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Downner EDi LIMITED

Full Financial Report 2004

Downner EDI Limited Full Financial Report 2004

This publication includes Downer EDI Limited's Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2004.

It should be read in conjunction with the Downer EDI Limited Concise Annual Report 2004 which provides an overview of the key activities for the year ended 30 June 2004. 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, Board of directors profiles and sections on Corporate governance, Health safety environment and the community, 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 2004, in accordance with the Corporations Act 2001.

The Concise Annual Report 2004 is available from Downer EDI's Corporate Affairs office by request on (02) 9251 9899. Both the Concise Annual Report 2004 and the Full Financial Report 2004 can be found at the Downer EDI website: www.downeredi.com

Annual General Meeting

Downer EDI Limited's 2004 Annual General Meeting will be held in Sydney at The Heritage Ballroom, The Westin Hotel, 1 Martin Place, Sydney on 19 October 2004 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 2004. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Mr B D O'Callaghan AO
(Chairman, non executive)

Mr K Y Lau
(Deputy Chairman, non executive)

Mr S J Gillies
(Managing director)

Dr C K Chan
(Non executive)

Mr R W Dunning
(Non executive, resigned 27 October 2003)

Mr J S Humphrey
(Non executive)

Mr P E J Jollie AM
(Non executive, appointed 30 April 2004)

Mr T J Kennedy
(Non executive, resigned 17 November 2003)

Mr M J Kent
(Non executive, resigned 10 November 2003)

Mr G M Lawrence
(Non executive, resigned 10 November 2003)

Mr K J Roche
(Non executive, resigned 27 October 2003)

Mr B W Wong
(Non executive, alternate for Dr C K Chan)

A profile of current board members is provided on pages 40 and 41 of the Concise Annual Report 2004.

Directors' meetings

There were 8 full board meetings, 2 audit sub-committee meeting's, 1 remuneration sub-committee meeting 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			
Directors	Board of Directors	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee
B D O'Callaghan	8	2	–	1
K Y Lau	6	–	–	1
S J Gillies	8	–	1	–
C K Chan	–	–	–	–
R W Dunning #	1	–	–	–
J S Humphrey	7	2	–	–
P E J Jollie +	3	–	–	–
T J Kennedy **	2	–	–	1
M J Kent ** ^	2	1	1	–
G M Lawrence **	2	–	–	–
K J Roche #	1	–	–	–
B W Wong (alternate for C K Chan)	5	–	–	–

1 board meeting held while a director
** 2 board meetings held while a director
+ 3 board meetings held while a director
^ 1 audit committee meeting 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	2,950,024
B D O'Callaghan	15,112
J S Humphrey	2,785

Principal activities

The principal activities of the consolidated entity are that of a multi-disciplinary, multi-national supplier of select engineering services, operating chiefly in the infrastructure, energy, and resource sectors. The consolidated operations of the group, include but are not limited to facilities management, oil, gas, geothermal and mineral drilling, contract mining, rail services, infrastructure services, power, telecommunications and engineering projects.

Review of operations

A review of the consolidated entity's operations is contained in the Managing director's review on pages 7 to 11 of the Concise Annual Report 2004.

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 2004, an interim dividend of 4.0 cents per share (franked to 50%) was paid to the holders of fully paid ordinary shares on 29 March 2004.

In respect of the financial year ended 30 June 2004, the directors declared the payment of a final ordinary dividend of 9.6 cents per share (franked to 50%) and a special ordinary dividend of 2.0 cents per share (franked to 50%) to the holders of fully paid ordinary shares to be paid on 19 October 2004.

In respect of the financial year ended 30 June 2004, dividends totalling $1,727,000 (2003: $5,200,000) (unfranked) were paid or provided for in respect of the 8% converting preference shares. In respect of the financial year ended 30 June 2003, as detailed in the Directors' Report for that financial year a final dividend of 9.6 cents per share (2.4 cents per share prior to 1 for 4 share consolidation) (franked to 50%) was paid to the holders of fully paid ordinary shares on 10 October 2003.

Employee share plan ("ESP")

No shares were issued under the ESP during the year. Further details on the employee share plan are disclosed in note 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, Mr C D Thompson, Mr B J Crane and Mr G D Bruce and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' and executives' remuneration

The Remuneration Committee reviews the remuneration packages of executive officers. The review of the remuneration packages of all directors and the managing director 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 packages may contain the following key elements:

a) primary benefits – including
   - i) salary/fees;
   - ii) incentive schemes including performance related bonuses; and
   - iii) non-monetary benefits including motor vehicles and health insurance;

b) post employment benefits – including superannuation and retiring allowances; and

c) equity benefits – including allocation under the EOS and/or the ESP.

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

	Primary			Post Employment		
	Salary fees $	Bonus $	Non-monetary $	Superannuation $	Retirement allowances $	**Total $**
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**
Dr C K Chan	–	–	–	–	–	**–**
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**
Executives						
R Logan	524,097	150,000	6,837	102,457	–	**783,391**
D O'Brien	394,015	112,125	39,366	81,837	–	**627,343**
B Waldron	342,060	68,411	–	38,291	–	**448,762**
D Cattell	325,000	105,000	77,610	52,000	–	**559,610**
P Khor	287,821	182,340	–	–	–	**470,161**

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 42 to 47 of the Concise Annual Report 2004.

Environmental regulations

The consolidated entity's performance in relation to Environmental Regulation is contained in the Environmental Compliance section on page 49 of the Concise Annual Report 2004.

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

On behalf of the Directors

Mr B D O'Callaghan
Director

Mr S J Gillies
Director

Sydney, 23 August 2004

Statement of financial performance

for the **financial year** ended 30 June 2004

		Consolidated		Company	
	Note	**2004 $'000**	**2003 $'000**	**2004 $'000**	**2003 $'000**
Revenue from ordinary activities	2	3,172,782	2,679,930	58,913	60,746
Share of net profits of associates and joint ventures accounted for using the equity method	37	20,526	17,093	–	–
Borrowing costs		(36,193)	(37,200)	–	(33,301)
Changes in inventories of finished goods and work in progress		(51,495)	(130,586)	–	–
Communication expenses		(25,095)	(19,526)	(83)	(414)
Employee benefits expense		(903,149)	(670,311)	(6,906)	(5,027)
Occupancy		(30,434)	(19,557)	(436)	(429)
Plant & equipment costs		(352,649)	(358,265)	–	–
Professional fees		(16,490)	(18,786)	(859)	(2,590)
Raw materials and consumables used		(1,074,197)	(864,336)	–	–
Subcontractors		(518,798)	(410,007)	–	–
Travel and accommodation		(31,800)	(19,085)	(507)	(1,125)
Other expenses from ordinary activities		(43,773)	(54,621)	(2,681)	(811)
Profit from ordinary activities before income tax expense	2	109,235	94,743	47,441	17,049
Income tax (expense)/benefit relating to ordinary activities	4	(27,689)	(28,171)	(8,147)	2,941
Net profit attributable to members of the parent entity		81,546	66,572	39,294	19,990
Increase/(decrease) in foreign currency translation reserve arising on translation of self-sustaining foreign operations	32	846	(12,553)	–	–
Total revenue, expense and valuation adjustments attributable to members of the parent entity recognised directly in equity		846	(12,553)	–	–
Total changes in equity other than those resulting from transactions with owners as owners		82,392	54,019	39,294	19,990
Earnings per share					
Basic (cents per share)	34	29.6	25.2 *		

* Restated in accordance with AASB 1027 – 'Earnings per Share' to reflect effects of the November 2003 1 for 4 share consolidation (refer Note 31).

