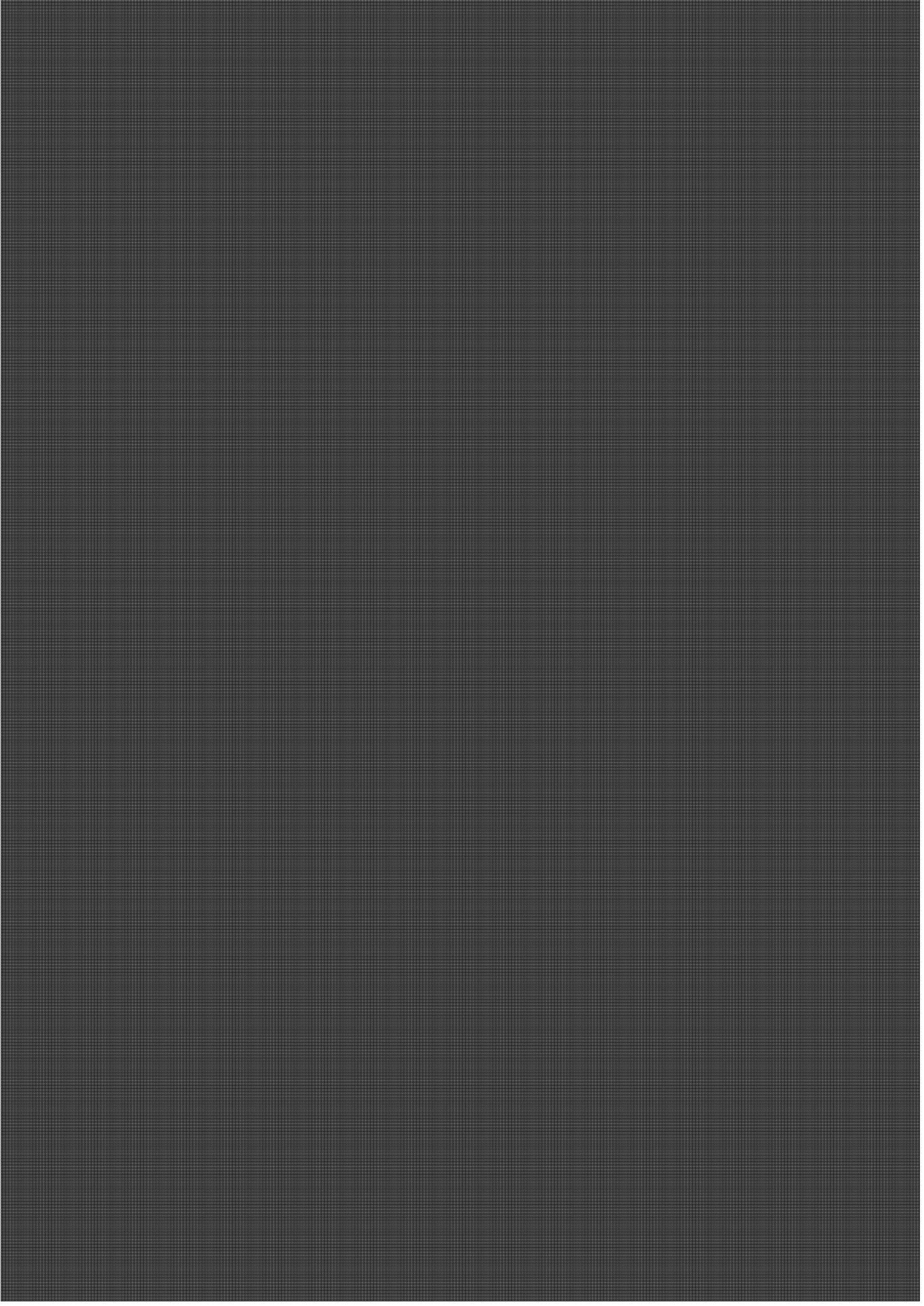


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Full Financial Report 2003



Downer EDI Limited Full Financial Report 2003

This publication includes Downer EDI Limited's Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2003.

It should be read in conjunction with the Downer EDI Limited Concise Annual Report 2003 which provides an overview of the key activities for the year ended 30 June 2003. The Concise Annual Report includes the Message from the Chairman, Managing Director's Review, Chief Financial Officer's Review, Division CEO Profiles, Business Sector Reviews, Directors' profiles and sections on Corporate Governance, Health Safety and Environment, Information for Investors and Australian Stock Exchange information.

The Full Financial Report and the Concise Annual Report comprise the full annual report of Downer EDI Limited for the year ended 30 June 2003, in accordance with the Corporations Act 2001.

The Concise Annual Report 2003 is available from Downer EDI's Corporate Affairs office by request on (02) 9251 9899. Both the Concise Annual Report 2003 and the Full Financial Report 2003 can be found at the Downer EDI website: www.downeredi.com

Annual General Meeting

Downer EDI Limited's 2003 Annual General Meeting will be held in Sydney at The Heritage Ballroom, The Westin Hotel, 1 Martin Place, Sydney on 27 October 2003 commencing 10.00am.

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Directors' Report

The directors of Downer EDI Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2003. 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:

Mr B D O'Callaghan (Chairman)

Mr K Y Lau (resigned as alternate for Dr C K Chan 12 December 2002)

Mr S J Gillies

Dr C K Chan

Mr R W Dunning

Mr J S Humphrey

Mr T J Kennedy

Mr M J Kent

Mr G M Lawrence

Mr K J Roche

Mr W Shurniak (resigned 11 April 2003)

Mr B W Wong (appointed 12 December 2002 as alternate for Dr C K Chan)

A profile of current board members is provided on pages 38 and 39 of the Concise Annual Report 2003.

Directors' Meetings

There were 8 full board meetings, 2 audit sub-committee and 2 remuneration sub-committee meetings held during the financial year. The number of meetings attended by each director is set out in the table below.

Directors	Attended		
	Board of Directors	Audit Committee	Remuneration Committee
B D O'Callaghan	8	2	-
K Y Lau	7	1	2
S J Gillies	8	-	2
C K Chan	-	-	-
R W Dunning	8	-	-
J S Humphrey	7	-	-
T J Kennedy	7	-	-
M J Kent	7	2	2
G M Lawrence	7	-	-
K J Roche	6	-	2
W Shurniak **	5	-	-
B W Wong (alternate for C K Chan)**	6	-	-

** 6 meetings held while a director

Directors' Shareholdings

The following table sets out each director's relevant interest 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
S J Gillies	11,349,460
B D O'Callaghan	58,552
R W Dunning	73,846
J S Humphrey	10,790

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 but are not limited to facilities management, oil, gas, geothermal and mineral drilling exploration, contract mining, rail services, infrastructure services, power, telecommunications and engineering projects.

Review of Operations

A review of the consolidated entity's operations is contained in the Managing Director's Review on pages 6 to 9 of the Concise Annual Report 2003.

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 2003, an interim dividend of 0.5 cents per share (unfranked) was paid to the holders of fully paid ordinary shares on 30 April 2003.

In respect of the financial year ended 30 June 2003, the directors declared the payment of a final dividend of 2.4 cents per share (franked to 50%) to the holders of fully paid ordinary shares to be paid on 10 October 2003.

In respect of the financial year ended 30 June 2003, dividends totalling \$5,200,000 (2002 : \$5,200,000) (unfranked) were paid or provided for in respect of the 8% converting preference shares.

In respect of the financial year ended 30 June 2002, as detailed in the Directors' Report for that financial year a final dividend of 1.9 cents per share (unfranked) was paid to the holders of fully paid ordinary shares on 29 November 2002.

Employee Share Plan ("ESP")

No shares were issued under the ESP during the year. Further details on the employee share plan are disclosed in note 7 to the financial statements.

Executive Share Option Scheme ("EOS")

No options were granted under the EOS during the year. Further details on the executive share option plan are disclosed in note 8 to the financial statements.

Share Options

No options were granted during the year.

Indemnification of Officers and Auditors

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

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' and Executives' Remuneration

The Remuneration Committee reviews the remuneration packages of all directors and executive officers. From 2004 onwards, the review of the remuneration packages of all directors will be performed by the Nominations and Corporate Governance Committee. Remuneration packages are reviewed with due regard to performance and other relevant factors.

In order to retain and attract executives 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 remuneration packages.

Remuneration packages may contain the following key elements:

- a) salary/fees;
- b) benefits – including the provision of motor vehicle, superannuation and health benefits; and
- c) incentive schemes – including performance related bonuses and share options under the employee share plan and executive share option scheme as disclosed in notes 7 and 8 to the financial statements.

The following table discloses the remuneration of the directors of the company and the five highest remunerated executives of the company and the consolidated entity.

Directors' Report continued

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Name	Office	Salary Fee \$	Benefits \$	Incentive Schemes \$	Total \$
B D O'Callaghan	Non-Executive Director	46,500	4,191	-	50,691
K Y Lau	Non-Executive Director	-	-	-	-
S J Gillies	Executive Director	975,000	87,750	243,750	1,306,500
Dr C K Chan	Non-Executive Director	-	-	-	-
R W Dunning	Non-Executive Director	45,000	4,050	-	49,050
J S Humphrey	Non-Executive Director	45,000	-	-	45,000
T J Kennedy	Non-Executive Director	45,000	4,050	-	49,050
M J Kent	Non-Executive Director	-	-	-	-
G M Lawrence	Non-Executive Director	-	-	-	-
K J Roche	Non-Executive Director	45,000	4,050	-	49,050
W Shurniak	Non-Executive Director	-	-	-	-
B W Wong	Non-Executive Director	-	-	-	-
R A Logan	Executive	490,539	101,979	143,500	736,018
D M O'Brien	Executive	379,647	92,978	65,000	537,625
D A Cattell	Executive	300,000	95,233	100,000	495,233
E S Woellner	Executive	300,615	51,095	125,000	476,710
R E Guthrie	Executive	323,964	52,335	77,000	453,299

Rounding Off 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.

Corporate Governance

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

The consolidated entity's performance in relation to corporate governance is contained in the Corporate Governance section on page 40 of the Concise Annual Report 2003.

Environmental Regulations

The consolidated entity's performance in relation to Environmental Regulation is contained in the Health, Safety and Environment section on page 43 of the Concise Annual Report 2003.

