,375** | **868,507** |
| **EQUITY** | | | | | |
| Issued capital | 23 | 1,065,317 | 846,345 | 886,714 | 846,345 |
| Reserves | 24 | (50,271) | (17,707) | 1,816 | 185 |
| Retained earnings | 25 | 154,861 | 121,905 | 9,845 | 21,977 |
| **Total equity** | | **1,169,907** | **950,543** | **898,375** | **868,507** |

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

# Statement of recognised income and expense

for the year ended 30 June 2007

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| Total equity at the beginning of the financial year | | 950,543 | 900,582 | 868,507 | 678,619 |
| Adjustment on adoption of AASB 132 and AASB 139: | | | | | |
| Retained earnings | 25 | – | (18,915) | – | – |
| Reserves | 24 | – | 3,523 | – | – |
| Current period movements: | | | | | |
| Cash flow hedges | 24 | (29,680) | (4,803) | – | – |
| Exchange rate differences on translation of foreign operations | 24 | (4,515) | (11,213) | – | – |
| Share-based transactions | 24 | 1,631 | 185 | 1,631 | 185 |
| | | 917,979 | 869,359 | 870,138 | 678,804 |
| Profit/(loss) after tax for the year | | 101,498 | (24,929) | 54,221 | 83,590 |
| **Total recognised income and expense for the year** | | **1,019,477** | **844,430** | **924,359** | **762,394** |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Contributions of equity (net of transaction costs) | 23 | 218,972 | 176,505 | 40,369 | 176,505 |
| Dividends provided for or paid | 25 | (68,542) | (70,392) | (66,353) | (70,392) |
| | | 150,430 | 106,113 | (25,984) | 106,113 |
| **Total equity at the end of the financial year** | | **1,169,907** | **950,543** | **898,375** | **868,507** |

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 2007

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2007<br>$'000 | 2006<br>$'000 | 2007<br>$'000 | 2006<br>$'000 |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 5,616,750 | 4,944,967 | 3,516 | 440 |
| Distributions from joint ventures | 15(b) | 6,937 | 11,635 | – | – |
| Interest received | | 10,888 | 6,397 | 1,487 | 41 |
| Dividends received from controlled entities | | – | – | 16,000 | 55,938 |
| Dividends received from external entities | | 104 | 1,142 | 17 | – |
| Payments to suppliers and employees | | (5,475,178) | (4,798,770) | (22,831) | (7,760) |
| Interest and other costs of finance paid | | (69,058) | (50,815) | (537) | (378) |
| Income tax refunded/(paid) | | 15,713 | (24,654) | 29,418 | (2,548) |
| **Net cash inflow from operating activities** | 27(c) | 106,156 | 89,902 | 27,070 | 45,733 |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of property, plant and equipment | | 30,640 | 48,102 | – | – |
| Proceeds from sale of investments | | 12,060 | 5,526 | – | – |
| Payment for investments | | (72,654) | (24,750) | (674) | – |
| Advances to controlled entities | | – | – | (136,497) | (222,970) |
| Payment for property, plant and equipment | | (127,762) | (197,383) | – | – |
| Receipts from joint ventures | | 4,072 | 3,241 | – | – |
| Payment for businesses acquired | 26(b) | (67,555) | (219,241) | – | – |
| **Net cash (used) in investing activities** | | (221,199) | (384,505) | (137,171) | (222,970) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | 1,271,044 | 948,729 | 140,268 | 71,662 |
| Proceeds from issue of equity securities | | 176,856 | 142,584 | 3,720 | 142,584 |
| Repayment of borrowings | | (1,224,120) | (760,292) | – | – |
| Dividends paid | | (36,172) | (36,854) | (33,983) | (36,854) |
| **Net cash inflow from financing activities** | | 187,608 | 294,167 | 110,005 | 177,392 |
| **Net increase/(decrease) in cash and cash equivalents** | | 72,565 | (436) | (96) | 155 |
| Cash and cash equivalents at the beginning of the year | | 164,359 | 165,972 | 223 | 68 |
| Effect of exchange rate changes | | (3,260) | (1,177) | – | – |
| **Cash and cash equivalents at the end of the year** | **27(a)** | **233,664** | **164,359** | **127** | **223** |

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

# Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2007

## 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 except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 21 August 2007.

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

The preparation of the financial statements 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.

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 makes 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 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.

**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 statements for the year ended 30 June 2007, 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 consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. A list of controlled entities appears in Note 31 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

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

## 1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

**Revenue recognition**

### Sale of goods

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

### Engineering services contracts

(i) Construction contracts

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

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

(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 contracts 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) Other engineering services contracts (long term)

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

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

### Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. This is normally determined as services performed up to and including the balance sheet date as a proportion of the total to be performed, and revenue from time and material contracts recognised at the contractual rates as labour hours delivered at 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.

### 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.

## 1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

**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 period**

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

**Tax consolidation**

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

**Cash and cash equivalents**

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

**Inventories**

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

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

**Available-for-sale financial assets**

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

**Loans and receivables**

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

## 1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

**Non-current asset held for sale**

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

**Joint ventures**

**Jointly controlled assets and operations**

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

**Jointly controlled entities**

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

**Property, plant and equipment**

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

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

The 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.

**Research and development costs**

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

**Impairment of assets**

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

**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.

## 1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

**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 profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the profit or loss.

**Fair value hedges**

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

**Cash flow hedges**

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

**Embedded derivatives**

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

**Employee benefits**

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

**Provisions**

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

**Decommissioning and restoration**

Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on estimated future costs. The provision is discounted using a current market-based pre-tax discount rate.

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

**Warranty**

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

**Foreign currency**

**Foreign currency transactions**

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

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

## 1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

### Foreign operations

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

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

### 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 share equity.

The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-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 each period takes into account the most recent estimate.

### Accounting for financial guarantee contracts

The AASB released AASB 2005-9 'Amendments to the Australian Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 'Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognised in accordance with AASB 139 and 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.

### Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members of the parent entity, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit attributable to members of the parent entity, adjusted for:

- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and finance costs associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

### New accounting Standards and Interpretations

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

- AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue – effective for annual reporting periods beginning on or after 1 January 2007;
- AASB 8 'Operating segments' – effective for annual reporting periods beginning on or after 1 January 2009;
- AASB 101 'Presentation of Financial Statements' revised standard – effective for annual reporting periods beginning on or after 1 January 2007; and
- Interpretation 10 'Interim Financial Reporting and Impairment' – effective for annual reporting periods beginning on or after 1 November 2006.

Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the Group. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect either the company's or the Group's previously reported results and accordingly, there will be no impact to these financial statements on adoption of the Interpretation.

The application of AASB 101 (revised), AASB 7, AASB 8 and AASB 2005-10 will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the company's and the Group's financial instruments and the objectives, polices and processes for managing capital.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the company's annual reporting period beginning on 1 July 2007.

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Downer EDI's material business segments are: **Mining and Resources** (provides international mine consulting and contracting services including mine planning, optimisation management and modelling, materials processing consulting and infrastructure, drilling and blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration, oil, gas, geothermal and mineral drilling activities); **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 and Engineering services** (provides engineering and consultancy services, (design, project management, facilities management, construct and maintain) specialising in telecommunications, power and process engineering, 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 **Unallocated** (comprises financing and corporate costs, it also includes fee based revenue and other income generated by corporate office, including cost reimbursement relating to the NSW PPP which achieved financial close on 7th December 2006).

Following a change in the Rail business after achieving financial close on the NSW PPP contract during the year, management has considered the make up of what constitutes separate reportable segments of the Group for financial reporting purposes. As a result, the previously disclosed Rail segment has been amalgamated into the Engineering segment. This change reflects the underlying revenue streams of Rail being similar in nature to the Engineering business in that their product and services, engineering processes and methods of delivery are closely related. The awarding of the NSW PPP to Rail has substantially changed the mix of design and manufacturing to be more closely aligned with the Engineering business. Comparative amounts have been reclassified and repositioned for consistency with current year disclosures.

| | Total Revenue [1] | | Share of Sales Revenue in Joint Venture Entities | | Total Turnover | |
|---|---|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **By business segment** | | | | | | |
| Mining and Resources | 1,653,056 | 1,627,721 | 41,879 | 28,727 | 1,694,935 | 1,656,448 |
| Works | 1,609,645 | 1,073,461 | 10,277 | 5,049 | 1,619,922 | 1,078,510 |
| Rail and Engineering Services | 2,105,170 | 1,960,346 | 8,086 | 37,807 | 2,113,256 | 1,998,153 |
| Total | 5,367,871 | 4,661,528 | 60,242 | 71,583 | 5,428,113 | 4,733,111 |
| Eliminations | (26,201) | (13,616) | – | – | (26,201) | (13,616) |
| Unallocated | 20,245 | 7,987 | – | – | 20,245 | 7,987 |
| Total | 5,361,915 | 4,655,899 | 60,242 | 71,583 | 5,422,157 | 4,727,482 |

1 Total revenue includes 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.

| | Operating Segment Result | | Significant Items before Tax | | Segment Result | |
|---|---|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **By business segment** | | | | | | |
| Mining and Resources | 101,420 | 83,657 | (96,282) | (228,185) | 5,138 | (144,528) |
| Works | 74,121 | 61,610 | – | – | 74,121 | 61,610 |
| Rail and Engineering Services | 116,208 | 101,504 | (71,551) | (57,490) | 44,657 | 44,014 |
| Total | 291,749 | 246,771 | (167,833) | (285,675) | 123,916 | (38,904) |
| Unallocated | (66,873) | (64,002) | 15,600 | (8,000) | (51,273) | (72,002) |
| **Total profit/(loss) before income tax** | 224,876 | 182,769 | (152,233) | (293,675) | 72,643 | (110,906) |
| Income tax benefit | | | | | 28,855 | 85,977 |
| **Result for the year** | | | | | 101,498 | (24,929) |

## 2. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

| | Segment Assets | | Segment Liabilities | | Depreciation and Amortisation | |
|---|---|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **By business segment** | | | | | | |
| Mining and Resources | 1,016,538 | 917,825 | 293,124 | 303,957 | 69,052 | 57,634 |
| Works | 981,409 | 701,233 | 332,077 | 266,958 | 41,724 | 31,439 |
| Rail and Engineering Services | 1,056,427 | 1,020,162 | 650,601 | 353,221 | 26,402 | 19,093 |
| Total | 3,054,374 | 2,639,220 | 1,275,802 | 924,136 | 137,178 | 108,166 |
| Unallocated | 125,653 | 120,657 | 734,318 | 885,198 | 250 | 151 |
| Total | 3,180,027 | 2,759,877 | 2,010,120 | 1,809,334 | 137,428 | 108,317 |

| | Carrying Value of Equity Accounted Investments | | Share of Net Profit of Equity Accounted Investments | | Acquisition of Segment Assets | |
|---|---|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **By business segment** | | | | | | |
| Mining and Resources | 31 | 149 | 5,338 | 6,052 | 150,059 | 136,981 |
| Works | 3,156 | 2,960 | 1,202 | 665 | 125,551 | 257,371 |
| Rail and Engineering Services | 4,037 | 8,075 | (1,902) | (558) | 40,744 | 52,770 |
| Total | 7,224 | 11,184 | 4,638 | 6,159 | 316,354 | 447,122 |
| Unallocated | 675 | – | – | – | – | – |
| Total | 7,899 | 11,184 | 4,638 | 6,159 | 316,354 | 447,122 |

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

| | Total Revenue | | Segment Assets | | Acquisition of Segment Assets | |
|---|---|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **By geographic location** | | | | | | |
| Australia | 4,035,804 | 3,368,310 | 1,994,903 | 2,292,013 | 225,783 | 291,965 |
| Pacific | 937,439 | 995,211 | 737,388 | 174,079 | 40,334 | 88,824 |
| South East Asia | 286,655 | 251,175 | 337,780 | 217,938 | 25,302 | 49,605 |
| North East Asia | 35,186 | 31,101 | 58,906 | 55,867 | 383 | 7 |
| Other | 66,831 | 10,102 | 51,050 | 19,980 | 24,552 | 16,721 |
| Total | 5,361,915 | 4,655,899 | 3,180,027 | 2,759,877 | 316,354 | 447,122 |