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

Statement of financial position

for the **financial year** ended 30 June 2004

		Consolidated		Company	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current assets					
Cash assets		148,264	206,746	339	527
Inventories	9	144,189	125,396	–	–
Receivables	10	822,885	736,250	325,850	253,940
Other financial assets	11	20,056	14,509	700	3,673
Tax assets	12	4,202	12,880	–	–
Other	13	15,478	14,663	18	32
Total current assets		1,155,074	1,110,444	326,907	258,172
Non-current assets					
Receivables	14	20,245	32,018	486,357	351,858
Investments accounted for using the equity method	15	21,578	24,294	–	–
Property, plant and equipment	16	552,334	484,024	–	–
Intangibles	17	329,076	328,875	–	–
Other financial assets	18	11,573	16,574	225,333	225,433
Deferred tax assets	19	26,855	33,768	15,787	579
Other	20	2,402	2,749	–	–
Total non-current assets		964,063	922,302	727,477	577,870
Total assets		2,119,137	2,032,746	1,054,384	836,042
Current liabilities					
Payables	21	609,473	551,514	3,813	826
Interest-bearing liabilities	22	107,624	96,204	–	–
Provisions	23	91,471	89,358	1,378	1,719
Tax liabilities	24	6,231	37,320	2,723	888
Total current liabilities		814,799	774,396	7,914	3,433
Non-current liabilities					
Payables	25	19,698	1,503	376,113	262,395
Interest-bearing liabilities	26	377,193	406,747	–	–
Provisions	27	31,507	23,826	241	171
Deferred tax liabilities	28	52,911	66,083	17,881	7
Total non-current liabilities		481,309	498,159	394,235	262,573
Total liabilities		1,296,108	1,272,555	402,149	266,006
Net assets		823,029	760,191	652,235	570,036
Equity					
Contributed equity	31	631,207	614,361	631,207	553,629
Reserves	32	(11,327)	(12,173)	–	–
Retained profits	33	203,149	158,003	21,028	16,407
Total equity		823,029	760,191	652,235	570,036

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

Statement of cash flows

for the **financial year** ended 30 June 2004

		Consolidated		Company	
	Note	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Cash flows from operating activities					
Receipts from customers		3,665,956	2,967,818	301	339
Payments to suppliers and employees		(3,429,415)	(2,730,734)	(7,887)	(8,059)
Distributions from joint ventures		19,949	19,457	–	–
Dividends received from controlled entities		–	–	24,653	–
Interest received		6,490	6,275	261	84
Interest and other costs of finance paid		(36,599)	(37,792)	–	(3)
Income tax paid		(44,901)	(21)	(1,144)	–
Net cash provided by/(used in) operating activities	42(e)	181,480	225,003	16,184	(7,639)
Cash flows from investing activities					
Receipts from/(advances to) controlled entities		–	–	(192,847)	(165,737)
Payment for investment securities		(335)	(5,987)	–	–
Proceeds from sale of investment securities		3,214	11,258	–	–
Payment for property, plant and equipment		(166,343)	(87,021)	–	–
Proceeds from sale of property, plant and equipment		41,649	76,364	–	–
Receipts from other advances		2,102	297	2,102	297
Receipts from /(advances to) joint ventures		(2,556)	13,681	–	–
Proceeds from sale of businesses	42(c)	3,487	7,254	–	–
Payment of obligations acquired under business acquisitions		–	(30,121)	–	–
Payment for businesses acquired	42(b)	(26,474)	(19,608)	–	–
Net cash provided by/(used in) investing activities		(145,256)	(33,883)	(190,745)	(165,440)
Cash flows from financing activities					
Proceeds from borrowings		459,256	167,217	193,697	233,310
Repayment of borrowings		(533,031)	(229,942)	–	(44,191)
Dividends paid		(22,350)	(21,778)	(19,324)	(16,340)
Net cash provided by/(used in) financing activities		(96,125)	(84,503)	174,373	172,779
Net increase/(decrease) in cash held		(59,901)	106,617	(188)	(300)
Cash at the beginning of the financial year		205,725	105,836	527	827
Effects of exchange rate changes on the balance of cash held in foreign currencies		1,750	(6,728)	–	–
Cash at the end of the financial year	42(a)	147,574	205,725	339	527

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

Notes to the financial statements

for the **financial year** ended 30 June 2004

1 STATEMENT OF ACCOUNTING POLICIES

Financial reporting framework

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

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

Significant accounting policies

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

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

Acquisition and disposal of non-current assets

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

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

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

Cash

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

Changes in accounting policies

Director and executive information has been prepared in accordance with new accounting standard AASB 1046 'Directors and Executives Disclosures by Disclosing Entities'. This standard applies only to disclosing entities and replaces the disclosures in relation to directors and executives as specified by section 4 of AASB 1017 'Related Party Disclosure' and section 6 of AASB 1034 'Financial Report Presentation and Disclosures'.

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 entitlements

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

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

Engineering services contracts (long term)

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

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

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

Financial instruments

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

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

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

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

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

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

Foreign currency

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

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

i) exchange differences which relate to assets under 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 receivable and payables which are recognised inclusive of GST.

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

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

Goodwill

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

Income tax

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

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

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

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

Notes to the financial statements

for the **financial year** ended 30 June 2004

1 STATEMENT OF ACCOUNTING POLICIES CONTINUED

Intellectual property

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

Interest-bearing liabilities

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

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis.

Investments

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

Joint venture operations and entities

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

Interests in joint venture entities which are:

i) partnerships have been accounted for under the equity method in the company and consolidated financial statements; and

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

Leased assets

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

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

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

Payables

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

Principles of consolidation

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 1024 'Consolidated Accounts'. A list of controlled entities appears in note 38.

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 legislation

Downer EDI Limited and its wholly-owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision.

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, 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.

Warranty costs

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

International financial reporting standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting Australian equivalents to IFRS for application to reporting periods beginning on or after 1 January 2005. The adoption of IFRS 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. A project team has been established to manage the transition to IFRS including staff training and internal control changes necessary to comply with the new standards.

Major changes identified to date that may be required to the group's existing accounting policies as a result of adopting IFRS include the following:

i) Income tax

Under the Australian equivalent to IAS 12 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.

ii) Intangible assets

Under the Australian equivalent to IFRS 3 Business Combinations, amortisation of goodwill will be prohibited and will be replaced by an impairment testing method of accounting for goodwill. The annual impairment test will focus on the cash flows of the related cash generating unit.

Entities that have recognised internally generated identifiable intangible assets will be required to derecognise those identifiable intangible assets which do not satisfy the recognition criteria. In addition, those entities that have revalued intangible assets, whether purchased or internally developed, will be required to derecognise those revaluations that have not been determined by reference to an active market.

iii) Financial instruments: recognition and measurement

Entities within the consolidated entity may need to change the method of accounting for derivative financial instruments and hedging activities. Derivative financial instruments (including both foreign exchange contracts and interest rate swap contracts) will be recognised directly in the balance sheet and changes in the fair value of those contracts recognised in accordance with the requirements of the Australian equivalent to IAS 39 Financial Instruments.

iv) Impairment of assets

Entities within the consolidated entity that currently assess whether assets are impaired by determining the recoverable amount of the asset on the basis of undiscounted future cash flows will be required to determine recoverable amount as the higher of fair value less costs to sell and value in use.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS.

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'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	53,995	91,406	–	–
Rendering of services	1,831,158	1,475,207	11,298	11,480
Engineering services contract revenue	1,227,186	1,006,921	–	–
Dividends:				
Wholly-owned controlled entities	–	–	20,000	24,653
Interest revenue:				
Wholly-owned controlled entity	–	–	25,531	22,173
Director related entities	352	1,530	–	–
Other entities	6,433	5,597	526	87
Equity share of associates' and joint venture entities' profits	20,526	17,093	–	–
Rental income	150	46	–	–
Net foreign exchange gain	–	172	–	99
Other	9,917	8,077	1,558	1,371
Total operating revenue	3,149,717	2,606,049	58,913	59,863
Non-operating revenue				
Proceeds from the sale of non-current assets:				
Property, plant and equipment	40,112	76,471	–	–
Investments	3,214	14,503	–	883
Other	265	–	–	–
Total non-operating revenue	43,591	90,974	–	883
Total revenue	3,193,308	2,697,023	58,913	60,746
Net share of sales revenue in joint venture entities	224,183	170,835	–	–
Total turnover	3,417,491	2,867,858	58,913	60,746
Expenses				
Cost of sales	37,004	48,205	–	–
Interest:				
Wholly owned controlled entities	–	–	–	33,298
Other entities	34,685	34,404	–	3
Finance lease charges	646	1,549	–	–
Depreciation of non-current assets:				
Plant and equipment	94,304	97,763	–	–
Buildings	1,566	902	–	–
Quarries	123	121	–	–
Amortisation of non-current assets:				
Leased assets	2,192	3,622	–	–
Goodwill	18,613	16,031	–	–
Intellectual property/licences	909	845	–	–
Net transfers to provisions:				
Doubtful debts	3,141	9,732	–	–
Operating lease rental expenses	91,117	68,558	–	–
Net foreign exchange losses	267	–	–	–
Other borrowing costs	862	1,247	–	–