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



Mr B D O'Callaghan
Director



Mr S J Gillies
Director

Sydney, 26 August 2003

Statement of Financial Performance

for the financial year ended 30 June 2003

	Note	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue from ordinary activities		2,679,930	2,430,390	60,746	50,743
Share of net profits of associates and joint ventures accounted for using the equity method		17,093	12,059	–	–
Changes in inventories of finished goods and work in progress		(130,586)	133,804	–	–
Raw materials and consumables used		(864,336)	(1,002,469)	–	–
Employee benefits expense		(670,311)	(585,810)	(5,027)	(4,377)
Borrowing costs		(37,200)	(39,918)	(33,301)	(17,178)
Subcontractors		(410,007)	(378,571)	–	–
Plant and equipment costs		(358,265)	(343,434)	–	–
Communication expenses		(19,526)	(14,422)	(414)	(190)
Travel and accommodation		(19,085)	(16,250)	(1,125)	(447)
Professional fees		(18,786)	(17,454)	(2,590)	(1,102)
Occupancy		(19,557)	(16,201)	(429)	(411)
Other expenses from ordinary activities		(54,621)	(82,423)	(811)	(272)
Profit from Ordinary Activities Before Income Tax Expense					
	2	94,743	79,301	17,049	26,766
Income tax (expense)/benefit relating to ordinary activities	4	(28,171)	(22,870)	2,941	(5,211)
Net Profit Attributable to Members of the Parent Entity		66,572	56,431	19,990	21,555
Decrease in foreign currency translation reserve arising on translation of self-sustaining foreign operations	33	(12,553)	(16,783)	–	–
Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity Recognised Directly in Equity		(12,553)	(16,783)	–	–
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners		54,019	39,648	19,990	21,555
Earnings Per Share					
– Basic (cents per share)	35	6.3	5.8		
– Diluted (cents per share)	35	6.1	5.5		

Notes to the financial statements are included on pages 8 to 46.

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Statement of Financial Position

as at 30 June 2003

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	Note	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current Assets					
Cash assets		206,746	106,298	527	827
Inventories	10	125,396	112,054	-	-
Receivables	11	736,564	678,240	253,940	210,398
Other financial assets	12	14,195	20,385	3,673	3,383
Tax assets	13	12,880	12,111	-	-
Other	14	14,663	7,999	32	44
Total Current Assets		1,110,444	937,087	258,172	214,652
Non-Current Assets					
Receivables	15	32,018	19,737	351,858	409,308
Investments accounted for using the equity method	16	24,294	26,367	-	-
Property, plant and equipment	17	484,024	530,819	-	-
Intangibles	18	328,875	278,525	-	-
Other financial assets	19	16,574	7,958	225,433	226,416
Deferred tax assets	20	33,768	26,325	579	793
Other	21	2,749	2,848	-	-
Total Non-Current Assets		922,302	892,579	577,870	636,517
Total Assets		2,032,746	1,829,666	836,042	851,169
Current Liabilities					
Payables	22	551,514	387,909	826	1,425
Interest-bearing liabilities	23	96,204	24,063	-	-
Provisions	24	89,358	94,010	1,719	20,462
Tax liabilities	25	37,320	5,784	888	5,889
Total Current Liabilities		774,396	511,766	3,433	27,776
Non-Current Liabilities					
Payables	26	1,503	2,162	262,395	274,858
Interest-bearing liabilities	27	406,747	529,212	-	-
Provisions	28	23,826	16,528	171	95
Deferred tax liabilities	29	66,083	60,433	7	201
Total Non-Current Liabilities		498,159	608,335	262,573	275,154
Total Liabilities		1,272,555	1,120,101	266,006	302,930
Net Assets		760,191	709,565	570,036	548,239
Equity					
Contributed equity	32	614,361	607,705	553,629	546,973
Reserves	33	(12,173)	380	-	-
Retained profits	34	158,003	101,480	16,407	1,266
Total Equity		760,191	709,565	570,036	548,239

Notes to the financial statements are included on pages 8 to 46.

Statement of Cash Flows

for the financial year ended 30 June 2003

	Note	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cash Flows From Operating Activities					
Receipts from customers		2,967,818	2,391,234	339	679
Payments to suppliers and employees		(2,730,734)	(2,307,139)	(8,059)	(8,676)
Distributions from joint ventures		19,457	13,879	-	-
Interest received		6,275	3,956	84	81
Interest and other costs of finance paid		(37,792)	(40,333)	(3)	(2,905)
Income tax paid		(21)	(14,244)	-	-
Net cash provided by/(used in) operating activities	44(e)	225,003	47,353	(7,639)	(10,821)
Cash Flows From Investing Activities					
Advances to controlled entities		-	-	-	(138,263)
Receipts from controlled entities		-	-	67,573	-
Payment for investment securities		(5,987)	(10,773)	-	-
Proceeds from sale of investment securities		11,258	105	-	-
Payment for property, plant and equipment		(87,021)	(90,898)	-	-
Proceeds from sale of property, plant and equipment		76,364	62,226	-	-
Receipts from other advances		297	3,000	297	-
Receipt of joint venture advances		26,566	2,002	-	-
Advances to joint ventures		(12,885)	(6,906)	-	-
Proceeds from sale of businesses	44(c)	7,254	25,504	-	-
Payment of obligations acquired under business acquisitions		(30,121)	-	-	-
Payment for businesses acquired	44(b)	(19,608)	(59,980)	-	-
Net cash provided by/(used in) investing activities		(33,883)	(75,720)	67,870	(138,263)
Cash Flows From Financing Activities					
Proceeds from issues of equity securities		-	51,271	-	51,271
Proceeds from borrowings		167,217	367,480	-	104,601
Repayment of borrowings		(229,942)	(336,738)	(44,191)	-
Dividends paid		(21,778)	(11,242)	(16,340)	(6,040)
Payment for other borrowing costs		-	(285)	-	-
Net cash provided by/(used in) financing activities		(84,503)	70,486	(60,531)	149,832
Net Increase/(Decrease) in Cash Held		106,617	42,119	(300)	748
Cash At The Beginning Of The Financial Year		105,836	63,953	827	79
Effects of exchange rate changes on the balance of cash held in foreign currencies		(6,728)	(236)	-	-
Cash At The End Of The Financial Year	44(a)	205,725	105,836	527	827

Notes to the financial statements are included on pages 8 to 46.

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Notes to the Financial Statements

for the financial year ended 30 June 2003

1 STATEMENT OF ACCOUNTING POLICIES

Financial Reporting Framework

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and Urgent Issues Group Consensus Views and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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 and other events are reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

Acquisition and Disposal of Non-current Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition. In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

The cost of property, plant and equipment constructed within the consolidated entity includes the cost of materials, direct labour and an appropriate proportion of fixed and variable overheads. Interest costs on borrowings to finance assets under construction are capitalised up to the date of completion of each asset.

Any gain or loss on the disposal of an asset is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds from disposal (net of selling costs) and is included in the results in the year of disposal.

Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Changes in Accounting Policies

In accordance with AASB 1028 'Employee Benefits' on 1 July 2002 the entity changed its policy for recognising provisions for annual leave. The amount of the provision has been calculated using the remuneration rate expected to apply at the time of payment, rather than the remuneration rate that applies at the reporting date. This change in accounting policy had no material effect.

In accordance with AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' the entity changed its policy for recognising provisions. Under AASB 1044, a provision for dividend is recognised when the directors have declared, determined or publicly recommended the dividend. Accordingly, the 2003 final dividend declared by the directors in August 2003 has not been provided for in the financial statements.

The entity has adopted the revised Accounting Standard AASB 1012 'Foreign Currency Translation', applicable to annual reporting periods beginning on or after 1 January 2002. In accordance with the revised Standard, the entity has recognised foreign currency contracts that are hedges in the Statement of Financial Position. This change in accounting policy had no material effect.

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.

Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and investment properties. Depreciation is calculated on the productive usage of assets basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

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

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

Drilling Licences

The drilling licences are stated at cost. The carrying amount of the licences are reviewed annually by directors to ensure it is not in excess of the recoverable amount. Amortisation is calculated on a straight-line basis so as to write off the cost of the licences over the period that the benefits are expected to arise. The estimated period that benefits are expected to arise is ten years.

Earnings Per Share (EPS)

Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. The assessment of whether or not a potential ordinary share is dilutive is based on conditions at balance date.

Employee Entitlements

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 wages and salaries, annual leave, sick leave and other employee entitlements 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 entitlements, 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 the reporting date.

Engineering Services Contracts (long term)

Revenues and expenses arising 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.

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

Amounts due to/from customers under engineering services contracts which are recognised as an asset/liability respectively, consist of costs plus profits recognised to date less progress billings received and provisions for foreseeable losses.

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 a distribution of profit consistent with the balance sheet classification of the related debt or equity instruments.

Derivative financial instruments

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

Foreign exchange contracts

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

Further details on derivative financial instruments are referred to separately in the financial statements or notes thereto.

Foreign Currency

All foreign currency transactions during the financial year have been brought to account using the exchange rate in effect at the date of each transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are recognised in the statement of financial performance in the year in which they arise except:

- i) exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and
- ii) exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

Exchange differences related to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation are taken directly to the foreign currency translation reserve. Financial statements of self-sustaining foreign controlled entities are translated at reporting date using the current rate method and exchange differences are brought to account by entries made directly to the foreign currency translation reserve.

Notes to the Financial Statements

for the financial year ended 30 June 2003

1 STATEMENT OF ACCOUNTING POLICIES CONTINUED

Goods and Services Tax

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

- i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii) for receivable and payables which are recognised inclusive of GST.

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

Cash flows are included in the Statement of Cash Flows 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 authority is classified as operating cash flows.

Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired is amortised on a straight line basis over a period of 20 years.

Income Tax

Tax effect accounting principles are adopted whereby the income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in deferred income tax and future income tax benefit, as applicable. Any net future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of being realised. Future income tax benefits relating to timing differences are not carried forward as an asset unless the benefit is regarded as being assured beyond any reasonable doubt.

Realisation of the potential future income tax benefit is dependent on:

- i) the relevant entities earning future assessable income of a nature and amount sufficient to enable the benefit to be realised;
- ii) the relevant entities continuing to comply with the conditions for deductibility imposed by the law; and
- iii) no changes in tax legislation adversely affecting the relevant entities in realising the benefit.

Where assets are revalued, no provision for potential capital gains tax is made as no decision has been made to sell any of these assets.

Intellectual Property

Patents, trademarks and licenses are recorded at cost and amortised on a straight line basis over their useful lives, which is not greater than 40 years.

Interest-Bearing Liabilities

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

Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

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 by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis.

Investments

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

Joint Venture Operations and Entities

Interests in joint venture operations have been 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 joint ventures and the share of any expenses incurred in relation to joint ventures in their respective classification categories.

Interests in joint venture entities which are:

- partnerships have been accounted for under the equity method in the company and consolidated financial statements; and
- non partnerships have been accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Leased Assets

Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of minimum lease payments. A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property. Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of operating profit in equal instalments over the lease term. Expenditure arising from operating lease commitments is charged against income in the period incurred.

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.

Principles of Consolidation

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 1024 'Consolidated Accounts'. A list of controlled entities appears in note 39.

Consistent accounting policies have been employed by each entity in the consolidated entity. The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such an entity.

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

Receivables

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

Recoverable Amount of Non-current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds the recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

Revenue Recognition

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

Tax Consolidation Legislation

Legislation to allow groups, comprising a parent entity and its Australian resident wholly owned entities to elect to consolidate and be treated as a single entity for income tax purposes has been enacted.

Should Downer EDI Limited elect to consolidate for income tax purposes in future reporting periods, Downer EDI Limited as the head entity in the tax consolidated group, will recognise current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group in future financial statements, as if those transactions, events and balances were its own, in addition to the current and deferred tax balances arising in relation to its own transactions, events and balances.

