TRANSFIELD SERVICES LIMITED
ANNUAL REPORT 2006

TRANSFIELD SERVICES

PARTNERS FOR CHANGE

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Shareholders are advised that the 2006 Annual General Meeting (AGM) of Transfield Services Limited (Company) will be held on Monday, 30 October 2006 at the AGL Theatre, Level 2, Museum of Sydney, 37 Phillip Street (Corner Bridge Street), Sydney, commencing at 10.00am.

Cover: A Transfield Services employee at the controls of Transit New Zealand's Traffic Management Centre in Auckland.

Transfield Services is a leading international provider of operations, maintenance, asset and project management services. The Company also owns, operates and maintains major infrastructure assets.

With more than 15,000* employees working across Australia, New Zealand, the United States, the United Arab Emirates, Qatar, South East Asia and Canada, Transfield Services has created a strong platform for sustained, long-term growth.

Operating across diverse industries including mining and process, hydrocarbons, roads, rail and public transport, water, power, telecommunications, facilities management and defence, Transfield Services leverages its skills and experience from across these industries to provide tailored solutions to enhance clients' businesses.

* Includes employees of Transfield Services and its joint ventures.

CHAIRMAN'S REPORT

In my first year as Chairman, I am pleased to advise shareholders that in the 2005–06 financial year, the Company achieved profit after tax of $55.6 million, which represents an increase of 35.7 per cent on the last financial year. This result was achieved on revenue of $1.9 billion, which is an increase of 27.6 per cent on the last financial year.

The Services part of our business continues to perform strongly, achieving earnings before interest, tax and amortisation (EBITA) of $62.8 million, an increase of 44.7 per cent on the last financial year. The Infrastructure Investments also showed growth, delivering EBITA of $52.9 million, an increase of 75.2 per cent on the last financial year.

A pleasing element of this year's growth is a net operating cash flow of $151.7 million for the year ended 30 June 2006 and work-in-hand was $7.1 billion as at 30 June 2006.

The Board declared a fully-franked final dividend of 13 cents per share, to be paid on 9 October 2006, which follows a fully-franked interim dividend of 11 cents per share which was paid on 10 April 2006. The dividend of 24 cents per share for the full year represents a 20 per cent increase on last year.

During the year, the Company secured several major new contracts, expanded the range of services we provide to existing clients and enhanced our service offering, particularly in the areas of project management, capital works services and infrastructure investments. Our joint ventures continued to perform well and remain an important part of our ongoing growth strategy. This strategy has served us well, with investments and acquisitions in both the Services and Infrastructure Investments businesses enabling us to enter new regions and industries, enhancing our skill-set and creating opportunities for new work with both existing and potential clients.

The recent acquisition of US Maintenance announced in June also represents an exciting step in Transfield Services' international expansion. US Maintenance's strong service management base, particularly in the areas of facilities maintenance and electrical services, provides a platform for growth in North America. In the due diligence phase, I visited North America on behalf of the Board. I was impressed by its management team and excited by the opportunity for prudent growth in North America.

In February 2006, the Company acquired project management consultancy APP Corporation (APP). This acquisition enhances our project management capabilities, introduces us to new clients and expands our industry and geographic presence with offices across Australia and access to international operations in Singapore, India, Dubai and London.

In October 2005, Kemerton Power Station was commissioned, the final phase in a two-year project for Transfield Services. Constructed, owned, operated and maintained by Transfield Services, this addition to Transfield Services' infrastructure portfolio was completed on budget and on time, meeting the demands of Western Australia's peak power period. Once again, we demonstrated our ability to deliver an end-to-end service to our clients.

The acquisition of a stake in Loy Yang A Power Station in Victoria is another valuable addition to our investment portfolio and provides us with an opportunity to participate in the merchant electricity market.

Transfield Services has completed the reorganisation of the infrastructure assets into a single wholly-owned subsidiary, as well as the refinancing of $450 million of project finance debt into a single corporate facility. Infrastructure investments are a core part of Transfield Services' growth and the restructuring of this part of our business will provide flexibility for future growth.

In August 2006, Transfield Services raised approximately $270 million through an entitlement offer to eligible shareholders. The funds raised will be used to repay existing debt, strengthen our balance sheet and provide financial flexibility for future growth opportunities.