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**

3 SALES OF ASSETS

Profit from ordinary activities before income tax expense includes the following specific net gains on disposal:

Net gains				
Investments	1,623	724	–	–
Property, plant and equipment	7,291	5,514	–	–
	8,914	6,238	–	–

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:

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Profit from ordinary activities	109,235	94,743	47,441	17,049
Income tax expense calculated at 30% of operating profit	32,771	28,423	14,232	5,115
Permanent differences:				
Non-allowable depreciation	248	278	–	–
Amortisation of intangible assets	5,603	4,958	–	–
Non-taxable capital gains	(1,473)	(460)	–	–
Exempt income	(292)	(37)	–	–
Non-deductible expenses	3,037	1,574	17	521
Dividends from within the tax group	–	–	(6,000)	–
Rebateable dividends	–	–	–	(7,396)
Equity share of associates' and joint venture entities' profits	(1,510)	(1,096)	–	–
Effect of different rates of tax on overseas income	(2,320)	885	–	–
Research and development	(812)	(1,378)	–	–
Other items	(1,300)	(140)	263	46
Future income tax benefit not previously recognised now brought to account	(393)	(726)	–	–
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 *	–	–	341	–
Net income tax benefit arising under tax sharing agreements with subsidiaries in the tax group *	–	–	(341)	–
	33,559	32,281	8,512	(1,714)
Over provision of income tax in previous year	(5,870)	(4,110)	(365)	(1,227)
Income tax expense / (benefit) attributable to operating profit	27,689	28,171	8,147	(2,941)

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

5 DIRECTORS' AND EXECUTIVES' REMUNERATION

Specified directors' and specified executives' remuneration

The Remuneration Committee reviews the remuneration packages of executive officers. The review of the remuneration packages of all directors and the managing director 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.

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

	Primary			Post Employment		
2004	Salary fees $	Bonus $	Non-monetary $	Superannuation $	Retirement allowances $	**Total $**
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**
Dr C K Chan	–	–	–	–	–	**–**
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**

The following table discloses the remuneration of the specified executives (chief executive officers) of the economic entity:

	Primary			Post Employment	
2004	Salary fees $	Bonus $	Non-monetary $	Superannuation $	**Total $**
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. All other executives were employed for the full year.

5 DIRECTORS' AND EXECUTIVES' REMUNERATION CONTINUED

Remuneration and other terms of employment for the specified directors and the specified executives are formalised in employment agreements. The terms of the agreements are subject to an annual review of base salary by the appropriate committee as noted above. Specified executive and the managing directors employment agreements provide for termination payments of up to three months base salary in lieu of notice where termination is instigated by the company, for reasons other than gross misconduct. It also provides for varying termination benefits of up to one hundred and fifty percent of base salary, for reasons of ill health. Specified executives and the managing director are entitled as part of their remuneration packages to a bonus capped at up to fifty percent of their base salary. Payment of the bonus is at the discretion of the appropriate committee and is dependent upon meeting the prior year's business plan and other key performance measures. The employment agreements may also provide for other benefits including superannuation, health insurance and provision of a car allowance/benefit.

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 eight hundred thousand dollars. The constitution of the company provides for retiring non executive directors to receive a retiring allowance, subject to the limitations under the Corporations Act. The maximum amount that may be payable is limited to the director's total emoluments for the last three years of service. Payment is at the discretion of the board.

Total remuneration of directors and specified executives of the economic entity for the year ended 30 June 2003 are set out below. Information for individual directors and specified executives are not required to be shown as this is the first financial report prepared since the issue of AASB 1046 Director and Executive Disclosures by Disclosing Entities.

	Primary			Post Employment	
2003	Salary fees $	Bonus $	Non-monetary $	Superannuation $	**Total** **$**
Specified directors	**1,201,500**	**243,750**	**–**	**104,091**	**1,549,341**
Specified executives	**1,794,765**	**510,500**	**119,945**	**273,675**	**2,698,885**

6 EMPLOYEE SHARE PLAN (ESP)

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

At 30 June 2004, no executives or employees had been offered shares under the provisions of the plan.

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

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 2004, no options granted under the EOS remain outstanding.

The market price of the company's ordinary shares at 30 June 2004 was $3.20 each.

	Consolidated		Company	
	2004 $	**2003 $**	**2004 $**	**2003 $**
8 REMUNERATION OF AUDITORS				
Auditor of the parent entity:				
Auditing the financial report	1,450,000	1,309,500	277,000	195,000
Other services	370,000	421,000	195,581	–
	1,820,000	1,730,500	472,581	195,000
Other auditors:				
Auditing the financial report	524,500	399,600	–	–
Other services	1,074,000	840,000	515,426	316,000
	1,598,500	1,239,600	515,426	316,000
	3,418,500	2,970,100	988,007	511,000

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000

9 CURRENT INVENTORIES

Raw materials – at cost	36,779	29,030	–	–
Finished goods – at cost	15,224	12,979	–	–
Work in progress – at cost	41,545	30,478	–	–
Work in progress – at net realisable value	–	220	–	–
Components and spare parts – at cost	50,641	52,689	–	–
	144,189	125,396	–	–

10 CURRENT RECEIVABLES

Trade receivables	633,666	503,532	–	–
Allowance for doubtful debts	(14,299)	(11,158)	–	–
	619,367	492,374	–	–
Amount due from customers under engineering services contracts (Note 44)	170,725	191,115	–	–
Director related entities	–	19,770	–	–
Other receivables controlled entities	–	–	324,240	253,940
Other receivables	32,793	32,991	1,610	–
	822,885	736,250	325,850	253,940

11 OTHER CURRENT FINANCIAL ASSETS

Investments	8,208	–	–	–
Employee loans	1,517	2,752	700	2,752
Deferred hedge (Note 21)	1,280	314	–	–
Advances to joint venture entities	496	3,844	–	–
Other financial assets	8,555	7,599	–	921
	20,056	14,509	700	3,673

12 CURRENT TAX ASSETS

Tax refunds	4,202	12,880	–	–

13 OTHER CURRENT ASSETS

Deferred costs	2,292	2,079	–	–
Prepayments	10,619	10,319	18	32
Other deposits	2,534	1,971	–	–
Other current assets	33	294	–	–
	15,478	14,663	18	32

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**

14 NON-CURRENT RECEIVABLES

	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Trade receivables	2,266	9,040	–	–
Amount due from customers under engineering services contracts (Note 44)	6,498	6,508	–	–
Other receivables	11,481	16,470	–	–
Other receivables controlled entities	–	–	486,357	351,858
	20,245	32,018	486,357	351,858

15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Joint venture entities (Note 37 (b))	21,578	24,294	–	–

16 PROPERTY, PLANT AND EQUIPMENT

	Consolidated					
	Freehold Land $'000	Quarries $'000	Buildings $'000	Plant and Equipment $'000	Equipment Under Finance Lease $'000	**Total $'000**
Gross carrying amount at cost						
Balance at 30 June 2003	19,489	4,761	39,652	854,156	14,100	**932,158**
Additions	1,332	–	2,606	171,846	1,460	**177,244**
Disposals	(308)	–	(1,957)	(123,268)	(1,798)	**(127,331)**
Acquisitions of businesses	633	–	1,199	18,906	4,536	**25,274**
Disposals of businesses	–	–	–	(3,090)	–	**(3,090)**
Net foreign currency exchange differences arising on translation of financial statements of self sustaining foreign operations	128	211	535	7,982	–	**8,856**
Balance at 30 June 2004	**21,274**	**4,972**	**42,035**	**926,532**	**18,298**	**1,013,111**
Accumulated depreciation/ amortisation						
Balance at 30 June 2003	–	1,397	4,158	441,539	1,040	**448,134**
Depreciation	–	123	1,566	94,304	2,192	**98,185**
Disposals	–	–	(878)	(91,266)	(658)	**(92,802)**
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	–	67	217	6,976	–	**7,260**
Balance at 30 June 2004	**–**	**1,587**	**5,063**	**451,553**	**2,574**	**460,777**
Net Book Value						
As at 30 June 2003	**19,489**	**3,364**	**35,494**	**412,617**	**13,060**	**484,024**
As at 30 June 2004	**21,274**	**3,385**	**36,972**	**474,979**	**15,724**	**552,334**

