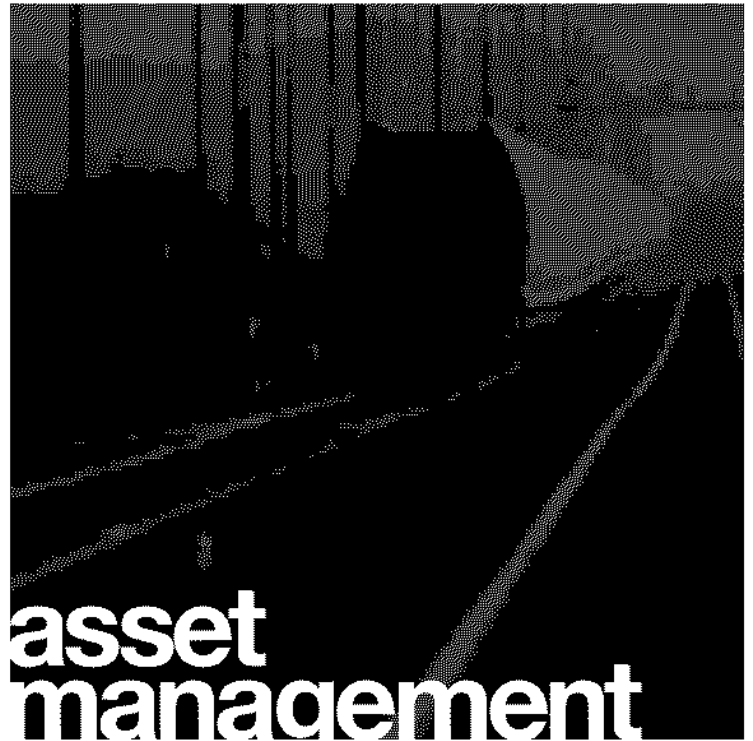
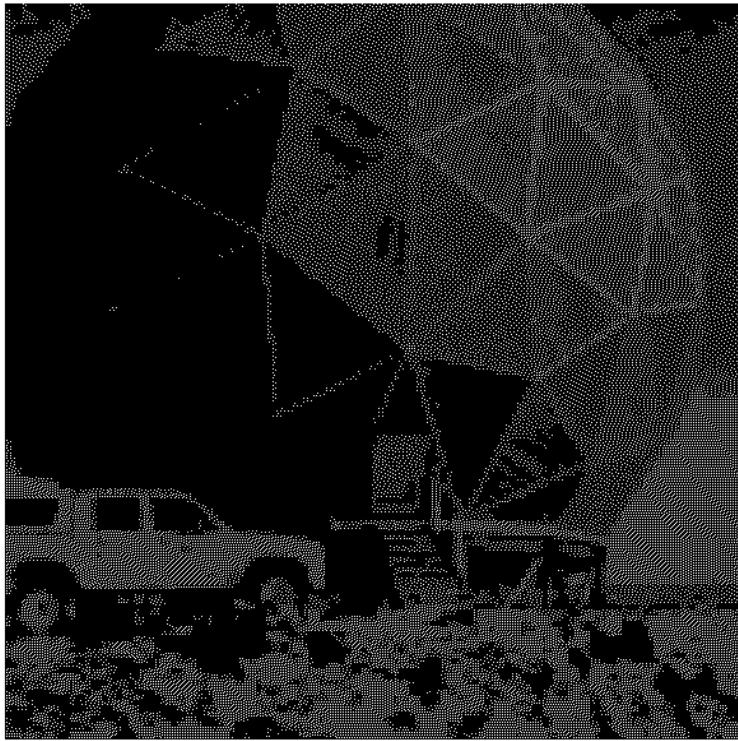
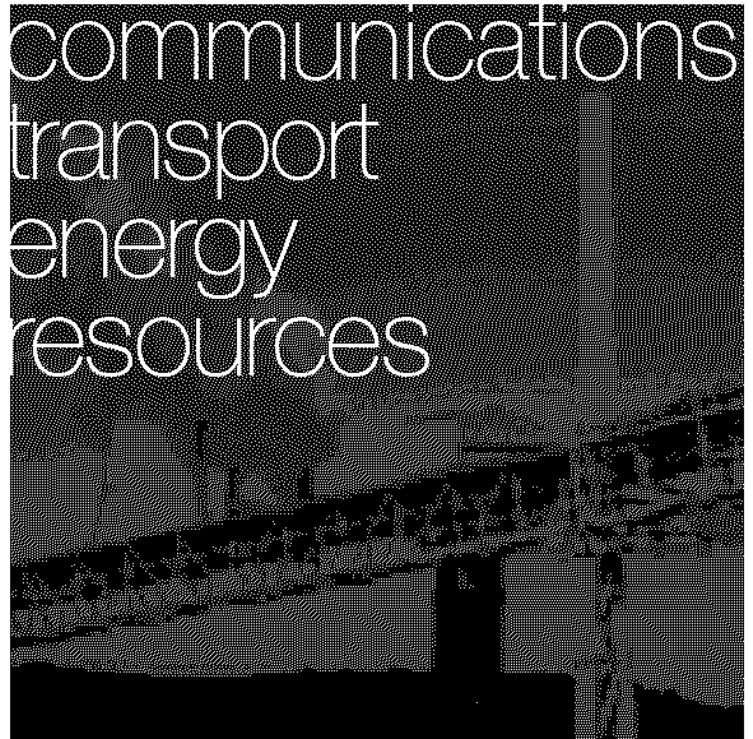




**asset
management**



communications
transport
energy
resources

design,
operations &
maintenance

downer edi limited full financial report 2005

**This publication includes
Downer EDI Limited's Director's
Report, the Annual Financial
Report and Independent Audit
Report for the financial year
ended 30 June 2005.**

It should be read in conjunction with the Downer EDI Limited Concise Annual Report 2005 which provides an overview of the key activities for the year ended 30 June 2005. The Concise Annual Report includes the message from the chairman, managing director's review, chief financial officer's review, chief executive profiles, review of operations, health safety environment and the community, board of director's profiles and sections on corporate governance, Information for investors and Australian Stock Exchange information.

The Full Financial Report and the Concise Annual Report comprise the full annual report of Downer EDI Limited for the year ended 30 June 2005, in accordance with the Corporations Act 2001.

The Concise Annual Report 2005 is available from Downer EDI's Corporate Affairs office by request on (02) 9251 9899. Both the Concise Annual Report 2005 and the Full Financial Report 2005 can be found at the Downer EDI website:
www.downeredi.com

Annual General Meeting

Downer EDI Limited's 2005 Annual General Meeting will be held in Sydney at The Heritage Ballroom, The Westin Hotel, 1 Martin Place, Sydney on 2 November 2005, commencing 10.00am.

directors' report

The directors of Downer EDI Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

B D O'Callaghan AO

(chairman, non-executive)

K Y Lau (deputy chairman, non-executive)

S J Gillies (managing director)

C K Chan (non-executive,
resigned 19 October 2004)

J S Humphrey (non-executive)

P E J Jollie AM (non-executive)

C J S Renwick (non-executive,
appointed 9 September 2004)

B W Wong (non-executive, alternate for
Dr C K Chan, resigned 19 October 2004)

A profile of current board members is provided on pages 44 and 45 of the Concise Annual Report 2005.

Directors' meetings

There were 9 full board meetings, 3 audit and risk sub-committee meetings, 3 remuneration sub-committee meetings and 1 corporate governance and nomination sub-committee meeting held during the financial year. The number of meetings attended by each director is set out in the table below.

	Number of meetings attended			
	Board of Directors	Audit and Risk Committee	Remuneration Committee	Corporate Governance and Nomination Committee
B D O'Callaghan	9	3	3	1
K Y Lau	5	–	–	1
S J Gillies	9	–	3	–
C K Chan	– *	–	–	–
J S Humphrey	8	3	–	1
P E J Jollie	9	3	3	–
C J S Renwick	6 #	2 ^	–	–
B W Wong (alternate for C K Chan)	1 *	–	–	–

7 meetings held while a director

* 2 meetings held while a director

^ 2 audit committee 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	2,631,463
B D O'Callaghan	15,302
J S Humphrey	2,911
P E J Jollie	10,000

Company secretaries

The company secretaries are C D Thompson and B J Crane. A profile of current company secretaries is provided on page 67 of the Concise Annual Report 2005.

Principal activities

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

Review of operations

A review of the consolidated entity's operations is contained in the managing director's review on pages 7 to 11 of the Concise Annual Report 2005.

directors' report continued

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 2005, the directors declared the payment of a final ordinary dividend of 12.0 cents per share (franked to 70%) to the holders of fully paid ordinary shares to be paid on 19 October 2005.

In respect of the financial year ended 30 June 2005, an interim dividend of 6.0 cents per share (franked to 50%) was paid to the holders of fully paid ordinary shares on 22 April 2005.

In respect of the financial year ended 30 June 2005, dividends totalling nil (2004: \$1,727,000) (unfranked) were paid in respect of the 8% converting preference shares.

In respect of the financial year ended 30 June 2004, as detailed in the Directors' Report for that financial year a final dividend of 9.6 cents per share (franked to 50%) and a special ordinary dividend of 2.0 cents per share (franked to 50%) were paid to the holders of fully paid ordinary shares on 19 October 2004.

Employee discount share plan

In respect of the financial year ended 30 June 2005, shares totalling \$3,523,275 (2004: Nil) have been issued under the terms of the Employee Discount Share Plan. Further details on the employee share plan are disclosed in note 6 to the financial statements.

Executive share option scheme ("EOS")

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

Share options

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, C D Thompson and 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 report

1 Remuneration principles

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

Downer EDI's remuneration principles are set out below:

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

The information in sections 2 to 6 inclusive set out the remuneration principles, structure and payments which operated for the financial year to 30 June 2005. The information contained in section 7 onwards sets out the principles and arrangements which will apply for the June 2006 financial year.

2 Remuneration structure

The remuneration structure for executives comprises fixed and variable remuneration.

- Fixed remuneration is made up of base salary, superannuation and other benefits.
- Variable remuneration consists of an annual short term incentive plan which is tied to performance and is at risk.

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

Other than the offer to eligible executives to participate in the Employee Discount Share Plan, no shares, options or other securities were issued during the year to executives as part of their remuneration.

All remuneration received by the managing director and specified executives is summarised in sections 2 and 3 of this report.

2.1 Base salary

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

2.2 Variable remuneration

The board believes that well designed and managed short term plans are important elements of employees' and executives' remuneration, providing incentives for them to strive to improve Downer EDI's performance for the benefit of shareholders. The proportion of variable remuneration changes from executive to executive but takes into account responsibilities, performance and experience. All variable remuneration is ultimately tied to performance.

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

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

For the year ended 30 June 2005, the bonus opportunity for the managing director and for the members of the senior executive team was capped at a maximum of 50% per cent of their base salary. 2004 annual bonus payments paid during 2005 were mostly in the range of 10% to 25% of base salary.

2.3 Executive remuneration

The table below sets out remuneration for the specified executives, being the five most highly remunerated executives in both Downer EDI and the consolidated Downer EDI group. They are, in order, CEO Roche Mining, CEO Downer Engineering, CEO Works New Zealand, CEO Works Australia and Regional Director for Downer EDI Limited.

	Primary Post			Employment			
	Salary fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Retirement allowances \$	Other* \$	Total \$
Executives							
R Logan	544,161	64,655	7,907	92,710	–	1,000	710,433
C Denney	418,979	66,666	–	95,980	–	1,000	582,625
B Waldron	414,698	91,743	–	44,618	–	1,000	552,059
D Cattell	350,000	120,000	95,194	56,000	–	1,000	622,194
P Khor #	183,844	475,156	30,128	–	–	1,000	690,128
	1,911,682	818,220	133,229	289,308	–	5,000	3,157,439

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

Includes a retention bonus of \$311,284 payable under the terms of the acquisition of CPG Corporation Pte Ltd on 1 April 2003.