The Board is committed to maintaining investor confidence and enhancing shareholder value. Overseeing the implementation of the Company's growth strategy and performance, the Board is guided by the Australian Stock Exchange (ASX) Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. The Corporate Governance section of this Annual Report details our commitment to best practice corporate governance.

I have served on the Board since its listing in 2001 and at that time, the Company had revenue of $611 million and employed approximately 5,000 people across Australia and New Zealand. Today, we have established ourselves as a leader in the services industry, with revenue approaching $2 billion and more than 15,000 employees across Australia, New Zealand, the United States, the United Arab Emirates, Qatar, South East Asia and Canada.

In the Company's fifth year as a listed company, it is clear our performance remains strong. The Company's success today is due in a large part to the solid foundations on which it was established. These foundations were laid by the Founding Chairman of Transfield Holdings, Mr Franco Belgiorno-Nettis, who sadly passed away on 8 July 2006. Through his passion, his insistence upon the highest standards of health and safety in the workplace, his commitment to integrity and motivating employees to strive for excellence, Transfield Services has become a leader in its industry. It is a testament to Franco that these ideals remain part of Transfield Services today.

On behalf of your Board, I congratulate the management and staff who have contributed to your Company's sustained growth over the past five years. Growth such as we have experienced does not happen by chance – it is a function of the hard work, enthusiasm and diligence of our employees. Your Directors and I are confident that the Company's long-term client relationships and proactive growth strategy, combined with a number of quality opportunities, have us well placed to deliver continued growth.

ANTHONY SHEPHERD
CHAIRMAN

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT

Transfield Services has had another successful year highlighted by the quality of earnings, recurring growth and strong cash generation. Our core Services and Infrastructure Investments businesses have expanded during the year through organic growth. This has been complemented by a number of acquisitions in Australia and overseas.

This strategic growth and international expansion has enabled us to enhance our range of services, add value to existing clients and secure new clients, all of which are commensurate with increased shareholder return. Our reputation for continuous improvement and solid results in the Australian and New Zealand markets has provided a strong platform from which we will continue to grow.

Our commitment to alliances and partnerships as our preferred relationship model is backed by our brand promise – 'Partners for Change' – which focuses on solutions that deliver the best outcome for our clients. Testament to this approach, and our proven customer service performance, is our high client retention rate and I am pleased to report that during the year we successfully retained or extended work with several long-term clients including Caltex, Shell, Woodside, Transit New Zealand, Telstra Corporation (Telstra) and the Department of Defence in South Australia.

Project management of sustaining capital works is a growing part of Transfield Services' business and has enabled us to add significant value to existing clients and win work with new clients. Since July 2005, the Company has worked with existing clients including ExxonMobil, Sydney Water, SP AusNet in Australia and Transpower in New Zealand, to deliver project management and capital works services. Our involvement in the Gippsland Water Factory is our largest project delivery alliance to date, representing significant organic growth and highlighting the importance of our strong client relationships. The acquisition of project management consultancy APP, in February 2006, will further enhance Transfield Services' project management capabilities.

Organic growth has been facilitated by Transfield Services' growing skill base and expertise across a diverse range of industries. During the year, this resulted in a number of contracts which included work with NSW Schools, Woodside Energy Ltd, Transit NZ and The Water Corporation in Western Australia.

Joint ventures and alliances are also key building blocks for growth and through our joint venture with WorleyParsons, we renewed and expanded our engineering and sustaining capital works contract with Woodside in Western Australia. Valued at $700 million over three years, it is the largest integrated services contract in Australia.

Building on a successful partnership, Transfield Services and Transdev have joined forces to extend the provision of operations and maintenance services to rail, ferry and bus systems across Australia and New Zealand. The new joint venture, Transdev TSL, will continue its successful operations and maintenance of Yarra Trams and Brisbane's ferry services and has assumed ownership of Shorelink Bus Company, which carries approximately two million passengers per year throughout Sydney's northern suburbs.