Amounts receivable or payable under any potential tax sharing agreement may be recognised separately by Downer EDI Limited as tax related amounts receivable or payable.

The consolidated entity has not notified the Australian Taxation Office of a decision to implement the tax consolidation legislation as of 1 July 2003. Accordingly, the financial effect of the implementation of the legislation, if any, has not been recognised in the financial statements of the year ended 30 June 2003.

Warranty Costs

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

Notes to the Financial Statements

for the financial year ended 30 June 2003

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
2 PROFIT FROM ORDINARY ACTIVITIES				
Profit from ordinary activities before income tax includes the following items of revenue and expense:				
Operating revenue				
Sales revenue:				
Sale of goods	91,406	100,052	-	-
Rendering of services	1,475,207	1,334,189	11,480	11,980
Engineering services contract revenue	1,006,921	916,624	-	-
Dividends:				
Wholly-owned controlled entities	-	-	24,653	11,000
Interest revenue:				
Wholly-owned controlled entity	-	-	22,173	27,270
Director related entities	1,530	-	-	-
Other entities	5,597	4,324	87	100
Equity share of associates' and joint venture entities' profits	17,093	12,059	-	-
Rental income	46	399	-	139
Net foreign exchange gain	172	1,388	99	254
Other	8,077	2,406	1,371	-
Total operating revenue	2,606,049	2,371,441	59,863	50,743
Non-operating revenue				
Proceeds from the sale of non-current assets:				
Property, plant and equipment	76,471	67,925	-	-
Investments	14,503	3,083	883	-
Total non-operating revenue	90,974	71,008	883	-
Total revenue	2,697,023	2,442,449	60,746	50,743
Net share of sales revenue in joint venture entities	170,835	143,187	-	-
Total turnover	2,867,858	2,585,636	60,746	50,743
Expenses				
Cost of sales	48,205	73,051	-	-
Interest:				
Wholly owned controlled entities	-	-	33,298	15,769
Other entities	34,404	35,917	3	1,291
Finance lease charges	1,549	2,520	-	-
Depreciation of non-current assets:				
Plant and equipment	97,763	84,038	-	-
Buildings	902	1,700	-	-
Quarries	121	115	-	-
Amortisation of non-current assets:				
Leased assets	3,622	6,820	-	-
Goodwill	16,031	14,258	-	-
Drilling licence	210	212	-	-
Intellectual property	635	850	-	-
Net transfers to/(from) provisions:				
Doubtful debts	9,732	(5,755)	-	-
Operating lease rental expenses	68,558	45,859	-	-
Other borrowing costs	1,247	1,481	-	118

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
3 SALES OF ASSETS				
Profit from ordinary activities before income tax expense includes the following specific net gains on disposal:				
Net gains				
Investments	724	3,083	-	-
Property, plant and equipment	5,514	3,991	-	-
	6,238	7,074	-	-

4 INCOME TAX

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit from Ordinary Activities	94,743	79,301	17,049	26,766
Income tax expense calculated at 30% of operating profit	28,423	23,790	5,115	8,030
Permanent differences:				
Non-allowable depreciation	278	953	-	-
Amortisation of intangible assets	4,958	4,596	-	-
Non-taxable capital gains	(460)	(239)	-	-
Exempt income	(37)	-	-	-
Non-deductible expenses	1,574	748	521	481
Rebateable dividends	-	-	(7,396)	(3,300)
Equity share of associates' and joint venture entities' profits	(1,096)	(3,618)	-	-
Effect of different rates of tax on overseas income	885	694	-	-
Research and development	(1,378)	(2,365)	-	-
Other items	(140)	(595)	46	-
Future income tax benefit not previously recognised now brought to account	(726)	-	-	-
	32,281	23,964	(1,714)	5,211
Over provision of income tax in previous year	(4,110)	(1,094)	(1,227)	-
Income tax expense/(benefit) attributable to operating profit	28,171	22,870	(2,941)	5,211

Notes to the Financial Statements

for the financial year ended 30 June 2003

5 DIRECTORS' REMUNERATION

	Consolidated		Company	
	2003	2002	2003	2002
	\$	\$	\$	\$

The directors of Downer EDI Limited during the year were:

- B D O'Callaghan
- S J Gillies
- K Y Lau
- C K Chan
- R W Dunning
- J S Humphrey
- K J Roche
- G M Lawrence
- T J Kennedy
- M J Kent
- W Shurniak (resigned 11 April 2003)
- B W Wong (alternate for C K Chan)

The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party.

1,549,341 1,527,240

The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities in which they are directors or by any related party.

11,880,169 9,904,383

The number of Directors of the company whose total income falls within the following bands:

			2003	2002
			No.	No.
\$0	–	\$9,999	6	7
\$30,000	–	\$39,999	–	1
\$40,000	–	\$49,999	4	3
\$50,000	–	\$59,999	1	1
\$1,290,000	–	\$1,299,999	–	1
\$1,300,000	–	\$1,309,999	1	–

6 EXECUTIVES' REMUNERATION

	Consolidated		Company	
	2003 \$	2002 \$	2003 \$	2002 \$
Aggregate remuneration of executive officers of the company working mainly in Australia and receiving \$100,000 or more from the company or a related party.			2,809,890	2,414,714
Aggregate remuneration of executive officers of each entity in the consolidated entity working mainly in Australia and receiving \$100,000 or more from the entity for which they are executive officers or from any related party.	19,800,453	16,734,162		

Number of executive officers whose remuneration falls within each successive \$10,000 band of income (commencing at \$100,000):

	No.	No.	No.	No.
\$100,000 – \$109,999	1	11	–	–
\$110,000 – \$119,999	5	6	–	–
\$120,000 – \$129,999	3	6	–	–
\$130,000 – \$139,999	7	6	–	–
\$140,000 – \$149,999	2	6	–	1
\$150,000 – \$159,999	5	5	–	–
\$160,000 – \$169,999	8	4	–	–
\$170,000 – \$179,999	7	3	1	1
\$180,000 – \$189,999	6	3	–	–
\$190,000 – \$199,999	4	2	–	–
\$200,000 – \$209,999	1	3	–	1
\$210,000 – \$219,999	2	2	–	–
\$220,000 – \$229,999	2	1	–	–
\$230,000 – \$239,999	1	2	–	–
\$240,000 – \$249,999	3	3	1	–
\$250,000 – \$259,999	1	1	–	–
\$260,000 – \$269,999	1	1	–	–
\$270,000 – \$279,999	1	1	1	–
\$280,000 – \$289,999	–	1	–	1
\$290,000 – \$299,999	1	–	–	–
\$300,000 – \$309,999	1	4	–	1
\$310,000 – \$319,999	2	1	–	–
\$330,000 – \$339,999	1	1	–	–
\$340,000 – \$349,999	1	–	–	–
\$350,000 – \$359,999	2	3	–	–
\$360,000 – \$369,999	–	2	–	–
\$370,000 – \$379,999	2	2	–	–
\$380,000 – \$389,999	1	–	–	–
\$390,000 – \$399,999	2	–	1	–
\$410,000 – \$419,999	3	–	1	–
\$420,000 – \$429,999	–	1	–	–
\$450,000 – \$459,999	1	–	–	–
\$460,000 – \$469,999	1	–	–	–
\$470,000 – \$479,999	1	–	–	–
\$500,000 – \$509,999	1	1	–	–
\$530,000 – \$539,999	1	–	–	–
\$730,000 – \$739,999	1	–	–	–
\$1,290,000 – \$1,299,999	–	1	–	1
\$1,300,000 – \$1,309,999	1	–	1	–

Notes to the Financial Statements

for the financial year ended 30 June 2003

7 EMPLOYEE SHARE PLAN (ESP)

The company has an ownership-based remuneration plan for executives and employees. In accordance with the provisions of the plan, as approved by shareholders at an annual general meeting, permanent full and part time employees of Downer EDI Limited and its associated/controlled companies who have completed one year's service with Downer EDI Limited or its predecessors may be invited to participate.

At 30 June 2003, no executives or employees had been offered shares under the provisions of the plan.

The aggregate number of shares outstanding under the plan in respect of which loans from Downer EDI Limited (and its associated companies) remain outstanding in whole or in part, will not exceed 2% of Downer EDI Limited's issued share capital at any time. The issue price of the shares will be the market price of the shares at the time of issue. There has been no change to the terms of the plan since the last Annual Report of the company.

The difference between the total market value of the ordinary shares issued under the plan during a financial year, at the date of issue, and the total amount received from executives and employees will not be recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that financial year.

16 8 EXECUTIVE SHARE OPTION SCHEME (EOS)

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

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

Options will be granted without charge.

The directors will determine the following matters in their discretion:

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

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

During the year, no options under the EOS were granted. Similarly, no executives and employees acquired any ordinary shares under the provisions of the EOS. At 30 June 2003, no options granted under the EOS remain outstanding.

The market price of the company's ordinary shares at 30 June 2003 was \$0.77 each.

The difference between the total market value of options issued during a financial year, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that financial year.

	Consolidated		Company	
	2003 \$	2002 \$	2003 \$	2002 \$
9 REMUNERATION OF AUDITORS				
a) Auditor of the parent entity				
Auditing the financial report	1,309,500	1,294,900	195,000	140,000
Other services	421,000	507,600	-	-
	1,730,500	1,802,500	195,000	140,000
b) Other auditors				
Auditing the financial report	399,600	341,100	-	-
Other services	840,000	342,400	316,000	132,440
	1,239,600	683,500	316,000	132,440
	2,970,100	2,486,000	511,000	272,440

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
10 CURRENT INVENTORIES				
Raw materials – at cost	29,030	21,313	–	–
Raw materials – at net realisable value	–	1,953	–	–
Finished goods – at cost	12,979	12,919	–	–
Finished goods – at net realisable value	–	649	–	–
Work in progress – at cost	30,478	21,854	–	–
Work in progress – at net realisable value	220	4,858	–	–
Components and spare parts – at cost	52,689	48,508	–	–
	125,396	112,054	–	–

11 CURRENT RECEIVABLES

Trade receivables	503,532	368,360	–	–
Allowance for doubtful debts	(11,158)	(1,426)	–	–
	492,374	366,934	–	–
Amount due from customers under engineering services contracts (Note 46)	191,115	256,821	–	–
Deferred hedge (Note 22)	314	709	–	–
Other receivables director related entities	19,770	27,834	–	–
Other receivables controlled entities	–	–	253,940	210,398
Other receivables	32,991	25,942	–	–
	736,564	678,240	253,940	210,398

12 OTHER CURRENT FINANCIAL ASSETS

Investments at cost	–	7,211	–	–
Employee loans	2,752	2,554	2,752	2,554
Advances to joint venture entities	3,844	3,188	–	–
Other financial assets	7,599	7,432	921	829
	14,195	20,385	3,673	3,383

13 CURRENT TAX ASSETS

Tax refunds	12,880	12,111	–	–
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14 OTHER CURRENT ASSETS