2.4 Company performance

The table below shows the performance of Downer EDI's ordinary shares over the last five years. The table represents total shareholder returns (TSR) for each year, which is the increase in share price over each year plus dividends paid (including the benefit of franking credits) during that year. The table indicates that Downer EDI has delivered a TSR of 72% for the 2005 reporting period. During this period Downer EDI has paid dividends totalling 17.6 cents per share.

Total Shareholder Returns 2001-2005					
Year	2001	2002	2003	2004	2005
TSR	(25)%	20%	20%	6%	72%

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

Earnings Growth 2001-2005					
Year	2001	2002	2003	2004	2005
Growth Rate %	11%	24%	18%	22%	28%

directors' report continued

Directors and executives remuneration report continued

3 Directors' remuneration

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

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

The chairman receives a base fee of \$175,000 per annum (inclusive of all committee fees) plus superannuation. Most of the other non-executive directors receive a base fee of \$100,000 per annum (where they are not entitled to a retirement benefit) and \$70,000 per annum (where they are so entitled). Fees for these non-executive directors have been set to reflect market rates. There is also a fee for certain committee duties: \$10,000 for the chair of the audit and risk management committee and \$5,000 for the chair of the remuneration committee. Tom Lau, as a nominee representative of a previous substantial shareholder, has not been paid directors' fees.

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

Details of all fees and accrued benefits paid/payable to directors during the 2005 year are set out in the following table. Stephen Gillies is the managing director and each of the other directors is a non-executive director.

	Primary			Post Employment		Total \$
	Salary fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Retirement allowances \$	
Directors						
B D O'Callaghan *	175,000	–	–	15,750	–	190,750
K Y Lau	–	–	–	–	–	–
S J Gillies ^	1,524,327	502,125	20,173	38,702	–	2,085,327
Dr C K Chan	–	–	–	–	–	–
J S Humphrey +	80,000	–	–	–	–	80,000
P E J Jollie	91,667	–	–	8,250	–	99,917
C J S Renwick	61,016	–	–	–	–	61,016
B W Wong	–	–	–	–	–	–
	1,932,010	502,125	20,173	62,702	–	2,517,010

* Barry O'Callaghan's retirement benefit has been capped at \$250,000

^ Salary fees include payment of \$386,300 for entitlements for previous years under employment contract

+ John Humphrey's retirement benefit has been capped at the aggregate of his base directors' fees for the 3 years to 30 June 2005 – which is \$185,000.

4 Contract terms for specified executives

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

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

In addition to the notice requirement, the contracts for specified executives (apart from Khor Poh Hwa) and for the Managing Director provide for termination payments capped at 100% of base salary, but this applies only in very limited circumstances.

The specified executives were all employed throughout the reporting period and no termination payments were made.

5 Employee share scheme

In addition to the remuneration arrangements outlined above, the company instituted in June 2005, an Employee Discount Share Plan. Under this plan eligible employees were offered the right to acquire 500 shares in Downer at an issue price of \$5.15 (the volume weighted average price of Downer's shares at the time of the offer) less a \$1,000 discount. The discount was offered in recognition of employee service and contributions to the company's performance. Under the offer, employees had to pay the balance, being \$1,575, for the shares. The plan was structured to encourage a culture of share ownership as broadly as possible amongst the company's employees.

In order to be eligible for the offer, employees must have been permanent employees of the company for not less than 12 months. A pleasing 2,237 employees accepted the offer, representing a take up rate of 26% and resulting in the allotment of 1,118,500 shares. The offer was made to employees in Australia, New Zealand and Singapore.

6 Remuneration committee

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

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

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

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

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

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

7 New arrangements since 30 June 2005

The remuneration committee has met on a number of occasions since the end of June 2005 to review the company's approach to performance and remuneration management. The committee's objective is to ensure that the company's approach to remuneration aligns remuneration outcomes and shareholder wealth creation, assists in retaining executives, is consistent with current market practice, is financially appropriate and in keeping with the company's commitment to good corporate governance principles. PriceWaterhouse Coopers was retained to advise on the structure of remuneration arrangements as well as market practice. A revised remuneration policy has been developed based on the following principles:

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

Under the proposed structure, remuneration for senior executives will involve three components:

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

7.1 Fixed remuneration

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

7.2 Short term incentive

The short term incentive which is payable by way of an annual bonus, is a cash payment (subject to the arrangement set out at paragraph 8 below). Short term incentive payments are capped at 50% of the executive's base salary and are tied to performance in relation to a number of areas including financial and non-financial targets.

7.3 Long term incentive (LTI)

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

directors' report continued

Directors and executives remuneration report continued

7.3 Long term incentive (LTI) continued

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

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

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

No grants have been made under the long term incentive plan, however offers are expected to be made during the year ending 30 June 2006. To vest, Downer EDI TSR percentile ranking must be between 50th and 75th percentiles of the ASX 100. For that first offering, a portion of the award will vest at 50th percentile performance and increase up to 100 percent vesting at 75th percentile performance. Having regard to changes taking place in Australia in long term incentive plan design, the committee will undertake further reviews of the LTI design as considered necessary, including vesting provisions, to determine if any changes to the plan should be considered for future grants.

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

Summary of long term incentive plan

Year end 30 June 2005	Year end 30 June 2006
Australian executives	Australian executives
No grants	- Annual grants with performance based vesting three years from grant date - Operates from 1 July 2005 to 30 June 2008 - Assessment at 30 June 2008 - Criteria is total shareholder return ranking within a peer group of companies plus EPS growth <25th percentile = 0% 25th – 50th percentile = 0% 50th – 75th percentile = 50% – 100% >75th percentile = 100%

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

8. Downer EDI Deferred Share Plan

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

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

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

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

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

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

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

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

Rounding 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 pages 46 to 49 of the Concise Annual Report 2005.

Environmental regulations

The consolidated entity's performance in relation to environmental regulation is contained in the Environmental Compliance section on page 41 of the Concise Annual Report 2005.

Non-audit services

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

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

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

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

- none of the services undermine the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's "Professional Statement F1 – Professional Independence", including reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

A copy of the auditor's independence declaration is set out on page 8.

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

	\$
Tax consulting	196,000
AIFRS transition and other accounting advisory	324,000
Total	520,000

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

On behalf of the directors



B D O'Callaghan
Director



S J Gillies
Director

Sydney, 23 August 2005

independence declaration

23 August 2005

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

Dear Sirs

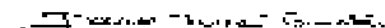
DOWNER EDI LIMITED

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

As lead audit partner for the audit of the financial statements of Downer EDI Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



JA Leotta
Partner

statement of financial performance

for the **financial year** ended 30 June 2005

	Note	Consolidated		Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities	2	3,799,653	3,172,782	64,369	58,913
Share of net profits of associates and joint ventures accounted for using the equity method	37	14,858	20,526	–	–
Borrowing costs		(43,974)	(36,193)	–	–
Changes in inventories of finished goods and work in progress		(93,701)	(51,495)	–	–
Communications expense		(23,076)	(25,095)	(101)	(83)
Employee benefits expense		(1,098,539)	(903,149)	(7,376)	(6,906)
Occupancy costs		(38,576)	(30,434)	(441)	(436)
Plant and equipment costs		(387,131)	(352,649)	–	–
Professional fees		(28,342)	(16,490)	(631)	(859)
Raw materials and consumables used		(1,202,664)	(1,074,197)	–	–
Subcontractor costs		(639,841)	(518,798)	–	–
Travel and accommodation expense		(46,324)	(31,800)	(224)	(507)
Other expenses from ordinary activities		(80,713)	(43,773)	(7,642)	(2,681)
Profit from ordinary activities before income tax expense	2	131,630	109,235	47,954	47,441
Income tax expense relating to ordinary activities	4	(27,595)	(27,689)	(7,925)	(8,147)
Net profit attributable to members of the parent entity		104,035	81,546	40,029	39,294
Increase/(decrease) in foreign currency translation reserve arising on translation of self-sustaining foreign operations	32	(5,399)	846	–	–
Total revenue, expense and valuation adjustments attributable to members of the parent entity recognised directly in equity		(5,399)	846	–	–
Total changes in equity other than those resulting from transactions with owners as owners		98,636	82,392	40,029	39,294
Earnings per share					
Basic and diluted (cents per share)	34	36.3	29.6		

Notes to the financial statements are included on pages 12 to 50.

statement of financial position

as at 30 June 2005

		Consolidated		Company	
	Note	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current assets					
Cash assets		165,972	148,264	68	339
Inventories	9	173,745	144,189	–	–
Receivables	10	940,445	822,885	328,705	325,850
Other financial assets	11	15,594	20,056	1,057	700
Tax assets	12	8,954	4,202	–	–
Other	13	18,018	15,478	2,209	18
Total current assets		1,322,728	1,155,074	332,039	326,907
Non-current assets					
Receivables	14	31,014	20,245	491,208	486,357
Investments accounted for using the equity method	15	17,474	21,578	–	–
Property, plant and equipment	16	570,733	552,334	–	–
Intangibles	17	347,657	329,076	–	–
Other financial assets	18	13,429	11,573	225,281	225,333
Deferred tax assets	19	38,066	26,855	25,228	15,787
Other	20	1,992	2,402	–	–
Total non-current assets		1,020,365	964,063	741,717	727,477
Total assets		2,343,093	2,119,137	1,073,756	1,054,384
Current liabilities					
Payables	21	705,348	609,473	1,675	3,813
Interest-bearing liabilities	22	16,735	107,624	–	–
Provisions	23	108,539	91,471	1,276	1,378
Tax liabilities	24	29,414	6,231	26,666	2,723
Total current liabilities		860,036	814,799	29,617	7,914
Non-current liabilities					
Payables	25	15,702	19,698	358,203	376,113
Interest-bearing liabilities	26	490,037	377,193	–	–
Provisions	27	37,724	31,507	324	241
Deferred tax liabilities	28	31,574	52,911	6,993	17,881
Total non-current liabilities		575,037	481,309	365,520	394,235
Total liabilities		1,435,073	1,296,108	395,137	402,149
Net assets		908,020	823,029	678,619	652,235
Equity					
Contributed equity	31	667,603	631,207	667,603	631,207
Reserves	32	(16,726)	(11,327)	–	–
Retained profits	33	257,143	203,149	11,016	21,028
Total equity		908,020	823,029	678,619	652,235

Notes to the financial statements are included on pages 12 to 50.

statement of cash flows

for the **financial year** ended 30 June 2005

		Consolidated		Company	
	Note	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash flows from operating activities					
Receipts from customers		4,055,336	3,665,956	189	301
Payments to suppliers and employees		(3,813,713)	(3,429,415)	(15,249)	(7,887)
Distributions from joint ventures		16,637	19,949	–	–
Dividends received from controlled entities		–	–	40,090	24,653
Interest received		4,512	6,490	29	261
Interest and other costs of finance paid		(43,892)	(36,599)	(28)	–
Income tax (paid)/refund		(32,923)	(44,901)	2,479	(1,144)
Net cash provided by operating activities	42(e)	185,957	181,480	27,510	16,184
Cash flows from investing activities					
Receipts from/(advances to) controlled entities		–	–	25,307	(192,847)
Payment for investments		(6,531)	(335)	(2,170)	–
Proceeds from sale of investments		12,849	3,214	2,539	–
Payment for property, plant and equipment		(127,123)	(166,343)	–	–
Proceeds from sale of property, plant and equipment		19,872	41,649	–	–
Receipts from other advances		–	2,102	–	2,102
Advances to joint ventures		(11,734)	(2,556)	–	–
Proceeds from sale of businesses	42(c)	26,665	3,487	–	–
Payment of obligations acquired under business acquisitions		(28,608)	–	–	–
Payment for businesses acquired	42(b)	(27,648)	(26,474)	–	–
Net cash provided by/(used in) investing activities		(142,258)	(145,256)	25,676	(190,745)
Cash flows from financing activities					
Proceeds from borrowings		612,335	459,256	–	193,697
Proceeds from issue of equity securities		17	–	17	–
Repayment of borrowings		(613,039)	(533,031)	(32,565)	–
Dividends paid		(20,909)	(22,350)	(20,909)	(19,324)
Net cash provided by/(used in) financing activities		(21,596)	(96,125)	(53,457)	174,373
Net increase/(decrease) in cash held		22,103	(59,901)	(271)	(188)
Cash at the beginning of the financial year		147,574	205,725	339	527
Effects of exchange rate changes on the balance of cash held in foreign currencies		(3,705)	1,750	–	–
Cash at the end of the financial year	42(a)	165,972	147,574	68	339

Notes to the financial statements are included on pages 12 to 50.

notes to the financial statements

for the **financial year** ended 30 June 2005

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 value 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

Accounting policies applied are consistent with the previous financial year.