Our infrastructure assets performed well during the year. Highlights included the commissioning of Kemerton Power Station in October 2005 on time and on budget. In addition, Townsville Power Station completed its first full year of baseload operations, exceeding the plant's guaranteed availability targets for every month. Together with the acquisition of a stake in Loy Yang A, the enterprise value of our infrastructure assets now exceeds $1 billion.

In June 2006, we announced the purchase of North American-based company US Maintenance, a leading provider of outsourced contractor management services. This was followed by the announcement of a joint venture with Flint Energy Services Ltd., a leading Canadian construction and maintenance services company, to pursue opportunities in the rapidly expanding North American hydrocarbons sector. The acquisition of Intergulf in June, also gives us access to the opportunities in the Abu Dhabi hydrocarbons and power industries.

The appointment in 2005 of Chief Executive Officers in the four key business areas of Australia, New Zealand, International and Infrastructure Investments to effectively manage this growth has resulted in improved leveraging opportunities and considerable synergistic improvements across the Company.

Our Company is built on the integrity and performance of our people and with more than 15,000 employees, Transfield Services is fast becoming one of Australia's largest employers. We have achieved this because our employees remain aligned to the Company priorities, which are designed to focus our employees toward a common goal – to continuously improve our clients' businesses and therefore maximise shareholder value. Our priorities are detailed on pages 6 to 8 of this Report. The Company's annual Sustainability Report focuses on these key areas and demonstrates our commitment to taking care of our people, supporting local communities and minimising our impact on the environment.

With a focus on long-term growth, we are continuously providing opportunities for employee development. In 2005–06, more than 2,000 employees undertook training and development courses. Also conscious of developing new talent, we currently employ more than 750 apprentices and 50 university graduates across the Company.

I would like to take this opportunity to thank all employees for continuing to embrace the new opportunities we face with commitment, passion and energy as the Company continues on its path of sustained growth.

PETER WATSON
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS




ANTHONY SHEPHERD
CHAIRMAN

Bachelor of Commerce

Anthony was appointed a Director on 6 March 2001 and was re-elected at the 2003 Annual General Meeting, becoming Chairman in 2005. In accordance with the Constitution, Anthony will retire as a Director at the 2006 Annual General Meeting. Being eligible, he offers himself for re-election.

Anthony is also Chairman of the ConnectEast Group and a Trustee of the Sydney Cricket and Sports Ground Trust. Anthony spent 15 years in the Federal Public Service before becoming an executive of Transfield Holdings Pty Ltd where he held the position of Chief Executive Officer Project Development until 2000.

Anthony was responsible for the development of many landmark projects including the Sydney Harbour Tunnel, Melbourne CityLink, and a number of other build-own-operate-transfer projects as well as the redevelopment of Walsh Bay. He chaired the consortium which won the Lane Cove Tunnel Project and was an inaugural director of Transurban Limited.

Resides in Sydney.
Age: 62

BERNARD WHEELAHAN
DEPUTY CHAIRMAN

Bachelor of Science
Diploma of Education

Bernard was appointed a Director on 9 March 2001 and was re-elected at the 2003 Annual General Meeting. In accordance with the Constitution, Bernard will retire as a Director at the 2006 Annual General Meeting. Being eligible, he offers himself for re-election.

Bernard is Chairman of the Bass Strait Oil Company Limited, Pacific Hydro Limited and the Council on Australia Latin America Relations (COALAR). His previous roles include President of Shell Venezuela, director of Normandy Mining Limited, Chairman of Gribbles Group Limited, executive director of Shell Australia Limited, and non-executive director of Woodside Petroleum Limited.

Bernard has held a number of senior executive positions with the Shell Group and is a Fellow of the Royal Australian Chemical Institute, the Australasian Institute of Mining and Metallurgy, the Australian Institute of Energy and the Australian Institute of Company Directors.

Resides in Melbourne.
Age: 64

PETER WATSON
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Diploma of Engineering (Civil)

Peter was appointed Managing Director and Chief Executive Officer of Transfield Services in June 2002. Peter has played an integral role in the successful development of Transfield Services since its inception in 1993, leading the organisation as CEO through its successful public listing in May 2001. Peter has successfully guided the international expansion of the Company and was instrumental in the acquisition of US Maintenance, which operates throughout the United States and Canada.