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

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**

17 INTANGIBLES

Goodwill	364,304	345,706	–	–
Accumulated amortisation	(69,751)	(50,728)	–	–
	294,553	294,978	–	–
Intellectual property/licences	38,855	36,801	–	–
Accumulated amortisation	(4,332)	(2,904)	–	–
	34,523	33,897	–	–
	329,076	328,875	–	–

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

18 OTHER NON-CURRENT FINANCIAL ASSETS

Shares in controlled entities	–	–	225,000	225,000
Other financial assets	11,573	16,574	333	433
	11,573	16,574	225,333	225,433

19 DEFERRED TAX ASSETS

Future income tax benefits:				
Tax losses – revenue	5,737	7,889	–	–
Timing differences				
Parent entity	969	579	969	579
Entities in the tax consolidated group (i)	14,818	–	14,818	–
Other	5,331	25,300	–	–
	26,855	33,768	15,787	579

(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	2,237	2,540	–	–
Prepayments	165	209	–	–
	2,402	2,749	–	–

21 CURRENT PAYABLES

Trade payables	463,677	373,096	3,738	743
Amounts due to customers under engineering services contracts (Note 44)	66,520	64,743	–	–
Goods and services tax payable	20,298	10,267	75	83
Advances from joint venture entities	–	25,269	–	–
Advances from other entities	30,557	43,594	–	–
Deferred purchase consideration	2,455	3,477	–	–
Foreign currency hedge (Note 11)	1,280	314	–	–
Other	24,686	30,754	–	–
	609,473	551,514	3,813	826

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000

22 CURRENT INTEREST-BEARING LIABILITIES

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Secured:				
Finance lease liabilities (Note 36(b))	2,629	3,353	–	–
Hire purchase liabilities (Note 36(c))	1,813	1,460	–	–
	4,442	4,813	–	–
Unsecured:				
Bank loans	39,000	90,370	–	–
Bank overdraft (Note 26)	690	1,021	–	–
US$ notes	63,492	–	–	–
	103,182	91,391	–	–
	107,624	96,204	–	–

23 CURRENT PROVISIONS AND OTHER CURRENT LIABILITIES

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Employee entitlements (Note 29)	73,016	68,798	1,378	1,307
Contract claims and warranties	17,180	15,378	–	–
Dividends	–	1,300	–	–
Other	1,275	3,316	–	412
Total current provisions (Note 30)	91,471	88,792	1,378	1,719
Unearned revenue	–	566	–	–
	91,471	89,358	1,378	1,719

24 CURRENT TAX LIABILITIES

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Parent entity	–	888	–	888
Entities in the tax consolidated group (i)	2,723	–	2,723	–
Other	3,508	36,432	–	–
	6,231	37,320	2,723	888

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

25 NON-CURRENT PAYABLES

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Amounts due to customers under engineering services contracts (Note 44)	1,880	1,472	–	–
Advances from joint venture entities	17,428	–	–	–
Non-trade payables to:				
Controlled entities	–	–	376,113	240,677
Related entities	–	–	–	21,718
Other	390	31	–	–
	19,698	1,503	376,113	262,395

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000

26 NON-CURRENT INTEREST BEARING LIABILITIES

Secured:				
Finance lease liabilities (Note 36(b))	8,515	6,696	–	–
Hire purchase liabilities (Note 36(c))	880	1,338	–	–
	9,395	8,034	–	–
Unsecured:				
Bank loans	121,580	93,623	–	–
Other loans	4,620	–	–	–
US$ notes	241,598	305,090	–	–
	367,798	398,713	–	–
	377,193	406,747	–	–

Financing facilities

The consolidated entity has access to the following lines of credit:				
Total facilities available:				
Bank loans/overdraft (i)	473,179	487,407	–	–
Hire purchase and lease facilities (ii)	261,707	213,119	–	–
US$ notes (iii)	305,090	305,090	–	–
Other loans (iv)	4,620	–	–	–
	1,044,596	1,005,616	–	–
Facilities utilised at balance date:				
Bank overdraft	690	1,021	–	–
Bank loans	160,580	183,993	–	–
Hire purchase and lease facilities	13,837	12,847	–	–
US$ notes	305,090	305,090	–	–
Other loans	4,620	–	–	–
	484,817	502,951	–	–
Facilities not utilised at balance date:				
Bank overdraft	831	500	–	–
Bank loans	311,078	301,893	–	–
Hire purchase and lease facilities	247,870	200,272	–	–
	559,779	502,665	–	–

At 30 June 2004, the consolidated entity had bank guarantees and other bank collateral facilities and insurance bond facilities totalling $593,103,000 (2003: $708,586,000) of which $258,406,000 (2003: $400,531,000) was not utilised.

i) Bank loans/overdraft

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

ii) Hire purchase and lease facilities

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

iii) US$ unsecured notes

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

iv) Other loans

Other loans totalling $4,620,000 (2003: nil) were unsecured loans from joint ventures.

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**

27 NON-CURRENT PROVISIONS

Employee entitlements (Note 29)	22,144	17,114	241	171
Contract claims and warranties	2,739	2,322	–	–
Other	6,624	4,390	–	–
	31,507	23,826	241	171

28 DEFERRED TAX LIABILITIES

Deferred income tax				
Timing Differences				
Parent entity	48	7	48	7
Entities in the tax consolidated group (i)	17,833	–	17,833	–
Other	35,030	66,076	–	–
	52,911	66,083	17,881	7

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

29 EMPLOYEE ENTITLEMENTS

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

Current (Note 23)	73,016	68,798	1,378	1,307
Non-current (Note 27)	22,144	17,114	241	171
	95,160	85,912	1,619	1,478

	Consolidated			
	Employee entitlements $'000	Contract claims/ warranties $'000	Other* $'000	**Total $'000**

30 PROVISIONS

	Employee entitlements $'000	Contract claims/ warranties $'000	Other* $'000	**Total $'000**
Balance at 30 June 2003	85,912	17,700	9,006	**112,618**
Additional provisions recognised	52,371	13,868	225	**66,464**
Reductions arising from payments/other sacrifices of future economic benefits	(45,596)	(11,707)	(3,364)	**(60,667)**
Acquisition of businesses	2,858	–	2,046	**4,904**
Disposal of businesses	(520)	–	–	**(520)**
Other	135	58	(14)	**179**
Balance at 30 June 2004	**95,160**	**19,919**	**7,899**	**122,978**
Current (Note 23)	**73,016**	**17,180**	**1,275**	**91,471**
Non-current (Note 27)	**22,144**	**2,739**	**6,624**	**31,507**

	Company			
	Employee entitlements $'000	Contract claims/ warranties $'000	Other* $'000	**Total $'000**
Balance at 30 June 2003	1,478	–	412	**1,890**
Additional provisions recognised	593	–	–	**593**
Reductions arising from payments/other sacrifices of future economic benefits	(452)	–	(412)	**(864)**
Balance at 30 June 2004	**1,619**	**–**	**–**	**1,619**
Current (Note 23)	**1,378**	**–**	**–**	**1,378**
Non-current (Note 27)	**241**	**–**	**–**	**241**

* Other includes the following categories separately disclosed in Note 23 and Note 27: dividends and other.

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**

31 CONTRIBUTED EQUITY

Issued share capital				
282,036,785 fully paid ordinary shares (2003: 975,525,926)	631,207	553,629	631,207	553,629
Nil fully paid converting preference shares (2003: 65,000)	–	60,732	–	–
	631,207	614,361	631,207	553,629

Fully paid ordinary share capital

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

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

Preference share capital

Converting preference shares issued by Downer Construction (Hong Kong) Limited in March 1999 mandatorily converted to 130,000,000 ordinary shares in Downer EDI Limited on 25 March 2004, unless converted earlier. On 31 October 2003, the converting preference shares were converted to ordinary shares.

Share options

Unissued capital over which options are held as at the reporting date is Nil (2003: Nil).

No options were issued during the current financial year.

