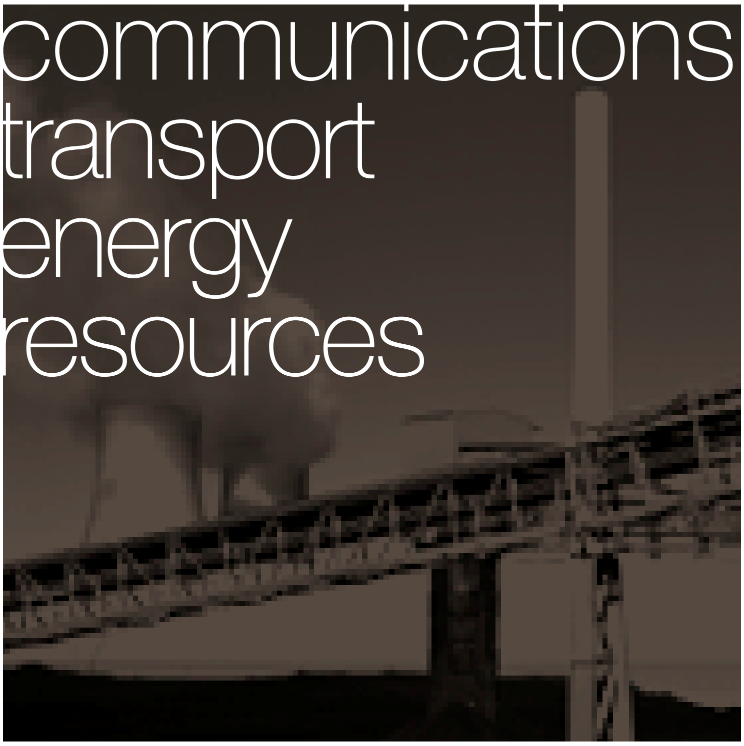
# asset management



## communications
## transport
## energy
## resources

design,
operations &
maintenance

Downer EDi LIMITED

full financial report 2005

# downer edi limited full financial report 2005

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

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

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

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

## Annual General Meeting

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

# directors' report

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

## Directors

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

B D O'Callaghan AO (chairman, non-executive)

K Y Lau (deputy chairman, non-executive)

S J Gillies (managing director)

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

J S Humphrey (non-executive)

P E J Jollie AM (non-executive)

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

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

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

## Directors' meetings

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

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

\# 7 meetings held while a director
* 2 meetings held while a director
^ 2 audit committee meetings held while a director

## Directors' shareholdings

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

| Director | No. of Fully Paid Ordinary Shares |
|---|---|
| S J Gillies | 2,631,463 |
| B D O'Callaghan | 15,302 |
| J S Humphrey | 2,911 |
| P E J Jollie | 10,000 |

## Company secretaries

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

## Principal activities

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

## Review of operations

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

# directors' report **continued**

## Changes in state of affairs

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

## Subsequent events

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

## Future developments

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

## Dividends

In respect of the financial year ended 30 June 2005, the directors declared the payment of a final ordinary dividend of 12.0 cents per share (franked to 70%) to the holders of fully paid ordinary shares to be paid on 19 October 2005.

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

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

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

## Employee discount share plan

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

## Executive share option scheme ("EOS")

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

## Share options

No options were granted during the year.

## Indemnification of officers and auditors

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

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

## Directors and executives remuneration report

### 1 Remuneration principles

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

Downer EDI's remuneration principles are set out below:

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

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

### 2 Remuneration structure

The remuneration structure for executives comprises fixed and variable remuneration.

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

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

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

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

### 2.1 Base salary

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

### 2.2 Variable remuneration

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

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

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

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

### 2.3 Executive remuneration

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

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

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

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

### 2.4 Company performance

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

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

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

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

## Directors and executives remuneration report continued

### 3 Directors' remuneration

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

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

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

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

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

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

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

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

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

### 4 Contract terms for specified executives

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

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

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

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

### 5 Employee share scheme

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

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

## 6 Remuneration committee

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

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

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

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

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

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

## 7 New arrangements since 30 June 2005

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

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

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

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

### 7.1 Fixed remuneration

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

### 7.2 Short term incentive

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

### 7.3 Long term incentive (LTI)

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

## **Directors and executives remuneration report** continued

### **7.3 Long term incentive (LTI)** continued

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

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

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

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

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

**Summary of long term incentive plan**

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

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

**8. Downer EDI Deferred Share Plan**

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

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

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

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

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

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

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

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

## Rounding off of amounts

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

## Corporate governance

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

The consolidated entity's performance in relation to corporate governance is contained in the Corporate Governance section on pages 46 to 49 of the Concise Annual Report 2005.