Peter is a director of most of Transfield Services' subsidiary companies, a member of the Institution of Engineers Australia and a member of the Australian Institute of Company Directors. Peter is a member of the Strategic Advisory Panel for the University of Sydney's Project Management Graduate Program and is a member of the Australian Industry Group Defence Council's National Executive. He is a founding sponsor of the Australian Sustainable Industry Research Centre and a member of the Save the Children Australian Business Alliance Council.

Resides in Melbourne.
Age: 50

GUIDO BELGIORNO-NETTIS

Master of Business (Engineering)
Bachelor of Engineering (Civil)

Guido was appointed a Director on 14 January 1998 and was re-elected at the 2004 Annual General Meeting. Guido played a key role in nurturing and promoting Transfield Services as a new business within Transfield Holdings Pty Ltd in the 1990s. His involvement in developing complex infrastructure projects in that period led to the identification of the outsourcing of maintenance and operations. Guido was also responsible for the Company's foray into the ownership of infrastructure investments, some of which remain owned by Transfield Services Limited today.

Guido is the Managing Director of Transfield Holdings Pty Limited. Other board memberships include: director ADI Limited; Chairman Australian Chamber Orchestra; Chairman Campus Living Pty Limited; member of the Australian Graduate School of Management Advisory Council; member of the President's Council of the Art Gallery of NSW. He was also an inaugural director of Transurban Limited.

Resides in Sydney.
Age: 49

LUCA BELGIORNO-NETTIS

Bachelor of Architecture
Graduate Diploma in
Urban Estate Management

Luca was appointed a Director on 2 July 1999 and was re-elected at the 2004 Annual General Meeting. Luca is a director of Transfield Holdings Pty Limited, its subsidiary companies and ADI Limited. Luca has been Associate Managing Director of Transfield Holdings Pty Limited since May 1999.

Luca has also held senior executive positions within Transfield Pty Limited, including Regional Director Asia, General Manager, Transfield Properties and Director, Sabemo Development. Luca has extensive experience in the building and development industries of Australia and South East Asia and is Chairman of the Biennale of Sydney.

Resides in Sydney.
Age: 52

PROFESSOR STEVE BURDON

Master of Business Administration
Bachelor of Science (Honours)

Steve was appointed a Director on 20 December 2000 and was re-elected at the 2005 Annual General Meeting. Steve is Visiting Professor of e-Business at the University of Technology Sydney, a Fellow of the Australian Institute of Company Directors, Australian Institute of Management (AIM) and the Institution of Engineers Australia. He previously held the position of Managing Director of OTC, Group Managing Director of Telstra and Managing Director of British Telecom, Asia Pacific.

Steve is a director of VisAsia Limited, Criteria Research and Analysis Pty Limited, the President's Council of the Art Gallery of NSW, AIM Academic Advisory Board and Criteria Research and Analysis Pty Limited. He is also an adviser to a number of organisations including Telstra, Commonwealth Bank of Australia, Alcatel and the Benfield Group (UK).

Resides in Sydney.
Age: 63

DENIS CLEARY

Diploma in Marketing
(Financial Services)

Denis was appointed a Director of Transfield Services on 6 March 2001 and was re-elected at the 2004 Annual General Meeting. He is Chairman of the Advisory Board, Macquarie Community Partnerships – Banking and Property Group – Macquarie Bank Limited.

Denis was Chairman of Solution 6 Holdings Limited, a founding director of MLC Building Society and later Deputy Chairman of NRMA Building Society. He previously held the position of Chairman of the Darling Harbour Authority Audit and Compliance Committee and Executive Chairman of Australian Investment Finance Limited.

Resides in Sydney.
Age: 64

MEL WARD AO

Master of Engineering Science
Bachelor of Engineering (Honours)

Mel was appointed a Director on 6 March 2001 and was re-elected at the 2005 Annual General Meeting. Mel is Chairman of the Risk, Audit and Compliance Committee and Chairman of the Remuneration and Organisational Development Committee.