Fully paid ordinary share capital				
Balance at beginning of financial year	975,526	553,629	962,953	546,973
Issue of shares through dividend reinvestment plan elections	20,601	15,246	12,573	6,656
Issue of shares on conversion of preference shares	130,000	60,732	–	–
Issue of shares on acquisition of businesses	508	1,600	–	–
Reduction in number of shares pursuant to 1:4 share consolidation	(844,598)	–	–	–
Balance at end of financial year	282,037	631,207	975,526	553,629

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000

32 RESERVES

Foreign currency translation	(11,327)	(12,173)	–	–
Movement in reserves				
Foreign currency translation reserve				
Balance at beginning of financial year	(12,173)	380	–	–
Translation of foreign operations	846	(12,553)	–	–
Balance at end of financial year	(11,327)	(12,173)	–	–

Exchange differences relating to foreign currency monetary items forming part of the net investment in a 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	158,003	101,480	16,407	1,266
Net profit	81,546	66,572	39,294	19,990
Restatement of opening retained profits on initial adoption of AASB 1044				
Write-back of prior year dividend provision	–	18,386	–	18,386
Dividends provided for or paid	(36,400)	(28,435)	(34,673)	(23,235)
Balance at end of financial year	203,149	158,003	21,028	16,407

Notes to the financial statements

for the **financial year** ended 30 June 2004

	2004 Cents per Share	2003* Cents per Share

34 EARNINGS PER SHARE (EPS)

Basic earnings per share	29.6	6.3**
Diluted earnings per share	29.6	6.1**

** Restating for November 2003 1 for 4 share consolidation, basic earnings per share and diluted earnings per share were 25.2 cents and 24.4 cents respectively.

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:

	No. (000's)	No. (000's)
Weighted average number of ordinary shares	270,115	967,915*

	2004 $'000	2003* $'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	81,546	66,572
Preference share dividends provided for or paid	(1,727)	(5,200)
Earnings used in the calculation of basic EPS	79,819	61,372

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).

* 2003 comparatives have not been restated to reflect a one for four share consolidation in November 2003.

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:

	2004 $'000	2003* $'000
Weighted average number of ordinary shares used in the calculation of basic EPS	270,115	967,915
Shares deemed to be issued for no consideration in respect of:		
Converting preference shares	–	130,000
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	270,115	1,097,915

* 2003 comparatives have not been restated to reflect a one for four share consolidation in November 2003.

	Consolidated			
	2004 Cents per Share	2004 $'000	2003 Cents per Share	2003 $'000

35 DIVIDENDS

	2004 Cents per Share	2004 $'000	2003 Cents per Share	2003 $'000
Recognised amounts				
Fully paid ordinary shares:				
2004 Interim dividend – 50% franked (2003: unfranked)	4.0	11,261	2.0	4,849
2003 Final dividend paid in 2004 – 50% franked (2002 Final dividend paid in 2003: unfranked)	9.6	23,412	7.6	18,296
Converting preference shares:				
Final dividend (unfranked)	$26.57 per share	1,727	$80 per share	5,200
Unrecognised amounts				
Fully paid ordinary shares:				
Final dividend – 50% franked (2003: 50% franked)	9.6	27,096	9.6	23,412
Special dividend (50% franked)	2.0	5,641	–	–
	11.6	32,737	9.6	23,412

	Company	
	2004 $'000	2003 $'000
Franking account balance	–	–

A one for four share consolidation was undertaken during November 2003. The comparative period has been restated to reflect the current share structure.

The 2004 converting preference share final dividend represents the dividend paid up to the date of conversion being 31 October 2003.

The company's Dividend Reinvestment Plan has been reinstated and applies to the final ordinary dividends.

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**
36 COMMITMENTS FOR EXPENDITURE				
a) Capital expenditure commitments				
Plant and equipment:				
Not longer than 1 year	36,126	20,786	–	–
b) Lease commitments				
Non-cancellable operating leases:				
Operating leases relate to premises and plant and equipment with lease terms of between 1 to 6 years matching the cash outflow rentals with expected revenue streams. The economic entity does not have options to purchase leased assets at the expiry of the lease periods.				
Not longer than 1 year	73,492	65,373	–	–
Longer than 1 year and not longer than 5 years	123,297	136,111	–	–
Longer than 5 years	4,788	6,147	–	–
	201,577	207,631	–	–
Finance lease liabilities:				
Finance leases relate to plant and equipment with lease terms of between 1 to 5 years. The consolidated entity has options to purchase the equipment at the conclusion of the lease arrangements.				
Not longer than 1 year	3,214	3,859	–	–
Longer than 1 year and not longer than 5 years	9,716	7,516	–	–
Minimum finance lease payments	12,930	11,375	–	–
Less future finance charges	1,786	1,326	–	–
Finance lease liabilities	11,144	10,049	–	–
Included in the financial statements as:				
Current interest-bearing liabilities (Note 22)	2,629	3,353	–	–
Non-current interest-bearing liabilities (Note 26)	8,515	6,696	–	–
	11,144	10,049	–	–
c) Other expenditure commitments				
Hire purchase liabilities:				
Not longer than 1 year	1,922	1,564	–	–
Longer than 1 year and not longer than 5 years	957	1,410	–	–
Minimum hire purchase payments	2,879	2,974	–	–
Less future finance charges	186	176	–	–
Hire purchase liabilities	2,693	2,798	–	–
Included in the financial statements as:				
Current interest-bearing liabilities (Note 22)	1,813	1,460	–	–
Non-current interest-bearing liabilities (Note 26)	880	1,338	–	–
	2,693	2,798	–	–

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	
		2004 %	2003 %
BPL Downer Joint Venture	Construction of residential housing	50	50
Clough Downer Joint Venture	Construction of port facilities	50	50
Downer Hill Joint Venture	Road construction upgrading	67	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	80	80
Cyber-IB	Information technology services	–	60
D'Axis Planners & Consultants	Master planning and consultancy services	60	60
Suzhou PM Link	Project management	60	–
Notus Power Partners	Wind turbine farms	66	–
Joint ventures conducted with related parties:			
Airfield Works Joint Venture	Airport civil engineering	49	49
CKC Joint Venture	Construction of office tower	–	50
Paul Y Downer Joint Venture	Civil engineering	50	50
Ting Kau Contractors Joint Venture	Bridge and approach construction	–	25

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

	2004 $'000	2003 $'000
Current assets		
Cash	1,280	2,350
Receivables	6,383	14,000
Inventories	8,414	–
Other	3,656	3,679
Total current assets	19,733	20,029
Non-current assets		
Receivables	144	342
Other financial assets	–	6
Property, plant and equipment	768	472
Intangibles	–	355
Total non-current assets	912	1,175
Total assets	20,645	21,204

Notes to the financial statements

for the **financial year** ended 30 June 2004

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	
		2004 %	2003 %	2004 $'000	2003 $'000
Advanced Separation Engineering Australia Pty Ltd	Sale of specialised goods	50	–	10	–
Allied Asphalts Limited	Supply of asphalt products	50	50	894	856
Bitumen Supplies Limited	Supply of bitumen products	50	50	4,145	4,496
Clyde Babcock Hitachi (Aust) Pty Ltd	Design, construction and maintenance of boilers	27	27	2,192	2,094
CPG Healthcare FM Pte Ltd	Facilities management	50	–	197	–
Downer Crown Castle JV	Mobile phone infrastructure	50	–	370	–
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	5,199	1,014
MPE Facilities Management Sdn Bhd	Facilities management consultancy services	50	50	28	8
Pavement Salvage Pty Ltd	Road maintenance	50	50	6	6
Repower Australia Pty Ltd	Wind turbine farms	33	–	1	–
Roche Carey Joint Venture	Contract mining	50	50	–	2,097
Roche Eltin Joint Venture Services	Service management	50	50	–	4,345
Roche Thiess Linfox JV	Contract mining	44	44	–	–
Sasol Roche Blasting Services Pty Ltd*	Contract blasting	–	50	–	4,125
Shanghai Shangfang CPG Facilities Management Co. Ltd	Facilities management	50	–	172	324
Singa Facility Management Pty Ltd	Facilities management consultancy services	50	50	15	84
SIP Jiacheng Property Development Co., Ltd	Property development	50	50	5,812	4,154
St Ives JV	Design and construction of mining treatment plant	50	–	2,158	–
SIP Wanyang Facilities Management Co. Ltd	Facilities management	50	50	–	302
Synthexis Architectural Design Consultants Co. Ltd	Architectural and consultancy services	50	50	120	135
Western Lee Joint Venture	Mechanical and electrical services to ALCOA	50	50	–	–
Xin Gin Wa (Shaanxi) Property Management Co Ltd	Facilities management consultancy services	50	50	–	254
YIDA-CPG FM Co Ltd	Facilities management	50	–	259	–

* Remaining 50% interest in Sasol Roche Blasting Services Pty Ltd was acquired during the year (refer Note 39).