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

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 benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, redundancy and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of wages and salaries, annual leave, sick leave and other employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to 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

1 STATEMENT OF ACCOUNTING POLICIES CONTINUED

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 statement of financial position 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 and notes thereto.

Foreign currency

All foreign currency transactions during the financial year are 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 engineering services 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.

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 receivables 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.

Other intellectual property recognised relates to costs incurred on research and development or acquired in the acquisition of an entity or operation. Such costs are only deferred to future periods to the extent they are expected to be recoverable and are amortised from the commencement of commercial production of the product to which they relate on a straight line basis over the period of the expected benefit which may be up to 15 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 or marked to market when held for sale. Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on an accrual basis.

notes to the financial statements continued

for the financial year ended 30 June 2005

1 STATEMENT OF ACCOUNTING POLICIES CONTINUED

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 that are:

- i) partnerships have been accounted for under the equity method in the company and consolidated financial statements; and
- ii) not 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 38 to the financial statements.

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.

Provisions

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

Dividends

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors on or before the reporting date.

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

Downer EDI Limited and its wholly-owned Australian controlled entities are part of a tax consolidated group under Australian taxation law.

As a consequence, Downer EDI Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own. This is in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense.

Whilst the decision to tax-consolidate has been formally notified to the Australian Taxation Office, the company retains the option under tax legislation to elect to reset the tax values of assets of entities that initially formed the tax-consolidated group based on market valuations or to retain their existing pre-consolidation tax values. Where the necessary market valuations and other calculations have been finalised in respect of controlled entities, and the company has made a final decision to adopt those tax values, income tax amounts recognised in the financial statements have been determined on the basis of those tax values.

At the time of finalisation of this financial report, the necessary market valuations and other calculations have not been finalised in respect of certain controlled entities, and the company has not made a final decision as to which tax values to use in respect of those entities. Income tax amounts recognised in the financial statements in respect of these entities have been determined on the basis of pre-consolidation tax values. In the event that the company elects to use reset tax values of these controlled entities, adjustments will be made to the carrying amounts of deferred taxes and the current tax liabilities at the time the decision is made.

Warranty costs

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

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'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	91,836	53,995	–	–
Rendering of services	2,186,165	1,831,158	11,400	11,298
Engineering services contract revenue	1,446,934	1,227,186	–	–
Dividends:				
Wholly-owned controlled entities	–	–	20,090	20,000
Interest revenue:				
Wholly-owned controlled entities	–	–	28,345	25,531
Director related entities	–	352	–	–
Other entities	5,038	6,433	30	526
Equity share of associates' and joint venture entities' profits	14,858	20,526	–	–
Rental income	164	150	–	–
Other	5,171	4,467	1,965	1,558
Total operating revenue	3,750,166	3,144,267	61,830	58,913
Non-operating revenue				
Proceeds from the sale of non-current assets:				
Property, plant and equipment	24,363	40,112	–	–
Investments	13,317	3,214	2,539	–
Sale of business and other	26,665	5,715	–	–
Total non-operating revenue	64,345	49,041	2,539	–
Total revenue	3,814,511	3,193,308	64,369	58,913
Net share of sales revenue in joint venture entities	157,814	224,183	–	–
Total turnover	3,972,325	3,417,491	64,369	58,913
Expenses				
Cost of sales	72,185	37,004	–	–
Interest:				
Other entities	40,512	34,685	–	–
Finance lease charges	835	646	–	–
Depreciation of non-current assets:				
Plant and equipment	96,003	94,304	–	–
Buildings	2,179	1,566	–	–
Quarries	566	123	–	–
Amortisation of non-current assets:				
Leased assets	1,540	2,192	–	–
Goodwill	19,606	18,613	–	–
Intellectual property	1,101	909	–	–
Net transfers to/(from) provisions:				
Doubtful debts	(678)	3,141	–	–
Operating lease expenses	105,085	91,117	–	–
Net foreign exchange losses	657	267	–	–
Other borrowing costs	2,627	862	–	–

notes to the financial statements continued

for the **financial year** ended 30 June 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
3 SALES OF ASSETS				
Profit from ordinary activities before income tax expense includes the following specific net gains on disposal:				
Investments	2,622	1,623	468	–
Property, plant and equipment	8,807	7,291	–	–
	11,429	8,914	468	–

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	131,630	109,235	47,954	47,441
Income tax expense calculated at 30% of operating profit	39,489	32,771	14,386	14,232
Permanent differences:				
Non-allowable depreciation	430	248	–	–
Amortisation of intangible assets	5,897	5,603	–	–
Non-taxable capital gains	(1,234)	(1,473)	–	–
Exempt income	(198)	(292)	–	–
Non-deductible expenses	1,294	3,037	482	17
Dividends from within the tax group	–	–	(6,010)	(6,000)
Equity share of associates' and joint venture entities' profits	(1,463)	(1,510)	–	–
Effect of different rates of tax on overseas income/losses	3,353	(2,320)	–	–
Research and development	(2,389)	(812)	–	–
Other items	(3,656)	(1,300)	(941)	263
Future income tax benefit not previously recognised now brought to account	–	(393)	–	–
Effect of reset tax values on entering tax consolidation [^] _	(10,079)	–	(10,079)	–
Initial recognition of net deferred tax balances of the tax group *	–	–	–	3,356
Consideration payable in respect of initial recognition of net deferred tax balances of the tax group *	–	–	–	(3,356)
Current movement in net deferred tax balances relating to the tax group *	–	–	30,345	341
Non assessable and non deductible amounts related to transactions within the tax consolidated group *	–	–	112	–
Net income benefit arising under tax sharing agreements with subsidiaries in the tax group *	–	–	(20,378)	(341)
	31,444	33,559	7,917	8,512
Under/(over) provision of income tax in previous year	(3,849)	(5,870)	8	(365)
Income tax expense attributable to operating profit	27,595	27,689	7,925	8,147

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

[^] _ The head entity is able to elect, as part of entering the tax consolidations regime (refer Note 1), to reset the tax values of various assets under prescribed tax cost base resetting rules.

5 DIRECTORS' AND EXECUTIVES REMUNERATION CONTINUED

Directors' and specified executives' remuneration

The remuneration committee reviews the remuneration packages of executive officers, except for the managing director whose remuneration review is 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 and other terms of employment for the directors and the specified executives are formalised in agreements. Executives are on open ended contracts with no fixed end date. The notice period under executive contracts is 3 months, including the managing director. The specified executives' contracts (other than P Khor) provide for termination payments, up to a maximum 100% of base salary in very limited circumstances. Specified executives and the managing director are entitled as part of their remuneration packages to a bonus capped at up to 50% of their base salary. Payment of the bonus is dependent upon meeting the budget, business plan and other key performance measures.

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

The following table discloses the remuneration of the directors of the company during the 2005 year:

	Primary			Post Employment		Total \$
	Salary fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Retirement allowances \$	
2005						
Directors						
B D O'Callaghan	175,000	–	–	15,750	–	190,750
K Y Lau	–	–	–	–	–	–
S J Gillies ^	1,524,327	502,125	20,173	38,702	–	2,085,327
Dr C K Chan	–	–	–	–	–	–
J S Humphrey	80,000	–	–	–	–	80,000
P E J Jollie	91,667	–	–	8,250	–	99,917
C J S Renwick	61,016	–	–	–	–	61,016
B W Wong	–	–	–	–	–	–
	1,932,010	502,125	20,173	62,702	–	2,517,010

^ Salary fees include payment of \$386,300 for entitlements for previous years under employment contract

notes to the financial statements continued

for the **financial year** ended 30 June 2005

5 DIRECTORS' AND EXECUTIVES REMUNERATION CONTINUED

Directors' and specified executives' remuneration continued

The following table discloses the remuneration of the 5 highest remunerated executives of the company and the consolidated entity during the 2005 year:

	Primary			Post Employment	Equity	
	Salary fees \$	Bonus \$	Non- monetary \$	Super- annuation \$	Other* \$	Total \$
2005						
Executives						
R Logan	544,161	64,655	7,907	92,710	1,000	710,433
C Denney	418,979	66,666	–	95,980	1,000	582,625
B Waldron	414,698	91,743	–	44,618	1,000	552,059
D Cattell	350,000	120,000	95,194	56,000	1,000	622,194
P Khor #	183,844	475,156	30,128	–	1,000	690,128
	1,911,682	818,220	133,229	289,308	5,000	3,157,439

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

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

The following table discloses the remuneration of the directors of the company during the prior year and of the 5 highest remunerated executives of the company and the consolidated entity:

	Primary			Post Employment		
	Salary fees \$	Bonus \$	Non- monetary \$	Super- annuation \$	Retirement allowances \$	Total \$
2004						
Directors						
B D O'Callaghan	116,251	–	–	10,462	–	126,713
K Y Lau	–	–	–	–	–	–
S J Gillies	1,089,194	341,250	20,170	36,754	–	1,487,368
R W Dunning	37,171	–	–	–	113,333	150,504
J S Humphrey	80,000	–	–	7,200	–	87,200
P E J Jollie	–	–	–	–	–	–
T J Kennedy	28,750	–	–	2,588	–	31,338
M J Kent	27,866	–	–	–	27,865	55,731
G M Lawrence	27,866	–	–	–	27,865	55,731
K J Roche	34,583	–	–	3,112	143,958	181,653
B W Wong	–	–	–	–	–	–
	1,441,681	341,250	20,170	60,116	313,021	2,176,238

5 DIRECTORS' AND EXECUTIVES REMUNERATION CONTINUED

	Primary			Post Employment		
	Salary fees \$	Bonus \$	Non- monetary \$	Super- annuation \$	Retirement allowances \$	Total \$
2004						
Executives						
D Cattell	325,000	105,000	77,610	52,000	–	559,610
C Denney	383,334	–	21,992	34,950	–	440,276
R Logan	524,097	150,000	6,837	102,457	–	783,391
B Waldron	342,060	68,411	–	38,291	–	448,762
G Wannop *	135,000	–	–	12,150	–	147,150
	1,709,491	323,411	106,439	239,848	–	2,379,189

* G Wannop commenced employment with the group on 16 February 2004.