# Notes to and Forming Part of the Financial Statements continued

for the year ended 30 June 2007

## 3. PROFIT FROM ORDINARY ACTIVITIES – CONTINUING OPERATIONS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| **a) Revenue and other income** | | | | |
| **Sales revenue** | | | | |
| Rendering of services | 4,303,607 | 3,333,720 | 14,164 | 15,018 |
| Engineering services contract revenue | 871,619 | 1,194,104 | – | – |
| Sale of goods | 137,217 | 91,366 | – | – |
| **Interest revenue** | | | | |
| Subsidiaries | – | – | 59,859 | 37,975 |
| Other entities | 11,233 | 6,391 | 1,487 | 55 |
| **Other revenue** | | | | |
| Other revenue | 5,190 | 6,252 | 3,550 | 569 |
| Rental income | 560 | 397 | – | – |
| **Dividends** | | | | |
| Subsidiaries | – | – | 16,000 | 55,938 |
| Other entities | 104 | 1,194 | 17 | – |
| | 5,329,530 | 4,633,424 | 95,077 | 109,555 |
| **Other income** | | | | |
| Net income on disposal of property, plant and equipment | 20,758 | 16,112 | – | – |
| Net income on disposal of investments | 2,982 | 4,083 | 139 | – |
| Net gain on revaluation of financial assets | 2,422 | – | – | – |
| Net foreign exchange gains | 6,223 | 2,280 | – | – |
| Total other income | 32,385 | 22,475 | 139 | – |
| **Total revenue and other income** | **5,361,915** | **4,655,899** | **95,216** | **109,555** |
| Net share of sales revenue in joint venture entities | 60,242 | 71,583 | – | – |
| **Total turnover** | **5,422,157** | **4,727,482** | **95,216** | **109,555** |

## 3. PROFIT FROM ORDINARY ACTIVITIES – CONTINUING OPERATIONS CONTINUED

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **b) Operating expenses** | | | | |
| Cost of sales | 119,710 | 72,648 | – | – |
| Interest expense | 65,955 | 52,981 | 537 | – |
| Finance lease expense | 1,296 | 454 | – | – |
| Other finance costs | 1,342 | 4,080 | – | – |
| Depreciation and amortisation of non-current assets: | | | | |
| Plant and equipment | 127,622 | 103,769 | – | – |
| Buildings | 2,082 | 2,607 | – | – |
| Amortisation of leased assets | 1,460 | 835 | – | – |
| Amortisation of intellectual property | 6,264 | 1,106 | – | – |
| Total depreciation and amortisation | 137,428 | 108,317 | – | – |
| Doubtful debts | 578 | 8,888 | – | – |
| Operating lease expenses | 158,446 | 133,182 | – | – |
| Employee benefits expense: | | | | |
| Defined contribution plans | 89,923 | 82,293 | 713 | 488 |
| Share-based transactions | 1,631 | 185 | 1,631 | 185 |
| Employee benefits | 1,574,667 | 1,425,125 | 12,299 | 8,474 |
| Total employee benefits expense | 1,666,221 | 1,507,603 | 14,643 | 9,147 |

## 4. INDIVIDUALLY SIGNIFICANT ITEMS

The following material items are relevant to an understanding of the Group's financial performance:

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Company 2007 $'000 | Company 2006 $'000 |
|---|---|---|---|---|
| Provision for contract claims and disputes (Note 30) [1] | (145,287) | (285,675) | – | – |
| Provision for contract mining losses [2] | (61,500) | – | – | – |
| Changes in accounting estimates for operating lease provisions [3] | 38,954 | – | – | – |
| Reimbursed PPP tender costs | 15,600 | – | – | – |
| PPP tender expense | – | (8,000) | – | – |
| Total significant items before income tax | (152,233) | (293,675) | – | – |
| Tax benefits on significant items | 45,670 | 88,103 | – | – |
| Tax consolidation uplift (Note 5a) | – | 42,888 | – | – |
| Tax benefits on research and development (Note 5a) | 46,495 | – | – | – |
| Total significant items after income tax | (60,068) | (162,684) | – | – |

1 The provision comprises contract claims and disputes net of settlement amounts and relevant fee income relating to construction contracts. In determining the provision, the company has had regard to factors including variations of scope, delays, prolongation, skills shortages and the delay in acknowledgment of contract disputes by customers. The provision is related to construction contracts for the Engineering and Mining businesses. A significant portion of the provision relates to costs for which cash outflows have already occurred. The balance represents estimated costs to complete which includes allowances for legal and consulting costs related to the recovery of disputed amounts.

2 The provision for contract mining losses relates to disputed amounts and future costs with customers which are subject to settlement processes.

3 Under the terms of certain operating lease agreements in the mining segment there are exposures to make good provisions. A reassessment of the likely future expenditure has been carried out in the current year following a review of historical evidence and recent trends of incurring such costs. Such assessment has resulted in a re-estimation of the provision required to meet make good expenditure obligations. The company believes this change in accounting estimate should be disclosed separately to assist in the understanding of the underlying financial performance.

## 5. INCOME TAX

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **a) Income tax recognised in the income statement** | | | | |
| Tax expense comprises: | | | | |
| Current tax expense/(benefit) | 69,672 | (295) | 15,748 | 13,211 |
| Deferred tax (benefit)/expense relating to the origination and reversal of temporary differences | (98,527) | (85,682) | 427 | (3,244) |
| Total tax (benefit)/expense | (28,855) | (85,977) | 16,175 | 9,967 |
| The prima facie income tax (benefit)/expense on pre-tax accounting profit/(loss) reconciles to the income tax expense/(benefit) in the financial statements as follows: | | | | |
| **Profit/(loss) from operations** | 72,643 | (110,906) | 70,396 | 93,557 |
| Income tax expense/(benefit) calculated at 30% of operating profit/(loss) | 21,793 | (33,272) | 21,119 | 28,067 |
| Non-allowable depreciation | 80 | 229 | – | – |
| Amortisation of intangible assets | 56 | 80 | – | – |
| Non-taxable gains | (2,943) | (1,606) | – | – |
| Exempt income | (1,373) | – | – | – |
| Non-deductible expenses | 1,050 | 683 | 4 | 70 |
| Dividends from within the tax group | – | – | (4,800) | (16,781) |
| Equity share of associates' and joint venture entities' profits | 301 | (39) | – | – |
| Effect of different rates of tax on overseas income/losses | 335 | 1,760 | – | – |
| Research and development | (3,531) | (1,374) | – | – |
| Other items | 578 | (2,899) | (904) | – |
| Benefits arising from previously unrecognised temporary differences | 478 | – | – | – |
| Impact of adopting tax consolidation during the period (Note 4) [1] | – | (42,888) | – | – |
| Tax benefits on research and development (Note 4) [2] | (46,495) | – | – | – |
| | (29,671) | (79,326) | 15,419 | 11,356 |
| (Over)/under provision of income tax in previous year | 816 | (6,651) | 756 | (1,389) |
| Income tax (benefit)/expense attributable to profit/(loss) | (28,855) | (85,977) | 16,175 | 9,967 |

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

2 The balance of 2006 research and development tax benefits recognised in the current year.

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.

## 5. INCOME TAX CONTINUED

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| **b) Income tax recognised directly in equity** | | | | |
| The following current and deferred amounts were charged directly to equity during the year: | | | | |
| **Deferred tax:** | | | | |
| Revaluations of financial instruments treated as cash flow hedges | 13,291 | 835 | – | – |
| Adjustments to opening retained earnings associated with changes in accounting policies for financial instruments | – | (229) | – | – |
| Other | 2,206 | – | 2,206 | – |
| Total charged directly to equity | 15,497 | 606 | 2,206 | – |

## 6. AUDITORS' REMUNERATION

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $** | **2006 $** | **2007 $** | **2006 $** |
| Deloitte Touche Tohmatsu earned the following remuneration from Downer EDI during the year: | | | | |
| Audit services: | | | | |
| Audit and review of financial reports | 2,978,100 | 2,692,000 | 657,000 | 550,000 |
| Taxation services | 33,275 | 104,836 | – | – |
| A-IFRS implementation | – | 156,520 | – | 156,520 |
| Consulting | – | 10,000 | – | 10,000 |
| Other assurance services | 244,218 | 89,644 | 138,600 | – |
| | 3,255,593 | 3,053,000 | 795,600 | 716,520 |
| Other auditors: | | | | |
| Audit and review of financial reports | 906,725 | 714,000 | – | – |
| Taxation services | 188,757 | 89,800 | – | – |
| Consulting | 35,000 | 66,300 | – | – |
| Other services | 17,199 | 79,000 | – | – |
| | 1,147,681 | 949,100 | – | – |
| Total auditors' remuneration | 4,403,274 | 4,002,100 | 795,600 | 716,520 |

## 7. EARNINGS PER SHARE

| | 2007 Cents per share | 2006 Cents per share |
|---|---|---|
| Earnings per share from continuing operations: | | |
| Basic | 31.3 | (8.4) |
| Diluted | 31.3 | (8.4) |

| **Weighted average number of shares used as the denominator** | 2007 No. (000's) | 2006 No. (000's) |
|---|---|---|
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share | 316,855 | 297,841 |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share adjusted for ROADS | 324,275 | 297,841 |

| **Reconciliations of earnings used in calculating earnings per share** | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Basic earnings per share** | | |
| Profit/(loss) attributable to ordinary shareholders | 101,498 | (24,929) |
| Profit adjusted to reflect preference shares used in calculating basic EPS | (2,189) | – |
| Profit/(loss) attributable to ordinary shareholders used in calculating basic EPS | 99,309 | (24,929) |
| **Diluted earnings per share** | | |
| Profit/(loss) attributable to ordinary shareholders used in calculating diluted EPS | 101,498 | (24,929) |

## 8. DIVIDENDS

| | Final 2007 | Final 2006 | Interim 2007 | Interim 2006 |
|---|---|---|---|---|
| **a) Ordinary shares** | | | | |
| Dividend per share (in Australian cents) | 8.0 | 8.0 | 13.0 | 12.0 |
| Franking percentage | unfranked | unfranked | unfranked | 70% franked |
| Cost (in $'000) | 25,680 | 25,134 | 41,219 | 35,390 |
| Payment date | 18/10/2007 | 19/10/2006 | 13/04/2007 | 13/04/2006 |
| Dividend record date | 04/09/2007 | 04/09/2006 | 09/03/2007 | 10/03/2006 |

The final 2007 dividends had not been declared at the reporting date, they are not reflected in the financial statements.

| | Final 2007 |
|---|---|
| **b) Redeemable Optionally Adjustable Distributing Securities (ROADS)** | |
| Dividend per ROADS (in Australian cents) | 1.09 |
| New Zealand imputation credit percentage per ROADS | 100% |
| Cost (in $'000) | 2,189 |
| Payment date | 15/06/2007 |

| | Company | |
|---|---|---|
| | 2007 $'000 | 2006 $'000 |
| **Franking credits** | | |
| Franking account balance | – | – |

## 9. CASH AND CASH EQUIVALENTS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| Cash at bank and in hand | 163,603 | 141,404 | 127 | 223 |
| Short-term deposits | 79,143 | 26,491 | – | – |
| | 242,746 | 167,895 | 127 | 223 |

## 10. INVENTORIES

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Raw materials – at cost | 80,947 | 71,129 | – | – |
| Work in progress – at cost | 10,509 | 13,374 | – | – |
| Finished goods – at cost | 20,599 | 23,806 | – | – |
| Components and spare parts – at cost | 64,350 | 63,101 | – | – |
| Components and spare parts – at net realisable value | 1,138 | 2,156 | – | – |
| | 177,543 | 173,566 | – | – |

## 11. TRADE AND OTHER RECEIVABLES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Current** | | | | |
| Trade receivables | 847,672 | 770,624 | – | – |
| Allowance for doubtful debts | (6,249) | (5,671) | – | – |
| | 841,423 | 764,953 | – | – |
| Amounts due from customers under engineering services contracts (Note 30) | 200,187 | 134,715 | – | – |
| Other receivables controlled entities | – | – | 486,149 | 415,587 |
| Other receivables | 48,810 | 49,097 | 184 | 105 |
| | 1,090,420 | 948,765 | 486,333 | 415,692 |
| **Non-current** | | | | |
| Other receivables controlled entities | – | – | 729,223 | 606,265 |
| Other receivables | 518 | – | – | – |
| | 518 | – | 729,223 | 606,265 |
| Total trade and other receivables | 1,090,938 | 948,765 | 1,215,556 | 1,021,957 |