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000

37 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED

Equity accounted investments

	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Equity accounted amount of investment at the beginning of the financial year	24,294	26,367	–	–
Share of net profit	20,526	17,093	–	–
Share of distributions	(19,949)	(20,027)	–	–
Acquisition of interest in joint venture entities	569	5,956	–	–
Disposals of interest in joint venture entities	(3,862)	(5,095)	–	–
Equity accounted amount of investment at the end of the financial year	21,578	24,294	–	–

	2004 $'000	2003 $'000	2004 $'000	2003 $'000
The following amounts represent the consolidated entity's share of the above joint venture entities:				
Current assets				
Cash	28,394	5,013	–	–
Inventories	8,849	50,678	–	–
Receivables	30,725	7,587	–	–
Other	5,724	5,027	–	–
Total current assets	73,692	68,305	–	–
Current liabilities				
Payables	49,209	32,009	–	–
Interest-bearing liabilities	287	902	–	–
Provisions	8,927	20,789	–	–
Total current liabilities	58,423	53,700	–	–
Non-current assets				
Plant and equipment	22,813	28,286	–	–
Other	3,356	6,086	–	–
Total non-current assets	26,169	34,372	–	–
Non-current liabilities				
Interest bearing liabilities	22,060	24,036	–	–
Provisions	528	2,298	–	–
Total non-current liabilities	22,588	26,334	–	–
Net assets	18,850	22,643	–	–

Share of net profit of joint venture entities

	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Revenue from ordinary activities	224,183	187,928	–	–
Expenses from ordinary activities	202,134	170,369	–	–
Profit from ordinary activities before income tax	22,049	17,559	–	–
Income tax expense relating to ordinary activities	1,523	466	–	–
Net profit	20,526	17,093	–	–

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

for the **financial year** ended 30 June 2004

38 CONTROLLED ENTITIES

Name of Controlled Entity	Country of Incorporation	Ownership Interest	Ownership Interest
		2004	**2003**
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%
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%	–
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%	–
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 Group Construction (Malaysia) Sdn Bhd *	Malaysia	100%	100%
Downer Group Finance Pty Limited	Australia	100%	100%
Downer Group Services Limited NZ *	New Zealand	100%	100%
Downer Holdings Pty Ltd	Australia	100%	100%
Downer MBL Australia Limited *	New Zealand	100%	100%
Downer MBL Holdings Limited *	New Zealand	100%	100%
Downer MBL Limited *	New Zealand	100%	100%
Downer MBL Pty Limited	Australia	100%	100%
Downer MBL South America Limited *	New Zealand	100%	100%
Downer Power Transmission Pty Ltd	Australia	100%	100%
Downer RML Pty Ltd	Australia	100%	100%

38 CONTROLLED ENTITIES CONTINUED

Name of Controlled Entity	Country of Incorporation	Ownership Interest	Ownership Interest
		2004	2003
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%
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	Australia	100%	–
Gaden Drilling Pty Limited	Australia	100%	100%
Indeco Consortium Pte Ltd #	Singapore	100%	100%
Pauanui Lakes Development Limited *	New Zealand	100%	100%
Pavement Technology Proprietary Ltd	Australia	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 π	Indonesia	100%	100%
P T Ogspiras Bina Drilling π	Indonesia	100%	100%
QCC Resources Pty Ltd	Australia	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 Limited *	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%
Rockdril Contractors Pty Limited	Australia	100%	100%
RPC Roads Pty Ltd	Australia	100%	100%
RPC IT Pty Ltd	Australia	100%	100%
Sasol Roche Blasting Services Pty Ltd	Australia	100%	50%
Scanbright Pty Ltd	Australia	100%	100%
Starblake Pty Ltd	Australia	100%	100%
Tas21 Pty Limited	Australia	100%	100%
Technic Industries Limited *	New Zealand	100%	100%
TSG Architects Pte Ltd #	Singapore	100%	–
Winstanley Industries Proprietary Limited	Australia	100%	–
Works Infrastructure Limited *	New Zealand	100%	100%
Works Infrastructure Pty Limited	Australia	100%	100%

* Audited by associate firms of Deloitte Touche Tohmatsu

\# Audited by firms other than Deloitte Touche Tohmatsu

π Audit not required in local jurisdiction

Notes to the financial statements

for the **financial year** ended 30 June 2004

39 ACQUISITION OF BUSINESSES

Names of Businesses Acquired	Principal Activity	Date of Acquisition	Proportion of Shares Acquired %	Cost of Acquisition $'000
Controlled entities:				
Downer Electrical Pty Limited (formerly Stork Electrical Pty Limited)	Electrical and facilities management	1 July 2003	100%	14,867
Pavement Technology Limited	Pavement maintenance and rehabilitation 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	1 Jan 2004	100%	418
Sasol Roche Blasting Services Pty Ltd	Mining explosives consultant	1 Feb 2004	50%	2,394
QCC Resources Pty Ltd	Engineering, design and consulting services	1 April 2004	100%	1,600
Businesses:				
Civil Construction Corporation	Civil works and construction	20 Oct 2003	–	5,801
RMS	Traffic management system	1 Nov 2003	–	501

40 SEGMENT INFORMATION

Information on Business Segments

	External		Inter-Segment		Total	
Segment Revenue	**2004 $'000**	**2003 $'000**	**2004 $'000**	**2003 $'000**	**2004 $'000**	**2003 $'000**
Engineering	1,082,156	835,421	19,322	1,561	1,101,478	836,982
Mining and Resources	930,525	950,729	4,960	4,372	935,485	955,101
Infrastructure Services	673,195	566,381	2,915	5,792	676,110	572,173
Rail	408,178	299,407	1,733	34,102	409,911	333,509
Discontinued businesses	96,718	30,829	10,279	655	106,997	31,484
					3,229,981	2,729,249
Eliminations					(39,209)	(46,482)
Unallocated					2,536	14,256
Total revenue					3,193,308	2,697,023
Net share of sales revenue in joint venture entities:						
Engineering					68,994	32,488
Mining and Resources					147,319	133,983
Infrastructure Services					7,870	4,364
Total turnover					3,417,491	2,867,858

40 SEGMENT INFORMATION CONTINUED

Segment results	Consolidated 2004 $'000	2003 $'000
Engineering	56,234	29,667
Mining and Resources	32,741	50,208
Infrastructure Services	38,167	25,349
Rail	17,342	20,417
Discontinued businesses	(6,839)	(6,112)
Unallocated	(28,410)	(24,786)
Income tax expense relating to ordinary activities	(27,689)	(28,171)
Net profit	81,546	66,572

Segment assets & liabilities	Assets 2004 $'000	Assets 2003 $'000	Liabilities 2004 $'000	Liabilities 2003 $'000
Engineering	684,041	705,775	266,585	275,157
Mining and Resources	727,122	672,297	186,021	148,310
Infrastructure Services	364,956	302,525	122,185	108,740
Rail	250,304	287,526	96,478	99,825
Discontinued businesses	42,536	7,531	6,160	620
	2,068,959	1,975,654	677,429	632,652
Unallocated	50,178	57,092	618,679	639,903
	2,119,137	2,032,746	1,296,108	1,272,555

Other Segment Information	Engineering 2004 $'000	Mining and Resources 2004 $'000	Infrastructure Services 2004 $'000	Rail 2004 $'000	Discontinued 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

40 SEGMENT INFORMATION CONTINUED

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

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. Also provides specialist engineered manufacturing services.

Engineering – provides engineering services (design, project management, facilities management, construct and maintain) specialising in telecommunications, power and process engineering.

Mining and Resources – including mine planning and management, drilling and blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration, oil, gas, geothermal and mineral drilling and drill and blast activities.

Infrastructure Services – including the performance of maintenance and construction of roads and highways, construction and maintenance of rail infrastructure including tracks, signals and overhead electrification and infrastructure maintenance services including utilities, water supply, sewage and waste water treatment, refuse disposal, street cleaning and the tending of parks and gardens.

Unallocated – results include financing and corporate costs for continuing businesses, net of other income.