6 EMPLOYEE SHARE PLAN

The company has discontinued the previous share plan which had been approved by shareholders in 1998, as the plan rules were outdated. A new employee discount share plan was instituted in June 2005 ("ESP"). By 30 June 2005, an offer to all eligible employees had been made and acceptances for 1,118,500 shares totalling \$3,523,275 had been received under the terms of the ESP. Consistent with the provisions of the plan, as approved by shareholders at the 1998 annual general meeting, offers were made to permanent full and part time employees of Downer EDI Limited and its subsidiary companies who had completed one year's service. Eligible employees were offered the right to acquire 500 shares in Downer EDI at an issue price of \$5.15 (the volume weighted average price of Downer EDI's shares at the time of the offer) less a \$1,000 discount. The discount was offered in recognition of employees' contribution to the company's performance. Under the offer, employees are required to pay the balance of \$1,575 for the shares.

7 EXECUTIVE SHARE OPTION SCHEME (EOS)

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

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

Options will be granted without charge.

The directors will determine the following matters in their discretion:

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

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

During the year, no options under the EOS were granted. Similarly, no executives and employees acquired any ordinary shares under the provisions of the EOS. At 30 June 2005, no options granted under the EOS remain outstanding.

The market price of the company's ordinary shares at 30 June 2005 was \$5.33 each.

notes to the financial statements continued

for the **financial year** ended 30 June 2005

	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
8 REMUNERATION OF AUDITORS				
Auditor of the parent entity:				
Auditing the financial report	1,772,000	1,450,000	254,200	277,000
Other services	520,000	370,000	106,094	195,581
	2,292,000	1,820,000	360,294	472,581
Other auditors:				
Auditing the financial report	635,000	524,500	–	–
Other services	1,406,000	1,074,000	555,187	515,426
	2,041,000	1,598,500	555,187	515,426
	4,333,000	3,418,500	915,481	988,007
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
9 CURRENT INVENTORIES				
Raw materials – at cost	52,552	36,779	–	–
Finished goods – at cost	22,090	15,224	–	–
Work in progress – at cost	37,827	41,545	–	–
Components and spare parts – at cost	61,276	50,641	–	–
	173,745	144,189	–	–
10 CURRENT RECEIVABLES				
Trade receivables	699,952	633,666	–	–
Allowance for doubtful debts	(13,621)	(14,299)	–	–
	686,331	619,367	–	–
Amount due from customers under engineering services contracts (Note 44)	181,857	170,725	–	–
Other receivables controlled entities	–	–	326,312	324,240
Other receivables	72,257	32,793	2,393	1,610
	940,445	822,885	328,705	325,850
11 OTHER CURRENT FINANCIAL ASSETS				
Investments	265	8,208	–	–
Employee loans	1,057	1,517	1,057	700
Foreign currency hedge (Note 21)	6,302	1,280	–	–
Advances to joint venture entities	3,658	496	–	–
Other financial assets	4,312	8,555	–	–
	15,594	20,056	1,057	700
12 CURRENT TAX ASSETS				
Tax refunds	8,954	4,202	–	–
13 OTHER CURRENT ASSETS				
Deferred costs	1,642	2,292	–	–
Prepayments	13,956	10,619	–	18
Other deposits	2,420	2,534	–	–
Other current assets	–	33	2,209	–
	18,018	15,478	2,209	18

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
14 NON-CURRENT RECEIVABLES				
Trade receivables	20,604	2,266	–	–
Amount due from customers under engineering services contracts (Note 44)	1,042	6,498	–	–
Other receivables	9,368	11,481	–	–
Other receivables controlled entities	–	–	491,208	486,357
	31,014	20,245	491,208	486,357

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Joint venture entities (Note 37 (b))	17,474	21,578	–	–
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16 PROPERTY, PLANT AND EQUIPMENT

	Consolidated					
	Freehold Land	Quarries	Buildings	Plant and Equipment	Equipment Under Finance Lease	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount at cost						
Balance at 30 June 2004	21,274	4,972	42,035	926,532	18,298	1,013,111
Additions	486	–	2,264	129,348	133	132,231
Disposals	(4,464)	–	(1,407)	(132,315)	(4,395)	(142,581)
Acquisitions of businesses	2,465	–	1,168	11,817	240	15,690
Disposals of businesses	(650)	–	(3,854)	(18,096)	–	(22,600)
Net foreign currency exchange differences arising on translation of financial statements of self sustaining foreign operations	37	(14)	219	(1,011)	(627)	(1,396)
Balance at 30 June 2005	19,148	4,958	40,425	916,275	13,649	994,455
Accumulated depreciation/amortisation						
Balance at 30 June 2004	–	1,587	5,063	451,553	2,574	460,777
Depreciation expense	–	566	2,179	96,003	1,540	100,288
Disposals	–	(41)	(630)	(124,482)	(1,913)	(127,066)
Disposals of businesses	–	–	(307)	(9,258)	–	(9,565)
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	–	9	(4)	(89)	(628)	(712)
Balance at 30 June 2005	–	2,121	6,301	413,727	1,573	423,722
Net Book Value						
As at 30 June 2004	21,274	3,385	36,972	474,979	15,724	552,334
As at 30 June 2005	19,148	2,837	34,124	502,548	12,076	570,733

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

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.

notes to the financial statements continued

for the **financial year** ended 30 June 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
17 INTANGIBLES				
Goodwill	389,665	364,304	–	–
Accumulated amortisation	(88,252)	(69,751)	–	–
	301,413	294,553	–	–
Intellectual property	51,760	38,855	–	–
Accumulated amortisation	(5,516)	(4,332)	–	–
	46,244	34,523	–	–
	347,657	329,076	–	–

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

18 OTHER NON-CURRENT FINANCIAL ASSETS

Shares in controlled entities	–	–	225,000	225,000
Other financial assets	13,429	11,573	281	333
	13,429	11,573	225,281	225,333

19 DEFERRED TAX ASSETS

Future income tax benefits:				
Tax losses – revenue	3,392	5,737	–	–
Timing differences:				
Parent entity	994	969	994	969
Entities in the tax consolidated group (i)	24,234	14,818	24,234	14,818
Other	9,446	5,331	–	–
	38,066	26,855	25,228	15,787

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

20 OTHER NON-CURRENT ASSETS

Deferred costs	1,915	2,237	–	–
Prepayments	77	165	–	–
	1,992	2,402	–	–

21 CURRENT PAYABLES

Trade payables	554,218	463,677	1,598	3,738
Amounts due to customers under engineering services contracts (Note 44)	90,893	66,520	–	–
Goods and services tax payable	22,826	20,298	77	75
Advances from other entities	14,557	30,557	–	–
Deferred purchase consideration	–	2,455	–	–
Foreign currency hedge (Note 11)	6,302	1,280	–	–
Other	16,552	24,686	–	–
	705,348	609,473	1,675	3,813

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
22 CURRENT INTEREST-BEARING LIABILITIES				
Secured:				
Finance lease liabilities (Note 36(b))	2,542	2,629	–	–
Hire purchase liabilities (Note 36(c))	278	1,813	–	–
	2,820	4,442	–	–
Unsecured:				
Bank loans	13,915	39,000	–	–
Bank overdraft (Note 26)	–	690	–	–
US\$ notes	–	63,492	–	–
	13,915	103,182	–	–
	16,735	107,624	–	–

23 CURRENT PROVISIONS

Employee benefits (Note 29)	87,758	73,016	1,276	1,378
Contract claims and warranties	19,561	17,180	–	–
Other	1,220	1,275	–	–
Total current provisions (Note 30)	108,539	91,471	1,276	1,378

24 CURRENT TAX LIABILITIES

Parent entity	8,190	–	8,190	–
Entities in the tax consolidated group (i)	18,476	2,723	18,476	2,723
Other	2,748	3,508	–	–
	29,414	6,231	26,666	2,723

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

25 NON-CURRENT PAYABLES

Amounts due to customers under engineering services contracts (Note 44)	1,566	1,880	–	–
Advances from joint venture entities	13,562	17,428	–	–
Non-trade payables to:				
Controlled entities	–	–	358,203	376,113
Other	574	390	–	–
	15,702	19,698	358,203	376,113

notes to the financial statements continued

for the **financial year** ended 30 June 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
26 NON-CURRENT INTEREST BEARING LIABILITIES				
Secured:				
Finance lease liabilities (Note 36(b))	5,576	8,515	–	–
Hire purchase liabilities (Note 36(c))	483	880	–	–
	6,059	9,395	–	–
Unsecured:				
Bank loans	90,253	121,580	–	–
Other loans	–	4,620	–	–
US\$ notes	393,725	241,598	–	–
	483,978	367,798	–	–
	490,037	377,193	–	–
Financing facilities				
The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Bank loans/overdraft (i)	454,586	473,179	–	–
Hire purchase and lease facilities (ii)	208,817	261,707	–	–
US\$ notes (iii)	393,725	305,090	–	–
Other loans (iv)	–	4,620	–	–
	1,057,128	1,044,596	–	–
Facilities utilised at balance date:				
Bank overdraft	–	690	–	–
Bank loans	104,168	160,580	–	–
Hire purchase and lease facilities	8,879	13,837	–	–
US\$ notes	393,725	305,090	–	–
Other loans	–	4,620	–	–
	506,772	484,817	–	–
Facilities not utilised at balance date:				
Bank overdraft	–	831	–	–
Bank loans	350,418	311,078	–	–
Hire purchase and lease facilities	199,938	247,870	–	–
	550,356	559,779	–	–

At 30 June 2005, the consolidated entity had bank guarantees and other bank collateral facilities and insurance bond facilities totalling \$671,337,000 (2004: \$593,103,000) of which \$209,074,000 (2004: \$258,406,000) 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. In September 2004 the consolidated entity issued US\$54,000,000 (\$74,877,772) and US\$55,000,000 (\$77,250,298) in unsecured notes with varying maturities extending to 2019. Concurrent with the new issue, US\$15,000,000 of the October 1999 issue was extended from an original maturity date of 2006 until 2014. The USD principal and interest have been fully hedged to Australian or New Zealand dollars, as applicable. Interest is payable to US note holders semi-annually. While unsecured, the US notes are subject to group guarantee arrangements.

iv) Other loans

Other loans totalling Nil (2004: \$4,620,000) were unsecured loans from joint ventures.

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
27 NON-CURRENT PROVISIONS				
Employee benefits (Note 29)	26,303	22,144	324	241
Contract claims and warranties	3,215	2,739	–	–
Other	8,206	6,624	–	–
Total non-current provisions (Note 30)	37,724	31,507	324	241

28 DEFERRED TAX LIABILITIES

Deferred income tax				
Timing Differences				
Parent entity	10	48	10	48
Entities in the tax consolidated group (i)	6,983	17,833	6,983	17,833
Other	24,581	35,030	–	–
	31,574	52,911	6,993	17,881

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

29 EMPLOYEE BENEFITS

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

Provision for employee benefits:				
Current (Note 23)	87,758	73,016	1,276	1,378
Non-current (Note 27)	26,303	22,144	324	241
	114,061	95,160	1,600	1,619

30 PROVISIONS

	Consolidated			
	Employee benefits	Contract claims/ warranties	Other	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2004	95,160	19,919	7,899	122,978
Additional provisions recognised	92,056	12,769	2,313	107,138
Reductions arising from payments/other sacrifices of future economic benefits	(76,025)	(9,734)	(786)	(86,545)
Acquisition of businesses	4,208	–	–	4,208
Disposal of businesses	(1,042)	–	–	(1,042)
Other	(296)	(178)	–	(474)
Balance at 30 June 2005	114,061	22,776	9,426	146,263
Current (Note 23)	87,758	19,561	1,220	108,539
Non-current (Note 27)	26,303	3,215	8,206	37,724

notes to the financial statements continued

for the financial year ended 30 June 2005

30 PROVISIONS CONTINUED

	Company			
	Employee benefits	Contract claims/warranties	Other	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2004	1,619	–	–	1,619
Additional provisions recognised	853	–	–	853
Reductions arising from future payments/other sacrifices of economic benefits	(872)	–	–	(872)
Balance at 30 June 2005	1,600	–	–	1,600
Current (Note 23)	1,276	–	–	1,276
Non-current (Note 27)	324	–	–	324

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

31 CONTRIBUTED EQUITY

291,685,155 fully paid ordinary shares (2004: 282,036,785)	667,603	631,207	667,603	631,207
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Fully paid ordinary share capital

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

Share options

Unissued capital over which options are held as at the reporting date is Nil (2004: Nil).