## 12. OTHER FINANCIAL ASSETS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Current** | | | | |
| Available-for-sale investments | – | 10,635 | – | – |
| Employee loans | 1,043 | 1,043 | 1,043 | 1,043 |
| Foreign currency forward contracts | 153 | 464 | – | – |
| Fair value through profit and loss investments | 15,495 | – | – | – |
| Advances to joint venture entities | – | 1,863 | – | – |
| Other financial assets | 2,427 | 2,382 | 1,607 | 878 |
| | 19,118 | 16,387 | 2,650 | 1,921 |
| **Non-current** | | | | |
| Shares in controlled entities | – | – | 238,361 | 231,424 |
| Available-for-sale investments | 16,071 | 15,696 | – | – |
| Cross currency interest rate swaps | 1,925 | 4,030 | – | – |
| Deferred consideration receivable | – | 2,396 | – | – |
| Other | 66,313 | 898 | – | 898 |
| | 84,309 | 23,020 | 238,361 | 232,322 |
| Total other financial assets | 103,427 | 39,407 | 241,011 | 234,243 |

## 13. TAX ASSETS

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Company 2007 $'000 | Company 2006 $'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Current tax assets | 2,297 | 18,421 | – | 15,295 |
| **Non-current** | | | | |
| a) Deferred tax assets | 197,079 | 148,112 | 34,149 | 37,853 |
| b) Movement in deferred tax asset for the financial year: | | | | |
| Balance at beginning of the financial year | 207,290 | 109,276 | 37,850 | 994 |
| Adoption of A-IFRS | – | 3,256 | – | – |
| Restated balance at beginning of the financial year | 207,290 | 112,532 | 37,850 | 994 |
| Charged to income statement as deferred income tax benefit (Note 13(d)) | 98,417 | 95,454 | (410) | 3,241 |
| Charged to equity | 17,095 | 467 | 2,206 | – |
| Acquisitions of businesses | 25,510 | 4,069 | – | – |
| Net foreign currency exchange differences | 856 | (1,482) | – | – |
| Transfer/utilisation of losses | (61,565) | – | (5,483) | 33,615 |
| Other | (354) | (3,750) | – | – |
| Balance at end of the financial year (gross) (13(c)) | 287,249 | 207,290 | 34,163 | 37,850 |
| Set-off of deferred tax assets within the same tax jurisdiction (Note 22(b)) | (90,170) | (59,178) | (14) | 3 |
| Net deferred tax assets | 197,079 | 148,112 | 34,149 | 37,853 |

## 13. TAX ASSETS CONTINUED

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| 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 | 9,198 | 11,321 | – | – |
| Inventories | 4,241 | 3,206 | – | – |
| Property, plant & equipment | 418 | 4,055 | – | – |
| Equity accounted investments | 3,850 | 3,850 | – | – |
| Trade and other payables | 15,404 | 16,863 | 1,782 | 1,038 |
| Provisions | 181,435 | 126,208 | 3,920 | 3,121 |
| Borrowings | 1,740 | 1,248 | – | – |
| Income tax losses | 52,785 | 39,865 | 28,461 | 33,691 |
| Finance | 13,407 | – | – | – |
| Other | 4,771 | 674 | – | – |
| Total deferred tax assets (gross) | 287,249 | 207,290 | 34,163 | 37,850 |
| d) Amounts charged to income statement as deferred income tax benefit: | | | | |
| Trade and other receivables | (1,876) | 3,096 | – | – |
| Inventories | 1,023 | 449 | – | – |
| Property, plant & equipment | 488 | (12,905) | – | – |
| Trade and other payables | (1,371) | 7,723 | 638 | 27 |
| Provisions | 18,910 | 62,794 | (776) | 3,214 |
| Borrowings | 188 | 787 | – | – |
| Income tax losses | 40,950 | 36,260 | – | – |
| Finance | 72 | – | – | – |
| Other | 2,641 | (392) | – | – |
| Deferred tax assets not previously recognised | 37,392 | (2,358) | (272) | – |
| Charged to income statement as deferred income tax benefit | 98,417 | 95,454 | (410) | 3,241 |

## 14. OTHER ASSETS

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Prepayments | 20,844 | 20,767 | 57 | 54 |
| Other deposits | 3,329 | 2,646 | – | – |
| Other current assets | 2,385 | 1,981 | 34 | 7 |
| | 26,558 | 25,394 | 91 | 61 |
| **Non-current** | | | | |
| Prepayments | 7,025 | 8,587 | – | – |
| Other | 810 | 512 | – | – |
| | 7,835 | 9,099 | – | – |
| Total other assets | 34,393 | 34,493 | 91 | 61 |

## 15. EQUITY-ACCOUNTED INVESTMENTS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| Equity-accounted investments (Note 15(b)) | 7,899 | 11,184 | – | – |

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

| Name of Entity | Principal Activity | Ownership Interest 2007 % | Ownership Interest 2006 % |
|---|---|---|---|
| Airfield Works Joint Venture | Airport civil engineering | 49 | 49 |
| Alex Fraser Asphalt Production | Asphalt production and sales | 50 | 50 |
| BPL Downer Joint Venture | Construction of public facilities | 50 | 50 |
| CHDE Joint Venture | Pumping station refurbishment | 50 | – |
| China Fujian Downer Joint Venture | Construction of public facilities | 50 | 50 |
| China Fujian Downer McAlpine Joint Venture | Construction of public facilities | 33 | 33 |
| Clough Downer Joint Venture | Construction of port facilities | 50 | 50 |
| CPG-AMEC Facilities | Facilities management | 51 | 51 |
| CPG Environmental Engineering | Environmental engineering services | 75 | 65 |
| CPG Testing & Management Co Ltd | Environmental testing services | 70 | 70 |
| D'Axis Planners & Consultants | Master planning and consultancy services | 60 | 60 |
| Downer Crown Castle Joint Venture | Telecommunications | 50 | 50 |
| Downer CSS Joint Venture | Telecommunications | 60 | 50 |
| Downer REI Sdn Bhd [1] | Telecommunications | 97.5 | 50 |
| Downer Universal Communications Group | Telecommunications | 50 | 50 |
| Downer Zublin Joint Venture | Construction | 50 | 50 |
| Lantau Expressway Joint Venture | Construction | 27 | 27 |
| Paul Y Downer Joint Venture | Civil engineering | 50 | 50 |
| Playford Power Station Joint Venture | Refurbishment of power station | 50 | 50 |
| PT QDC Technologies | Telecommunications | 50 | 50 |
| SIP–CPG Facilities Management Co Ltd | Property maintenance | 80 | 80 |
| Suzhou PM Link | Project management | 60 | 60 |

1 On 1 December 2006, Downer EDI Limited increased its ownership of Downer REI Sdn Bhd to 97.5% now treated as a controlled entity (refer to Note 31)

## 15. EQUITY-ACCOUNTED INVESTMENTS CONTINUED

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

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 8,122 | 3,721 |
| Trade and other receivables | 20,670 | 18,344 |
| Inventories | 1,699 | 311 |
| Other | 268 | 351 |
| **Total current assets** | 30,759 | 22,727 |
| **Non-current assets** | | |
| Property, plant and equipment | 15,957 | 2,058 |
| Intangibles | – | 190 |
| **Total non-current assets** | 15,957 | 2,248 |
| **Total assets** | 46,716 | 24,975 |

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

| Name of Entity | Principal Activity | Country of Incorporation | Ownership Interest 2007 % | Ownership Interest 2006 % |
|---|---|---|---|---|
| Advanced Separation Engineering Australia Pty Ltd | Supply of mineral separation products | Australia | 50 | 50 |
| Allied Asphalt Limited | Supply of asphalt products | New Zealand | 50 | 50 |
| Aromatrix Pte Ltd | Environmental engineering and consulting services | Singapore | 33 | 33 |
| Clyde Babcock Hitachi (Aust) Pty Ltd | Design, construction and maintenance of boilers | Australia | 27 | 27 |
| CPG Healthcare FM Pte Ltd | Facilities management | Singapore | 50 | 50 |
| CPG-KCPT Pte Ltd | Security design consultancy services | Singapore | 30 | – |
| Downer-Contech | Construction | Fiji | 50 | – |
| Duffill Watts & Tse Limited | Consultancy engineering | New Zealand | 50 | 50 |
| EDI Rail-Bombardier Transportation Pty Ltd | Sale of railway rolling stock | Australia | 50 | 50 |
| EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd | Maintenance of railway rolling stock | Australia | 50 | 50 |
| John Holland EDI Joint Venture | Design and construction of a replacement research reactor facility for ANSTO | Australia | 40 | 40 |
| MPE Facilities Management Sdn Bhd | Facilities management consultancy services | Malaysia | 50 | 50 |
| Pavement Salvage (SA) Pty Ltd | Road maintenance | Australia | 50 | 50 |
| Reliance Rail Pty Ltd | Rail manufacturing and maintenance | Australia | 49 | – |
| Roche Thiess Linfox Joint Venture | Contract mining | Australia | 44 | 44 |
| Snowden Performance Management Pty Ltd | Mining management consulting | Australia | 50 | 50 |
| SIP Jiacheng Property Development Co Ltd | Property development | China | 50 | 50 |
| St Ives Joint Venture | Design and construction of mining treatment plant | Australia | 50 | 50 |
| Western Lee Joint Venture | Mechanical and electrical services to ALCOA | Australia | 50 | 50 |
| YIDA-CPG FM Co Ltd | Facilities management | China | – | 50 |

# Notes to and Forming Part of the Financial Statements continued

for the year ended 30 June 2007

## 15. EQUITY-ACCOUNTED INVESTMENTS CONTINUED

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Equity accounted investments** | | | | |
| Equity accounted amount of investment at the beginning of the financial year | 11,184 | 17,474 | – | – |
| Share of net profit | 4,638 | 6,159 | – | – |
| Share of distributions | (6,937) | (11,635) | – | – |
| Effect of foreign currency translation movement | (213) | 1,127 | – | – |
| Acquisition of interest in joint venture entities | 486 | 2,175 | – | – |
| Disposals of interest in joint venture entities | (287) | – | – | – |
| Equity accounted joint venture investment prior to acquisition | (972) | (4,116) | – | – |
| Equity accounted investment at the end of the financial year | 7,899 | 11,184 | – | – |
| **Share of net profit of joint venture entities** | | | | |
| Revenue | 60,242 | 71,583 | – | – |
| Expenses | (55,409) | (64,596) | – | – |
| Profit before income tax | 4,833 | 6,987 | – | – |
| Income tax expense | (195) | (828) | – | – |
| Net profit | 4,638 | 6,159 | – | – |
| Summarised financial information of the consolidated entity's share of the above joint venture entities: | | | | |
| Current assets | 31,490 | 24,949 | – | – |
| Non-current assets | 17,075 | 30,240 | – | – |
| Total assets | 48,565 | 55,189 | – | – |
| Current liabilities | 30,474 | 31,498 | – | – |
| Non-current liabilities | 11,111 | 11,591 | – | – |
| Total liabilities | 41,585 | 43,089 | – | – |
| Net assets | 6,980 | 12,100 | – | – |

### 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.

## 16. PROPERTY, PLANT AND EQUIPMENT

| 2007 | Freehold Land $'000 | Buildings $'000 | Plant and Equipment $'000 | Equipment under Finance Lease $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2006** | | | | | |
| Cost | 26,057 | 48,645 | 1,135,117 | 12,632 | 1,222,451 |
| Accumulated depreciation | – | (8,543) | (535,705) | (1,787) | (546,035) |
| Net book value | 26,057 | 40,102 | 599,412 | 10,845 | 676,416 |
| **Year ended 30 June 2007** | | | | | |
| Additions | 2,785 | 4,716 | 155,899 | 1,850 | 165,250 |
| Disposals | (1,950) | (3,872) | (4,152) | (254) | (10,228) |
| Acquisition of businesses | – | 3,102 | 35,933 | – | 39,035 |
| Depreciation expense | – | (2,082) | (127,622) | (1,460) | (131,164) |
| Net foreign currency exchange differences | 1,408 | 1,082 | 12,370 | (15) | 14,845 |
| **Closing net book value at 30 June 2007** | 28,300 | 43,048 | 671,840 | 10,966 | 754,154 |
| Cost | 28,300 | 54,299 | 1,259,921 | 13,148 | 1,355,668 |
| Accumulated depreciation | – | (11,251) | (588,081) | (2,182) | (601,514) |
| **Closing net book value** | 28,300 | 43,048 | 671,840 | 10,966 | 754,154 |