Deferred costs	2,079	2,098	–	–
Prepayments	10,319	4,804	32	44
Other deposits	1,971	157	–	–
Other current assets	294	940	–	–
	14,663	7,999	32	44

Notes to the Financial Statements

for the financial year ended 30 June 2003

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
15 NON-CURRENT RECEIVABLES				
Trade receivables	9,040	11,889	-	-
Amount due from customers under engineering services contracts (Note 46)	6,508	1,609	-	-
Other receivables	16,470	6,239	-	-
Other receivables controlled entities	-	-	351,858	409,308
	32,018	19,737	351,858	409,308

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16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Joint venture entities (Note 38 (b))	24,294	26,367	-	-
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17 PROPERTY, PLANT AND EQUIPMENT

	Consolidated					
	Freehold Land \$'000	Quarries \$'000	Buildings \$'000	Plant and Equipment \$'000	Equipment Under Finance Lease \$'000	Total \$'000
Gross Carrying Amount at cost						
Balance at 30 June 2002	17,153	4,722	42,177	875,089	48,302	987,443
Additions	715	-	1,248	98,180	5,394	105,537
Disposals	(193)	-	(5,645)	(133,294)	(41,428)	(180,560)
Acquisitions of businesses	1,770	-	1,976	16,585	1,832	22,163
Disposals of businesses	-	-	-	(840)	-	(840)
Net foreign currency exchange differences arising on translation of financial statements of self sustaining foreign operations	44	39	(104)	(1,564)	-	(1,585)
Balance at 30 June 2003	19,489	4,761	39,652	854,156	14,100	932,158
Accumulated Depreciation/ Amortisation						
Balance at 30 June 2002	-	1,265	4,296	430,235	20,828	456,624
Depreciation	-	121	902	97,763	3,622	102,408
Disposals	-	-	(1,005)	(85,650)	(22,948)	(109,603)
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	-	11	(35)	(809)	(462)	(1,295)
Balance at 30 June 2003	-	1,397	4,158	441,539	1,040	448,134
NET BOOK VALUE						
As at 30 June 2002	17,153	3,457	37,881	444,854	27,474	530,819
As at 30 June 2003	19,489	3,364	35,494	412,617	13,060	484,024

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 2 to the Financial Statements. Freehold land and buildings were subject to independent valuation during the 2003 financial year. The basis of valuation was market value for existing use. The independent valuations obtained totalled \$60,741,000.

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
18 INTANGIBLES				
Goodwill	345,706	279,047	-	-
Accumulated amortisation	(50,728)	(34,695)	-	-
	294,978	244,352	-	-
Intellectual property	34,701	34,185	-	-
Accumulated amortisation	(1,687)	(1,105)	-	-
	33,014	33,080	-	-
Drilling licence	2,100	2,100	-	-
Accumulated amortisation	(1,217)	(1,007)	-	-
	883	1,093	-	-
	328,875	278,525	-	-

Aggregate amortisation allocated during the year is recognised as an expense and disclosed in Note 2 to the Financial Statements.

19 OTHER NON-CURRENT FINANCIAL ASSETS

Shares in controlled entities	-	-	225,000	225,000
Other financial assets	16,574	7,958	433	1,416
	16,574	7,958	225,433	226,416

20 DEFERRED TAX ASSETS

Future income tax benefits:				
Tax losses – revenue	7,889	5,517	-	-
Timing differences	25,879	20,808	579	793
	33,768	26,325	579	793

21 OTHER NON-CURRENT ASSETS

Deferred costs	2,540	1,726	-	-
Prepayments	209	149	-	-
Other	-	973	-	-
	2,749	2,848	-	-

22 CURRENT PAYABLES

Trade payables	373,096	302,232	743	1,425
Amounts due to customers under engineering services contracts (Note 46)	64,743	46,303	-	-
Goods and services tax payable	10,267	10,612	83	-
Advances from joint venture entities	25,269	12,913	-	-
Advances from other entities	43,594	-	-	-
Deferred purchase consideration (Note 44(b))	3,477	-	-	-
Foreign currency hedge (Note 11)	314	709	-	-
Other	30,754	15,140	-	-
	551,514	387,909	826	1,425

Notes to the Financial Statements

for the financial year ended 30 June 2003

20

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
23 CURRENT INTEREST-BEARING LIABILITIES				
Secured: (Note 27)				
Other loans	–	6,383	–	–
Finance lease liabilities (Note 37(b))	3,353	11,703	–	–
Hire purchase liabilities (Note 37(c))	1,460	4,089	–	–
	4,813	22,175	–	–
Unsecured: (Note 27)				
Bank loans	90,370	1,426	–	–
Bank overdraft	1,021	462	–	–
	91,391	1,888	–	–
	96,204	24,063	–	–

24 CURRENT PROVISIONS AND OTHER CURRENT LIABILITIES

Employee entitlements (Notes 30 and 31)	68,798	51,362	1,307	1,889
Contract claims and warranties (Note 31)	15,378	15,860	–	–
Dividends (Note 31)	1,300	19,679	–	18,386
Other (Note 31)	3,316	744	412	187
Total current provisions	88,792	87,645	1,719	20,462
Unearned revenue	566	6,365	–	–
	89,358	90,010	1,719	20,462

25 CURRENT TAX LIABILITIES

Income tax payable	37,320	5,784	888	5,889
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26 NON-CURRENT PAYABLES

Amounts due to customers under engineering services contracts (Note 46)	1,472	1,189	–	–
Non-trade payables to:				
Controlled entities	–	–	240,677	253,134
Related entities	–	–	21,718	21,724
Other	31	973	–	–
	1,503	2,162	262,395	274,858

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
27 NON-CURRENT INTEREST-BEARING LIABILITIES				
Secured:				
Finance lease liabilities (Note 37(b))	6,696	8,803	-	-
Hire purchase liabilities (Note 37(c))	1,338	1,371	-	-
	8,034	10,174	-	-
Unsecured:				
Bank loans	93,623	213,948	-	-
US\$ notes	305,090	305,090	-	-
	398,713	519,038	-	-
	406,747	529,212	-	-

Financing facilities

The consolidated entity has access to the following lines of credit:

Total facilities available:

Bank loans/overdraft (i)	487,407	379,161	-	-
Hire purchase and lease facilities (ii)	213,119	185,285	-	-
US\$ notes (iii)	305,090	305,090	-	-
Other loans (iv)	-	6,383	-	-
	1,005,616	875,919	-	-

Facilities utilised at balance date:

Bank overdraft	1,021	462	-	-
Bank loans	183,993	213,948	-	-
Hire purchase and lease facilities	12,847	27,392	-	-
US\$ notes	305,090	305,090	-	-
Other loans	-	6,383	-	-
	502,951	553,275	-	-

Facilities not utilised at balance date:

Bank overdraft	500	38	-	-
Bank loans	301,893	164,713	-	-
Hire purchase and lease facilities	200,272	157,893	-	-
	502,665	322,644	-	-

At 30 June 2003, the consolidated entity had bank guarantees and other bank collateral facilities and insurance bond facilities totalling \$708,586,000 (2002: \$602,638,000) of which \$400,531,000 (2002: \$342,019,000) was not utilised.

(i) Bank loans/overdraft

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

(ii) Hire purchase and lease facilities

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

(iii) US\$ unsecured notes

In October 1999 and December 2001 the consolidated entity issued US\$95,000,000 (\$150,573,000) and US\$80,000,000 (\$154,517,183) in unsecured notes, with varying maturities extending to 2014. The USD principal and interest have been fully hedged. Interest is payable to US note holders semiannually. While unsecured, the US notes are subject to group guarantee arrangements.

(iv) Other loans

Other loans totalling \$ nil (2002: \$6,383,000) were secured by the respective assets being financed.

Notes to the Financial Statements

for the financial year ended 30 June 2003

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
28 NON-CURRENT PROVISIONS				
Employee entitlements (Note 30)	17,114	14,769	171	95
Contract claims and warranties (Note 31)	2,322	-	-	-
Other (Note 31)	4,390	1,759	-	-
	23,826	16,528	171	95

29 DEFERRED TAX LIABILITIES

Deferred income tax	66,083	60,433	7	201
The deferred income tax balances have been reduced by future income tax benefits attributable to:				
i) timing differences	23,701	22,391	-	-
ii) tax losses	-	34,089	-	-
	23,701	56,480	-	-

30 EMPLOYEE ENTITLEMENTS

The aggregate employee entitlement liability recognised and included in the financial statements is as follows:

Provision for employee entitlements:

Current (Note 24)	68,798	51,362	1,307	1,889
Non-current (Note 28)	17,114	14,769	171	95
	85,912	66,131	1,478	1,984

Consolidated				
	Employee Entitlements \$'000	Contract Claims/ Warranties \$'000	Other * \$'000	Total \$'000
31 PROVISIONS				
Balance at 30 June 2002	66,131	15,860	22,182	104,173
Additional provisions recognised	37,043	11,615	4,269	52,927
Reductions arising from payments/other sacrifices of future economic benefits	(29,166)	(9,775)	(22,512)	(61,453)
Acquisition of businesses	12,615	–	5,128	17,743
Other	(711)	–	(61)	(772)
Balance at 30 June 2003	85,912	17,700	9,006	112,618
Current (Note 24)	68,798	15,378	4,616	88,792
Non-current (Note 28)	17,114	2,322	4,390	23,826
Company				
	Employee Entitlements \$'000	Contract Claims/ Warranties \$'000	Other * \$'000	Total \$'000
Balance at 30 June 2002	1,984	–	18,573	20,557
Additional provisions recognised	490	–	225	715
Reductions arising from payments/other sacrifices of future economic benefits	(996)	–	(18,386)	(19,382)
Balance at 30 June 2003	1,478	–	412	1,890
Current (Note 24)	1,307	–	412	1,719
Non-current (Note 28)	171	–	–	171

* Other includes the following categories separately disclosed in Note 24 and Note 28: dividends and other.

Notes to the Financial Statements

for the financial year ended 30 June 2003

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
32 CONTRIBUTED EQUITY				
Issued Share Capital				
975,525,926 fully paid ordinary shares (2002: 962,952,523)	553,629	546,973	553,629	546,973
65,000 fully paid converting preference shares (2002: 65,000)	60,732	60,732	-	-
	614,361	607,705	553,629	546,973

Fully paid ordinary share capital

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

Preference share capital

There have been no movements in preference share capital during the year.

Converting preference shares issued by Downer Construction (Hong Kong) Limited convert into ordinary shares in Downer EDI Limited on a two thousand for one basis (ie. 130,000,000 ordinary shares) and are due for conversion no later than 25 March 2004.

Share Options

Unissued capital over which options are held as at the reporting date is Nil (2002: Nil).

No options were issued during the current financial year. In the prior financial year, 27,272,727 1:1 options over unissued ordinary shares were exercised, at an issue price of \$0.55 each.