## Environmental regulations

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

## Non-audit services

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

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

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

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's "Professional Statement F1 – Professional Independence", including reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

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

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

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

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

On behalf of the directors

**B D O'Callaghan**
Director

**S J Gillies**
Director

Sydney, 23 August 2005

# independence declaration

23 August 2005

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

Dear Sirs

**DOWNER EDI LIMITED**

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

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

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

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

Yours sincerely

DELOITTE TOUCHE TOHMATSU

JA Leotta
Partner

# statement of financial performance

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

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

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

# statement of financial position

**as at** 30 June 2005

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

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

# statement of cash flows

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

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

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

# notes to the financial statements

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

## 1 STATEMENT OF ACCOUNTING POLICIES

**Financial reporting framework**

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

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

**Significant accounting policies**

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

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

**Acquisition and disposal of non-current assets**

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

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

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

**Cash**

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

**Changes in accounting policies**

Accounting policies applied are consistent with the previous financial year.

**Comparative information**

Where necessary comparative amounts have been reclassified and repositioned for consistency with current year accounting policy and disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current year accounting policy and disclosures, where considered material, are referred to separately in the financial statements or notes thereto.

**Depreciation**

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

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

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

**Earnings per share (EPS)**

*Basic earnings per share*

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

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

The assessment of whether or not a potential ordinary share is dilutive is based on conditions at balance date.

**Employee benefits**

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

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

**Engineering services contracts (long term)**

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

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

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

**Financial instruments**

*Debt and equity instruments*

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

*Transaction costs on the issue of equity instruments*

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

*Interest and dividends*

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

*Derivative financial instruments*

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

*Foreign exchange contracts*

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

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

**Foreign currency**

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

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

i) exchange differences which relate to assets under engineering services for future productive use are included in the cost of those assets; and

ii) exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

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

**Goods and services tax**

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

i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii) for receivables and payables which are recognised inclusive of GST.

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

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

**Goodwill**

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

**Income tax**

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

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

i) the relevant entities earning future assessable income of a nature and amount sufficient to enable the benefit to be realised;

ii) the relevant entities continuing to comply with the conditions for deductibility imposed by the law; and

iii) no changes in tax legislation adversely affecting the relevant entities in realising the benefit.

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

**Intellectual property**

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

Other intellectual property recognised relates to costs incurred on research and development or acquired in the acquisition of an entity or operation. Such costs are only deferred to future periods to the extent they are expected to be recoverable and are amortised from the commencement of commercial production of the product to which they relate on a straight line basis over the period of the expected benefit which may be up to 15 years.

**Interest-bearing liabilities**

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

**Inventories**

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

**Investments**

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

## 1 STATEMENT OF ACCOUNTING POLICIES CONTINUED

**Joint venture operations and entities**

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

Interests in joint venture entities that are:

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

**Leased assets**

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

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

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

**Payables**

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

**Principles of consolidation**

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

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

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

**Provisions**

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

*Dividends*

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

**Receivables**

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

**Recoverable amount of non-current assets**

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

**Revenue recognition**

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

**Tax consolidation**

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

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

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

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

**Warranty costs**

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |

## 2 PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax includes the following items of revenue and expense:

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |

## 3 SALES OF ASSETS

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

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| Investments | 2,622 | 1,623 | 468 | – |
| Property, plant and equipment | 8,807 | 7,291 | – | – |
| | 11,429 | 8,914 | 468 | – |

## 4 INCOME TAX

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

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| Profit from ordinary activities | 131,630 | 109,235 | 47,954 | 47,441 |
| Income tax expense calculated at 30% of operating profit | 39,489 | 32,771 | 14,386 | 14,232 |
| **Permanent differences:** | | | | |
| Non-allowable depreciation | 430 | 248 | – | – |
| Amortisation of intangible assets | 5,897 | 5,603 | – | – |
| Non-taxable capital gains | (1,234) | (1,473) | – | – |
| Exempt income | (198) | (292) | – | – |
| Non-deductible expenses | 1,294 | 3,037 | 482 | 17 |
| Dividends from within the tax group | – | – | (6,010) | (6,000) |
| Equity share of associates' and joint venture entities' profits | (1,463) | (1,510) | – | – |
| Effect of different rates of tax on overseas income/losses | 3,353 | (2,320) | – | – |
| Research and development | (2,389) | (812) | – | – |
| Other items | (3,656) | (1,300) | (941) | 263 |
| Future income tax benefit not previously recognised now brought to account | – | (393) | – | – |
| Effect of reset tax values on entering tax consolidation^ _ | (10,079) | – | (10,079) | – |
| Initial recognition of net deferred tax balances of the tax group * | – | – | – | 3,356 |
| Consideration payable in respect of initial recognition of net deferred tax balances of the tax group * | – | – | – | (3,356) |
| Current movement in net deferred tax balances relating to the tax group * | – | – | 30,345 | 341 |
| Non assessable and non deductible amounts related to transactions within the tax consolidated group * | – | – | 112 | – |
| Net income benefit arising under tax sharing agreements with subsidiaries in the tax group * | – | – | (20,378) | (341) |
| | 31,444 | 33,559 | 7,917 | 8,512 |
| Under/(over) provision of income tax in previous year | (3,849) | (5,870) | 8 | (365) |
| Income tax expense attributable to operating profit | 27,595 | 27,689 | 7,925 | 8,147 |