Mel is Chairman of The Major Performing Arts Board of the Australian Council for the Arts. He is a director of Coca-Cola Amatil Limited, Insurance Manufacturers of Australia Pty Limited, Pro Medicus Limited, West Australian Newspapers Limited and Macquarie Communications Infrastructure Group. Mel previously held the position of Managing Director of Telecom Australia and Chairman of Telecom Australia (International) Limited. He is a Fellow of the Australian Academy of Technological Sciences and Engineering.

Resides in Melbourne.
Age: 64

COMPANY PRIORITIES

Instrumental to the Company's consistent growth during the past five years has been a set of Company priorities that provide direction to employees on the way they approach their daily activities. These priorities have been set based on the Company's ultimate goal – to continuously improve clients' businesses and create a business that is positioned for sustainable growth, thus delivering maximum shareholder return.

OUR PEOPLE

Human Resources

Transfield Services employs more than 15,000 people across a diverse range of industries, skills and regions. Employing a number of strategies, the Company is committed to providing a working environment based on the principles of diversity, health and safety, equity and equal employment opportunity.

Transfield Services employs more than 750 people through apprenticeship programs and 50 university graduates and is committed to expanding this intake in the current financial year. This commitment to apprenticeships and traineeships, together with other initiatives, is being actively pursued to manage the challenges presented by skills shortages and the ageing workforce in some regions. Transfield Services' 2006 Sustainability Report provides further detail on the Company's commitment to new employees.

In keeping with the Company's commitment to leading edge information technology and human resource management systems, Transfield Services recently implemented an e-Recruitment tracking and database system. The adoption of this system provides access to employees from across the globe, underpinning the maintenance and development of a world-class workforce and providing attractive value propositions for existing and potential employees.

TranShare

Participation in the employee share plan, TranShare, has remained at more than 20 per cent across Australia and New Zealand during the financial year. Employee participation in the plan is a sign of their long-term commitment to the Company.

WorkChoices Legislation

Following the introduction of the WorkChoices and Building and Construction Industry Improvement Act reform legislation, the Company has audited all workplace agreements to ensure compliance throughout Australia and is focused on achieving best practice workplaces across our international business.

Learning and Development

The Company's ongoing training and development needs are being met through strategic alignments with a number of educational organisations and Transfield Services' Registered Training Organisation, which has recently been expanded.

The Workforce Development Program assists in developing the capability of the 12,000-strong trade workforce, which is critical to the Company's growth. The program focuses on building behavioural and technical competencies as part of the overall drive to improve performance, retention and effectiveness.

To enhance succession planning and employee development, a Key Position Management Program has been developed and performance development reviews are 100 per cent complete across all contracts. Succession planning is also supported through multi-tiered development programs for critical positions within the organisation and an increased number of management and supervisor programs.

During the year, more than 2,000 employees completed training courses in the areas of health, safety and the environment; communication; leadership; and management.

RISK, HEALTH, SAFETY AND ENVIRONMENT

Risk Management

Transfield Services' risk management system is based on a culture that encourages employees to 'Think Risk', that is, being constantly aware of and appropriately managing risk at all times. By investigating and assessing potential strategic and operational risks across the entire business, we are able to keep abreast of potential risks and implement appropriate mitigation strategies.

Key elements of the risk management strategy include:

– continuous refinement of the risk review and mitigation processes;

– regular risk profile reporting on key performance criteria;

– a combined qualitative and quantitative risk analysis at all levels of the business; and

– anonymous reporting hotline and investigation process.

Quality and Continuous Improvement

During the year, the Company's Safety and Quality Management certification was retained for Australia and New Zealand including the new Telecommunications business. Transfield Services' commitment to this area included inaugural certification for the recently-acquired Broadspectrum business in Australia and for Transfield Services in Malaysia. This certification is also being pursued with a number of joint ventures within Australia and the Gulf Region. This demonstrates the Company's culture of safety, customer service excellence, a passion for being process-driven and continually improving systems.

With an increasing reliance on corporate processes to provide direction for all operations, Transfield Services has adopted the INFORM Management System (IMS) which provides superior search functionality, flexibility and increases the scope of the Company's management systems.

Health, Safety and Environment (HSE)

Transfield Services is built on a platform of health, safety and well-being for employees, clients, the general public and the environment. Achieving excellent safety and environmental outcomes across such a large and diverse business requires a combination of strong workplace safety culture underpinned by a robust and effective management system. In this regard, the most important initiative over the past 12 months has been the introduction of the Leadership Commitment Program (LCP). This program is designed to ensure safe work systems are translated into safe workplace behaviours.