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

| 2006 | Freehold Land $'000 | Buildings $'000 | Plant and Equipment $'000 | Equipment under Finance Lease $'000 | Total $'000 |
|---|---|---|---|---|---|
| **At 1 July 2005** | | | | | |
| Cost | 19,148 | 39,736 | 921,233 | 13,649 | 993,766 |
| Accumulated depreciation | – | (6,249) | (425,136) | (1,573) | (432,958) |
| Net book value | 19,148 | 33,487 | 496,097 | 12,076 | 560,808 |
| **Year ended 30 June 2006** | | | | | |
| Additions | 8,563 | 4,258 | 186,679 | 176 | 199,676 |
| Disposals | (321) | (8) | (29,352) | (837) | (30,518) |
| Acquisition of businesses | 306 | 9,603 | 57,398 | 357 | 67,664 |
| Depreciation expense | – | (2,607) | (103,769) | (835) | (107,211) |
| Reclassification | – | (3,209) | 3,209 | – | – |
| Net foreign currency exchange differences | (1,639) | (1,422) | (10,850) | (92) | (14,003) |
| **Closing net book value at 30 June 2006** | 26,057 | 40,102 | 599,412 | 10,845 | 676,416 |
| Cost | 26,057 | 48,645 | 1,135,117 | 12,632 | 1,222,451 |
| Accumulated depreciation | – | (8,543) | (535,705) | (1,787) | (546,035) |
| **Closing net book value** | 26,057 | 40,102 | 599,412 | 10,845 | 676,416 |

## 17. INTANGIBLE ASSETS

| | Goodwill $'000 | Intellectual Property $'000 | Total $'000 |
|---|---|---|---|
| **2007** | | | |
| **At 1 July 2006** | | | |
| Cost | 527,759 | 21,931 | 549,690 |
| Accumulated amortisation | – | (8,072) | (8,072) |
| Net book value | | | |
| **Year ended 30 June 2007** | 527,759 | 13,859 | 541,618 |
| Purchases | – | 115 | 115 |
| Acquisition of businesses | 37,668 | – | 37,668 |
| Amortisation expense | – | (6,264) | (6,264) |
| Net foreign currency exchange differences | (3,586) | – | (3,586) |
| **Closing net book value at 30 June 2007** | 561,841 | 7,710 | 569,551 |
| Cost | 561,841 | 17,529 | 579,370 |
| Accumulated depreciation | – | (9,819) | (9,819) |
| **Closing net book value** | 561,841 | 7,710 | 569,551 |
| **2006** | | | |
| **At 1 July 2005** | | | |
| Cost | 352,526 | 21,870 | 374,396 |
| Accumulated amortisation | – | (6,966) | (6,966) |
| Net book value | 352,526 | 14,904 | 367,430 |
| **Year ended 30 June 2006** | | | |
| Purchases | – | 61 | 61 |
| Acquisition of businesses | 179,676 | – | 179,676 |
| Amortisation expense | – | (1,106) | (1,106) |
| Net foreign currency exchange differences | (4,443) | – | (4,443) |
| **Closing net book value at 30 June 2006** | 527,759 | 13,859 | 541,618 |
| Cost | 527,759 | 21,931 | 549,690 |
| Accumulated depreciation | – | (8,072) | (8,072) |
| **Closing net book value** | 527,759 | 13,859 | 541,618 |

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

**Allocation of goodwill to cash-generating units**

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

## 17. INTANGIBLE ASSETS CONTINUED

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Works | 208,319 | 179,084 |
| Mining and Resources | 111,956 | 111,059 |
| Rail | 73,883 | 73,883 |
| Engineering Consultancy | 65,618 | 64,619 |
| Power | 54,003 | 54,205 |
| Telecommunications | 48,062 | 44,909 |
| | 561,841 | 527,759 |

**Recoverable amount testing**

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

Cash flows beyond the budget period are extrapolated using the estimated growth rate of 3% (2006: 3%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU's operate. A discount rate of 9.9% (2006: 9.5%) is applied to calculate the fair value less costs to sell.

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

**Impact of reasonably possible changes in key assumptions**

Management believes that any reasonably possible changes in the key assumptions on which the above CGU's recoverable amounts are based would not cause their respective values to fall short of their carrying amounts at 30 June 2007.

## 18. TRADE AND OTHER PAYABLES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Current** | | | | |
| Trade payables | 598,155 | 583,602 | 12,197 | 9,854 |
| Amounts due to customers under engineering services contracts (Note 30) | 185,515 | 170,155 | – | – |
| Goods and services tax payable | 24,494 | 21,000 | 3,603 | 94 |
| Advances from other entities | 577 | 17,612 | – | – |
| Other | 40,050 | 23,707 | – | – |
| | 848,791 | 816,076 | 15,800 | 9,948 |
| **Non-current** | | | | |
| Non-trade payables to controlled entities | – | – | 574,725 | 429,350 |
| Other | 877 | 1,436 | – | – |
| | 877 | 1,436 | 574,725 | 429,350 |
| Total trade and other payables | 849,668 | 817,512 | 590,525 | 439,298 |

## 19. BORROWINGS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Current** | | | | |
| Secured: | | | | |
| Finance lease liabilities (Note 28(c)) | 3,510 | 2,738 | – | – |
| Hire purchase liabilities (Note 28(d)) | 831 | 1,079 | – | – |
| | 4,341 | 3,817 | – | – |
| Unsecured: | | | | |
| Bank loans | 181,459 | 60,722 | – | – |
| Bank overdraft (Note 27(a)) | 9,082 | 3,536 | – | – |
| US$ notes | – | 70,621 | – | – |
| Deferred finance charges | (1,197) | (2,198) | – | – |
| | 189,344 | 132,681 | – | – |
| Total current borrowings | 193,685 | 136,498 | – | – |
| **Non-current** | | | | |
| Secured: | | | | |
| Finance lease liabilities (Note 28(c)) | 5,580 | 3,474 | – | – |
| Hire purchase liabilities (Note 28(d)) | 1,314 | 480 | – | – |
| | 6,894 | 3,954 | – | – |
| Unsecured: | | | | |
| Bank loans | 187,420 | 241,677 | – | – |
| US$ notes | 226,332 | 258,151 | – | – |
| A$ Medium term notes (A$ MTN) | 80,000 | – | – | – |
| Deferred finance charges | (1,337) | – | – | – |
| | 492,415 | 499,828 | – | – |
| Total non current borrowings | 499,309 | 503,782 | – | – |
| Total borrowings | 692,994 | 640,280 | – | – |
| **Financing facilities** | | | | |
| The consolidated entity has access to the following lines of credit: | | | | |
| Total facilities available: | | | | |
| Bank loans/overdraft [1] | 747,200 | 730,932 | – | – |
| Hire purchase and lease facilities [2] | 93,638 | 100,414 | – | – |
| US$ notes [3] | 226,332 | 328,772 | – | – |
| A$ MTN [4] | 80,000 | – | – | – |
| | 1,147,170 | 1,160,118 | – | – |
| Facilities utilised at balance date: | | | | |
| Bank loans/overdraft | 377,961 | 305,935 | – | – |
| Hire purchase and lease facilities | 11,235 | 7,771 | – | – |
| US$ notes | 226,332 | 328,772 | – | – |
| A$ MTN | 80,000 | – | – | – |
| | 695,528 | 642,478 | – | – |
| Facilities not utilised at balance date: | | | | |
| Bank loans/overdraft | 369,239 | 424,997 | – | – |
| Hire purchase and lease facilities | 82,403 | 92,643 | – | – |
| | 451,642 | 517,640 | – | – |

## 19. BORROWINGS CONTINUED

At 30 June 2007, the consolidated entity had bank guarantees and other bank collateral facilities and insurance bond facilities totalling $1,014,095,000 (2006: $648,636,000) of which $277,650,000 (2006: $222,007,000) was not utilised.

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

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

3 **US$ unsecured notes**
In October 1999 and December 2001, the consolidated entity issued US$95,000,000 and US$80,000,000 in unsecured notes, with varying maturities extending to 2014. In September 2004, the consolidated entity issued US$54,000,000 and US$55,000,000 in unsecured notes with varying maturities extending to 2019. Concurrent with the new issue, US$15,000,000 of the October 1999 issue was extended from an original maturity date of 2006 until 2014. The USD principal and interest have been fully hedged to Australian or New Zealand dollars, as applicable. Interest is payable to US Note holders semi-annually. While unsecured, the US notes are subject to Group guarantee arrangements. The fair value of the US notes is disclosed in Note 36.

4 **A$ MTN**
On 22 December 2006, the company issued A$70 million of MTN's with a maturity date of 22 December 2009. The MTNs were issued at a fixed rate of 7.135%. On 22 June 2007, the company issued a further A$10million MTN's fungible with the existing A$70 million MTN series.

## 20. OTHER FINANCIAL LIABILITIES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| **Current** | | | | |
| Foreign currency forward contracts | 18,061 | 935 | – | – |
| Cross currency interest rate swaps | 742 | 28,673 | – | – |
| | 18,803 | 29,608 | – | – |
| **Non-current** | | | | |
| Foreign currency forward contracts | 27,682 | – | – | – |
| Cross currency interest rate swaps | 64,938 | 36,228 | – | – |
| Advances from joint venture entities | 16,784 | 12,227 | – | – |
| | 109,404 | 48,455 | – | – |
| Total other financial liabilities | 128,207 | 78,063 | – | – |

## 21. PROVISIONS

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **Employee Benefits $'000** | **Decom-missioning $'000** | **Contract Claims and Warranties $'000** | **Other $'000** | **Total $'000** |
| Current | 107,774 | 8,479 | 30,910 | 5,813 | 152,976 |
| Non-current | 25,661 | 32,353 | 3,218 | – | 61,232 |
| **Balance at 1 July 2006** | 133,435 | 40,832 | 34,128 | 5,813 | 214,208 |
| Additional provisions recognised | 131,145 | 912 | 49,616 | 5,786 | 187,459 |
| Unused provision reversed | (1,184) | (1,516) | (571) | (6,697) | (9,968) |
| Utilisation of provision | (116,923) | (319) | (10,043) | (706) | (127,991) |
| Acquisition of businesses | 1,041 | – | 38,495 | (2,551) | 36,985 |
| Net foreign currency exchange difference | 1,078 | (147) | 120 | – | 1,051 |
| **Balance at 30 June 2007** | 148,592 | 39,762 | 111,745 | 1,645 | 301,744 |
| Current | 124,561 | 12,867 | 58,527 | 896 | 196,851 |
| Non-current | 24,031 | 26,895 | 53,218 | 749 | 104,893 |

# Notes to and Forming Part of the Financial Statements continued

for the year ended 30 June 2007

## 21. PROVISIONS CONTINUED

| | Company | | | | |
|---|---|---|---|---|---|
| | **Employee Benefits $'000** | **Decom-missioning $'000** | **Contract Claims and Warranties $'000** | **Other $'000** | **Total $'000** |
| Current | 1,329 | – | – | – | 1,329 |
| Non-current | 498 | – | – | – | 498 |
| **Balance at 1 July 2006** | 1,827 | – | – | – | 1,827 |
| Additional provisions recognised | 926 | – | – | – | 926 |
| Utilisation of provision | (719) | – | – | – | (719) |
| **Balance at 30 June 2007** | 2,034 | – | – | – | 2,034 |
| Current | 1,371 | – | – | – | 1,371 |
| Non-current | 663 | – | – | – | 663 |

## 22. TAX LIABILITIES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| **Current** | | | | |
| Current tax overseas entities | 16,467 | 12,239 | – | – |
| **Non-current** | | | | |
| a) Deferred tax liability | 21,040 | 47,032 | – | – |
| b) Movement in deferred tax liability for the financial year: | | | | |
| Balance at beginning of the financial year | 106,210 | 97,030 | (3) | 10 |
| Adoption of A-IFRS | – | 677 | – | – |
| Restated balance at beginning of the financial year | 106,210 | 97,707 | (3) | 10 |
| Charged to income statement as deferred income benefit/(expense) (Note 22(d)) | (110) | 9,772 | 17 | (3) |
| Charged to equity | 1,598 | (139) | – | – |
| Acquisition of businesses | 2,601 | 378 | – | – |
| Net foreign currency exchange differences | 2,161 | (2,526) | – | – |
| Other | (1,250) | 1,018 | – | (10) |
| Balance at end of the financial year (gross) (Note 22(c)) | 111,210 | 106,210 | 14 | (3) |
| Set-off of deferred tax liabilities within the same tax jurisdiction (Note 13(b)) | (90,170) | (59,178) | (14) | 3 |
| Net deferred tax liability | 21,040 | 47,032 | – | – |
| 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 | 10,830 | 15,831 | – | – |
| Inventories | 11,814 | 6,854 | – | – |
| Intangible assets | 886 | 899 | – | – |
| Trade and other receivables | 76,650 | 79,955 | – | – |
| Other current assets | 1,756 | 4,097 | – | – |
| Investments accounted for using the equity method | 240 | 269 | – | – |
| Trade and other payables | – | 3,189 | – | – |
| Borrowings | 2,648 | 1,247 | – | – |
| Financial liabilities | 1,655 | 538 | – | – |
| Other | 4,731 | (6,669) | 14 | (3) |
| Total deferred tax liabilities (gross) | 111,210 | 106,210 | 14 | (3) |