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

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

## 5 DIRECTORS' AND EXECUTIVES REMUNERATION CONTINUED

**Directors' and specified executives' remuneration**

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

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

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

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

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

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

## 5 DIRECTORS' AND EXECUTIVES REMUNERATION CONTINUED

**Directors' and specified executives' remuneration** continued

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

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

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

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

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

| | Primary | | | Post Employment | | |
|---|---|---|---|---|---|---|
| **2004** | Salary fees $ | Bonus $ | Non-monetary $ | Super-annuation $ | 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** |
| R W Dunning | 37,171 | – | – | – | 113,333 | **150,504** |
| J S Humphrey | 80,000 | – | – | 7,200 | – | **87,200** |
| P E J Jollie | – | – | – | – | – | **–** |
| T J Kennedy | 28,750 | – | – | 2,588 | – | **31,338** |
| M J Kent | 27,866 | – | – | – | 27,865 | **55,731** |
| G M Lawrence | 27,866 | – | – | – | 27,865 | **55,731** |
| K J Roche | 34,583 | – | – | 3,112 | 143,958 | **181,653** |
| B W Wong | – | – | – | – | – | **–** |
| | **1,441,681** | **341,250** | **20,170** | **60,116** | **313,021** | **2,176,238** |

## 5 DIRECTORS' AND EXECUTIVES REMUNERATION CONTINUED

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

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

## 6 EMPLOYEE SHARE PLAN

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

## 7 EXECUTIVE SHARE OPTION SCHEME (EOS)

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

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

Options will be granted without charge.

The directors will determine the following matters in their discretion:

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

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

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

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 $ | 2004 $ | 2005 $ | 2004 $ |
| **8 REMUNERATION OF AUDITORS** | | | | |
| Auditor of the parent entity: | | | | |
| Auditing the financial report | 1,772,000 | 1,450,000 | 254,200 | 277,000 |
| Other services | 520,000 | 370,000 | 106,094 | 195,581 |
| | 2,292,000 | 1,820,000 | 360,294 | 472,581 |
| Other auditors: | | | | |
| Auditing the financial report | 635,000 | 524,500 | – | – |
| Other services | 1,406,000 | 1,074,000 | 555,187 | 515,426 |
| | 2,041,000 | 1,598,500 | 555,187 | 515,426 |
| | 4,333,000 | 3,418,500 | 915,481 | 988,007 |

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| **9 CURRENT INVENTORIES** | | | | |
| Raw materials – at cost | 52,552 | 36,779 | – | – |
| Finished goods – at cost | 22,090 | 15,224 | – | – |
| Work in progress – at cost | 37,827 | 41,545 | – | – |
| Components and spare parts – at cost | 61,276 | 50,641 | – | – |
| | 173,745 | 144,189 | – | – |
| **10 CURRENT RECEIVABLES** | | | | |
| Trade receivables | 699,952 | 633,666 | – | – |
| Allowance for doubtful debts | (13,621) | (14,299) | – | – |
| | 686,331 | 619,367 | – | – |
| Amount due from customers under engineering services contracts (Note 44) | 181,857 | 170,725 | – | – |
| Other receivables controlled entities | – | – | 326,312 | 324,240 |
| Other receivables | 72,257 | 32,793 | 2,393 | 1,610 |
| | 940,445 | 822,885 | 328,705 | 325,850 |
| **11 OTHER CURRENT FINANCIAL ASSETS** | | | | |
| Investments | 265 | 8,208 | – | – |
| Employee loans | 1,057 | 1,517 | 1,057 | 700 |
| Foreign currency hedge (Note 21) | 6,302 | 1,280 | – | – |
| Advances to joint venture entities | 3,658 | 496 | – | – |
| Other financial assets | 4,312 | 8,555 | – | – |
| | 15,594 | 20,056 | 1,057 | 700 |
| **12 CURRENT TAX ASSETS** | | | | |
| Tax refunds | 8,954 | 4,202 | – | – |
| **13 OTHER CURRENT ASSETS** | | | | |
| Deferred costs | 1,642 | 2,292 | – | – |
| Prepayments | 13,956 | 10,619 | – | 18 |
| Other deposits | 2,420 | 2,534 | – | – |
| Other current assets | – | 33 | 2,209 | – |
| | 18,018 | 15,478 | 2,209 | 18 |

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 | Company 2005 $'000 | Company 2004 $'000 |
|---|---|---|---|---|

## 14 NON-CURRENT RECEIVABLES

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

## 15 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 | Company 2005 $'000 | Company 2004 $'000 |
|---|---|---|---|---|
| Joint venture entities (Note 37 (b)) | 17,474 | 21,578 | – | – |