	Consolidated/Company			
	2003		2002	
Fully paid ordinary share capital	No. '000	\$'000	No. '000	\$'000
Balance at beginning of financial year	962,953	546,973	791,524	434,740
Issue of shares through dividend reinvestment plan elections	12,573	6,656	18,269	11,463
Issue of shares on conversion of convertible notes	-	-	51,948	35,000
Issue of shares on exercise of unlisted options	-	-	27,273	15,000
Shares issued pursuant to share purchase plan	-	-	6,621	5,119
Shares issued pursuant to an institutional placement	-	-	42,159	29,297
Issue of shares on acquisition of businesses	-	-	25,159	16,354
Balance at end of financial year	975,526	553,629	962,953	546,973

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
33 RESERVES				
Reserves comprise				
Asset revaluation	-	-	-	-
Foreign currency translation	(12,173)	380	-	-
	(12,173)	380	-	-

Movement in reserves

Asset revaluation

Balance at beginning of financial year	-	622	-	-
Transfer to retained profits	-	(622)	-	-
Balance at end of financial year	-	-	-	-

The asset revaluation reserve arose on the revaluation of non-current assets. That portion of the asset revaluation reserve which relates to assets sold, and was effectively realised, was transferred to retained profits.

Foreign currency translation reserve

Balance at beginning of financial year	380	17,163	-	-
Translation of foreign operations	(12,553)	(16,783)	-	-
Balance at end of financial year	(12,173)	380	-	-

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation and the translation of self-sustaining foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in Note 1.

34 RETAINED PROFITS

Balance at beginning of financial year	101,480	72,857	1,266	3,023
Net profit	66,572	56,431	19,990	21,555
Restatement of opening retained profits on initial adoption of AASB 1044				
Write-back of prior year dividend provision	18,386	-	18,386	-
Transfers from reserves	-	622	-	-
Dividends provided for or paid	(28,435)	(28,430)	(23,235)	(23,312)
Balance at end of financial year	158,003	101,480	16,407	1,266

Notes to the Financial Statements

for the financial year ended 30 June 2003

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	2003 Cents per Share	2002 Cents per Share
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35 EARNINGS PER SHARE

Basic earnings per share	6.3	5.8
Diluted earnings per share	6.1	5.5

Basic earnings per share

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

	2003 \$'000	2002 \$'000
Earnings (a)	61,372	51,231
	No. 000's	No. 000's
Weighted average number of ordinary shares (b)	967,915	878,694

- a) Earnings used in the calculation of basic earnings per share reconciles to net profit in the statement of financial performance as follows:

	2003 \$'000	2002 \$'000
Net Profit	66,572	56,431
Preference share dividends provided for or paid	(5,200)	(5,200)
Earnings used in the calculation of basic EPS	61,372	51,231

- b) The converting preference shares are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (refer below).

Diluted earnings per share

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

	No. 000's	No. 000's
Weighted average number of ordinary shares and potential ordinary shares (d), (e)	1,097,915	1,035,916

- c) Earnings used in the calculation of diluted earnings per share reconciles to net profit in the statement of financial performance as follows:

	2003 \$'000	2002 \$'000
Net Profit	66,572	56,431
Interest on convertible notes	-	986
Earnings used in the calculation of diluted EPS	66,572	57,417

	2003 No. 000's	2002 No. 000's
35 EARNINGS PER SHARE CONTINUED		
d) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Weighted average number of ordinary shares used in the calculation of basic EPS	967,915	878,694
Shares deemed to be issued for no consideration in respect of:		
Converting preference shares	130,000	130,000
Options	–	4,657
Convertible notes	–	22,565
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	1,097,915	1,035,916
e) Weighted average number of converted, lapsed, or cancelled potential ordinary shares used in the calculation of diluted earnings per share:		
Options	–	4,657
Convertible notes	–	22,565
	–	27,222

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36 DIVIDENDS

	2003		2002	
	Cents per share	\$'000	Cents per share	\$'000
Recognised Amounts				
Fully Paid Ordinary Shares				
Under provision of dividend prior year (unfranked)	–	–	–	285
Interim dividend (unfranked)	0.5	4,849	0.5	4,649
Final dividend (unfranked)	–	–	1.9	18,296
Converting Preference Shares				
Final dividend (unfranked)	\$80 per share	5,200	\$80 per share	5,200
			Company	
			2003	2002
			\$'000	\$'000
Franking account balance			–	–

The final dividend in respect of ordinary shares for the year ended 30 June 2003 has not been recognised as a provision in this financial report because the final dividend was declared subsequent to 30 June 2003. For further details refer to Note 1 Statement of Accounting Policies – Comparative Information and Note 34 Retained Profits.

Notes to the Financial Statements

for the financial year ended 30 June 2003

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
37 COMMITMENTS FOR EXPENDITURE				
a) Capital expenditure commitments				
<i>Plant and equipment</i>				
Not longer than 1 year	20,786	1,897	-	-
b) Lease commitments				
<i>Non-cancellable operating leases</i>				
Operating leases relate to premises and plant and equipment with lease terms of between 2 to 6 years matching the cash outflow rentals with expected revenue streams. The economic entity does not have an option to purchase the leased asset at the expiry of the lease period.				
Not longer than 1 year	65,373	40,653	-	-
Longer than 1 year and not longer than 5 years	136,111	81,092	-	-
Longer than 5 years	6,147	6,313	-	-
	207,631	128,058	-	-
<i>Finance lease liabilities</i>				
Finance leases relate to plant and equipment with lease terms of between 2 to 6 years. The consolidated entity has options to purchase the equipment at the conclusion of the lease arrangements.				
Not longer than 1 year	3,859	12,280	-	-
Longer than 1 year and not longer than 5 years	7,516	9,566	-	-
Minimum finance lease payments	11,375	21,846	-	-
Less future finance charges	1,326	1,340	-	-
Finance lease liabilities	10,049	20,506	-	-
Included in the financial statements as:				
Current interest-bearing liabilities (Note 23)	3,353	11,703	-	-
Non-current interest-bearing liabilities (Note 27)	6,696	8,803	-	-
	10,049	20,506	-	-
c) Other expenditure commitments				
<i>Hire purchase liabilities</i>				
Not longer than 1 year	1,564	4,310	-	-
Longer than 1 year and not longer than 5 years	1,410	1,497	-	-
Minimum hire purchase payments	2,974	5,807	-	-
Less future finance charges	176	347	-	-
Hire purchase liabilities	2,798	5,460	-	-
Included in the financial statements as:				
Current interest-bearing liabilities (Note 23)	1,460	4,089	-	-
Non-current interest-bearing liabilities (Note 27)	1,338	1,371	-	-
	2,798	5,460	-	-

38 JOINT VENTURE OPERATIONS AND ENTITIES

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

Name of Entity	Principal Activity	Ownership Interest	
		2003 %	2002 %
BPL Downer Joint Venture	Construction of residential housing	50	50
Clough Downer Joint Venture	Construction of port facilities	50	50
Downer Hill Joint Venture	Road construction upgrading	66.66	66.66
Playford Power Station Joint Venture	Refurbishment of power station	50	50
CPG-AMEC Facilities	Facilities management	51	-
CPG Environmental Engineering	Environmental engineering services	80	-
Cyber-IB	Information technology services	60	-
D'Axis Planners & Consultants	Master planning and consultancy services	60	-
<i>Joint ventures conducted with related parties:</i>			
Airfield Works Joint Venture	Airport civil engineering	49	49
CKC Joint Venture	Construction of office tower	50	50
Paul Y Downer Joint Venture	Airport civil engineering	50	50
Paul Y Downer Joint Venture	Building redevelopment	50	50
Ting Kau Contractors Joint Venture	Bridge and approach construction	25	25

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:

	2003 \$'000	2002 \$'000
Current assets		
Cash	2,350	1,593
Receivables	14,000	32,909
Inventories	-	7,955
Other	3,679	-
Total current assets	20,029	42,457
Non-current assets		
Receivables	342	-
Other financial assets	6	-
Property, plant and equipment	472	670
Intangibles	355	2,977
Other	-	3,755
Total non-current assets	1,175	7,402
Total assets	21,204	49,859

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Notes to the Financial Statements

for the financial year ended 30 June 2003

38 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED

b) The consolidated entity has interests in the following joint venture entities:

Name of Entity	Principal Activity	Ownership Interest		Consolidated Carrying Amount	
		2003 %	2002 %	2003 \$'000	2002 \$'000
Allied Asphalts Limited	Supply of asphalt products	50	50	856	1,025
Bitumen Supplies Limited	Supply of bitumen products	50	50	4,496	4,004
Clyde Babcock Hitachi (Aust) Pty Ltd	Design, construction and maintenance of boilers	27	27	2,094	1,745
Cantown.com Pte Ltd	Set-up, operate and promote Cantown portal	21	–	16	–
Synthesis Architectural Design Consultants Co. Ltd	Architectural and consultancy services	50	–	135	–
Suzhou Industry Park Wanyang Facilities Management Co. Ltd	Facilities management	50	–	302	–
SIP Jiacheng Property Development Co., Ltd	Property development	50	–	4,138	–
Shanghai ShangFang CPG Facilities Management Co. Ltd	Facilities Management	50	–	324	–
MPE Facilities Management Sdn Bhd	Facilities management consultancy services	50	–	8	–
Xin Gin Wa (Shaanxi) Property Management Co Ltd	Facilities management consultancy services	50	–	254	–
Singa Facility Management Pty Ltd	Facilities management consultancy services	50	–	84	–
EDI Rail Bombardier Transportation Pty Ltd	Sale of railway rolling stock	50	50	–	–
EDI Rail –Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	50	–	–	–
John Holland EDI Joint Venture	Design and construction of a replacement research reactor facility for ANSTO	40	40	1,014	2,426
Manufacturera 3M SA de C.V.	Casting and fabrication of metal products	–	49	–	5,095
Pavement Salvage Pty Ltd	Road maintenance	50	–	6	–
Roche Carey Joint Venture	Contract mining	50	50	2,097	2,097
Roche Eltin Joint Venture Services	Service management	50	50	4,345	5,485
Sasol Roche Blasting Services Pty Ltd	Contract blasting	50	50	4,125	4,357
Roche Thiess Linfox JV	Contract mining	44	44	–	133
Western Lee Joint Venture	Mechanical and electrical services to ALCOA	50	50	–	–