	Revenue from External Customers		Segment Assets		Acquisition of Segment Assets	
Geographic	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000
Australia	2,297,529	1,850,262	1,311,631	1,306,638	174,601	140,325
Pacific	676,374	686,278	371,507	339,414	36,592	16,947
South East Asia	170,221	113,252	342,722	363,205	11,117	57,559
North East Asia	49,184	47,231	93,277	23,489	9	112
	3,193,308	2,697,023	2,119,137	2,032,746	222,319	214,943

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).

40 SEGMENT INFORMATION CONTINUED

Discontinued businesses

Current financial year

As noted in the 2003 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:

	2004 $'000
Financial position	
Total assets	42,536
Total liabilities	6,160
Net assets	**36,376**
Financial performance	
Total revenue	106,997
Total expenses	114,593
Loss before tax	(7,596)
Tax benefit	2,887
Loss after tax	**(4,709)**
Cash flows	
Net cash flows used in operating activities	(10,309)
Net cash flows from investing activities	72
Net cash flows from financing activities	8,806
Net cash flows	**(1,431)**

Prior financial year

During the prior financial year non-core businesses and surplus assets acquired through the takeover of Evans Deakin Industries Pty Ltd have been disposed. These disposals are not considered material and accordingly disclosure of these disposals is in Note 42(c) to the financial statements.

Notes to the financial statements

for the **financial year** ended 30 June 2004

41 RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES

a) Specified directors' and specified executives' remuneration

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

b) Other transactions with specified directors

A director of the company, B D O'Callaghan, is 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 $268,727 (2003: $404,425).

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 $41,994 (2003: $208,000).

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 entities

The parent entity of the group is Downer EDI Limited.

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

	Balance at 1/7/03	Net other change	**Balance at 30/6/04**	**Balance held nominally**
2004	No.	No.	**No.**	**No.**
Specified directors:				
B D O'Callaghan	14,638	474	**15,112**	**15,112**
S J Gillies	2,837,365	112,659	**2,950,024**	**–**
J S Humphrey	2,697	88	**2,785**	**2,785**
R W Dunning	18,461	–	**18,461***	**–**
	2,873,161	**113,221**	**2,986,382**	**17,897**
Specified executives:				
D Cattell	750,000	5,000	**755,000**	**–**
C Denney	431,250	(200,481)	**230,769**	**–**
R Logan	896,956	16,874	**913,830**	**240,241**
B Waldron	37,500	961	**38,461**	**–**
G Wannop	–	–	**–**	**–**
	2,115,706	**(177,646)**	**1,938,060**	**240,241**

* Represents balance held by this director at the time of his retirement from the board (27 October 2003).

	Consolidated		Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000

42 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of 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):

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Cash	110,140	115,537	339	527
Short term deposits	38,124	91,209	–	–
Bank overdrafts	(690)	(1,021)	–	–
	147,574	205,725	339	527

b) Businesses acquired

During the financial year, businesses were acquired. Details of the acquisitions are as follows:

	Consolidated 2004 $'000	Consolidated 2003 $'000	Company 2004 $'000	Company 2003 $'000
Consideration:				
Cash	27,911	142,629	–	–
Deferred purchase adjustment	(1,036)	3,477	–	–
Issue of ordinary shares	1,600	–	–	–
	28,475	146,106	–	–
Fair value of net assets acquired				
Current assets				
Cash	2,092	123,021	–	–
Receivables	23,685	100,753	–	–
Inventories	5,879	821	–	–
Other	989	5,046	–	–
Total current assets	32,645	229,641	–	–
Non-current assets				
Investments accounted for using the equity method	–	5,921	–	–
Property, plant and equipment	25,274	22,163	–	–
Intangibles	2,428	632	–	–
Deferred tax assets	1,645	3,781	–	–
Other	3,348	2,409	–	–
Total non-current assets	32,695	34,906	–	–
Total assets	65,340	264,547	–	–
Current liabilities				
Payables	9,241	145,306	–	–
Interest-bearing liabilities	15,231	306	–	–
Current tax liabilities	73	7,775	–	–
Provisions	4,373	16,425	–	–
Other	414	2,289	–	–
Total current liabilities	29,332	172,101	–	–
Non-current liabilities				
Interest-bearing liabilities	12,801	2,615	–	–
Deferred tax liabilities	1,096	335	–	–
Provisions	531	1,318	–	–
Other	–	256	–	–
Total non-current liabilities	14,428	4,524	–	–
Total liabilities	43,760	176,625	–	–
Net assets	21,580	87,922	–	–

Notes to the financial statements

for the **financial year** ended 30 June 2004

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**

42 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

	2004 $'000	2003 $'000	2004 $'000	2003 $'000
b) Businesses acquired (continued)				
Fair value of net assets acquired (continued)				
Net assets acquired	21,580	87,922	–	–
Goodwill on acquisition	6,895	58,184	–	–
	28,475	146,106	–	–
Net cash outflow on acquisition				
Cash consideration	27,911	142,629	–	–
Less net cash balances acquired	2,092	123,021	–	–
Cash paid – prior year deferred purchase consideration	655	–	–	–
	26,474	19,608	–	–
c) Businesses disposed				
During the current financial year certain businesses were disposed, none of which were considered individually material. Details of these disposals are as follows:				
Consideration:				
Cash	1,237	469	–	–
Receivables	3,069	4,450	–	–
Shares	1,144	–	–	–
	5,450	4,919	–	–
Fair value of net assets disposed				
Current assets				
Cash	60	–	–	–
Receivables	1,348	–	–	–
Inventories	1,132	–	–	–
Other	74	–	–	–
Total current assets	2,614	–	–	–
Non-current assets				
Investments accounted for using the equity method	9	–	–	–
Inventories	–	334	–	–
Property, plant and equipment	3,090	840	–	–
Intangibles	235	–	–	–
Deferred tax assets	159	–	–	–
Total non-current assets	3,493	1,174	–	–
Total assets	6,107	1,174	–	–
Current liabilities				
Payables	147	–	–	–
Current tax liabilities	54	–	–	–
Provisions	520	250	–	–
Total current liabilities	721	250	–	–
Total liabilities	721	250	–	–
Net assets disposed	5,386	924	–	–
Profit on disposal	64	3,995	–	–
	5,450	4,919	–	–
Net cash inflow on disposal				
Cash consideration	1,237	469	–	–
Less: cash balance disposed	60	–	–	–
Cash received – prior year deferred purchase consideration	2,310	6,785	–	–
	3,487	7,254	–	–

42 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

d) Non-cash financing and investing activities

During the current financial year, $77,578,000 in equity was issued in respect of:

i) Dividend reinvestment plan elections ($15,246,000);

ii) Conversion of preference shares ($60,732,000); and

iii) Issue of shares on acquisition of business ($1,600,000).

During the previous financial year, $6,656,000 in equity was issued in respect of dividend reinvestment plan elections.

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'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	81,546	66,572	39,294	19,990
Profit on sale of non-current assets	(7,291)	(5,514)	–	–
Share of joint ventures profits net of distributions	(577)	(2,365)	–	–
Depreciation and amortisation of non-current assets	117,707	119,284	–	–
Amortisation of deferred costs	1,362	1,147	–	–
Profit on sale of investments	(1,623)	(724)	–	–
Unrealised exchange (gain)/loss	411	(926)	473	(98)
Increase/(decrease) in income tax payable	(19,953)	47,966	7,352	(5,001)
Increase/(decrease) in tax balances	(7,104)	(12,014)	(349)	20
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(63,338)	(88,066)	(1,015)	(21,883)
Current inventories	(12,163)	72,843	–	–
Other financial assets	–	–	–	308
Other current assets	(6,101)	(10,371)	–	12
Non-current receivables	11,319	(5,259)	(32,286)	(32,825)
Other non-current financial assets	–	–	–	983
Other non-current assets	1,072	(17,261)	–	–
Increase/(decrease) in liabilities:				
Current trade payables	58,533	13,165	2,986	(1,452)
Current provisions	2,603	8,194	(341)	406
Non-current payables	17,908	41,678	–	31,825
Non-current provisions	7,169	(3,346)	70	76
Net cash provided by / (used in) operating activities	181,480	225,003	16,184	(7,639)

	Consolidated		Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'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	334,697	308,055	316,169	276,349
ii) Termination benefits under service agreements	748	574	–	–
iii) Joint Venture entities owned by the consolidated entity have non-cancellable operating lease commitments for which, should the Joint Venture entity not be able to meet those obligations, the consolidated entity may become liable.	–	7,747	–	–
iv) Claim in respect of legal costs associated with contract arbitration	1,600	1,600	–	–
	337,045	317,976	316,169	276,349

In the ordinary course of business:

v) 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.

vi) 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.

vii) 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.

viii) Controlled entities are subject to claims and counter claims with respect to contracting.