## 16 PROPERTY, PLANT AND EQUIPMENT

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

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |

## 17 INTANGIBLES

| | | | | |
|---|---|---|---|---|
| Goodwill | 389,665 | 364,304 | – | – |
| Accumulated amortisation | (88,252) | (69,751) | – | – |
| | 301,413 | 294,553 | – | – |
| Intellectual property | 51,760 | 38,855 | – | – |
| Accumulated amortisation | (5,516) | (4,332) | – | – |
| | 46,244 | 34,523 | – | – |
| | 347,657 | 329,076 | – | – |

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

## 18 OTHER NON-CURRENT FINANCIAL ASSETS

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

## 19 DEFERRED TAX ASSETS

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

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

## 20 OTHER NON-CURRENT ASSETS

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

## 21 CURRENT PAYABLES

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |

## 22 CURRENT INTEREST-BEARING LIABILITIES

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

## 23 CURRENT PROVISIONS

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| Employee benefits (Note 29) | 87,758 | 73,016 | 1,276 | 1,378 |
| Contract claims and warranties | 19,561 | 17,180 | – | – |
| Other | 1,220 | 1,275 | – | – |
| Total current provisions (Note 30) | 108,539 | 91,471 | 1,276 | 1,378 |

## 24 CURRENT TAX LIABILITIES

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| Parent entity | 8,190 | – | 8,190 | – |
| Entities in the tax consolidated group (i) | 18,476 | 2,723 | 18,476 | 2,723 |
| Other | 2,748 | 3,508 | – | – |
| | 29,414 | 6,231 | 26,666 | 2,723 |

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

## 25 NON-CURRENT PAYABLES

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| Amounts due to customers under engineering services contracts (Note 44) | 1,566 | 1,880 | – | – |
| Advances from joint venture entities | 13,562 | 17,428 | – | – |
| Non-trade payables to: | | | | |
| Controlled entities | – | – | 358,203 | 376,113 |
| Other | 574 | 390 | – | – |
| | 15,702 | 19,698 | 358,203 | 376,113 |

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

At 30 June 2005, the consolidated entity had bank guarantees and other bank collateral facilities and insurance bond facilities totalling $671,337,000 (2004: $593,103,000) of which $209,074,000 (2004: $258,406,000) was not utilised.

**i) Bank loans/overdraft**

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

**ii) Hire purchase and lease facilities**

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

**iii) US$ unsecured notes**

In October 1999 and December 2001 the consolidated entity issued US$95,000,000 ($150,573,000) and US$80,000,000 ($154,517,183) in unsecured notes, with varying maturities extending to 2014. In September 2004 the consolidated entity issued US$54,000,000 ($74,877,772) and US$55,000,000 ($77,250,298) in unsecured notes with varying maturities extending to 2019. Concurrent with the new issue, US$15,000,000 of the October 1999 issue was extended from an original maturity date of 2006 until 2014. The USD principal and interest have been fully hedged to Australian or New Zealand dollars, as applicable. Interest is payable to US note holders semi-annually. While unsecured, the US notes are subject to group guarantee arrangements.

**iv) Other loans**

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

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 | Company 2005 $'000 | Company 2004 $'000 |
|---|---|---|---|---|

## 27 NON-CURRENT PROVISIONS

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

## 28 DEFERRED TAX LIABILITIES

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| Deferred income tax | | | | |
| Timing Differences | | | | |
| Parent entity | 10 | 48 | 10 | 48 |
| Entities in the tax consolidated group (i) | 6,983 | 17,833 | 6,983 | 17,833 |
| Other | 24,581 | 35,030 | – | – |
| | 31,574 | 52,911 | 6,993 | 17,881 |

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

## 29 EMPLOYEE BENEFITS

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

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| Provision for employee benefits: | | | | |
| Current (Note 23) | 87,758 | 73,016 | 1,276 | 1,378 |
| Non-current (Note 27) | 26,303 | 22,144 | 324 | 241 |
| | 114,061 | 95,160 | 1,600 | 1,619 |

## 30 PROVISIONS

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

## 30 PROVISIONS CONTINUED

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |
| **31 CONTRIBUTED EQUITY** | | | | |
| 291,685,155 fully paid ordinary shares (2004: 282,036,785) | 667,603 | 631,207 | 667,603 | 631,207 |

**Fully paid ordinary share capital**

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

**Share options**

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

No options were issued during the current financial year.

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

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |

## 32 RESERVES

| | | | | |
|---|---|---|---|---|
| Foreign currency translation | (16,726) | (11,327) | – | – |
| **Movement in reserves** | | | | |
| *Foreign currency translation reserve* | | | | |
| Balance at beginning of financial year | (11,327) | (12,173) | – | – |
| Translation of foreign operations | (5,399) | 846 | – | – |
| Balance at end of financial year | (16,726) | (11,327) | – | – |

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

## 33 RETAINED PROFITS

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

## 34 EARNINGS PER SHARE (EPS)

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

**Basic earnings per share**

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

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

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

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

**Diluted earnings per share**

Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

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

| | Consolidated | | |
|---|---|---|---|
| | Date paid/ payable | Cents per share | $'000 |