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	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
38 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED				
Equity accounted investments				
Equity accounted amount of investment at the beginning of the financial year	26,367	24,020	-	-
Share of net profit	17,093	12,059	-	-
Share of distributions	(20,027)	(13,879)	-	-
Acquisition of interest in joint venture entities	5,956	4,167	-	-
Disposals of interest in joint venture entities	(5,095)	-	-	-
Equity accounted amount of investment at the end of the financial year (Note 16)	24,294	26,367	-	-
The following amounts represent the consolidated entity's share of the above joint venture entities:				
Current assets				
Cash	5,013	3,544	-	-
Inventories	50,678	10,074	-	-
Receivables	7,587	19,671	-	-
Other	5,027	5,331	-	-
Total current assets	68,305	38,620	-	-
Current liabilities				
Payables	32,009	19,416	-	-
Interest-bearing liabilities	902	62	-	-
Provisions	20,789	10,597	-	-
Total current liabilities	53,700	30,075	-	-
Non-current assets				
Plant and equipment	28,286	23,712	-	-
Other	6,086	11,155	-	-
Total non-current assets	34,372	34,867	-	-
Non-current liabilities				
Interest bearing liabilities	24,036	15,159	-	-
Provisions	2,298	3,080	-	-
Total non-current liabilities	26,334	18,239	-	-
Net assets	22,643	25,173	-	-
Share of Net Profit of Joint Venture Entities				
Revenue from ordinary activities	187,928	168,225	-	-
Expenses from ordinary activities	170,369	155,486	-	-
Profit from ordinary activities before income tax	17,559	12,739	-	-
Income tax expense relating to ordinary activities	466	680	-	-
Net profit	17,093	12,059	-	-
Contingent liabilities and capital commitments				

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

Notes to the Financial Statements

for the financial year ended 30 June 2003

39 CONTROLLED ENTITIES

Name of Controlled Entity	Country of Incorporation	Ownership Interest	
		2003	2002
Beckbell Pty Ltd	Australia	100%	100%
Byrne & Davidson Doors (Qld) Pty Ltd	Australia	100%	100%
Byrne & Davidson Holdings Pty Ltd	Australia	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 Resource Services Limited *	New Zealand	100%	100%
Clyde Finance Pty Ltd	Australia	100%	100%
Construction Professionals Pte Ltd #	Singapore	100%	–
CPG Advisory (Shanghai) Co. Ltd #	China	100%	–
CPG Consultants (India) Pvt Ltd #	India	100%	–
CPG Consultants Pte Ltd #	Singapore	100%	–
CPG Corp Philippines Inc #	Philippines	100%	–
CPG Corporation Pte Ltd #	Singapore	100%	–
CPG Facilities Management Pte Ltd #	Singapore	100%	–
CPG FM (Xiamen) Co. Ltd #	Singapore	100%	–
CPG Hubin (Suzhou) Pte Ltd #	Singapore	100%	–
CPG Investments Pte Ltd #	Singapore	100%	–
CPG Laboratories Pte Ltd #	Singapore	100%	–
DCC Company Limited *	British Virgin Is.	100%	100%
DCE Limited *	New Zealand	100%	100%
Dean Adams Consulting Pty Ltd	Australia	100%	–
DGL Investments Ltd *	New Zealand	100%	100%
Downer Bitumen Surfacing Limited *	New Zealand	100%	100%
Downer Connect Limited *	New Zealand	100%	100%
Downer Connect Pty Ltd	Australia	100%	100%
Downer Construction (Australia) Pty Limited	Australia	100%	100%
Downer Construction (Fiji) Limited *	Fiji	100%	100%
Downer Construction (Hong Kong) Limited *	Hong Kong	100%	100%
Downer Construction (New Zealand) Limited *	New Zealand	100%	100%
Downer Construction (PNG) Limited *	PNG	100%	100%
Downer Construction Tonga Ltd *	Tonga	100%	100%
Downer EDI Finance Pty Ltd	Australia	100%	100%
Downer Energy Systems Pty Ltd	Australia	100%	100%
Downer Engineering Company Pty Limited	Australia	100%	100%
Downer Engineering Ltd *	New Zealand	100%	100%
Downer Engineering Group Pty Limited	Australia	100%	100%
Downer Engineering (Malaysia) Sdn Bhd *	Malaysia	100%	100%
Downer Engineering (Singapore) Pte Ltd *	Singapore	100%	100%
Downer Engineering (Thailand) Ltd #	Thailand	100%	100%
Downer Group Construction (Malaysia) Sdn Bhd *	Malaysia	100%	100%
Downer Group Finance Pty Limited	Australia	100%	100%
Downer Group Services Limited NZ *	New Zealand	100%	100%
Downer Holdings Pty Ltd	Australia	100%	100%
Downer MBL Australia Limited *	New Zealand	100%	100%
Downer MBL Holdings Limited *	New Zealand	100%	100%
Downer MBL Limited *	New Zealand	100%	100%
Downer MBL Pty Limited	Australia	100%	100%
Downer MBL South America Limited *	New Zealand	100%	100%
Downer PTR Pty Ltd	Australia	100%	–
Downer RML Pty Ltd	Australia	100%	100%
Eco-Energy Solutions Pty Ltd	Australia	100%	100%

39 CONTROLLED ENTITIES CONTINUED

Name of Controlled Entity	Country of Incorporation	Ownership Interest	
		2003	2002
EDICO Pty Ltd	Australia	100%	100%
EDI Distribution Pty Ltd	Australia	100%	100%
EDI Rail Investments Pty Ltd	Australia	100%	100%
EDI Rail Pty Ltd	Australia	100%	100%
EDI Rail V/Line Maintenance Pty Ltd *	Australia	100%	100%
Evans Deakin Industries (New Zealand) Ltd *	New Zealand	100%	100%
Evans Deakin Industries Pty Ltd	Australia	100%	100%
Evans Deakin Investments Pty Limited	Australia	100%	100%
Faxgroove Pty Ltd	Australia	100%	100%
Gaden Drilling Pty Limited	Australia	100%	100%
Indeco Consortium Pte Ltd #	Singapore	100%	–
Nikfinn Pty Ltd	Australia	100%	100%
Pauanui Lakes Development Limited *	New Zealand	100%	100%
Paul Y Construction (Singapore) Pte Ltd *	Singapore	100%	100%
Primary Producers Improvers Pty Ltd	Australia	100%	–
Pembinaan Downer Aust Pty Limited	Australia	100%	100%
PM Link Pte Ltd #	Singapore	100%	–
P T Dinamik Dayabor Ciptakarsa π	Indonesia	100%	100%
P T Ogspiras Bina Drilling π	Indonesia	100%	–
Rayfall Pty Ltd	Australia	100%	100%
Rayjune Pty Ltd	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%
Roche Bros (Hong Kong) Ltd *	Hong Kong	100%	100%
Roche Bros. Superannuation Pty Ltd	Australia	100%	100%
Roche Castings Pty Ltd	Australia	100%	–
Roche Contractors Pty Limited	Australia	100%	100%
Roche Highwall Mining Pty Limited	Australia	100%	100%
Roche Holdings (NZ) Limited *	New Zealand	100%	100%
Roche Mining (JR) Pty Limited	Australia	100%	100%
Roche Mining NC SAS *	New Caledonia	100%	–
Roche Mining (MT) India Pvt Limited *	India	100%	100%
Roche Mining (MT) Pty Ltd	Australia	100%	–
Roche Mining (MT) South Africa (Pty) Ltd *	South Africa	100%	100%
Roche Mining (MT) USA Inc. *	United States	100%	100%
Roche Mining Pty Limited	Australia	100%	100%
Roche Mining (PNG) Ltd #	PNG	100%	100%
Roche Services Pty Ltd	Australia	100%	100%
Rockdrill Contractors Pty Limited	Australia	100%	100%
RPC Roads Pty Ltd	Australia	100%	–
RPC IT Pty Ltd	Australia	100%	–
Scanbright Pty Ltd	Australia	100%	100%
Starblake Pty Ltd	Australia	100%	100%
Tas21 Pty Limited	Australia	100%	100%
Technic Industries Limited *	New Zealand	100%	100%
Walkers Pty Ltd	Australia	100%	100%
Works Infrastructure Limited *	New Zealand	100%	100%
Works Infrastructure Pty Limited	Australia	100%	100%

* Audited by associate firms of Deloitte Touche Tohmatsu

Audited by firms other than Deloitte Touche Tohmatsu

π Audit not required in local jurisdiction

Notes to the Financial Statements

for the financial year ended 30 June 2003

40 ACQUISITION OF BUSINESSES

Names of Businesses Acquired	Principal Activity	Date of Acquisition	Proportion of Shares Acquired %	Cost of Acquisition \$'000
Controlled entities:				
Dean Adams Consulting Pty Ltd	Road Maintenance and Construction	1 May 2003	100%	3,004
RPC Roads Pty Ltd	Road Maintenance and Construction	1 January 2003	100%	9,111
Primary Producers Improvers Pty Ltd	Road Maintenance and Construction	1 July 2002	100%	4,284
CPG Corporation Pte Ltd *	Architecture, Engineering Consulting Services and Facilities Management	1 April 2003	100%	127,518
Businesses:				
ABB	Electrical and Facilities Management	1 June 2003	-	2,189

* The contribution of CPG to net profit after tax from ordinary operations, during the period of ownership was \$3,224,000.

41 SEGMENT INFORMATION

Information on Business Segments

Segment Revenue	External		Inter-Segment		Total	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Engineering	835,421	719,477	1,561	687	836,982	720,164
Mining and Resources	950,729	900,336	4,372	5,348	955,101	905,684
Infrastructure Services	566,381	415,484	5,792	3,356	572,173	418,840
Rail	299,407	314,496	34,102	47,833	333,509	362,329
Discontinued businesses	30,829	90,751	655	6,145	31,484	96,896
					2,729,249	2,503,913
Eliminations					(46,482)	(63,369)
Unallocated					14,256	1,905
Total revenue					2,697,023	2,442,449
Net share of sales revenue in joint venture entities:						
Engineering					32,488	20,988
Mining and Resources					133,983	115,569
Infrastructure Services					4,364	6,630
Total turnover					2,867,858	2,585,636

Segment Results	2003 \$'000	2002 \$'000
Engineering	29,667	28,608
Mining and Resources	50,208	40,022
Infrastructure Services	25,349	14,750
Rail	20,417	13,989
Discontinued businesses	(6,112)	3,185
Unallocated	(24,786)	(22,412)
Income tax expense relating to ordinary activities	(28,171)	(21,711)
Net Profit	66,572	56,431

41 SEGMENT INFORMATION CONTINUED

Segment Assets & Liabilities	Assets		Liabilities	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Engineering	705,775	427,145	275,157	152,725
Mining and Resources	672,297	683,228	148,310	153,074
Infrastructure Services	302,525	243,333	108,740	72,952
Rail	287,526	387,257	99,825	87,143
Discontinued businesses	7,531	20,212	620	2,823
	1,975,654	1,761,175	632,652	468,717
Unallocated	57,092	68,491	639,903	651,384
	2,032,746	1,829,666	1,272,555	1,120,101

Other Segment Information	Engineering	Mining and Resources	Infrastructure Services	Rail	Discontinued
	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000
Carrying value of investments accounted for using the equity method	8,368	10,567	5,359	-	-
Share of net profit of associates and joint venture entities accounted for under the equity method	2,785	13,380	928	-	-
Acquisition of segment assets	86,548	76,396	42,761	9,238	-
Depreciation and amortisation of segment assets	13,681	78,505	15,126	11,102	545
Number of employees	6,599	2,559	2,601	1,421	-

	Engineering	Mining and Resources	Infrastructure Services	Rail	Discontinued
	2002 \$'000	2002 \$'000	2002 \$'000	2002 \$'000	2002 \$'000
Carrying value of investments accounted for using the equity method	4,171	12,072	5,029	5,095	-
Share of net profit/(loss) of associates and joint venture entities accounted for under the equity method	2,137	8,937	1,015	(30)	-
Acquisition of segment assets	11,361	72,842	14,662	4,805	-
Depreciation and amortisation of segment assets	12,212	68,507	13,114	10,881	3,125
Number of employees	3,600	2,500	2,570	1,500	-

Notes to the Financial Statements

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41 SEGMENT INFORMATION CONTINUED

The economic entity operated predominantly in five business segments:

Rail –	provides rolling stock and associated maintenance services including the design, manufacture, refurbish, overhaul and maintenance of diesel electric locomotives, electric locomotives, electric and diesel multiple units, rail wagons, traction motors and rolling stock generally.
Engineering –	provides engineering services (design, construct and maintain) specialising in telecommunications, capital works, power and process engineering.
Mining and Resources –	including mine planning and management, drilling and blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration, oil, gas, geothermal and mineral drilling and drill and blast activities.
Infrastructure Services –	including the performance of maintenance and construction of roads and highways, construction and maintenance of rail infrastructure including tracks, signals and overhead electrification and infrastructure maintenance services including utilities, water supply, sewage and waste water treatment, refuse disposal, street cleaning and the tending of parks and gardens.
Unallocated –	results include financing and corporate costs for continuing businesses, net of other income.