## 22. TAX LIABILITIES CONTINUED

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| d) Amounts charged to income statements as deferred income tax expense/(benefit): | | | | |
| Property, plant & equipment | 1,580 | 7,273 | – | – |
| Inventories | 3,392 | 617 | – | – |
| Intangible assets | (13) | 899 | – | – |
| Trade and other receivables | (2,145) | 6,298 | (1,761) | – |
| Other assets | (1,508) | 292 | – | – |
| Trade and other payables | (3,189) | 3,895 | – | – |
| Investments accounted for using the equity method | 397 | – | – | – |
| Borrowings | 2,172 | 593 | – | – |
| Provisions | – | 604 | – | – |
| Other | (796) | (10,699) | 1,778 | (3) |
| Charged to income statement as deferred income tax (benefit)/expense | (110) | 9,772 | 17 | (3) |

## 23. ISSUED CAPITAL

| | | | | |
|---|---|---|---|---|
| Ordinary Shares | | | | |
| 321,003,899 ordinary shares (2006: 314,171,170) | 886,714 | 846,345 | 886,714 | 846,345 |
| 200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (2006: NIL) | 178,603 | – | – | – |
| Total issued capital | 1,065,317 | 846,345 | 886,714 | 846,345 |

**Fully paid ordinary share capital**

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

| | Consolidated and Company | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| **Fully paid ordinary share capital** | No. ('000's) | $'000 | No. ('000's) | $'000 |
| Balance at beginning of financial year | 314,171 | 846,345 | 291,685 | 669,840 |
| Issue of shares through dividend reinvestment plan elections | 5,197 | 32,367 | 4,965 | 33,530 |
| Shares issued pursuant to institutional placement | – | – | 14,881 | 125,000 |
| Shares issued pursuant to share purchase plan | – | – | 1,980 | 16,630 |
| Issue of shares on acquisition of businesses | 803 | 5,469 | 660 | 3,895 |
| Issue of shares under terms of Employee Share Plan [1] | 833 | 5,429 | – | – |
| Payment of share issue costs | – | (2,896) | – | (2,550) |
| Balance at end of financial year | 321,004 | 886,714 | 314,171 | 846,345 |

1 During the financial year, under the terms of the employee share plan, acceptances for the 833,000 shares totalling $3,804,000 (2006:Nil) were received. Under the terms of the offer a $1,000 discount was provided in recognition of each employees contribution to the company's performance. The adoption of A-IFRS requires the value of the discount to be recognised as an expense with a corresponding increase in share capital of $1,665,000.

ROADS are perpetual, redeemable, exchangeable preference shares.

| | Consolidated | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| **ROADS** | No. ('000's) | $'000 | No. ('000's) | $'000 |
| Balance at beginning of financial year | – | – | – | – |
| ROADS issued during the year | 200,000 | 178,603 | – | – |
| Balance at end of financial year | 200,000 | 178,603 | – | – |

## 23. ISSUED CAPITAL CONTINUED

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, 496,657 performance rights and 1,574,538 performance options were granted to senior executives of the Downer EDI Group under the long term incentive plan. At 30 June 2006, 47,945 performance rights and 325,869 performance options were granted to the managing director in accordance with the provisions of the long term incentive plan. These lapsed on cessation of employment. Further details of the key management personnel long term incentive plan are contained in Note 33 to the financial statements.

## 24. RESERVES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Reserves comprise:** | | | | |
| Foreign currency translation | (21,127) | (16,612) | – | – |
| Hedging | (30,960) | (1,280) | – | – |
| Employee benefits | 1,816 | 185 | 1,816 | 185 |
| Total reserves | (50,271) | (17,707) | 1,816 | 185 |
| **Movement in reserves** | | | | |
| **Foreign currency translation reserve:** | | | | |
| Balance at beginning of financial year | (16,612) | (5,399) | – | – |
| Translation of foreign operations | (4,515) | (11,213) | – | – |
| Balance at end of financial year | (21,127) | (16,612) | – | – |
| **Hedging reserve:** | | | | |
| Balance at beginning of financial year | (1,280) | – | – | – |
| Initial recognition of fair value of hedges on adoption of AASB 132 and AASB 139 | – | 3,523 | – | – |
| Revaluation during the year | (31,240) | (4,524) | – | – |
| Transferred to assets during the year | 1,560 | (279) | – | – |
| Balance at end of financial year | (30,960) | (1,280) | – | – |
| **Employee benefits reserve:** | | | | |
| Balance at beginning of financial year | 185 | – | 185 | – |
| Share-based transactions | 1,631 | 185 | 1,631 | 185 |
| Balance at end of financial year | 1,816 | 185 | 1,816 | 185 |

## 25. RETAINED EARNINGS

| | Consolidated 2007 $'000 | Consolidated 2006 $'000 | Company 2007 $'000 | Company 2006 $'000 |
|---|---|---|---|---|
| Balance at beginning of financial year | 121,905 | 236,141 | 21,977 | 8,779 |
| Adoption of AASB 139 and AASB 132 | – | (18,915) | – | – |
| Net profit/(loss) | 101,498 | (24,929) | 54,221 | 83,590 |
| Dividends paid | (68,542) | (70,392) | (66,353) | (70,392) |
| Balance at end of financial year | 154,861 | 121,905 | 9,845 | 21,977 |

## 26. ACQUISITION OF BUSINESSES

### (a) Summary of acquisitions

| Names of businesses acquired | Principal activity | Date of acquisition | Proportion of shares acquired % | Cost of acquisition $'000 |
|---|---|---|---|---|
| **2007** | | | | |
| **Controlled entities:** | | | | |
| Works Infrastructure Pte Ltd (Formerly Chan & Chan Construction Pte Ltd) | Infrastructure services | 1 July 2006 | 100 | 12,304 |
| Sillars Holdings Ltd | Infrastructure services | 30 Sep 2006 | 100 | 19,151 |
| Singleton Bahen and Stanfield Pty Ltd | Engineering and consultancy services | 1 July 2006 | 100 | 3,500 |
| Southern Asphalters Pty Ltd | Infrastructure services | 1 October 2006 | 100 | 13,486 |
| Downer REI Sdn Bhd [1] | Telecommunications | 1 December 2006 | 47.5 | 935 |
| Glasson Potts Fowler Ltd | Engineering | 31 March 2007 | 100 | 4,398 |
| Tse Group Ltd | Engineering | 31 March 2007 | 100 | 2,990 |
| Duffill Watts Tse Ltd | Engineering | 31 March 2007 | 100 | – |
| **Businesses:** | | | | |
| Hotmix | Asphalt production | 29 June 2007 | – | 6,979 |
| TM Ward | Infrastructure services | 31 May 2007 | – | 6,235 |

1 On 1 December 2006, Downer EDI Limited increased its ownership of Downer REI Sdn Bhd to 97.5%.

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| Purchase consideration | | | | |
| Cash paid | 65,326 | 221,008 | – | – |
| Ordinary shares | 5,469 | 3,895 | – | – |
| Deferred purchase consideration | 1,610 | 13,432 | – | – |
| Total purchase consideration | 72,405 | 238,335 | – | – |
| Fair value of net identifiable assets acquired (refer Note 26(c)) | 35,709 | 62,775 | – | – |
| Equity accounted JV investment prior to acquisition | (972) | (4,116) | – | – |
| Net assets acquired | 34,737 | 58,659 | – | – |
| Goodwill | 37,668 | 179,676 | – | – |

## 26. ACQUISITION OF BUSINESSES CONTINUED

The initial accounting for these acquisitions has been determined provisionally at 30 June 2007 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.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **(b) Purchase consideration** | | | | |
| Outflow of cash to acquire subsidiary, net of cash acquired | | | | |
| Cash consideration | 65,326 | 221,008 | – | – |
| Net cash and cash equivalents acquired (refer Note 26(c)) | (147) | (3,267) | – | – |
| Cash paid – deferred post acquisition settlement | 2,376 | 1,500 | – | – |
| Outflow of cash | 67,555 | 219,241 | – | – |

**(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 | 147 | 147 |
| Inventories | 109 | 109 |
| Trade and other receivables | 36,470 | 36,470 |
| Other financial assets | 318 | 318 |
| Other | 1,123 | 1,123 |
| **Total** | 38,167 | 38,167 |
| **Non-current assets** | | |
| Equity accounted investment | 486 | 486 |
| Property, plant & equipment | 39,035 | 39,035 |
| Other financial assets | 5 | 5 |
| Deferred tax assets | 25,510 | 25,510 |
| Other | 1 | 1 |
| **Total** | 65,037 | 65,037 |
| **Current liabilities** | | |
| Trade and other payables | 22,506 | 22,506 |
| Borrowings | 2,164 | 2,164 |
| Other financial liabilities | 706 | 706 |
| Provisions | 362 | 362 |
| Current tax payables | 403 | 403 |
| **Total** | 26,141 | 26,141 |
| **Non-current liabilities** | | |
| Borrowings | 1,702 | 1,702 |
| Provisions | 36,623 | 36,623 |
| Deferred tax liabilities | 2,601 | 2,601 |
| Other financial liabilities | 428 | 428 |
| **Total** | 41,354 | 41,354 |
| **Net identifiable assets acquired** | 35,709 | 35,709 |

## 27. CASH FLOW STATEMENT – ADDITIONAL INFORMATION

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| **a) Reconciliation of cash and cash equivalents** | | | | |
| For the purpose of the cash flow statement, cash comprises: | | | | |
| Cash | 163,603 | 141,404 | 127 | 223 |
| Short term deposits | 79,143 | 26,491 | – | – |
| Bank overdrafts (Note 19) | (9,082) | (3,536) | – | – |
| | 233,664 | 164,359 | 127 | 223 |

**b) Non-cash financing and investing activities**

During the current financial year, $37,836,000 in equity was issued in respect of:

i) Dividend reinvestment plan elections $32,367,000 (2006: $33,530,000) and

ii) Issue of shares on acquisition of businesses $5,469,000 (2006: $3,895,000).

**c) Reconciliation of profit/(loss) after tax to net cash flows from operating activities**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| Profit/(loss) for the year | 101,498 | (24,929) | 54,221 | 83,590 |
| Adjustments for: | | | | |
| Share of joint ventures profits net of distributions | 2,299 | 5,476 | – | – |
| Depreciation and amortisation of non-current assets | 137,428 | 108,317 | – | – |
| Amortisation of deferred costs | 1,475 | 1,352 | 181 | 100 |
| Profit on sale of investments | (2,982) | (4,083) | (139) | – |
| Profit on sale of other non-current assets | (20,758) | (16,112) | – | – |
| Gain on revaluation of financial assets | (2,422) | – | – | – |
| Foreign exchange (gain)/loss | (6,223) | (2,280) | – | – |
| Increase/(decrease) in income tax payable | 3,825 | (27,689) | 10,703 | (18,893) |
| Movement in deferred tax balances | (52,050) | (84,704) | (24,208) | (6,751) |
| Equity settled share-based transactions | 1,631 | 185 | 1,631 | 185 |
| Other | (4,037) | 2,075 | 1,665 | – |
| Changes in net assets and liabilities, net of effects from acquisition of businesses: | | | | |
| (Increase)/decrease in assets: | | | | |
| Current trade and other receivables | (105,185) | 78,205 | (23,187) | (19,074) |
| Current inventories | (3,868) | 19,761 | – | – |
| Other current assets | (41) | (3,130) | – | 24 |
| Other financial assets | (2,413) | 633 | – | – |
| Non-current trade and other receivables | (518) | 21,912 | – | – |
| Other non-current assets | 1,265 | (297) | – | – |
| Increase/(decrease) in liabilities: | | | | |
| Current trade and other payables | 7,240 | 9,261 | 5,996 | 6,325 |
| Current provisions | 43,513 | 25,793 | 42 | 53 |
| Non-current trade and other payables | (559) | (37) | – | – |
| Non-current provisions | 7,038 | (19,807) | 165 | 174 |
| Net cash provided by operating activities | 106,156 | 89,902 | 27,070 | 45,733 |