## 35 DIVIDENDS

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

| | Company | |
|---|---|---|
| | 2005 $'000 | 2004 $'000 |
| Franking account balance | 13,457 | – |

## 36 COMMITMENTS FOR EXPENDITURE

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |
| **a) Capital expenditure commitments** | | | | |
| ***Plant and equipment:*** | | | | |
| Not longer than 1 year | 21,652 | 36,126 | – | – |
| Longer than 1 year and not longer than 5 years | 9,264 | – | – | – |
| | 30,916 | 36,126 | – | – |
| **b) Lease commitments** | | | | |
| ***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 the leased assets at the expiry of the lease period. | | | | |
| Not longer than 1 year | 91,884 | 73,492 | – | – |
| Longer than 1 year and not longer than 5 years | 125,891 | 123,297 | – | – |
| Longer than 5 years | 3,520 | 4,788 | – | – |
| | 221,295 | 201,577 | – | – |
| ***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 | 3,142 | 3,214 | – | – |
| Longer than 1 year and not longer than 5 years | 6,145 | 9,716 | – | – |
| Minimum finance lease payments | 9,287 | 12,930 | – | – |
| Less future finance charges | 1,169 | 1,786 | – | – |
| Finance lease liabilities | 8,118 | 11,144 | – | – |
| Included in the financial statements as: | | | | |
| Current interest-bearing liabilities (Note 22) | 2,542 | 2,629 | – | – |
| Non-current interest-bearing liabilities (Note 26) | 5,576 | 8,515 | – | – |
| | 8,118 | 11,144 | – | – |
| **c) Other expenditure commitments** | | | | |
| ***Hire purchase liabilities:*** | | | | |
| Not longer than 1 year | 317 | 1,922 | – | – |
| Longer than 1 year and not longer than 5 years | 517 | 957 | – | – |
| Minimum hire purchase payments | 834 | 2,879 | – | – |
| Less future finance charges | 73 | 186 | – | – |
| Hire purchase liabilities | 761 | 2,693 | – | – |
| Included in the financial statements as: | | | | |
| Current interest-bearing liabilities (Note 22) | 278 | 1,813 | – | – |
| Non-current interest-bearing liabilities (Note 26) | 483 | 880 | – | – |
| | 761 | 2,693 | – | – |

## 37 JOINT VENTURE OPERATIONS AND ENTITIES

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

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

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

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

## 37 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED

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

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

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

## 37 JOINT VENTURE OPERATIONS AND ENTITIES CONTINUED

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| **Equity accounted investments** | | | | |
| Equity accounted amount of investment at the beginning of the financial year | 21,578 | 24,294 | – | – |
| Share of net profit | 14,858 | 20,526 | – | – |
| Share of distributions | (16,637) | (19,949) | – | – |
| Effect of foreign currency translation movement | (478) | – | – | – |
| Acquisition of interest in joint venture entities | 47 | 569 | – | – |
| Disposals of interest in joint venture entities | (1,894) | (3,862) | – | – |
| Equity accounted amount of investment at the end of the financial year | 17,474 | 21,578 | – | – |
| **Share of net profit of joint venture entities** | | | | |
| Revenue from ordinary activities | 157,814 | 224,183 | – | – |
| Expenses from ordinary activities | 140,250 | 202,134 | – | – |
| Profit from ordinary activities before income tax | 17,564 | 22,049 | – | – |
| Income tax expense relating to ordinary activities | 2,706 | 1,523 | – | – |
| Net profit | 14,858 | 20,526 | – | – |

| | | | | |
|---|---|---|---|---|
| The following amounts represent the consolidated entity's share of the above joint venture entities: | | | | |
| **Current assets** | | | | |
| Cash | 14,099 | 28,394 | – | – |
| Inventories | 10,689 | 8,849 | – | – |
| Receivables | 23,162 | 30,725 | – | – |
| Other | 1,964 | 5,724 | – | – |
| **Total current assets** | 49,914 | 73,692 | – | – |
| **Current liabilities** | | | | |
| Payables | 18,976 | 49,209 | – | – |
| Interest-bearing liabilities | 7,896 | 287 | – | – |
| Provisions | 14,182 | 8,927 | – | – |
| **Total current liabilities** | 41,054 | 58,423 | – | – |
| **Non-current assets** | | | | |
| Plant and equipment | 19,537 | 22,813 | – | – |
| Other | 27 | 3,356 | – | – |
| **Total non-current assets** | 19,564 | 26,169 | – | – |
| **Non-current liabilities** | | | | |
| Interest-bearing liabilities | 12,627 | 22,060 | – | – |
| Provisions | 10 | 528 | – | – |
| **Total non-current liabilities** | 12,637 | 22,588 | – | – |
| **Net assets** | 15,787 | 18,850 | – | – |

**Contingent liabilities and capital commitments**

The consolidated entity's share of the contingent liabilities and expenditure commitments of joint venture entities are disclosed in Note 43.