No options were issued during the current financial year.

	Consolidated / Company			
	2005		2004	
	No. (000's)	\$'000	No. (000's)	\$'000
Fully paid ordinary share capital				
Balance at beginning of financial year	282,037	631,207	975,526	553,629
Issue of shares through dividend reinvestment plan elections	7,543	29,123	20,601	15,246
Issue of shares on conversion of preference shares	–	–	130,000	60,732
Issue of shares on acquisition of businesses	987	3,750	508	1,600
Issue of shares under terms of Employee Share Plan	1,118	3,523	–	–
Reduction in number of shares pursuant to 1:4 share consolidation*	–	–	(844,598)	–
Balance at end of financial year	291,685	667,603	282,037	631,207

* As part of a capital management initiative a one for four share consolidation took place in November 2003.

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

32 RESERVES

Foreign currency translation	(16,726)	(11,327)	–	–
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Movement in reserves

Foreign currency translation reserve

Balance at beginning of financial year	(11,327)	(12,173)	–	–
Translation of foreign operations	(5,399)	846	–	–
Balance at end of financial year	(16,726)	(11,327)	–	–

Exchange differences relating to foreign currency monetary items forming part of the net investment in self-sustaining foreign operations 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.

33 RETAINED PROFITS

Balance at beginning of financial year	203,149	158,003	21,028	16,407
Net profit	104,035	81,546	40,029	39,294
Dividends paid	(50,041)	(36,400)	(50,041)	(34,673)
Balance at end of financial year	257,143	203,149	11,016	21,028

notes to the financial statements continued

for the **financial year** ended 30 June 2005

34 EARNINGS PER SHARE (EPS)

	2005 Cents per Share	2004 Cents per Share
Basic earnings per share	36.3	29.6
Diluted earnings per share	36.3	29.6

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:

	2005 No. (000's)	2004 No. (000's)
Weighted average number of ordinary shares	286,913	270,115

	2005 \$'000	2004 \$'000
Earnings used in the calculation of basic earnings per share reconciles to net profit in the statement of financial performance as follows:		
Net profit	104,035	81,546
Preference share dividends paid	–	(1,727)
Earnings used in the calculation of basic EPS	104,035	79,819

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

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:

	2005 No. (000's)	2004 No. (000's)
Weighted average number of ordinary shares used in the calculation of basic EPS	286,913	270,115
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	286,913	270,115

Consolidated			
	Date paid/ payable	Cents per share	\$'000
35 DIVIDENDS			
Not recognised: –			
2005 Final dividend			
Subsequent to the 30 June 2005 reporting date, the company announced a final dividend in respect of ordinary shares for the financial year (70% franked)	19 Oct 2005	12.0	35,002
Recognised 2005 financial year: –			
2005 Interim dividend			
Subsequent to the 31 December 2004 reporting date, the company announced an interim dividend in respect of ordinary shares for the half year (50% franked)	22 Apr 2005	6.0	17,325
2004 Final dividend			
Subsequent to the 30 June 2004 reporting date, the company announced a final and special dividend in respect of ordinary shares for the financial year (50% franked)	19 Oct 2004 (Ordinary)	9.6	27,075
	19 Oct 2004 (Special)	2.0	5,641
		11.6	32,716
Recognised 2004 financial year: –			
2004 Interim dividend			
Subsequent to the 31 December 2003 reporting date, the company announced an interim dividend in respect of ordinary shares for the half year (50% franked)	29 Mar 2004	4.0	11,261
2003 Final dividend			
Subsequent to the 30 June 2003 reporting date, the company announced a final dividend in respect of ordinary shares for the financial year (50% franked)	10 Oct 2003	9.6	23,412
2003 Final dividend converting preference shares			
The 2003 converting preference share dividend represents the final dividend paid up to the date of conversion to ordinary shares on 31 October 2003 (unfranked)	31 Oct 2003	\$26.57	1,727
Company			
		2005 \$'000	2004 \$'000
Franking account balance		13,457	–

notes to the financial statements continued

for the financial year ended 30 June 2005

36 COMMITMENTS FOR EXPENDITURE

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
a) Capital expenditure commitments				
<i>Plant and equipment:</i>				
Not longer than 1 year	21,652	36,126	–	–
Longer than 1 year and not longer than 5 years	9,264	–	–	–
	30,916	36,126	–	–
b) Lease commitments				
<i>Non-cancellable operating leases:</i>				
Operating leases relate to premises and plant and equipment with lease terms of between 1 to 6 years matching the cash outflow rentals with expected revenue streams. The economic entity does not have options to purchase the leased assets at the expiry of the lease period.				
Not longer than 1 year	91,884	73,492	–	–
Longer than 1 year and not longer than 5 years	125,891	123,297	–	–
Longer than 5 years	3,520	4,788	–	–
	221,295	201,577	–	–
<i>Finance lease liabilities:</i>				
Finance leases relate to plant and equipment with lease terms of between 1 to 5 years. The consolidated entity has options to purchase the equipment at the conclusion of the lease arrangements.				
Not longer than 1 year	3,142	3,214	–	–
Longer than 1 year and not longer than 5 years	6,145	9,716	–	–
Minimum finance lease payments	9,287	12,930	–	–
Less future finance charges	1,169	1,786	–	–
Finance lease liabilities	8,118	11,144	–	–
Included in the financial statements as:				
Current interest-bearing liabilities (Note 22)	2,542	2,629	–	–
Non-current interest-bearing liabilities (Note 26)	5,576	8,515	–	–
	8,118	11,144	–	–
c) Other expenditure commitments				
<i>Hire purchase liabilities:</i>				
Not longer than 1 year	317	1,922	–	–
Longer than 1 year and not longer than 5 years	517	957	–	–
Minimum hire purchase payments	834	2,879	–	–
Less future finance charges	73	186	–	–
Hire purchase liabilities	761	2,693	–	–
Included in the financial statements as:				
Current interest-bearing liabilities (Note 22)	278	1,813	–	–
Non-current interest-bearing liabilities (Note 26)	483	880	–	–
	761	2,693	–	–

37 JOINT VENTURE OPERATIONS AND ENTITIES

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

Name of Entity	Principal Activity	Ownership Interest	
		2005 %	2004 %
BPL Downer Joint Venture	Construction of public facilities	50	50
Clough Downer Joint Venture	Construction of port facilities	50	50
Downer Hill Joint Venture	Road construction upgrading	–	67
Playford Power Station Joint Venture	Refurbishment of power station	50	50
CPG-AMEC Facilities	Facilities management	51	51
CPG Environmental Engineering	Environmental engineering services	75	80
D'Axis Planners & Consultants	Master planning and consultancy services	60	60
Suzhou PM Link	Project management	60	60
Notus Power Partners	Wind turbine farms	–	66
Joint ventures conducted with related parties:			
Airfield Works Joint Venture	Airport civil engineering	49	49
Downer Crown Castle Joint Venture	Telecommunications	50	50
Downer Universal Communications Group	Telecommunications	50	–
Downer CSS Joint Venture	Telecommunications	50	–
Encore Joint Venture	Road maintenance	50	–
Paul Y Downer Joint Venture	Civil engineering	50	50
South Pacific Roads Joint Venture	Road maintenance	50	–

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:

	2005 \$'000	2004 \$'000
Current assets		
Cash	2,043	1,280
Receivables	9,488	6,383
Inventories	5,185	8,414
Other	5,441	3,656
Total current assets	22,157	19,733
Non-current assets		
Receivables	–	144
Property, plant and equipment	204	768
Intangibles	192	–
Total non-current assets	396	912
Total assets	22,553	20,645

notes to the financial statements continued

for the **financial year** ended 30 June 2005

37 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED

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

Name of Entity	Principal Activity	Ownership Interest		Consolidated Carrying Amount	
		2005 %	2004 %	2005 \$'000	2004 \$'000
Advanced Separation Engineering Australia Pty Ltd	Supply of minerals separation products	50	50	11	10
Allied Asphalts Limited	Supply of asphalt products	50	50	902	894
Aromatrix Pte Ltd	Environmental consulting services	33	–	372	–
Bitumen Supplies Limited	Supply of bitumen products	50	50	4,480	4,145
Clyde Babcock Hitachi (Aust) Pty Ltd	Design, construction and maintenance of boilers	27	27	2,462	2,192
CPG Healthcare FM Pte Ltd	Facilities management	50	50	75	197
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	50	–	–
John Holland EDI Joint Venture	Design and construction of a replacement research reactor facility for ANSTO	40	40	1,494	5,199
MPE Facilities Management Sdn Bhd	Facilities management consultancy services	50	50	52	28
Pavement Salvage (SA) Pty Ltd	Road maintenance	50	50	7	6
Notus Energy Pty Ltd	Wind turbine farms	–	33	–	1
Roche Eltin Joint Venture Services*	Contract mining	100	50	–	–
Roche Thiess Linfox Joint Venture	Contract mining	44	44	–	–
Shanghai Shangfang CPG Facilities Management Co. Ltd	Facilities management	–	50	–	172
Singa Facility Management Pty Ltd	Facilities management consultancy services	–	50	–	15
Snowden Performance Management Pty Ltd	Mining management consulting	50	–	142	–
SIP Jiacheng Pte Ltd	Property development	50	50	6,616	5,812
St Ives Joint Venture	Design and construction of mining treatment plant	50	50	657	2,158
Synthesis Architectural Design Consultants Co. Ltd	Architectural and consultancy services	–	50	–	120
YIDA-CPG FM Co Ltd	Facilities management	50	50	204	259

* Remaining 50% interest in the Roche Eltin Joint Venture was acquired during the year, refer Note 39.