44 ENGINEERING SERVICES CONTRACTS

For engineering services contracts in progress as at reporting date:				
Engineering services work in progress	3,623,939	2,542,306	–	–
Progress billings and advances received	3,549,451	2,438,652	–	–
Less: advances received	34,335	27,754	–	–
Progress billings	3,515,116	2,410,898	–	–
Amount disclosed in statement of financial position	108,823	131,408	–	–
Recognised and included in the financial statements as amounts due:				
From customers under engineering services contracts:				
Current (Note 10)	170,725	191,115	–	–
Non-current (Note 14)	6,498	6,508	–	–
To customers under engineering services contracts:				
Current (Note 21)	(66,520)	(64,743)	–	–
Non-current (Note 25)	(1,880)	(1,472)	–	–
Amount disclosed in statement of financial position	108,823	131,408	–	–

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				
2004	Average Interest Rate %	Variable Interest Rate $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	**Total $'000**
Financial assets							
Cash	4.08	137,328	10,936	–	–	–	**148,264**
Trade receivables	14.27	–	1,759	2,267	–	809,129	**813,155**
Other financial assets	7.75	496	–	–	–	31,133	**31,629**
Other receivables		–	–	–	–	44,274	**44,274**
		137,824	**12,695**	**2,267**	**–**	**884,536**	**1,037,322**
Financial liabilities							
Trade payables		–	–	–	–	522,785	**522,785**
Bank overdrafts	9.10	690	–	–	–	–	**690**
Bank loans	5.19	39,212	47,617	73,751	–	–	**160,580**
Other loans	6.00	4,620	–	–	–	–	**4,620**
Finance lease liabilities	7.54	–	2,629	8,515	–	–	**11,144**
Hire purchase liabilities	7.62	–	1,813	880	–	–	**2,693**
US$ 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.

45 FINANCIAL INSTRUMENTS CONTINUED

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2003:

2003	Average Interest Rate %	Variable Interest Rate $'000	Fixed Interest Rate Maturity: Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	**Total $'000**
Financial assets							
Cash	3.34	206,315	–	–	–	431	**206,746**
Trade receivables	10.54	–	6,129	9,040	–	695,026	**710,195**
Other financial assets		–	–	–	–	30,769	**30,769**
Other receivables	4.77	7,031	–	–	–	42,745	**49,776**
Other related party receivables	5.03	19,770	–	–	–	–	**19,770**
		233,116	**6,129**	**9,040**	**–**	**768,971**	**1,017,256**
Financial liabilities							
Trade payables		–	–	–	–	434,805	**434,805**
Bank overdrafts	8.60	1,021	–	–	–	–	**1,021**
Bank loans	5.03	183,790	–	203	–	–	**183,993**
Finance lease liabilities	6.60	–	3,353	6,696	–	–	**10,049**
Hire purchase liabilities	7.86	–	1,460	1,338	–	–	**2,798**
US$ notes*	7.37	79,517	30,000	143,986	51,587	–	**305,090**
Other payables		–	–	–	–	36,693	**36,693**
Employee entitlements		–	–	–	–	85,912	**85,912**
Due to joint venture partners		–	–	–	–	25,269	**25,269**
		264,328	**34,813**	**152,223**	**51,587**	**582,679**	**1,085,630**

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

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 as 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 $47,179,548 favourable (2003 $23,939,966 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:

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

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

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

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

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	
	2004	2003	2004 $'000	2003 $'000
Buy US dollars				
Less than 3 months	0.7059	0.5522	(16,158)	(6,062)
3 to 6 months	0.6430	0.5860	(16,618)	(340)
Later than six months	0.6439	0.5522	(14,847)	(4,445)
			(47,623)	(10,847)
Sell US dollars				
Less than 3 months	0.6737	0.5694	2,774	6,982
3 to 6 months	0.7174	0.5937	660	1,726
Later than six months	–	0.6295	–	119
			3,434	8,827
Buy Japanese yen				
Less than 3 months	78.24	–	(1,778)	–
3 to 6 months	73.67	–	(3,700)	–
			(5,478)	–
Buy Euros				
Less than 3 months	0.5655	0.5825	(2,567)	(1,521)
3 to 6 months	0.5733	0.5830	(959)	(1,467)
Later than six months	0.5603	0.5656	(4,352)	(9,823)
			(7,878)	(12,811)
Sell Euros				
Later than three months	0.6611	0.5556	378	1,463
Buy South African rand				
Less than 3 months	4.6534	–	(187)	–
Buy Great Britain pounds				
Less than 3 months	0.4034	–	(647)	–
3 to 6 months	0.3978	–	(759)	–
			(1,406)	–
Buy Canadian dollars				
Less than 3 months	1.0258	–	(363)	–
3 to 6 months	1.0097	–	(443)	–
Later than six months	1.0042	–	(297)	–
			(1,103)	–
Buy Swiss francs				
Less than 3 months	0.9440	–	(591)	–
3 to 6 months	1.5126	–	(250)	–
			(841)	–
			(60,704)	(13,368)

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

for the **financial year** ended 30 June 2004

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		Notional principal amount	
	2004 %	**2003 %**	**2004 $'000**	**2003 $'000**
Less than 1 year	6.97	6.66	63,492	30,000
1 to 2 years	–	6.97	–	63,492
2 to 5 years	8.19	8.19	80,494	80,494
5 years or more	9.23	9.23	51,587	51,587
			195,573	225,573

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 cross currency swaps outstanding as at reporting date.

			Principal amount	
	2004 $	**2003 $**	**2004 $'000**	**2003 $'000**
Buy USD				
Less than 1 year	0.6300	–	(63,492)	–
1 to 2 years	–	0.6300	–	(63,492)
2 to 5 years	0.5394	0.5584	(190,011)	(102,970)
5 years and more	0.6300	0.5590	(51,587)	(138,628)
			(305,090)	(305,090)
Sell SGD				
Less than 1 year	–	1.1260	–	23,712
			(305,090)	(281,378)

Hedges of anticipated future transactions

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

Directors' Declaration

The directors declare that:

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

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

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

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

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

On behalf of the directors

Mr B D O'Callaghan Director	Mr S J Gillies Director

Sydney, 23 August 2004

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 2004 as set out on pages 5 to 47. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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

Audit approach

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

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

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

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

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

Independence

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

Audit Opinion

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

(a) the Corporations Act 2001, including:
   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 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.

DELOITTE TOUCHE TOHMATSU

JA Leotta
Partner
Chartered Accountants

Sydney, 23 August 2004

The liability of Deloitte Touche Tohmatsu is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

Corporate Directory

Corporate Head Office

Downer EDI Limited
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190 George Street
SYDNEY NSW 2000
AUSTRALIA

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

ABN 97 003 872 848

Engineering Division

Australia –
Division Head Office
Downer Engineering Group Pty Limited
Level 7 'Compaq House'
76 Berry Street
NORTH SYDNEY NSW 2060
AUSTRALIA

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

ABN 16 006 016 495

New Zealand –
Downer Connect Ltd
2 Carmont Place
Mt Wellington
AUCKLAND NEW ZEALAND

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

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

Tel: 852 2831 8123
Fax: 852 2575 8748

CPG Corporation Pte Ltd

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

Tel: 65 6357 4888
Fax: 65 6357 4188

Infrastructure Division

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

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

ABN 66 008 709 608

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

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

Mining Division

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

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

ABN 49 004 142 223

Rail Division

Australia –
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EDI Rail Pty Ltd
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GRANVILLE NSW 2142
AUSTRALIA

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

ABN 92 000 002 031

Resource Services Division

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

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

ABN 25 002 975 439

New Zealand –
Century Drilling & Energy
Services (NZ) Ltd
166 Karetoto Road
WAIRAKEI
NEW ZEALAND

Tel: 64 7 376 0422
Fax: 64 7 374 8508

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 subsidiary companies.

Downer EDi LIMITED