## 38 CONTROLLED ENTITIES

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

## 38 CONTROLLED ENTITIES CONTINUED

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

* Audited by associate firms of Deloitte Touche Tohmatsu
\# Audited by firms other than Deloitte Touche Tohmatsu
j Audit not required in local jurisdiction

## 39 ACQUISITION OF BUSINESSES

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

## 40 SEGMENT INFORMATION

Information on business segments:

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

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

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

## 40 SEGMENT INFORMATION CONTINUED

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

| | Engineering 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 |

**The economic entity operated predominantly in five business segments:**

**Rail –** provides rolling stock and associated maintenance services including the design, manufacture, refurbish, overhaul and maintenance of diesel electric locomotives, electric locomotives, electric and diesel multiple units, rail wagons, traction motors and rolling stock generally.

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

**Mining and Resources –** provides international mine consulting and contracting services, including mine planning, optimisation management and modelling, materials processing consulting and infrastructure, drilling and blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration, oil, gas, geothermal and mineral drilling activities.

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

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

## 40 SEGMENT INFORMATION CONTINUED

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

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

**Discontinued businesses**

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

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

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

## 41 RELATED PARTY AND SPECIFIED EXECUTIVE DISCLOSURES

a) Directors' and specified executives' remuneration:

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

b) Other transactions with directors:

A director of the company B D O'Callaghan was a consultant for the firm Corrs Chambers Westgarth, solicitors. This firm renders legal advice to the consolidated entity in the ordinary course of business under normal commercial terms and conditions. The amount of fees paid was $2,269,870 (2004: $268,727).

A director of the company J S Humphrey has an interest as a partner in the firm Malleson Stephen Jaques, solicitors. This firm renders legal advice to the consolidated entity in the ordinary course of business under normal commercial terms and conditions. The amount of fees paid was $63,291 (2004: $41,994).

c) Transactions within the wholly owned group:

Details of dividend and interest revenue derived by the parent entity from wholly owned controlled entities are disclosed in Note 2 to the financial statements. Aggregate amounts receivable from and payable to wholly owned controlled entities are disclosed in Notes 10, 14 and 25 to the financial statements.

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

d) Equity interests in related parties:

*Equity interests in controlled entities:*

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

*Equity interests in associates and joint ventures:*

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

e) Controlling entity:

The parent entity of the group is Downer EDI Limited.

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

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

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

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |

## 42 NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of cash

Cash as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows (refer Note 1):

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 | Company 2005 $'000 | Company 2004 $'000 |
|---|---|---|---|---|
| Cash | 120,003 | 110,140 | 68 | 339 |
| Short term deposits | 45,969 | 38,124 | – | – |
| Bank Overdrafts | – | (690) | – | – |
| | 165,972 | 147,574 | 68 | 339 |

b) Businesses acquired

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

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 | Company 2005 $'000 | Company 2004 $'000 |
|---|---|---|---|---|
| Consideration: | | | | |
| Cash | 33,034 | 27,911 | – | – |
| Deferred purchase adjustment | 3,457 | (1,036) | – | – |
| Issue of ordinary shares | 3,750 | 1,600 | – | – |
| | 40,241 | 28,475 | – | – |
| Fair value of net assets acquired | | | | |
| **Current assets** | | | | |
| Cash | 4,350 | 2,092 | – | - |
| Receivables | 28,992 | 23,685 | – | - |
| Inventories | 632 | 5,879 | – | - |
| Other | 943 | 989 | – | - |
| **Total current assets** | 34,917 | 32,645 | – | - |
| **Non-current assets** | | | | |
| Property, plant and equipment | 15,690 | 25,274 | – | – |
| Intangibles | 66 | 2,428 | – | – |
| Deferred tax assets | 627 | 1,645 | – | – |
| Other | 165 | 3,348 | – | – |
| **Total non-current assets** | 16,548 | 32,695 | – | – |
| **Total assets** | 51,465 | 65,340 | – | – |
| **Current liabilities** | | | | |
| Payables | 23,789 | 9,241 | – | – |
| Interest-bearing liabilities | 62 | 15,231 | – | – |
| Current tax liabilities | 988 | 73 | – | – |
| Provisions | 3,779 | 4,373 | – | – |
| Other | 144 | 414 | – | – |
| **Total current liabilities** | 28,762 | 29,332 | – | – |
| **Non-current liabilities** | | | | |
| Interest-bearing liabilities | 240 | 12,801 | – | – |
| Deferred tax liabilities | 10 | 1,096 | – | – |
| Provisions | 429 | 531 | – | – |
| **Total non-current liabilities** | 679 | 14,428 | – | – |
| **Total liabilities** | 29,441 | 43,760 | – | – |
| Net assets acquired | 22,024 | 21,580 | – | – |
| Goodwill on acquisition | 18,217 | 6,895 | – | – |
| | 40,241 | 28,475 | – | – |
| Net cash outflow on acquisition | | | | |
| Cash consideration | 33,034 | 27,911 | – | – |
| Less net cash balances acquired | 4,350 | 2,092 | – | – |
| Cash paid/(receivable) – deferred post acquisition settlement | (1,036) | 655 | – | – |
| | 27,648 | 26,474 | – | – |