37 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Equity accounted investments				
Equity accounted amount of investment at the beginning of the financial year	21,578	24,294	–	–
Share of net profit	14,858	20,526	–	–
Share of distributions	(16,637)	(19,949)	–	–
Effect of foreign currency translation movement	(478)	–	–	–
Acquisition of interest in joint venture entities	47	569	–	–
Disposals of interest in joint venture entities	(1,894)	(3,862)	–	–
Equity accounted amount of investment at the end of the financial year	17,474	21,578	–	–
Share of net profit of joint venture entities				
Revenue from ordinary activities	157,814	224,183	–	–
Expenses from ordinary activities	140,250	202,134	–	–
Profit from ordinary activities before income tax	17,564	22,049	–	–
Income tax expense relating to ordinary activities	2,706	1,523	–	–
Net profit	14,858	20,526	–	–
The following amounts represent the consolidated entity's share of the above joint venture entities:				
Current assets				
Cash	14,099	28,394	–	–
Inventories	10,689	8,849	–	–
Receivables	23,162	30,725	–	–
Other	1,964	5,724	–	–
Total current assets	49,914	73,692	–	–
Current liabilities				
Payables	18,976	49,209	–	–
Interest-bearing liabilities	7,896	287	–	–
Provisions	14,182	8,927	–	–
Total current liabilities	41,054	58,423	–	–
Non-current assets				
Plant and equipment	19,537	22,813	–	–
Other	27	3,356	–	–
Total non-current assets	19,564	26,169	–	–
Non-current liabilities				
Interest-bearing liabilities	12,627	22,060	–	–
Provisions	10	528	–	–
Total non-current liabilities	12,637	22,588	–	–
Net assets	15,787	18,850	–	–

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 43.

notes to the financial statements continued

for the financial year ended 30 June 2005

38 CONTROLLED ENTITIES

Name of Controlled Entity	Country of Incorporation	Ownership Interest	Ownership Interest
		2005	2004
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 Resources International Pty Limited*	Australia	100%	100%
Century Resource Services Limited *	New Zealand	100%	100%
Clyde Finance Pty Ltd	Australia	100%	100%
Commspec (NZ) Limited	New Zealand	100%	—
Commspec True Colours Limited	New Zealand	100%	—
Construction Professionals Pte Ltd #	Singapore	100%	100%
CPG Advisory (Shanghai) Co. Ltd #	China	100%	100%
CPG Consultants (India) Pvt Ltd #	India	100%	100%
CPG Consultants Pte Ltd #	Singapore	100%	100%
CPG Corp Philippines Inc #	Philippines	100%	100%
CPG Corporation Pte Ltd #	Singapore	100%	100%
CPG Facilities Management Pte Ltd #	Singapore	100%	100%
CPG Facilities Management (Shaanxi) Co. Ltd #	China	—	100%
CPG Holdings Pte Ltd #	Singapore	100%	100%
CPG Hubin (Suzhou) Pte Ltd #	Singapore	100%	100%
CPG Investments Pte Ltd #	Singapore	100%	100%
CPG Laboratories Pte Ltd #	Singapore	100%	100%
DCC Company Limited *	British Virgin Is.	100%	100%
DCE Limited *	New Zealand	100%	100%
Dean Adams Consulting Pty Ltd	Australia	100%	100%
Delris Pty Ltd	Australia	100%	100%
DGL Investments Ltd *	New Zealand	100%	100%
Downer Connect Limited *	New Zealand	100%	100%
Downer Connect Pty Ltd	Australia	100%	100%
Downer Construction (Australia) Pty Limited	Australia	100%	100%
Downer Construction (Fiji) Limited *	Fiji	100%	100%
Downer Construction (Hong Kong) Limited *	Hong Kong	100%	100%
Downer Construction (New Zealand) Limited *	New Zealand	100%	100%
Downer Construction (PNG) Limited *	PNG	100%	100%
Downer Construction Tonga Ltd *	Tonga	100%	100%
Downer EDI Finance Pty Ltd	Australia	100%	100%
Downer Electrical Pty Ltd	Australia	100%	100%
Downer Energy Systems Pty Ltd	Australia	100%	100%
Downer Engineering Company Pty Limited	Australia	100%	100%
Downer Engineering Ltd *	New Zealand	100%	100%
Downer Engineering Group Pty Limited	Australia	100%	100%
Downer Engineering Power Limited *	New Zealand	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 Engineering Holdings (Thailand) Limited	Thailand	100%	—
Downer Group Construction (Malaysia) Sdn Bhd *	Malaysia	100%	100%
Downer Group Finance Pty Limited	Australia	100%	100%
Downer Holdings Pty Ltd	Australia	100%	100%
Downer MBL Australia Limited *	New Zealand	—	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%
Downer Power Transmission Pty Ltd	Australia	100%	100%
Downer Engineering Power Pty Ltd	Australia	100%	100%
Eco-Energy Solutions Pty Ltd	Australia	100%	100%
EDICO Pty Ltd	Australia	100%	100%
EDI Distribution Pty Ltd	Australia	100%	100%
EDI Rail Investments Pty Ltd	Australia	100%	100%

38 CONTROLLED ENTITIES CONTINUED

Name of Controlled Entity	Country of Incorporation	Ownership Interest	Ownership Interest
		2005	2004
EDI Rail Pty Ltd	Australia	100%	100%
EDI Rail (Maryborough) Pty Ltd	Australia	100%	100%
EDI Rail V/Line Maintenance Pty Ltd	Australia	100%	100%
Evans Deakin Industries Pty Ltd	Australia	100%	100%
Faxgroove Pty Ltd	Australia	100%	100%
FM Technology Pte Ltd #	Singapore	100%	100%
Gaden Drilling Pty Limited	Australia	100%	100%
Indeco Consortium Pte Ltd #	Singapore	100%	100%
Miningtek Consultants & Services Limited j	British Virgin Isl.	100%	–
Pauanui Lakes Development Limited *	New Zealand	100%	100%
Pavement Salvage Operations Pty Ltd	Australia	100%	–
Pavement Technology Pty Ltd	Australia	100%	100%
Pembinaan Downer Aust Pty Limited	Australia	100%	100%
Primary Producers Improvers Pty Ltd	Australia	100%	100%
PM Link Pte Ltd #	Singapore	100%	100%
P T Century Dinamik Drilling j	Indonesia	100%	100%
P T Ogsiras Bina Drilling j	Indonesia	100%	100%
QCC Resources Pty Ltd	Australia	100%	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%	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%	100%
Roche Mining (MT) Holdings Pty Ltd	Australia	100%	100%
Roche Mining (MT) India Pvt Ltd *	India	100%	100%
Roche Mining (MT) Pty Ltd	Australia	100%	100%
Roche Mining (MT) South Africa (Pty) Ltd *	South Africa	100%	100%
Roche Mining (MT) USA Inc. *	United States	100%	100%
Roche Mining (NZ) Limited *	New Zealand	100%	100%
Roche Mining Pty Limited	Australia	100%	100%
Roche Mining (PNG) Ltd #	PNG	100%	100%
Roche Services Pty Ltd	Australia	100%	100%
Rockdri Contractors Pty Limited	Australia	100%	100%
RPC Roads Pty Ltd	Australia	100%	100%
RPC IT Pty Ltd	Australia	100%	100%
Roche Blasting Services Pty Ltd	Australia	100%	100%
Scanbright Pty Ltd	Australia	100%	100%
Snowden Business Improvement Pty Ltd #	Australia	100%	–
Snowden Corporate Services Pty Ltd #	Australia	100%	–
Snowden Mining Industry Consultants Pty Ltd *	South Africa	100%	–
Snowden Mining Industry Consultants Inc. *	Canada	100%	–
Snowden Mining Industry Consultants Limited *	United Kingdom	100%	–
Snowden Mining Industry Consultants Pty Ltd *	Australia	100%	–
Snowden Mining Strategies Pty Ltd *	Australia	100%	–
Snowden Mining Technologies Limited j	British Virgin Isl.	100%	–
Snowden Technologies Pty Ltd *	Australia	100%	–
Snowden Training Pty Ltd *	South Africa	100%	–
Starblake Pty Ltd	Australia	100%	100%
Tas21 Pty Limited	Australia	100%	100%
Technic Industries Limited *	New Zealand	100%	100%
TSG Architects Pte Ltd #	Singapore	100%	100%
Winstanley Industries Pty Limited	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

j Audit not required in local jurisdiction

notes to the financial statements continued

for the financial year ended 30 June 2005

39 ACQUISITION OF BUSINESSES

Names of Businesses Acquired	Principal Activity	Date of Acquisition	Proportion of Shares Acquired %	Cost of Acquisition \$'000
Current Financial Year:				
Controlled entities:				
Commspec (NZ) Limited	Telecommunication services	1 Jul 2004	100%	1,414
Miningtek Consultants & Services Limited (t/as Snowden)	Mining consultancy services	20 Dec 2004	100%	14,805
Pavement Salvage Pty Ltd	Road maintenance services	11 Mar 2005	100%	10,959
Businesses:				
Bitumen Sealed Services	Bitumen sealing services	29 Oct 2004	–	2,514
DPC Services	Bitumen manufacturing and distribution	14 Dec 2004	–	5,314
DBT Workshop	Mining engineering services	15 Dec 2004	–	2,198
Earthex	Bitumen sealing services	30 Sep 2004	–	1,080
Roche Eltin Joint Venture	Contract mining services	17 Feb 2005	–	1,957
Prior Financial Year:				
Controlled entities:				
Downer Electrical Pty Limited	Engineering services	1 Jul 2003	100%	14,867
Pavement Technology Limited	Infrastructure services	1 Jan 2004	100%	2,476
TSG Architects Pte Ltd	Architectural services	1 Jan 2004	100%	418
CPG Facilities Mgt (Shaanxi) Co. Ltd	Facilities management services	1 Jan 2004	100%	418
Sasol Roche Blasting Services Pty Ltd	Mining explosives services	1 Feb 2004	50%	2,394
QCC Resources Pty Ltd	Engineering consulting services	1 Apr 2004	100%	1,600
Businesses:				
Civil Construction Corporation	Civil works and construction services	20 Oct 2003	–	5,801
RMS	Traffic management services	1 Nov 2003	–	501

40 SEGMENT INFORMATION

Information on business segments:

	External		Inter-Segment		Total	
Segment Revenue	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Engineering	1,240,468	1,082,156	10,160	19,322	1,250,628	1,101,478
Mining and Resources	1,314,205	930,525	1,521	4,960	1,315,726	935,485
Infrastructure Services	865,567	673,195	7,200	2,915	872,767	676,110
Rail	360,918	408,178	–	1,733	360,918	409,911
Discontinued businesses	28,205	96,718	–	10,279	28,205	106,997
					3,828,244	3,229,981
Eliminations					(18,881)	(39,209)
Unallocated					5,148	2,536
Total revenue					3,814,511	3,193,308
Net share of sales revenue in joint venture entities:						
Engineering					39,266	68,994
Mining and Resources					97,744	147,319
Infrastructure Services					20,804	7,870
Total turnover					3,972,325	3,417,491

	Consolidated	
Segment Results	2005 \$'000	2004 \$'000
Engineering	48,886	56,234
Mining and Resources	61,105	32,741
Infrastructure Services	44,153	38,167
Rail	16,241	17,342
Discontinued businesses	(3,791)	(6,839)
Unallocated	(34,964)	(28,410)
Income tax expense relating to ordinary activities	(27,595)	(27,689)
Net profit	104,035	81,546

	Assets		Liabilities	
Segment Assets and Liabilities	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Engineering	695,904	684,041	326,642	266,585
Mining and Resources	796,846	727,122	255,478	186,021
Infrastructure Services	426,749	364,956	147,912	122,185
Rail	286,565	250,304	106,203	96,478
Discontinued businesses	56,094	42,536	19,206	6,160
	2,262,158	2,068,959	855,441	677,429
Unallocated	80,935	50,178	579,632	618,679
	2,343,093	2,119,137	1,435,073	1,296,108

notes to the financial statements continued

for the financial year ended 30 June 2005

40 SEGMENT INFORMATION CONTINUED

	Engineering	Mining and Resources	Infrastructure Services	Rail	Discontinued
	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000
Other Segment Information					
Carrying value of investments accounted for using the equity method	11,276	810	5,388	–	–
Share of net profit of associates and joint venture entities accounted for under the equity method	4,649	8,536	1,673	–	–
Acquisition of segment assets	21,384	70,066	76,230	5,146	–
Depreciation and amortisation of segment assets	18,189	67,730	24,345	10,475	–
Number of employees	8,652	3,904	3,583	1,447	–

	Engineering	Mining and Resources	Infrastructure Services	Rail	Discontinued
	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000
Carrying value of investments accounted for using the equity method	14,365	2,168	5,045	–	–
Share of net profit of associates and joint venture entities accounted for under the equity method	5,830	13,913	783	–	–
Acquisition of segment assets	23,421	131,262	63,816	3,820	–
Depreciation and amortisation of segment assets	19,461	66,261	20,665	10,852	178
Number of employees	7,152	2,670	3,525	1,274	50

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, project management, facilities management, construct and maintain) specialising in telecommunications, power and process engineering.
Mining and Resources –	provides international mine consulting and contracting services, including mine planning, optimisation management and modelling, materials processing consulting and infrastructure, drilling and blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration, oil, gas, geothermal and mineral drilling activities.
Infrastructure Services –	including the performance of maintenance and construction of roads and highways, construction and maintenance of rail infrastructure including tracks, signals and overhead electrification and infrastructure maintenance services including utilities, water supply, sewage and waste water treatment, refuse disposal, street cleaning and the tending of parks and gardens.
Unallocated –	results include financing and corporate costs for continuing businesses, net of other income.