## 28. COMMITMENTS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **a) Capital expenditure commitments** | | | | |
| Plant and equipment: | | | | |
| Within one year | 51,188 | 61,881 | – | – |
| Between one and five years | – | 317 | – | – |
| | 51,188 | 62,198 | – | – |
| **b) Operating lease commitments** | | | | |
| **Non-cancellable operating leases:** | | | | |
| Operating leases relate to premises and plant and equipment with lease terms of between 1 to 6 years. | | | | |
| Within one year | 114,145 | 119,973 | – | – |
| Between one and five years | 123,014 | 134,630 | – | – |
| After five years | 7,685 | 13,431 | – | – |
| | 244,844 | 268,034 | – | – |
| **c) Finance lease commitments** | | | | |
| Finance leases relate to plant and equipment with lease terms of between 1 to 5 years. The consolidated entity has options to purchase the equipment at the conclusion of the lease arrangements. | | | | |
| Within one year | 4,025 | 3,143 | – | – |
| Between one and five years | 6,125 | 3,699 | – | – |
| Minimum finance lease payments | 10,150 | 6,842 | – | – |
| Future finance charges | (1,060) | (630) | – | – |
| Finance lease liabilities | 9,090 | 6,212 | – | – |
| Included in the financial statements as: | | | | |
| Current borrowings (Note 19) | 3,510 | 2,738 | – | – |
| Non-current borrowings (Note 19) | 5,580 | 3,474 | – | – |
| | 9,090 | 6,212 | – | – |
| **d) Other expenditure commitments** | | | | |
| **Hire purchase liabilities:** | | | | |
| Within one year | 934 | 1,190 | – | – |
| Between one and five years | 1,724 | 509 | – | – |
| Minimum hire purchase payments | 2,658 | 1,699 | – | – |
| Future finance charges | (513) | (140) | – | – |
| Hire purchase liabilities | 2,145 | 1,559 | – | – |
| Included in the financial statements as: | | | | |
| Current borrowings (Note 19) | 831 | 1,079 | – | – |
| Non-current borrowings (Note 19) | 1,314 | 480 | – | – |
| | 2,145 | 1,559 | – | – |

## 29. CONTINGENT LIABILITIES

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| 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 | 736,445 | 426,629 | 725,597 | 421,224 |
| ii) Termination benefits under service agreements | 1,062 | 894 | – | – |
| | 737,507 | 427,523 | 725,597 | 421,224 |

**In the ordinary course of business:**

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

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

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

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

vii) The company may become subject to a claim by certain shareholders who purchased shares prior to 8 August 2006. No claim has been received, and the company will defend rigorously any such claim if and when received.

## 30. ENGINEERING SERVICES CONTRACTS

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | **2006 $'000** | **2007 $'000** | **2006 $'000** |
| For engineering services contracts in progress as at reporting date: | | | | |
| Engineering services work in progress | 6,117,985 | 5,576,689 | – | – |
| Provision for contract claims and disputes (Note 4) | (145,287) | (285,675) | – | – |
| Engineering services work in progress net of provision for contract claims and disputes | 5,972,698 | 5,291,014 | – | – |
| Progress billings and advances received | 6,108,956 | 5,465,172 | – | – |
| Advances received | (150,930) | (138,718) | – | – |
| Progress billings | 5,958,026 | 5,326,454 | – | – |
| Net amount | 14,672 | (35,440) | – | – |
| Recognised and included in the financial statements as amounts due: | | | | |
| From customers under engineering services contracts: | | | | |
| Current (Note 11) | 200,187 | 134,715 | – | – |
| To customers under engineering services contracts: | | | | |
| Current (Note 18) | (185,515) | (170,155) | – | – |
| Net amount | 14,672 | (35,440) | – | – |

## 31. CONTROLLED ENTITIES

| Name of controlled entity | Country of incorporation | Ownership interest 2007 % | 2006 % |
|---|---|---|---|
| Beckbell Pty Ltd | Australia | 100 | 100 |
| Bitumen Supplies Limited | New Zealand | 100 | 100 |
| Brown & Thomson Northland Limited | New Zealand | 100 | 100 |
| Cendrill Supply Pty Limited | Australia | 100 | 100 |
| Century Administration Pty Limited | Australia | 100 | 100 |
| Century Drilling Limited | Australia | 100 | 100 |
| Century Drilling & Energy Services (NZ) Ltd | New Zealand | 100 | 100 |
| Century Energy Services Pty Limited | Australia | 100 | 100 |
| Century Resources International Pty Limited | Australia | 100 | 100 |
| Century Resource Services Limited | New Zealand | 100 | 100 |
| Chan Lian Infrastructure Pte Ltd | Singapore | 100 | – |
| Choad Pty Ltd | Australia | 100 | 100 |
| Civil & Structural Group Services Limited | New Zealand | 100 | 100 |
| Downer EDI Engineering Commspec (NZ) Limited | New Zealand | 100 | 100 |
| Construction Professionals Pte Ltd | Singapore | 100 | 100 |
| Coomes Consulting Group Pty Limited | Australia | 100 | 100 |
| Coomes Consulting Group Unit Trust | Australia | 100 | 100 |
| CPG Advisory (Shanghai) Co. Ltd | China | 100 | 100 |
| CPG Consultants Pte Ltd | Singapore | 100 | 100 |
| CPG Consultants Co. Ltd | Singapore | 100 | – |
| CPG Consultants (India) Pvt Ltd | India | 100 | 100 |
| CPG Corp Philippines Inc | Philippines | 100 | 100 |
| CPG Corporation Pte Ltd | Singapore | 100 | 100 |
| CPG Facilities Management Pte Ltd | Singapore | 100 | 100 |
| CPG Facilities Management (Xiamen) Co. Ltd | China | 100 | 100 |
| CPG Holdings Pte Ltd | Singapore | 100 | 100 |
| CPG Hubin (Suzhou) Pte Ltd | Singapore | 100 | 100 |
| CPG Investments Pte Ltd | Singapore | 100 | 100 |
| CPG Laboratories Pte Ltd | Singapore | 100 | 100 |
| DCE Limited | New Zealand | 100 | 100 |
| Dean Adams Consulting Pty Ltd | Australia | 100 | 100 |
| Delris Pty Ltd | Australia | 100 | 100 |
| DGL Investments Ltd | New Zealand | 100 | 100 |
| DMQA Training Limited | United Kingdom | 100 | 100 |
| Downer Australia Pty Ltd | Australia | 100 | 100 |
| Downer Bitumen Surfacing Limited | New Zealand | 100 | 100 |
| Downer Construction (Fiji) Limited | Fiji | 100 | 100 |
| Downer Construction (Hong Kong) Limited | Hong Kong | 100 | 100 |
| Downer Construction (PNG) Limited | PNG | 100 | 100 |
| Downer Construction Tonga Ltd | Tonga | 100 | 100 |
| Downer Energy Systems Pty Ltd | Australia | 100 | 100 |
| Downer EDI Engineering Company Pty Limited | Australia | 100 | 100 |
| Downer EDI Engineering Construction (Australia) Pty Limited | Australia | 100 | 100 |

## 31. CONTROLLED ENTITIES CONTINUED

| Name of controlled entity | Country of incorporation | Ownership interest 2007 % | Ownership interest 2006 % |
|---|---|---|---|
| Downer EDI Engineering CWH Pty Ltd | Australia | 100 | – |
| Downer EDI Engineering Limited | New Zealand | 100 | 100 |
| Downer EDI Engineering Pty Ltd | Australia | 100 | 100 |
| Downer EDI Engineering Electrical Pty Ltd | Australia | 100 | 100 |
| Downer EDI Engineering Group Pty Limited | Australia | 100 | 100 |
| Downer EDI Engineering Group Limited | New Zealand | 100 | 100 |
| Downer EDI Engineering Holding Pty Limited | Australia | 100 | 100 |
| Downer Engineering (Malaysia) Sdn Bhd | Malaysia | 100 | 100 |
| Downer EDI Engineering Power Limited | New Zealand | 100 | 100 |
| Downer EDI Engineering Power Pty Limited | Australia | 100 | 100 |
| Downer Engineering (Singapore) Pte Ltd | Singapore | 100 | 100 |
| Downer Engineering Thailand Ltd | Thailand | 100 | 100 |
| Downer Engineering Holdings (Thailand Ltd) | Thailand | 100 | 100 |
| Downer EDI Engineering Transmission Pty Ltd | Australia | 100 | 100 |
| Downer EDI Finance Pty Ltd | Australia | 100 | 100 |
| Downer Group Construction (Malaysia) Sdn Bhd | Malaysia | 100 | 100 |
| Downer Group Finance Pty Limited | Australia | 100 | 100 |
| Downer Group Finance (NZ) Limited | New Zealand | 100 | – |
| Downer Holdings Pty Ltd | Australia | 100 | 100 |
| Downer MBL Limited | New Zealand | 100 | 100 |
| Downer MBL Pty Limited | Australia | 100 | 100 |
| Downer PPP Investments Pty Ltd | Australia | 100 | – |
| Downer EDI Rail Pty Ltd | Australia | 100 | 100 |
| Downer REI Sdn Bhd | Malaysia | 97.5 | 50 |
| Downer EDI Mining-Rimtec Pty Ltd | Australia | 100 | 100 |
| Downer EDI Mining-Mineral Technologies Pty Ltd | Australia | 100 | 100 |
| Downer EDI Mining Pty Ltd | Australia | 100 | 100 |
| Downer EDI Mining-Minerals Exploration Pty Ltd | Australia | 100 | 100 |
| Downer EDI Mining-Blasting Services Pty Ltd | Australia | 100 | 100 |
| Downer EDI Mining-QCC Pty Ltd | Australia | 100 | 100 |
| Downer EDI Works Limited | New Zealand | 100 | 100 |
| Downer EDI Works Pty Limited | Australia | 100 | 100 |
| Downer EDI Mining-Process Engineering Pty Ltd | Australia | 100 | 100 |
| Duffill Watts & Davis Limited | New Zealand | 100 | 100 |
| Duffill Watts & Hanna Limited | New Zealand | 100 | 100 |
| Duffill Watts & King Limited | New Zealand | 100 | 100 |
| Duffill Watts Indonesia Limited | Indonesia | 100 | 100 |
| Duffill Watts Pte Limited | Singapore | 100 | 100 |
| Eco-Energy Solutions Pty Ltd | Australia | – | 100 |
| EDICO Pty Ltd | Australia | 100 | 100 |
| EDI Distribution Pty Ltd | Australia | – | 100 |
| EDI Rail Investments Pty Ltd | Australia | 100 | 100 |
| EDI Rail (Maryborough) Pty Ltd | Australia | 100 | 100 |

## 31. CONTROLLED ENTITIES CONTINUED

| Name of controlled entity | Country of incorporation | Ownership interest 2007 % | 2006 % |
|---|---|---|---|
| EDI Rail PPP Maintenance Pty Ltd | Australia | 100 | – |
| EDI Rail V/Line Maintenance 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 |
| Environmental Operations Limited | New Zealand | 100 | 100 |
| Evans Deakin Industries Pty Ltd | Australia | 100 | 100 |
| Faxgroove Pty Ltd | Australia | 100 | 100 |
| Fellows Enterprises Pte Limited | Singapore | 100 | 100 |
| FM Technology Pte Ltd | Singapore | 100 | 100 |
| Galanthus Holdings Limited | New Zealand | 100 | 100 |
| Glasson Potts Fowler Ltd | New Zealand | 100 | – |
| Gaden Drilling Pty Limited | Australia | 100 | 100 |
| Indeco Consortium Pte Ltd | Singapore | 100 | 100 |
| Killbeen Pty Ltd | Australia | 100 | 100 |
| Miningtek Consultants & Services Limited | British Virgin Isl. | 100 | 100 |
| Otraco Brasil Gerenciamento de Pneus Ltda | Brazil | 100 | 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 |
| Pauanui Lakes Development Limited | New Zealand | 100 | 100 |
| Pavement Salvage Operations Pty Ltd | Australia | 100 | 100 |
| Pavement Technology Pty Ltd | Australia | 100 | 100 |
| Peridian Asia Pte Ltd | Singapore | 100 | 100 |
| PM Link Pte Ltd | Singapore | 100 | 100 |
| Primary Producers Improvers Pty Ltd | Australia | 100 | 100 |
| P T Century Dinamik Drilling | Indonesia | 100 | 100 |
| P T Ogspiras Bina Drilling | Indonesia | 100 | 100 |
| P T Otraco Indonesia | Indonesia | 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 International Pty Limited | Australia | 100 | 100 |
| Richter Drilling (PNG) Limited | PNG | 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 |