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Geographic	Revenue from External Customers		Segment Assets		Acquisition of Segment Assets	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Australia	1,850,262	1,725,340	1,306,638	1,337,337	140,325	87,757
Pacific	686,278	608,561	339,414	324,417	16,947	15,580
South East Asia	113,252	12,266	363,205	64,139	57,559	117
North East Asia	47,231	96,282	23,489	103,773	112	216
	2,697,023	2,442,449	2,032,746	1,829,666	214,943	103,670

The economic entity operated in four 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).

42 DISCONTINUED BUSINESSES

Current Financial Year

During the year, further non-core businesses and surplus assets acquired through the takeover of Evans Deakin Industries Limited have been disposed. These disposals are not considered material and accordingly disclosure of these disposals is in Note 41 and Note 44 (c) to the financial statements.

Previous Financial Year

As a result of the divestment process, previously referred to, the following business operations were disposed:

Building Products

Building Products operations constituted the design and manufacture of garage and industrial doors and automatic door openers, industrial wheels and casters, car jacks and air filtration equipment for the Australian and New Zealand markets. The business was sold effective 30 November 2001. The remaining portion of the business segment, Clyde-Apac was also sold effective 30 November 2001.

The consolidated entity recognised a gain in the prior financial year before income tax of \$5,459 thousand (related income tax of \$1,638 thousand) arising from the disposals, being proceeds of disposal less the carrying amounts of the net assets of the building products business.

The carrying amounts of total assets and total liabilities disposed of in the prior financial year were:

	\$'000
Total Assets	45,871
Total Liabilities	14,149
Net Assets disposed	31,722

Details of the financial performance and cash flows of the building products business for the period from 1 July 2001 to 30 November 2001 were as follows:

	Period Ended 30 November 2001 \$'000
Financial Performance	
Revenue from ordinary activities	57,018
Expenses from ordinary activities	56,287
Profit from ordinary activities before income tax expense	731
Income tax expense / (benefit) relating to ordinary activities	219
Net Profit	512

	Period Ended 30 November 2001 \$'000
Cash Flows	
Net cash flows from operating activities	(690)
Net cash flows from investing activities	(1,165)
Net cash flows from financing activities	(3,311)
Total Net Cash flows	(5,166)

Notes to the Financial Statements

for the financial year ended 30 June 2003

43 RELATED PARTY DISCLOSURES

a) Directors' remuneration and retirement benefits

Details of directors' remuneration and retirement benefits are disclosed in Note 5 to the financial statements.

b) Other transactions with directors

A director of the company B D O'Callaghan is a consultant for (previous year a partner in) the firm Corrs Chambers Westgarth, 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 was \$404,425 (2002: \$1,055,000).

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 was \$208,000 (2002: \$41,000).

During the previous financial year the consolidated entity purchased listed shares and listed options at market value totalling \$7,211,000 from a director related entity of T J Kennedy.

c) Transactions within the wholly owned group

Details of dividend and interest revenue derived by the parent entity from wholly owned controlled entities are disclosed in Note 2 to the financial statements. Aggregate amounts receivable from and payable to wholly owned controlled entities are disclosed in Notes 11, 15 and 26 to the financial statements.

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

d) Transactions with other related parties

Details of interest revenue from other related parties are disclosed in Note 2 to the financial statements. Details of interest expense paid to other related parties are disclosed in Note 2 to the financial statements. During the year, interest income amounting to \$1,529,521 was charged to a director related entity at commercial rates on interest.

The company has entered into an agreement with a related entity enabling amounts receivable from and payable to the related entity to be offset.

Amounts receivable from and payable to other related parties are disclosed in Notes 11 and 26 to the financial statements.

e) Controlling entities

The parent entity of the group is Downer EDI Limited.

f) Directors' equity

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	No. of fully paid ordinary shares	
	2003	2002
Acquired during the financial year by directors and their director-related entities:		
Downer EDI Limited	9,745,817	86,828
Held at the reporting date by directors and their director-related entities:		
Downer EDI Limited	11,492,648	1,746,831

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cash	115,537	91,400	527	827
Short term deposits	91,209	14,898	-	-
Bank Overdrafts	(1,021)	(462)	-	-
	205,725	105,836	527	827

44 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash	115,537	91,400	527	827
Short term deposits	91,209	14,898	-	-
Bank Overdrafts	(1,021)	(462)	-	-
	205,725	105,836	527	827

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
44 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED				
b) Businesses acquired				
During the financial year, businesses were acquired. Details of the acquisitions are as follows:				
Considerations:				
Cash	142,629	59,980	-	-
Deferred purchase consideration (Note 22)	3,477	-	-	-
Issue of ordinary shares	-	16,354	-	-
	146,106	76,334	-	-
The consideration paid during the 2003 financial year includes deferred amounts for acquisitions disclosed in prior years.				
Fair value of net assets acquired				
Current assets				
Cash	123,021	-	-	-
Receivables	100,753	53,863	-	-
Inventories	821	4,752	-	-
Other	5,046	192	-	-
Total current assets	229,641	58,807	-	-
Non-current assets				
Investments accounted for using the equity method	5,921	-	-	-
Property, plant and equipment	22,163	16,795	-	-
Intangibles	632	-	-	-
Deferred tax assets	3,781	-	-	-
Other	2,409	378	-	-
Total non-current assets	34,906	17,173	-	-
Total assets	264,547	75,980	-	-
Current liabilities				
Payables	145,306	16,319	-	-
Interest-bearing liabilities	306	2,562	-	-
Current tax liabilities	7,775	-	-	-
Provisions	16,425	4,625	-	-
Other	2,289	417	-	-
Total current liabilities	172,101	23,923	-	-
Fair value of net assets acquired (continued)				
Non-current liabilities				
Interest-bearing liabilities	2,615	5,063	-	-
Deferred tax liabilities	335	-	-	-
Provisions	1,318	1,111	-	-
Other	256	-	-	-
Total non-current liabilities	4,524	6,174	-	-
Total liabilities	176,625	30,097	-	-
Net assets acquired	87,922	45,883	-	-
Goodwill on acquisition	58,184	30,451	-	-
	146,106	76,334	-	-

Notes to the Financial Statements

for the financial year ended 30 June 2003

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
44 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED				
Net cash outflow on acquisition				
Cash consideration	142,629	59,980	-	-
Less net cash balances acquired	123,021	-	-	-
	19,608	59,980	-	-
c) Businesses disposed				
During the prior financial year, the building products business and 50% of Roche Blasting Services Pty Ltd were disposed.				
During the current financial year certain businesses were disposed, none of which was considered individually material.				
Details of these disposals are as follows:				
Considerations:				
Cash	469	25,504	-	-
Receivables	4,450	15,937	-	-
	4,919	41,441	-	-
Fair value of net assets disposed				
Current assets				
Receivables	-	700	-	-
Inventories	-	17,661	-	-
Other	-	292	-	-
Total current assets	-	18,653	-	-
Non-current assets				
Inventories	334	-	-	-
Property, plant and equipment	840	31,216	-	-
Intangibles	-	1,662	-	-
Total non-current assets	1,174	32,878	-	-
Total assets	1,174	51,531	-	-
Current liabilities				
Payables	-	10,956	-	-
Interest-bearing liabilities	-	36	-	-
Provisions	250	4,295	-	-
Total current liabilities	250	15,287	-	-
Total liabilities	250	15,287	-	-
Net assets disposed	924	36,244	-	-
Profit on disposal	3,995	5,197	-	-
	4,919	41,441	-	-
Net cash inflow on disposal				
Cash consideration	469	25,504	-	-
Cash received – prior year deferred purchase consideration	6,785	-	-	-
	7,254	25,504	-	-
Net cash inflow on disposal				
Cash consideration	469	25,504	-	-
Cash received – prior year deferred purchase consideration	6,785	-	-	-
	7,254	25,504	-	-

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
44 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED				
d) Non-cash financing and investing activities				
During the current financial year, \$6,656,202 in equity was issued in respect of dividend reinvestment plan elections. During the previous financial year, \$62,816,213 in equity was issued in respect of:				
i. Part consideration for the purchase of businesses (\$16,353,328);				
ii. Dividend reinvestment plan elections (\$11,462,885); and				
iii. Conversion of convertible notes (\$35,000,000).				
e) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities:				
Profit from ordinary activities after related income tax	66,572	56,431	19,990	21,555
Profit on sale of non-current assets	(5,514)	(3,991)	-	-
Share of joint ventures profits net of distributions	(2,365)	1,820	-	-
Depreciation and amortisation of non-current assets	119,284	107,993	-	-
Amortisation of deferred costs	1,147	-	-	-
Profit on sale of investments	(724)	(3,083)	-	-
Unrealised exchange (gain)/loss	(926)	(466)	(98)	254
Increase/(decrease) in income tax payable	47,966	(8,764)	(5,001)	5,303
Increase/(decrease) in tax balances	(12,014)	16,981	20	(229)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(88,066)	(127,499)	(21,883)	(142,028)
Current inventories	72,843	3,756	-	-
Current tax assets	-	(5,311)	-	-
Other financial assets	-	(10,777)	308	(277)
Other current assets	(10,371)	(10,090)	12	343
Non-current receivables	(5,259)	(812)	(32,825)	106,615
Other non-current financial assets	-	(7,958)	983	(533)
Other non-current assets	(17,261)	(2,470)	-	-
Increase/(decrease) in liabilities:				
Current trade payables	13,165	30,348	(1,452)	(2,872)
Current provisions	8,194	14,644	406	(2,021)
Non-current payables	41,678	(1,303)	31,825	3,069
Non-current provisions	(3,346)	(2,096)	76	-
Net cash provided by / (used in) operating activities	225,003	47,353	(7,639)	(10,821)

Notes to the Financial Statements

for the financial year ended 30 June 2003

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	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
45 CONTINGENT LIABILITIES				
i) The consolidated entity has bank guarantees, bid bonds and performance bonds, issued in respect of contract performance, in the normal course of business for wholly owned controlled entities	308,055	260,619	276,349	260,619
ii) Contract dispute with subcontractor, which is recoverable from customer if subcontractor claim proves successful.	-	6,581	-	-
iii) Termination benefits under service agreements.	574	719	-	-
iv) Certain joint venture entities have non-cancellable operating lease commitments for which, should the joint venture entity not be able to meet those obligations, the consolidated entity may become liable.	7,747	33,070	-	-
v) Claim in respect of legal costs associated with contract arbitration	1,600	-	-	-
	317,976	300,989	276,349	260,619

In the ordinary course of business:

- vi) 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.
- vii) 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.
- viii) 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.
- ix) Controlled entities are subject to claims and counter claims with respect to contracting.