## 42 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

c) Businesses disposed

On 19th January 2005 the Roche Castings operations (principal business activity – castings foundry) was disposed. During the previous financial year a number of businesses were disposed, none of which were considered individually material. Details of disposals were as follow:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |
| Consideration: | | | | |
| Cash | 26,665 | 1,237 | – | – |
| Receivables | – | 3,069 | – | – |
| Shares | – | 1,144 | – | – |
| | 26,665 | 5,450 | – | – |
| Net assets disposed | | | | |
| **Current assets** | | | | |
| Cash | – | 60 | – | – |
| Receivables | 10,628 | 1,348 | – | – |
| Inventories | 818 | 1,132 | – | – |
| Other | 78 | 74 | – | – |
| **Total current assets** | 11,524 | 2,614 | – | – |
| **Non-current assets** | | | | |
| Investments accounted for using the equity method | – | 9 | – | – |
| Property, plant and equipment | 13,035 | 3,090 | – | – |
| Intangibles | 1,114 | 235 | – | – |
| Deferred tax assets | – | 159 | – | – |
| **Total non-current assets** | 14,149 | 3,493 | – | – |
| **Total assets** | 25,673 | 6,107 | – | – |
| **Current liabilities** | | | | |
| Payables | 2,966 | 147 | – | – |
| Current tax liabilities | – | 54 | – | – |
| Provisions | 1,042 | 520 | – | – |
| **Total current liabilities** | 4,008 | 721 | – | – |
| **Total liabilities** | 4,008 | 721 | – | – |
| Net assets disposed | 21,665 | 5,386 | – | – |
| Net cash inflow on disposal | | | | |
| Cash consideration | 26,665 | 1,237 | – | – |
| Less cash balance disposed | – | 60 | – | – |
| Cash received – prior year deferred purchase consideration | – | 2,310 | – | – |
| | 26,665 | 3,487 | – | – |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |

## 42 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

d) Non-cash financing and investing activities

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

i) Dividend reinvestment plan elections $29,123,000 (2004:$15,246,000);

ii) Issue of shares under the terms of Employee Share Plan $3,523,000 (2004:Nil); and

iii) Issue of shares on acquisition of business $3,750,000 (2004:$1,600,000);

iv) Conversion of preference shares nil (2004: $60,732,000).

e) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities:

| | Consolidated 2005 $'000 | Consolidated 2004 $'000 | Company 2005 $'000 | Company 2004 $'000 |
|---|---|---|---|---|
| Profit from ordinary activities after related income tax | 104,035 | 81,546 | 40,029 | 39,294 |
| Share of joint ventures profits/(losses) net of distributions | 1,779 | (577) | – | – |
| Depreciation and amortisation of non-current assets | 120,995 | 117,707 | – | – |
| Amortisation of deferred costs | 1,078 | 1,362 | – | – |
| Profit on sale of investments | (2,622) | (1,623) | (468) | – |
| Profit on sale of other non current assets | (8,807) | (7,291) | – | – |
| Unrealised exchange (gain)/loss | (338) | 411 | 225 | 473 |
| Increase/(decrease) in income tax payable | 16,808 | (19,953) | 10,544 | 7,352 |
| Increase/(decrease) in tax balances | (24,297) | (7,104) | (63) | (349) |
| Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses: | | | | |
| (Increase)/decrease in assets: | | | | |
| Current receivables | (114,556) | (63,338) | 1,926 | (1,015) |
| Current inventories | (36,945) | (12,163) | – | – |
| Other current assets | (17,784) | (6,101) | (357) | – |
| Non-current receivables | (3,454) | 11,319 | (21,140) | (32,286) |
| Other non-current assets | (1,281) | 1,072 | – | – |
| Increase/(decrease) in liabilities: | | | | |
| Current trade payables | 128,791 | 58,533 | (3,174) | 2,986 |
| Current provisions | 18,707 | 2,603 | (12) | (341) |
| Non-current payables | (506) | 17,908 | – | – |
| Non-current provisions | 4,354 | 7,169 | – | 70 |
| Net cash provided by operating activities | 185,957 | 181,480 | 27,510 | 16,184 |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2005 $'000** | **2004 $'000** | **2005 $'000** | **2004 $'000** |

## 43 CONTINGENT LIABILITIES

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| i) The consolidated entity has bank guarantees, bid bonds and performance bonds, issued in respect of contract performance in the normal course of business for wholly owned controlled entities | 462,263 | 334,697 | 349,822 | 316,169 |
| ii) Termination benefits under service agreements | 889 | 748 | – | – |
| iii) Claim in respect of legal costs associated with contract arbitration | – | 1,600 | – | – |
| | 463,152 | 337,045 | 349,822 | 316,169 |

In the ordinary course of business:

iv) The company and certain controlled entities are called upon to give guarantees and indemnities in respect of the performance by counter parties including controlled entities and related parties of their contractual and financial obligations. Other than as noted above, these guarantees and indemnities are indeterminable in amount.

v) There exists in some members of the consolidated entity the normal design liability in relation to completed design and construction projects. The directors are of the opinion that there is adequate insurance to cover this area.