## 31. CONTROLLED ENTITIES CONTINUED

| Name of controlled entity | Country of incorporation | Ownership interest 2007 % | 2006 % |
|---|---|---|---|
| Roche Contractors Pty Limited | Australia | 100 | 100 |
| Roche Highwall Mining Pty Limited | Australia | 100 | 100 |
| Roche Holdings (NZ) Limited | New Zealand | – | 100 |
| Roche Mining (Laos) Company Limited | Laos | 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 NC SAS | New Caledonia | 100 | 100 |
| Roche Mining (NZ) Limited | New Zealand | 100 | 100 |
| Roche Mining (PNG) Ltd | PNG | 100 | 100 |
| Roche Services Pty Ltd | Australia | 100 | 100 |
| RPC IT Pty Ltd | Australia | 100 | 100 |
| RPC Roads Pty Ltd | Australia | 100 | 100 |
| Scanbright Pty Ltd | Australia | 100 | 100 |
| Shanghai CPG Architectural and Design Co. Ltd | China | 90 | – |
| Sillars Holdings Limited | United Kingdom | 100 | – |
| Sillars Road Construction Ltd | United Kingdom | 100 | – |
| Sillars (B&CE) Ltd | United Kingdom | 100 | – |
| Sillars (TMWD) Ltd | United Kingdom | 100 | – |
| Singleton Bahen Stansfield Pty Ltd | Australia | 100 | – |
| Snowden Mining Industry Consultants Pty Ltd | Australia | 100 | 100 |
| Snowden Mining Industry Consultants Pty Ltd | South Africa | 100 | 100 |
| Snowden Mining Industry Consultants Inc. | Canada | 100 | 100 |
| Snowden Mining Industry Consultants Limited | United Kingdom | 100 | 100 |
| Snowden Mining Technologies Limited | British Virgin Isl. | 100 | 100 |
| Snowden Technologies Pty Ltd | Australia | 100 | 100 |
| Snowden Training Pty Ltd | South Africa | 100 | 100 |
| Starblake Pty Ltd | Australia | 100 | 100 |
| Tas21 Pty Limited | Australia | 100 | 100 |
| Technic Industries Limited | New Zealand | 100 | 100 |
| Total Construction Limited | New Zealand | 100 | 100 |
| TSG Architects Pte Ltd | Singapore | 100 | 100 |
| Waste Solutions Limited | New Zealand | 100 | 100 |
| Waste Technology Group Limited | New Zealand | 100 | 100 |
| Winstanley Pty Limited | Australia | 100 | 100 |
| Works Finance (NZ) Limited | New Zealand | 100 | – |
| Works Infrastructure (Holdings) Limited | United Kingdom | 100 | 100 |
| Works Infrastructure Pte Ltd | Singapore | 100 | – |
| Works Infrastructure (UK) Limited | United Kingdom | 100 | 100 |

## 32. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES

**a) Key management personnel compensation:**

Details of key management personnel compensation are disclosed in Note 33 to the financial statements.

**b) Other transactions with directors:**

A director of the company, J S Humphrey, has an interest as a partner in the firm Malleson Stephen Jaques, solicitors. This firm renders legal advice to the consolidated entity in the ordinary course of business under normal commercial terms and conditions. The amount of fees paid and recognised was $56,736 (2006: $6,304).

**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 11 and 18 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 are on normal commercial terms.

**d) Equity interests in related parties:**

**Equity interests in subsidiaries:**

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 31 to the financial statements.

**Equity interests in associates and joint ventures:**

Details of interests in associates and joint ventures are disclosed in Note 15 to the financial statements.

**e) Controlling entity:**

The parent entity of the group is Downer EDI Limited.

**f) Key management personnel equity holdings:**

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

| 2007 | Balance at 1 July 2006 No. | Net Change No. | Balance at 30 June 2007 No. |
|---|---|---|---|
| B D O'Callaghan | 17,052 | 8,867 | 25,919 |
| P E J Jollie | 10,595 | – | 10,595 |
| S J Gillies | 2,645,267 | 470,891 | 3,116,158 |
| L Di Bartolomeo | – | 9,414 | 9,414 |
| J S Humphrey | 3,612 | 30,125 | 33,737 |
| C J S Renwick | – | 20,000 | 20,000 |
| D Cattell | 500,615 | 7,917 | 508,532 |
| R Hackett | 1,051,751 | 94,635 | 1,146,386 |
| W Nolan | 500 | – | 500 |
| T Pang | 119,729 | 500 | 120,229 |
| P Reidy | 1,014 | 30 | 1,044 |
| G Wannop | 43,324 | 5,769 | 49,093 |
| B Waldron | 60,867 | – | 60,867 |
| | 4,454,326 | 648,148 | 5,102,474 |

C Denney and R Logan are not included in the 2007 key management personnel equity holdings as they resigned during the financial year. Their holdings were disclosed in the comparative year.

## 32. RELATED PARTY INFORMATION AND KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

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

## 33. KEY MANAGEMENT PERSONNEL COMPENSATION

### a) Directors

The following persons were directors of Downer EDI during the financial year:

| | |
|---|---|
| **B D O'Callaghan AO** | chairman, non-executive director |
| **P E J Jollie AM** | deputy chairman, non-executive director |
| **S J Gillies** | managing director (resigned 1 August 2007) |
| **L Di Bartolomeo** | non-executive director |
| **J S Humphrey** | non-executive director |
| **C J S Renwick AM** | non-executive director |

### b) Other key management personnel

The following persons were members of the Downer EDI's key management personnel during the year:

| | |
|---|---|
| **B Waldron** | chief executive officer - Downer EDI Limited<br>(finished as Deputy CEO on 11 May 2007 and reappointed on 2 August 2007) |
| **J Bevan** | chief executive officer - Downer EDI Mining (appointed 1 June 2007, resigned 16 August 2007) |
| **D Cattell** | chief executive officer - Downer EDI Works |
| **C Denney** | chief executive officer - Downer EDI Engineering (resigned 31 July 2006) |
| **R Guthrie** | chief executive officer - Downer EDI Engineering (resigned 9 February 2007) |
| **R Hackett** | chief executive officer - Century Resources |
| **R Logan** | chief executive officer - Downer EDI Mining (resigned 24 November 2006) |
| **W Nolan** | chief executive officer - Downer EDI Engineering (appointed 9 February 2007) |
| **D O'Reilly** | chief executive officer - Downer EDI Mining (appointed 16 August 2007) |
| **T Pang** | chief executive officer - CPG Corporation |
| **P Reidy** | chief executive officer - Downer EDI Works New Zealand |
| **G Wannop** | chief executive officer - Downer EDI Rail |

## 33. KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

**Details of key management personnel compensation policy**

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

Compensation and other terms of employment for the directors and key management personnel are formalised in agreements. All executives, except for the chief executive officer, are on open-ended contracts with no fixed end date. The chief executive officer is for a period of up to 12 months. The notice period under these contracts is 3 months, including the chief executive officer. Key management personnel contracts provide for termination payments, up to a maximum 100% of base salary in very limited circumstances. Key management personnel and the chief executive officer are entitled as part of their compensation packages to a bonus capped at up to 50% of their base salary. Payment of the bonus is dependent upon meeting the budget, business plan and other key performance measures.

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

**c) Key management personnel compensation**

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Short-term employee benefits | 6,976,304 | 6,568,233 | 6,606,985 | 6,076,659 |
| Post-employment benefits | 1,296,059 | 569,485 | 1,296,059 | 569,485 |
| Share-based payments | 387,201 | 184,923 | 373,854 | 184,923 |
| | 8,659,564 | 7,322,641 | 8,276,898 | 6,831,067 |

| 2007 | Short-Term Employee Benefits | | | Post-Employment Benefits | | Share-Based Transactions | |
|---|---|---|---|---|---|---|---|
| | Salary and Fees $ | Bonus Paid in Respect of Prior Year $ | Non-Monetary $ | Super-Annuation $ | Retirement Allowances $ | Other[1] $ | Total $ |
| B D O'Callaghan | 175,000 | – | – | 15,750 | – | – | 190,750 |
| P E J Jollie | 115,000 | – | – | 10,350 | – | – | 125,350 |
| S J Gillies | 1,533,869 | – | 6,407 | 135,000 | – | 280,070 | 1,955,346 |
| L Di Bartolomeo | 100,000 | – | – | 9,000 | – | – | 109,000 |
| J S Humphrey | 102,500 | – | – | 9,225 | – | – | 111,725 |
| C J S Renwick | 100,000 | – | – | 9,000 | – | – | 109,000 |
| B D Waldron | 821,242 | – | 19,056 | 39,127 | – | – | 879,425 |
| J Bevan | 67,721 | – | – | 10,092 | – | – | 77,813 |
| D Cattell | 587,500 | 200,000 | 124,100 | 94,000 | – | 31,308 | 1,036,908 |
| R Guthrie | 825,257 | 75,000 | 8,699 | 26,140 | 625,000 | – | 1,560,096 |
| R Hackett | 481,238 | – | 47,571 | 74,033 | – | 20,140 | 622,982 |
| R Logan | 154,357 | – | 2,143 | 34,819 | 122,173 | – | 313,492 |
| W Nolan | 376,652 | 57,663 | 34,760 | 29,138 | – | 19,790 | 518,003 |
| T Pang | 271,405 | 97,914 | – | – | – | 13,347 | 382,666 |
| G Wannop | 462,250 | 129,000 | – | 53,212 | – | 22,546 | 667,008 |
| | 6,173,991 | 559,577 | 242,736 | 548,886 | 747,173 | 387,201 | 8,659,564 |

1 Performance rights and options granted under the long term incentive plan.

## 33. KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

| 2006 | Short-Term Employee Benefits | | | Post-Employment Benefits | Share-Based Transactions | |
|---|---|---|---|---|---|---|
| | Salary and Fees $ | Bonus Paid in Respect of Prior Year $ | Non-Monetary $ | Super-Annuation $ | Other [1] $ | Total $ |
| B D O'Callaghan | 175,000 | – | – | 15,750 | – | 190,750 |
| P E J Jollie | 115,000 | – | – | 10,350 | – | 125,350 |
| S J Gillies | 1,546,912 | 500,000 | 13,653 | 135,000 | 184,923 | 2,380,488 |
| L Di Bartolomeo | – | – | – | – | – | – |
| J S Humphrey | 80,000 | – | – | 7,200 | – | 87,200 |
| K Y Lau | – | – | – | – | – | – |
| C J S Renwick | 109,000 | – | – | – | – | 109,000 |
| B D Waldron | 626,845 | 126,457 | – | 39,168 | – | 792,470 |
| D Cattell | 446,667 | 150,000 | 106,734 | 71,467 | – | 774,868 |
| C Denney | 378,340 | 135,000 | 8,696 | 97,843 | – | 619,879 |
| R Hackett | 335,407 | 97,500 | 23,785 | 63,937 | – | 520,629 |
| R Logan | 555,099 | – | 6,264 | 90,835 | – | 652,198 |
| T Pang | 264,975 | 97,556 | – | – | – | 362,531 |
| P Reidy | 129,043 | – | – | – | – | 129,043 |
| G Wannop | 421,500 | 118,800 | – | 37,935 | – | 578,235 |
| | 5,183,788 | 1,225,313 | 159,132 | 569,485 | 184,923 | 7,322,641 |

**Long term incentive plan**

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

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

**Performance rights**

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

**Performance options**

1 Participants have the right to acquire a share at a future point in time
2 Vesting is dependent upon both time and performance based criteria
3 An exercise price is payable
4 The reward is equal to the growth in the underlying share price
5 Generally provides a greater reward where there is significant growth in share price
6 Rewards in a flat to poor market can be non-existent

Each grant of performance rights and performance options will be divided into 2 pools with each pool consisting of equal numbers of rights and options and with different hurdles being applied to each pool as set out below:

1 the first pool will vest based on the company's total shareholder return (TSR) as measured against the ASX100 comparator group; and
2 the second pool will vest based on meeting growth hurdles in the company's earnings per share (EPS).

## 33. KEY MANAGEMENT PERSONNEL COMPENSATION CONTINUED

**2007**

During the year, 496,657 performance rights and 1,574,538 performance options in Downer EDI Limited were granted to senior executives of the Downer EDI Group in accordance with the long term incentive plan. Details are as follows:

| | Number of Shares | Grant Date | Expiry Date[1] | Exercise Price $ | Fair Value at Grant Date $ |
|---|---|---|---|---|---|
| Performance options | 1,574,538 | 10 November 2006 | 10 November 2013 | 6.72 | 1.83 |
| Performance rights | 496,657 | 10 November 2006 | 10 November 2013 | – | 5.80 |

1 Subject to the satisfaction of certain performance hurdles as noted in section 6.3 of the remuneration report, securities vest on 30 June 2009 or 30 June 2010 and will be exercisable at any time up to the seventh anniversary of the 10 November 2006 grant date.