40 SEGMENT INFORMATION CONTINUED

	Revenue from External Customers		Segment Assets		Acquisition of Segment Assets	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Australia	2,703,569	2,297,529	1,563,917	1,311,631	102,891	174,601
Pacific	846,112	676,374	441,141	371,507	50,978	36,592
South East Asia	212,561	170,221	280,758	342,722	17,518	11,117
North East Asia	52,269	49,184	57,277	93,277	1,747	9
	3,814,511	3,193,308	2,343,093	2,119,137	173,134	222,319

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).

Discontinued businesses

As noted in the 2004 annual report, a decision was made to discontinue the non-core capital works businesses in Engineering, with the residual core operations being integrated into the Infrastructure division. The plan to discontinue these operations is consistent with the consolidated entity's long term policy to focus on service activities.

Details of the financial position, financial performance and cash flows of the discontinuing operations are disclosed below:

	2005 \$'000	2004 \$'000
Financial position		
Total assets	56,094	42,536
Total liabilities	19,206	6,160
Net assets	36,888	36,376
Financial performance		
Total revenue	28,205	106,997
Total expenses	34,139	114,593
Loss before tax	(5,934)	(7,596)
Tax benefit	1,948	2,887
Loss after tax	(3,986)	(4,709)
Cash flows		
Net cash flows used in operating activities	(19,073)	(10,309)
Net cash flows from investing activities	929	72
Net cash flows from financing activities	14,581	8,806
Net cash flows	(3,563)	(1,431)

notes to the financial statements continued

for the **financial year** ended 30 June 2005

41 RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES

a) Directors' and specified executives' remuneration:

Details of directors' and specified executives' remuneration are disclosed in note 5 to the financial statements.

b) Other transactions with directors:

A director of the company B D O'Callaghan was a consultant for 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 \$2,269,870 (2004: \$268,727).

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 \$63,291 (2004: \$41,994).

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 10, 14 and 25 to the financial statements.

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

d) Equity interests in related parties:

Equity interests in controlled entities:

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 38 to the financial statements.

Equity interests in associates and joint ventures:

Details of interests in associates and joint ventures are disclosed in note 37 to the financial statements.

e) Controlling entity:

The parent entity of the group is Downer EDI Limited.

f) Directors' and specified executives' equity holdings in fully paid ordinary shares issued by Downer EDI Limited are as follows:

	Balance at 1/7/04	Net other change	Balance at 30/6/05	Balance held nominally
2005	No.	No.	No.	No.
Directors:				
B D O'Callaghan	15,112	190	15,302	—
S J Gillies *	2,950,024	(318,561) *	2,631,463	—
J S Humphrey	2,785	126	2,911	—
P E J Jollie	—	10,000	10,000	—
	2,967,921	(308,245)	2,659,676	—

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

Specified executives:

D Cattell	755,000	(254,500)	500,500	—
C Denney	230,769	127,416	358,185	—
R Logan	913,830	396,356	1,310,186	—
B Waldron	38,461	22,406	60,867	—
P Khor	238,457	130,955	369,412	—
	2,176,517	422,633	2,599,150	—

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
42 NOTES TO THE STATEMENT OF CASH FLOWS				
a) Reconciliation of cash				
Cash as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows (refer Note 1):				
Cash	120,003	110,140	68	339
Short term deposits	45,969	38,124	-	-
Bank Overdrafts	-	(690)	-	-
	165,972	147,574	68	339
b) Businesses acquired				
During the financial year, businesses were acquired.				
Details of the acquisitions are as follows:				
Consideration:				
Cash	33,034	27,911	-	-
Deferred purchase adjustment	3,457	(1,036)	-	-
Issue of ordinary shares	3,750	1,600	-	-
	40,241	28,475	-	-
Fair value of net assets acquired				
Current assets				
Cash	4,350	2,092	-	-
Receivables	28,992	23,685	-	-
Inventories	632	5,879	-	-
Other	943	989	-	-
Total current assets	34,917	32,645	-	-
Non-current assets				
Property, plant and equipment	15,690	25,274	-	-
Intangibles	66	2,428	-	-
Deferred tax assets	627	1,645	-	-
Other	165	3,348	-	-
Total non-current assets	16,548	32,695	-	-
Total assets	51,465	65,340	-	-
Current liabilities				
Payables	23,789	9,241	-	-
Interest-bearing liabilities	62	15,231	-	-
Current tax liabilities	988	73	-	-
Provisions	3,779	4,373	-	-
Other	144	414	-	-
Total current liabilities	28,762	29,332	-	-
Non-current liabilities				
Interest-bearing liabilities	240	12,801	-	-
Deferred tax liabilities	10	1,096	-	-
Provisions	429	531	-	-
Total non-current liabilities	679	14,428	-	-
Total liabilities	29,441	43,760	-	-
Net assets acquired	22,024	21,580	-	-
Goodwill on acquisition	18,217	6,895	-	-
	40,241	28,475	-	-
Net cash outflow on acquisition				
Cash consideration	33,034	27,911	-	-
Less net cash balances acquired	4,350	2,092	-	-
Cash paid/(receivable) – deferred post acquisition settlement	(1,036)	655	-	-
	27,648	26,474	-	-

notes to the financial statements continued

for the **financial year** ended 30 June 2005

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
42 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED				
c) Businesses disposed				
On 19th January 2005 the Roche Castings operations (principal business activity – castings foundry) was disposed. During the previous financial year a number of businesses were disposed, none of which were considered individually material. Details of disposals were as follow:				
Consideration:				
Cash	26,665	1,237	–	–
Receivables	–	3,069	–	–
Shares	–	1,144	–	–
	26,665	5,450	–	–
Net assets disposed				
Current assets				
Cash	–	60	–	–
Receivables	10,628	1,348	–	–
Inventories	818	1,132	–	–
Other	78	74	–	–
Total current assets	11,524	2,614	–	–
Non-current assets				
Investments accounted for using the equity method	–	9	–	–
Property, plant and equipment	13,035	3,090	–	–
Intangibles	1,114	235	–	–
Deferred tax assets	–	159	–	–
Total non-current assets	14,149	3,493	–	–
Total assets	25,673	6,107	–	–
Current liabilities				
Payables	2,966	147	–	–
Current tax liabilities	–	54	–	–
Provisions	1,042	520	–	–
Total current liabilities	4,008	721	–	–
Total liabilities	4,008	721	–	–
Net assets disposed	21,665	5,386	–	–
Net cash inflow on disposal				
Cash consideration	26,665	1,237	–	–
Less cash balance disposed	–	60	–	–
Cash received – prior year deferred purchase consideration	–	2,310	–	–
	26,665	3,487	–	–

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

42 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

d) Non-cash financing and investing activities

During the current financial year, \$36,396,000 in equity was issued in respect of:

- i) Dividend reinvestment plan elections \$29,123,000 (2004:\$15,246,000);
- ii) Issue of shares under the terms of Employee Share Plan \$3,523,000 (2004:Nil); and
- iii) Issue of shares on acquisition of business \$3,750,000 (2004:\$1,600,000);
- iv) Conversion of preference shares nil (2004: \$60,732,000).

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	104,035	81,546	40,029	39,294
Share of joint ventures profits/(losses) net of distributions	1,779	(577)	–	–
Depreciation and amortisation of non-current assets	120,995	117,707	–	–
Amortisation of deferred costs	1,078	1,362	–	–
Profit on sale of investments	(2,622)	(1,623)	(468)	–
Profit on sale of other non current assets	(8,807)	(7,291)	–	–
Unrealised exchange (gain)/loss	(338)	411	225	473
Increase/(decrease) in income tax payable	16,808	(19,953)	10,544	7,352
Increase/(decrease) in tax balances	(24,297)	(7,104)	(63)	(349)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(114,556)	(63,338)	1,926	(1,015)
Current inventories	(36,945)	(12,163)	–	–
Other current assets	(17,784)	(6,101)	(357)	–
Non-current receivables	(3,454)	11,319	(21,140)	(32,286)
Other non-current assets	(1,281)	1,072	–	–
Increase/(decrease) in liabilities:				
Current trade payables	128,791	58,533	(3,174)	2,986
Current provisions	18,707	2,603	(12)	(341)
Non-current payables	(506)	17,908	–	–
Non-current provisions	4,354	7,169	–	70
Net cash provided by operating activities	185,957	181,480	27,510	16,184

notes to the financial statements continued

for the **financial year** ended 30 June 2005

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
43 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	462,263	334,697	349,822	316,169
ii) Termination benefits under service agreements	889	748	–	–
iii) Claim in respect of legal costs associated with contract arbitration	–	1,600	–	–
	463,152	337,045	349,822	316,169

In the ordinary course of business:

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

44 ENGINEERING SERVICES CONTRACTS

For engineering services contracts in progress as at reporting date:

Engineering services work in progress	3,395,022	3,623,939	–	–
Progress billings and advances received	3,378,922	3,549,451	–	–
Less: advances received	74,340	34,335	–	–
Progress billings	3,304,582	3,515,116	–	–
Amount disclosed in statement of financial position	90,440	108,823	–	–

Recognised and included in the financial statements as amounts due:

From customers under engineering services contracts:

Current (Note 10)	181,857	170,725	–	–
Non-current (Note 14)	1,042	6,498	–	–

To customers under engineering services contracts:

Current (Note 21)	(90,893)	(66,520)	–	–
Non-current (Note 25)	(1,566)	(1,880)	–	–
Amount disclosed in statement of financial position	90,440	108,823	–	–

45 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.

	Fixed Interest Rate Maturity						Total \$'000
	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	
2005							
Financial assets							
Cash	4.70	165,972	–	–	–	–	165,972
Trade receivables	16.74	–	1,188	968	–	901,299	903,455
Other financial assets	7.75	3,675	–	–	–	25,348	29,023
Other receivables	–	–	–	–	–	81,625	81,625
		169,647	1,188	968	–	1,008,272	1,180,075
Financial liabilities							
Trade payables	–	–	–	–	–	646,677	646,677
Bank loans	4.49	104,168	–	–	–	–	104,168
Finance lease liabilities	6.62	–	2,542	5,576	–	–	8,118
Hire purchase liabilities	6.92	–	278	483	–	–	761
US\$ notes *	7.74	77,250	–	222,775	93,700	–	393,725
Other payables	–	–	–	–	–	1,844	1,844
Employee entitlements	–	–	–	–	–	114,061	114,061
Provisions	–	–	–	–	–	32,202	32,202
Due to joint venture partners	–	–	–	–	–	13,562	13,562
		181,418	2,820	228,834	93,700	808,346	1,315,118

* 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 continued

for the **financial year** ended 30 June 2005

45 FINANCIAL INSTRUMENTS CONTINUED

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2004:

	Average interest rate %	Variable interest rate \$'000	Fixed Interest Rate Maturity			Non- interest bearing \$'000	Total \$'000
			Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000		
2004							
Financial assets							
Cash	4.08	137,328	10,936	–	–	–	148,264
Trade receivables	14.27	–	1,759	2,267	–	809,129	813,155
Other financial assets	7.75	496	–	–	–	31,133	31,629
Other receivables	–	–	–	–	–	44,274	44,274
		137,824	12,695	2,267	–	884,536	1,037,322
Financial liabilities							
Trade payables	–	–	–	–	–	522,785	522,785
Bank overdrafts	9.10	690	–	–	–	–	690
Bank loans	5.19	39,212	47,617	73,751	–	–	160,580
Other loans	6.00	4,620	–	–	–	–	4,620
Finance lease liabilities	7.54	–	2,629	8,515	–	–	11,144
Hire purchase liabilities	7.62	–	1,813	880	–	–	2,693
US\$ notes*	7.37	–	63,492	190,011	51,587	–	305,090
Other payables	–	–	–	–	–	10,913	10,913
Employee entitlements	–	–	–	–	–	95,160	95,160
Provisions	–	–	–	–	–	27,818	27,818
Due to joint venture partners	–	–	–	–	–	17,428	17,428
		44,522	115,551	273,157	51,587	674,104	1,158,921

* 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.