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

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

## 44 ENGINEERING SERVICES CONTRACTS

| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
|---|---|---|---|---|
| For engineering services contracts in progress as at reporting date: | | | | |
| Engineering services work in progress | 3,395,022 | 3,623,939 | – | – |
| Progress billings and advances received | 3,378,922 | 3,549,451 | – | – |
| Less: advances received | 74,340 | 34,335 | – | – |
| Progress billings | 3,304,582 | 3,515,116 | – | – |
| Amount disclosed in statement of financial position | 90,440 | 108,823 | – | – |
| Recognised and included in the financial statements as amounts due: | | | | |
| From customers under engineering services contracts: | | | | |
| Current (Note 10) | 181,857 | 170,725 | – | – |
| Non-current (Note 14) | 1,042 | 6,498 | – | – |
| To customers under engineering services contracts: | | | | |
| Current (Note 21) | (90,893) | (66,520) | – | – |
| Non-current (Note 25) | (1,566) | (1,880) | – | – |
| Amount disclosed in statement of financial position | 90,440 | 108,823 | – | – |

## 45 FINANCIAL INSTRUMENTS

Significant accounting policies

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

Interest rate risk

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

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

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

## 45 FINANCIAL INSTRUMENTS CONTINUED

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

| | | | 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.

**Credit risk**

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

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

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

**Net fair value**

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

Off balance sheet financial instruments have been entered into for the purpose of hedging future interest and principal cashflows related to the unsecured US dollar denominated note issues. Had these financial instruments not been entered into, the principal and interest components would have been subject to movements in international exchange rates, the effect of which would have been $65,228,675 favourable (2004 $47,179,548 favourable).

**Objectives of derivative financial instruments**

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

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

**Interest rate contracts**

The consolidated entity uses interest rate swap contracts in managing interest rate exposure. Under the interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of rising interest rates.

## 45 FINANCIAL INSTRUMENTS CONTINUED

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

| | Average interest rate (including margin) | | Notional principal amount | |
|---|---|---|---|---|
| | **2005 %** | **2004 %** | **2005 $'000** | **2004 $'000** |
| Less than 1 year | – | 6.97 | – | 63,492 |
| 1 to 2 years | 7.73 | – | 98,946 | – |
| 2 to 5 years | 7.67 | 8.19 | 100,240 | 80,494 |
| 5 years or more | 7.65 | 9.23 | 117,289 | 51,587 |
| | | | 316,475 | 195,573 |

**Cross currency**

Under cross currency swap contracts, the consolidated entity has agreed to exchange specified principal and interest foreign currency amounts at agreed future dates at specified exchange rates. Such contracts enable the consolidated entity to mitigate the risk of adverse movements in foreign exchange rates.

The following table details the equivalent Australian dollar ('AUD') cross currency swaps outstanding as at reporting date.

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

**Hedges of anticipated future transactions**

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

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

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

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

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

***i) Overview***

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

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

In some areas choices of accounting policies under AIFRS are available, including elective exemptions under Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'. These choices have been analysed to determine the most appropriate accounting policies for the consolidated entity moving forward. Readers of the financial report should note that further developments in AIFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group), may result in changes to accounting policy decisions made by the directors and the likely effects of adopting AIFRS. Areas of significant differences affecting the company and the consolidated entity on adoption of AIFRS follow. All amounts disclosed are either known or reliably estimable.

***ii) Business combinations***

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

***iii) Goodwill and other intangible assets***

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

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

***iv) Income tax***

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

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

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

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

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

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

***iv) Income tax*** *continued*

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

***v) Property, plant and equipment***

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

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

***vi) Revenue from ordinary activities***

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

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

***vii) Derivative financial instruments***

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

***viii) Other financial assets and financial liabilities***

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

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

***ix) Foreign currency translation reserves: cumulative translation differences***

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

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

***x) Share-based payments***

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

***xi) Non-current assets held for sale***

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

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

**xii) Retained earnings**

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

# directors' declaration

The directors declare that:

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

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

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

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

e) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the directors

**B D O'Callaghan**
Director

**S J Gillies**
Director

Sydney, 23 August 2005

# independent audit report

**to the members of** downer edi limited

## Scope

**The financial report and directors' responsibility**

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Downer EDI Limited (the company) and the consolidated entity, for the financial year ended 30 June 2005 as set out on pages 9 to 51. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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

## Audit approach

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

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

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

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

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

## Audit Opinion

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

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

DELOITTE TOUCHE TOHMATSU

JA Leotta
Partner
Chartered Accountants

Sydney, 23 August 2005

# corporate directory

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

Downer EDi LIMITED