46 ENGINEERING SERVICES CONTRACTS

For engineering services contracts in progress as at reporting date:

Engineering services work in progress	2,542,306	2,813,898	-	-
Progress Billings and advances received	2,438,652	2,608,724	-	-
Less: Advances received	27,754	5,764	-	-
Progress Billings	2,410,898	2,602,960	-	-
Amount disclosed in Statement of Financial Position	131,408	210,938	-	-

Recognised and included in the financial statements as amounts due:

From customers under engineering services contracts:

Current (Note 11)	191,115	256,821	-	-
Non-current (Note 15)	6,508	1,609	-	-
To customers under engineering services contracts:				
Current (Note 22)	(64,743)	(46,303)	-	-
Non-current (Note 26)	(1,472)	(1,189)	-	-
Amount disclosed in Statement of Financial Position	131,408	210,938	-	-

47 FINANCIAL INSTRUMENTS

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues 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.

Interest Rate Risk

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

2003	Fixed Interest Rate Maturity						
	Average Interest Rate %	Variable Interest Rate \$'000	Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000	Non-Interest Bearing \$'000	Total \$'000
Financial Assets							
Cash	3.34	206,315	–	–	–	431	206,746
Trade receivables	10.54	–	6,129	9,040	–	695,026	710,195
Other financial assets		–	–	–	–	30,769	30,769
Other receivables	4.77	7,031	–	–	–	42,745	49,776
Other related party receivables	5.03	19,770	–	–	–	–	19,770
		233,116	6,129	9,040	–	768,971	1,017,256
Financial Liabilities							
Trade payables		–	–	–	–	434,805	434,805
Bank overdrafts	8.60	–	–	–	–	1,021	1,021
Bank loans	5.03	183,790	–	203	–	–	183,993
Finance lease liabilities	6.60	–	3,353	6,696	–	–	10,049
Hire purchase liabilities	7.86	–	1,460	1,338	–	–	2,798
US\$ notes*	7.37	79,517	30,000	143,986	51,587	–	305,090
Other payables		–	–	–	–	36,693	36,693
Employee entitlements		–	–	–	–	85,912	85,912
Due to joint venture partners		–	–	–	–	25,269	25,269
		263,307	34,813	152,223	51,587	583,700	1,085,630

* 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.

Notes to the Financial Statements

for the financial year ended 30 June 2003

47 FINANCIAL INSTRUMENTS CONTINUED

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2002:

2002	Fixed Interest Rate Maturity						
	Average Interest Rate %	Variable Interest Rate \$'000	Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000	Non-Interest Bearing \$'000	Total \$'000
Financial Assets							
Cash	5.63	102,990	-	-	-	3,308	106,298
Trade receivables	6.01	-	-	8,970	-	629,709	638,679
Other financial assets		-	-	-	-	28,343	28,343
Other receivables	5.44	-	1,390	-	-	31,500	32,890
Related party receivables	5.00	27,272	-	-	-	562	27,834
		130,262	1,390	8,970	-	693,422	834,044
Financial Liabilities							
Trade payables		-	-	-	-	360,336	360,336
Bank overdrafts	6.29	462	-	-	-	-	462
Bank loans	7.26	112,479	101,469	-	-	-	213,948
Other loans	5.92	-	7,809	-	-	-	7,809
Finance lease liabilities	6.40	-	11,703	8,803	-	-	20,506
Hire purchase liabilities	6.92	-	4,089	1,371	-	-	5,460
US\$ notes*	7.37	134,517	-	118,986	51,587	-	305,090
Other payables		-	-	-	-	18,115	18,115
Employee entitlements		-	-	-	-	66,131	66,131
Due to joint venture partners		-	-	-	-	12,913	12,913
		247,458	125,070	129,160	51,587	457,495	1,010,770

* 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.

Credit Risk

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

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

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.

Off balance sheet financial instruments have been entered into for the purpose of hedging future interest and principal cashflows related to the unsecured US dollar denominated note issues. Had these financial instruments not been entered into, the principal and interest components would have been subject to movements in international exchange rates, the effect of which would have been \$23,939,966 favourable (2002 \$25,656,318 unfavourable).

Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values.

47 FINANCIAL INSTRUMENTS CONTINUED

Objectives of Derivative Financial Instruments

The consolidated entity may enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including:

- i) forward foreign exchange contracts to hedge the exchange rate risk arising on the import of materials and plant and equipment from overseas countries;
- ii) cross currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings; and
- iii) interest rate swaps to mitigate the risk of rising interest rates.

The consolidated entity does not enter into or trade derivative financial instruments for speculative purposes.

Forward Foreign Exchange Contracts

To manage foreign exchange exposure, the consolidated entity enters into forward foreign exchange contracts to cover specific foreign currency payments and receipts. The following table summarises by currency the Australian dollar value of forward exchange contracts at the reporting date.

	Weighted Average Rate		Principal Amount	
	2003	2002	2003 \$'000	2002 \$'000
Buy US Dollars				
Less than 3 months	0.5522	0.5381	(6,062)	(10,599)
3 to 6 months	0.5860	0.5363	(340)	(19,285)
Later than six months	0.5522	0.5470	(4,445)	(5,079)
			(10,847)	(34,963)
Sell US Dollars				
Less than 3 months	0.5694	0.5394	6,982	3,044
3 to 6 months	0.5937	0.5476	1,726	2,223
Later than six months	0.6295	-	119	-
			8,827	5,267
Buy Japanese Yen				
Less than 3 months	-	69.5	-	(5,715)
Buy Euro				
Less than 3 months	0.5825	0.5802	(1,521)	(684)
3 to 6 months	0.5830	-	(1,467)	-
Later than six months	0.5656	0.5776	(9,823)	(10,762)
			(12,811)	(11,446)
Sell Euro				
Later than three months	0.5556	0.5663	1,463	3,223
			(13,368)	(43,634)

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Interest Rate 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. The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

	Average Interest Rate (including margin)		Notional Principal Amount	
	2003 %	2002 %	2003 \$'000	2002 \$'000
Less than 1 year	6.66	7.20	30,000	25,000
1 to 2 years	6.97	6.66	63,492	30,000
2 to 5 years	8.19	8.19	80,494	118,986
5 years or more	9.23	9.23	51,587	51,587
			225,573	225,573

Notes to the Financial Statements

for the financial year ended 30 June 2003

47 FINANCIAL INSTRUMENTS CONTINUED

Cross Currency

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 cross currency swaps outstanding as at reporting date.

	Average Exchange Rate		Principal Amount	
	2003 \$	2002 \$	2003 \$'000	2002 \$'000
Buy USD				
1 to 2 years	0.6300	–	(63,492)	–
2 to 5 years	0.5584	0.5857	(102,970)	(166,462)
5 years and more	0.5590	0.5590	(138,628)	(138,628)
			(305,090)	(305,090)
Sell SGD				
Less than 1 year	1.1260	–	23,712	–
			(281,378)	(305,090)

Commodity Contracts

The consolidated entity has entered into the following commodity contracts:

	2003 Average rate per oz	2002 Average rate per oz	2003 \$'000	2002 \$'000
Buy Gold				
Less than 3 months	–	539.25	–	(3,236)
3 to 6 months	–	539.25	–	(3,235)
Longer than 6 months	–	539.25	–	(28,634)
			–	(35,105)
Sell Gold				
Less than 3 months	–	539.25	–	3,236
3 to 6 months	–	539.25	–	3,235
Longer than 6 months	–	539.25	–	28,634
			–	35,105
Net commodity contracts			–	–

Hedges of Anticipated Future Transactions

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

Directors' Declaration

The directors declare that:

- a) the attached financial statements and notes thereto comply with Accounting Standards;
- b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;
- c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- d) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Mr B D O'Callaghan
Director

Sydney, 26 August 2003



Mr S J Gillies
Director

Independent **Audit Report** to the Members of Downer EDI Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Downer EDI Limited (the company) and the consolidated entity, for the financial year ended 30 June 2003 as set out on pages 5 to 47. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

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

- (a) 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 2003 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



JA Leotta
Partner
Chartered Accountants

Sydney, 26 August 2003

Corporate Directory

Corporate Head Office

Downer EDI Limited

Level 3
190 George Street
SYDNEY NSW 2000
AUSTRALIA

Tel: 61 2 9251 9899
Fax: 61 2 9251 4845
Email: info@downeredi.com.au

ABN 97 003 872 848

Engineering Division

Australia –

Division Head Office

Downer Engineering Group Pty Limited
Level 7 'Compad House'
76 Berry Street
NORTH SYDNEY NSW 2060
AUSTRALIA

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

ABN 16 006 016 495

New Zealand –

Downer Connect Ltd
2 Carmont Place
Mt Wellington
AUCKLAND NEW ZEALAND

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

Hong Kong –

15/F Paul Y Centre
51 Hung To Road
Kwun Tong
KOWLOON
HONG KONG

Tel: 852 2831 8123
Fax: 852 2575 8746

CPG Corporation Pte Ltd

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

Tel: 65 6357 4858
Fax: 65 6357 4188

Infrastructure Division

Australia –

Division Head Office
Works Infrastructure Pty Ltd
Level 11, 468 St Kilda Road
MELBOURNE VIC 3000
AUSTRALIA

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

ABN 66 008 709 608

New Zealand –

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

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

Mining Division

Australia –

Division Head Office
Roche Mining Pty Limited
66 River Terrace
KANGAROO POINT QLD 4169
AUSTRALIA

Tel: 61 7 3249 6666
Fax: 61 7 3393 0733

ABN 49 004 142 223

Rail Division

Australia –

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

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

ABN 92 000 002 031

Resource Services Division

Australia –

Division Head office
Century Drilling Limited
49 Campbell Avenue
WACOL QLD 4076
AUSTRALIA

Tel: 61 7 3879 3333
Fax: 61 7 3879 3322

ABN 25 002 975 439

New Zealand –

Century Drilling & Energy
Services (NZ) Ltd
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