Net fair value

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

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 \$65,228,675 favourable (2004 \$47,179,548 favourable).

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:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the import of materials and plant and equipment from overseas countries;
- cross currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings; and
- 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.

45 FINANCIAL INSTRUMENTS CONTINUED

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	
	2005	2004	2005 \$'000	2004 \$'000
Buy US dollars				
Less than 3 months	0.7367	0.7059	(20,109)	(16,158)
3 to 6 months	0.7504	0.6430	(15,838)	(16,618)
Later than six months	0.7535	0.6439	(22,586)	(14,847)
			(58,533)	(47,623)
Sell US dollars				
Less than 3 months	0.7571	0.6737	1,701	2,774
3 to 6 months	0.7736	0.7174	13,194	660
			14,895	3,434
Buy Japanese yen				
Less than 3 months	78.5354	78.24	(12,968)	(1,778)
3 to 6 months	–	73.67	–	(3,700)
Later than six months	74.0613	–	(21,394)	–
			(34,362)	(5,478)
Buy Euros				
Less than 3 months	0.5824	0.5655	(4,080)	(2,567)
3 to 6 months	0.5676	0.5733	(970)	(959)
Later than six months	0.5873	0.5603	(15,642)	(4,352)
			(20,692)	(7,878)
Sell Euros				
Later than three months	–	0.6611	–	378
Buy South African rands				
Less than 3 months	4.7249	4.6534	(930)	(187)
3 to 6 months	4.7362	–	(309)	–
			(1,239)	(187)
Buy Great Britain pounds				
Less than 3 months	0.4061	0.4034	(850)	(647)
3 to 6 months	–	0.3978	–	(759)
			(850)	(1,406)
Buy Canadian dollars				
Less than 3 months	0.9891	1.0258	(302)	(363)
3 to 6 months	–	1.0097	–	(443)
Later than six months	–	1.0042	–	(297)
			(302)	(1,103)
Buy Swiss francs				
Less than 3 months	–	0.9440	–	(591)
3 to 6 months	–	1.5126	–	(250)
			–	(841)
			(101,083)	(60,704)

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.

notes to the financial statements continued

for the **financial year** ended 30 June 2005

45 FINANCIAL INSTRUMENTS CONTINUED

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	
	2005 %	2004 %	2005 \$'000	2004 \$'000
Less than 1 year	–	6.97	–	63,492
1 to 2 years	7.73	–	98,946	–
2 to 5 years	7.67	8.19	100,240	80,494
5 years or more	7.65	9.23	117,289	51,587
			316,475	195,573

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 equivalent Australian dollar ('AUD') cross currency swaps outstanding as at reporting date.

	Average exchange rate		Principal amount in AUD	
	2005 \$	2004 \$	2005 \$'000	2004 \$'000
Buy USD/Sell AUD				
Less than 1 year	–	0.6300	–	(63,492)
1 to 2 years	0.5306	–	(98,946)	–
2 to 5 years	0.6338	0.5394	(100,240)	(190,011)
5 years and more	0.6735	0.6300	(117,289)	(51,587)
			(316,475)	(305,090)
Buy USD/Sell NZD				
2 to 5 year	0.6530	–	(77,250)	–
			(393,725)	(305,090)

Hedges of anticipated future transactions

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

46 EFFECT OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Management of the transition to Australian Equivalents to International Financial Reporting Standards ('AIFRS')

In 2004, a dedicated project team was established to manage the transition to AIFRS, including staff training and internal control and system changes necessary to comply with the new standards. The project team prepared a strategic AIFRS transition implementation plan, including a detailed timetable for managing the transition. At the date of this report, the project is on schedule and nearing completion.

The known or reliably estimable effect of AIFRS on the statement of financial performance and statement of financial position of the company and consolidated entity are as follows:

i) Overview

The application of AIFRS has had no material effect on the group's strategy and cash flows or its abilities to borrow or to pay dividends. The main areas of effect are accounting based measurement, recognition and disclosure requirements.

The adoption of AIFRS will be first reflected in the group's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. The comparatives will include a reconciliation of key financial aggregates reported under AIFRS to the amounts that have been previously determined using Australian Generally Accepted Accounting Principles ('AGAAP').

In some areas choices of accounting policies under AIFRS are available, including elective exemptions under Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'. These choices have been analysed to determine the most appropriate accounting policies for the consolidated entity moving forward. Readers of the financial report should note that further developments in AIFRS (for example, the release of further pronouncements by the Australian

Accounting Standards Board and the Urgent Issues Group), may result in changes to accounting policy decisions made by the directors and the likely effects of adopting AIFRS. Areas of significant differences affecting the company and the consolidated entity on adoption of AIFRS follow. All amounts disclosed are either known or reliably estimable.

ii) Business combinations

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

iii) Goodwill and other intangible assets

The adoption of AIFRS has been assessed as having no material effect on the net carrying amount of intangible assets. Under AIFRS, goodwill is not subject to amortisation, but must be tested for impairment annually. All intangible assets have been subject to an impairment test. This impairment test has been performed at the appropriate cash generating unit (CGU) levels and supports the carrying values of intangible assets within each CGU at both the transition date and at 30 June 2005. Accordingly, under AIFRS, the amortisation charge for 2005 will be decreased by \$19,606,000 (company: nil).

Under AASB 138 'Intangible Assets', costs incurred during the research phase of the development of an intangible asset are expensed. The group's current AGAAP policy allows for the capitalisation of research and development costs where future benefits are expected beyond reasonable doubt. Accordingly, on AIFRS transition the derecognition of \$31,592,000 in previously capitalised intellectual property will be recognised as an increase in the carrying amount of goodwill (company: nil).

iv) Income tax

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

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

- Recognition of deferred taxes associated with fair value adjustments in relation to business combinations;
- Recognition of deferred tax assets relating to decommissioning and make good provisions;
- Classification and measurement of assets as 'current assets – non-current assets classified as held for sale';
- Plant and equipment restated using fair value as its deemed cost; and
- Reclassification from opening consolidated deferred tax liabilities to opening consolidated deferred tax assets.

The cumulative effect on the financial position at 30 June 2005 will be to increase deferred tax assets by \$7,005,000 (company: \$nil), and to increase deferred tax liabilities by \$1,233,000 (company \$nil). The effect on the profit and loss for the financial year ended 30 June 2005 will be a decrease in tax expense of \$2,167,000 (company: \$nil).

Under UIG 1052 'Tax Consolidation Accounting', deferred tax balances of wholly-owned subsidiaries in a tax-consolidated group are not recognised by the head entity Downer EDI Limited, but will be recognised by each wholly owned subsidiary. These balances were recognised in accordance with AGAAP by the parent entity.

notes to the financial statements continued

for the financial year ended 30 June 2005

46 EFFECT OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

iv) Income tax continued

The effect to derecognise the deferred tax balances of wholly-owned subsidiaries in the parent entity for the financial year ended 30 June 2005 will be to decrease deferred tax assets by \$24,234,000 and to decrease deferred tax liability by \$6,983,000 with a corresponding net increase in loans to controlled entities. There is no effect on retained earnings of the company or the consolidated entity.

v) Property, plant and equipment

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

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

vi) Revenue from ordinary activities

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

As a consequence, revenue from ordinary activities for the financial year ended 30 June 2005 will decrease by \$64,345,000 (company: \$2,539,000), expenses will decrease by \$47,916,000 (company: \$2,071,000) and the net gain/(loss) on the sale of non-current assets will be separately disclosed in the statement of financial performance.

vii) Derivative financial instruments

The directors have elected to apply the first-time adoption exemption to defer the date of transition of AASB 139 until 1 July 2005. Accordingly, the possible quantitative effects on the 30 June 2005 financial statements are not disclosed. It is expected that required adjustments on 1 July 2005 will be attributable to derivatives, including both foreign exchange contracts and interest rate swap contracts. The designation of these derivatives as fair value or cash flow hedges and the measure of effectiveness will determine the effect on the group's and the company's balance sheet at 1 July 2005.

viii) Other financial assets and financial liabilities

The directors have elected to apply the first-time adoption exemption to defer the date of transition of AASB 139 until 1 July 2005. Accordingly, the possible quantitative effects on the 30 June 2005 financial statements are not disclosed.

The classification of the financial assets and financial liabilities will determine the measurement basis to be adopted, but is not expected to have a significant impact on the group's or the company's balance sheet at 1 July 2005.

ix) Foreign currency translation reserves: cumulative translation differences

On initial application of AIFRS, the directors have elected to apply the exemption in AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' relating to the balance of the foreign currency translation reserve.

The cumulative translation differences for all foreign operations represented in the opening foreign currency translation reserve of \$11,327,000 will be deemed to zero at the date of transition to AIFRS and the balance transferred to consolidated retained earnings (company: \$nil). There is no effect on the consolidated or the company's total equity.

x) Share-based payments

For the financial year ended 30 June 2005, share-based payments of \$2,237,000 (company: \$2,237,000) which were not recognised under AGAAP will be recognised as an expense under AIFRS, with a corresponding increase in equity (employee equity-settled benefits reserve). There is no effect on the consolidated or the company's total equity.

xi) Non-current assets held for sale

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

Applying the policy required by AASB 5 would result in some items within property, plant and equipment being reclassified to 'Current assets – non-current assets classified as held for sale' at 1 July 2004. The measurement of the assets under AASB 5 would result in a \$311,000 (company: \$nil) fair value reduction in opening retained earnings. There is no effect on the profit and loss of the company or the consolidated entity for the financial year ended 30 June 2005.

xii) Retained earnings

With limited exceptions adjustments required on first-time adoption of AIFRS will be required to be recognised directly in retained earnings at the date of transition.

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;
- d) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- e) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the directors



B D O'Callaghan
Director



S J Gillies
Director

Sydney, 23 August 2005

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 2005 as set out on pages 9 to 51. 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.

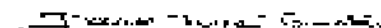
While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

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 2005 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, 23 August 2005

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

ABN 25 002 975 439

New Zealand –

Century Drilling & Energy
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166 Karetoto Road
WAIRAKEI
NEW ZEALAND

Tel: 64 7 376 0422
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Indonesia –

PT Century Dinamik Drilling
Chase Plaza 14th Floor
Jl. Jenderal Kav 21
JAKARTA 12920
INDONESIA

Tel: 62 21 520 1518
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The expressions "Downer EDI", "group" and "company" used in this report refer to Downer EDI Limited, comprising Downer Engineering Group Pty Limited (trading as Downer Engineering), Works Infrastructure Limited (trading as Works Infrastructure), Works Infrastructure Pty Ltd (trading as Works Infrastructure), Roche Mining Pty Limited (trading as Roche Mining), Century Drilling Limited (trading as Century Resources), Evans Deakin Industries Pty Limited (includes EDI Rail Pty Limited), CPG Corporation Pte Ltd and group subsidiary companies.