**2006**

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

| | Number of Shares | Grant Date | Expiry Date[2] | Exercise Price $ | Fair Value at Grant Date $ |
|---|---|---|---|---|---|
| Performance options | 162,935 | 2 November 2005 | 2 November 2012 | 6.07 | 1.58 |
| Performance options | 162,934 | 2 November 2005 | 2 November 2012 | 6.07 | 1.52 |
| Performance rights | 23,973 | 2 November 2005 | 2 November 2012 | – | 5.56 |
| Performance rights | 23,972 | 2 November 2005 | 2 November 2012 | – | 4.45 |

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

## 34. EMPLOYEE SHARE PLAN

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

During the year ended 30 June 2007, 833,000 shares were granted (2006:nil) under the ESP.

## 35. 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. Similarly, no executives and employees acquired any ordinary shares under the provisions of the EOS. At 30 June 2007, no options granted under the EOS remain outstanding.

The closing market price of the company’s ordinary shares at 30 June 2007 was $7.36 each.

## 36. FINANCIAL INSTRUMENTS

**Financial risk management objectives**

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

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

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

i) Forward foreign exchange contracts (outright forwards and options) to hedge the exchange rate risk arising on the import of materials, plant and equipment, labour and logistics from overseas countries;

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.

**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.

**Foreign currency risk management**

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

**Forward foreign exchange contracts**

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

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

| Outstanding Contracts | Average Exchange Rate | | Foreign Currency | | Contract Value | | Fair Value | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 FC'000 | 2006 FC'000 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Buy US dollars** | | | | | | | | |
| Less than 3 months | 0.7840 | 0.7373 | 158,297 | 12,564 | 201,898 | 17,039 | (15,282) | (112) |
| 3 to 6 months | 0.7946 | 0.7524 | 2,419 | 2,037 | 3,044 | 2,708 | (181) | 39 |
| Later than 6 months | 0.7487 | 0.7415 | 254,594 | 6,923 | 340,052 | 9,337 | (20,838) | 29 |
| | | | 415,310 | 21,524 | 544,994 | 29,084 | (36,301) | (44) |
| **Sell US dollars/Buy Chinese Yuan** | | | | | | | | |
| Less than 3 months | 0.8493 | 0.7477 | 204,609 | 2,640 | 240,908 | 3,152 | (320) | (26) |
| 3 to 6 months | 0.8572 | 0.7442 | 3,576 | 933 | 4,172 | 1,254 | 56 | (4) |
| Later than 6 months | 0.7790 | 0.7404 | 360 | 6,727 | 462 | 9,085 | 26 | (26) |
| | | | 208,545 | 10,300 | 245,542 | 13,491 | (238) | (56) |
| **Buy Japanese yen** | | | | | | | | |
| Less than 3 months | 93.1500 | 79.5298 | 293,566 | 880,698 | 3,151 | 11,074 | 33 | (679) |
| 3 to 6 months | – | – | – | – | – | – | – | – |
| Later than 6 months | – | 82.0780 | – | 180,838 | – | 2,203 | – | (8) |
| | | | 293,566 | 1,061,536 | 3,151 | 13,277 | 33 | (687) |

## 36. FINANCIAL INSTRUMENTS CONTINUED

| Outstanding contracts | Average Exchange Rate | | Foreign Currency | | Contract Value | | Fair Value | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 FC'000 | 2006 FC'000 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Buy Euros** | | | | | | | | |
| Less than 3 months | 0.6245 | – | 11,319 | – | 18,125 | – | (185) | – |
| 3 to 6 months | 0.5760 | 0.5968 | 761 | 6,130 | 1,321 | 10,272 | (103) | 298 |
| Later than 6 months | 0.5393 | 0.5858 | 70,520 | 753 | 130,764 | 1,286 | (8,905) | 23 |
| | | | 82,600 | 6,883 | 150,210 | 11,558 | (9,193) | 321 |
| **Sell South African rand** | | | | | | | | |
| Less than 3 months | 5.6028 | – | 796 | – | 142 | – | 10 | – |
| 3 to 6 months | 5.5179 | – | 3,472 | – | 629 | – | 59 | – |
| | | | 4,268 | – | 771 | – | 69 | – |
| **Buy Hong Kong dollars** | | | | | | | | |
| Less than 3 months | 6.6150 | – | 27,000 | – | 4,082 | – | 10 | – |
| **Buy Swiss franc** | | | | | | | | |
| Less than 3 months | 1.0120 | – | 1,265 | – | 1,250 | – | 33 | – |
| **Sell Thailand baht/ Buy New Zealand dollars** | | | | | | | | |
| Less than 3 months | 26.9954 | – | 30,000 | – | 1,111 | – | (11) | – |
| **Sell New Zealand dollars** | | | | | | | | |
| Less than 3 months | – | 1.2233 | – | 55 | – | 45 | – | – |
| **Buy Indonesian rupiah/ Sell US dollars** | | | | | | | | |
| Less than 3 months | – | 34.3200 | – | 2,360 | – | 69 | – | – |
| 3 to 6 months | – | 34.3578 | – | 1,931 | – | 56 | – | – |
| | | | – | 4,291 | – | 125 | – | – |
| **Sell Indonesian rupiah/ Buy US dollars** | | | | | | | | |
| Less than 3 months | – | 35.4000 | – | 4,657 | – | 132 | – | (5) |
| **Buy Korean won/Sell US dollars** | | | | | | | | |
| Less than 3 months | 788.2931 | – | 2,108,874 | – | 2,675 | – | 7 | – |
| 3 to 6 months | 787.3319 | – | 14,550 | – | 18 | – | 1 | – |
| | | | 2,123,424 | – | 2,693 | – | 8 | – |

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is $45,590,000 (2006: $471,000). These unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective.

**Hedges of anticipated future transactions**

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

**Interest rate risk management**

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

## 36. FINANCIAL INSTRUMENTS CONTINUED

**Interest rate swap contracts**

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

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

| Outstanding floating for fixed contracts | Average Interest Rate (Including Margin) | | Notional Principal Amount | | Fair Value | |
|---|---|---|---|---|---|---|
| | 2007 % | 2006 % | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **AUD interest rate swaps** | | | | | | |
| 1 to 2 years | 5.714 | – | 154,000 | – | 1,925 | – |
| 5 years or more | – | 5.714 | – | 70,000 | – | 1,492 |
| | | | 154,000 | 70,000 | 1,925 | 1,492 |
| **SGD interest rate swaps** | | | | | | |
| 1 to 2 years | 3.165 | – | 23,036 | – | (121) | – |
| 2 to 3 years | 2.995 | – | 7,679 | – | (5) | – |
| | | | 30,715 | – | (126) | – |

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 | Average Interest Rate (Including Margin) | | Notional Principal Amount | | Fair Value | |
|---|---|---|---|---|---|---|
| | 2007 % | 2006 % | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **AUD interest rate swap** | | | | | | |
| 2 to 3 years | 7.06 | – | 80,000 | – | (742) | – |

| | Average Interest Rate (Including Margin) | | Average Exchange Rates | | Notional Principal Amount | | Fair Value | |
|---|---|---|---|---|---|---|---|---|
| | 2007 % | 2006 % | 2007 | 2006 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Buy USD/Sell NZD** | | | | | | | | |
| 2 to 5 years | 9.01 | 8.16 | 0.6530 | 0.6530 | 76,375 | 69,219 | (13,318) | 2,538 |

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

## 36. 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 mitigate the risk of adverse movements in foreign exchange rates.

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

| Outstanding Contracts | Average Interest Rate | | Average Exchange Rates | | Contract Value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | 2007 % | 2006 % | 2007 | 2006 | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| **Buy USD/Sell AUD** | | | | | | | | |
| Less than 1 year | – | 7.74 | – | 0.5306 | – | 98,946 | – | (28,674) |
| 1 to 2 years | 5.59 | – | 0.5187 | – | 67,476 | – | (26,317) | – |
| 2 to 5 years | 7.39 | 7.94 | 0.6920 | 0.6338 | 35,535 | 100,241 | (6,520) | (24,280) |
| 5 years or more | 7.69 | 7.96 | 0.6849 | 0.6735 | 112,836 | 139,196 | (18,657) | (11,947) |
| **Total** | | | | | 215,847 | 338,383 | (51,494) | (64,901) |

| | | | Fixed Interest Rate Maturity | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | Weighted Average Effective Interest Rate % | Variable Interest Rate $'000 | Less than 1 Year $'000 | 1 to 2 Years $'000 | 2 to 3 Years $'000 | 3 to 4 Years $'000 | 4 to 5 Years $'000 | More than 5 Years $'000 | Non-Interest Bearing $'000 | Total $'000 |
| Financial assets: | | | | | | | | | | |
| Cash and cash equivalents | 5.65 | 242,746 | – | – | – | – | – | – | – | 242,746 |
| Trade receivables | – | – | – | – | – | – | – | – | 1,047,859 | 1,047,859 |
| Foreign currency forward contracts | – | – | – | – | – | – | – | – | 153 | 153 |
| Cross currency interest rate swaps | – | – | – | – | – | – | – | – | 1,925 | 1,925 |
| Other financial assets | 6.50 | – | – | – | – | – | – | 66,313 | 35,036 | 101,349 |
| Other receivables | – | – | – | – | – | – | – | – | 49,328 | 49,328 |
| | | 242,746 | – | – | – | – | – | 66,313 | 1,134,301 | 1,443,360 |
| Financial liabilities: | | | | | | | | | | |
| Trade payables | – | – | – | – | – | – | – | – | 783,670 | 783,670 |
| Foreign currency forward contracts | – | – | – | – | – | – | – | – | 45,743 | 45,743 |
| Cross currency interest rate swaps | – | – | – | – | – | – | – | – | 65,680 | 65,680 |
| Other financial liabilities | – | – | – | – | – | – | – | – | 16,784 | 16,784 |
| Bank overdraft | 6.09 | 9,082 | – | – | – | – | – | – | – | 9,082 |
| Bank loans | 6.03 | 368,879 | – | – | – | – | – | – | – | 368,879 |
| Finance lease liabilities | 6.85 | – | 3,089 | 3,588 | 960 | 401 | 356 | 696 | – | 9,090 |
| Hire purchase liabilities | 6.77 | – | 831 | 897 | 278 | 83 | 56 | – | – | 2,145 |
| US$ notes [1] | 7.12 | 65,687 | 41,191 | 26,480 | – | 2,354 | 90,620 | – | – | 226,332 |
| $A MTN | 7.06 | 80,000 | – | – | – | – | – | – | – | 80,000 |
| Employee benefits provision | – | – | – | – | – | – | – | – | 148,592 | 148,592 |
| Other provisions | – | – | – | – | – | – | – | – | 153,152 | 153,152 |
| | | 523,648 | 45,111 | 30,965 | 1,238 | 2,838 | 91,032 | 696 | 1,213,621 | 1,909,149 |

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

## 36. FINANCIAL INSTRUMENTS CONTINUED

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

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

**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 and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. The consolidated entity measures credit risk on a fair value basis.

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

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

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

## 36. FINANCIAL INSTRUMENTS CONTINUED

**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 (2006: net fair value).

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

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

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

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

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

The following table details the fair value (2006: net fair value) of financial liabilities:

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | 2007 $'000 | 2006 $'000 | 2007 $'000 | 2006 $'000 |
| Financial liabilities: | | | | |
| US$ notes | 226,332 | 328,772 | 238,233 | 343,200 |
| A$ MTN | 80,000 | – | 79,498 | – |
| | 306,332 | 328,772 | 317,731 | 343,200 |

**Liquidity risk management**

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

# Directors' Declaration

for the year ended 30 June 2007

In the opinion of the Directors of Downer EDI Limited:

(a) the financial statements and notes set out on pages 8 to 58 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

B D O' Callaghan
Chairman

21 August 2007, Sydney

# Independent Auditor's Report

to the Members of Downer EDI Limited

We have audited the accompanying financial report of Downer EDI Limited, which comprises the balance sheet as at 30 June 2007, 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 8 to 59.

## 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 consolidated financial statements and notes comply 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.

## 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 2007 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 consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu.

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner
Chartered Accountants

Sydney, 21 August 2007

Liability limited by a scheme approved under Professional Standards Legislation.

# Corporate Directory

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The expressions “Downer”, “Downer EDI” and “Group” used in this report refer to Downer EDI Limited and the companies which make up the Downer EDI Group. The term “Division” refers to the core divisions of Downer EDI Limited comprising: Works Division, Engineering Division, Mining Division, Rail Division and Consulting Services.

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