Another important initiative is Transfield Services' evidence-based safety program, which commenced in late 2005. This program is based on sponsoring research through post-graduate programs, which provides analysis on the effectiveness of safety initiatives. This research is used to continually review the academic theory behind safety initiatives and further support and foster the education of the Company's future HSE professionals.

While Transfield Services' core health and safety performance has continuously improved, new contract wins and acquisitions have had an adverse effect on the Company's overall Lost Time Injury and Serious Injury Frequency Rates. Transfield Services' HSE systems and improvement initiatives are currently being implemented across recently awarded contracts and acquisitions in order to improve both their performance and culture.

Corporations Act Section 299(f) Declaration
Transfield Services operations are subject to environmental regulation under a wide range of Commonwealth, State and Territory laws. All operations were compliant with these obligations during the year. Further information on the Company's environmental management system and performance is provided in the Company's 2006 Sustainability Report, available at www.transfieldservices.com.

Sustainability and Community
A commitment to corporate citizenship, community consultation and social responsibility is key to Transfield Services' ongoing success. With this in mind, a Sustainable Communities Strategy has been developed with the objective of implementing 15 community plans across Australia and New Zealand during the year. The strategy utilises a Local Economy Investment Model, which was developed by Transfield Services to measure the amount of community investment made by each contract, including where possible, the use of local employment, subcontractors and procurement.

Indigenous Relations
In consultation with indigenous leaders, elders, land councils and communities, an Indigenous Relations Strategy was developed in Australia, which includes a number of initiatives designed to facilitate better engagement and understanding of indigenous issues. These include:

– development of an Indigenous Relations Policy;
– participation in the Commonwealth Corporate Leaders Program supporting indigenous employment;
– establishment of an Indigenous Reference Group to help guide the implementation of the Indigenous Relations Strategy; and
– identification of a Cultural Awareness Program to assist in educating existing and future employees in their understanding of indigenous issues.

CONTRACT AND RELATIONSHIP RETENTION

Business Information Systems (BIS)
Transfield Services continues to invest in information systems to support the building blocks for growth, manage costs and effectively service customers.

Strategically, the direction for information systems is to continue to build a 'fit to grow' environment utilising the capabilities of business solutions software, SAP, to:

– lower the Company's cost base through process automation;
– enhance analysis and decision-making capabilities via timely delivery of accurate information; and
– strengthen relationships by automating links between customers and suppliers.

The BIS team plays a critical role in the mobilisation and transitioning of contract renewals and acquisitions. A key strategic focus for the BIS team this year is to leverage existing system investments to provide low cost information technology solutions and support the Company's international growth by ensuring a rapid response to establishing international operations.

Customer Service
Compliance with the International Customer Service Standard (ICSS 1999-2006) and the Australian Privacy Act were retained during the year, with a number of new processes developed to support the customer service practices of the organisation. These included:

– subcontractor competency assessments;
– site-based Customer Service Action Plans;
– stakeholder Engagement Models; and
– building Better Relationships Training Program.

Employee training tools were enhanced with a particular focus on front-line customer service training to those contracts where Transfield Services represents the client to the public, as well as strategic customer service training to the future leaders of the organisation in conjunction with the Company's succession planning.

Asset Management
In its second year of implementation, Transfield Services' Asset Management System was installed in a number of industries including sugar mills, power generation, defence, rail and road infrastructure and facilities management. The system delivers greater value to customers through the application of an integrated, outcome-driven approach to asset management.

To ensure processes are based on industry best practice, Transfield Services has maintained a relationship with the Asset Management Council since 1994, and this year in support of the Company's international expansion strategy, Transfield Services was the principal sponsor at the inaugural World Congress on Engineering Asset Management.

Project Management
Significant investment in Transfield Services' project management capabilities to meet the requirements of clients in both new and sustaining capital works programs was enhanced during the year with the establishment of a new business unit, Major Projects and Programs, and the acquisition of project management company APP.

During the year, the Company successfully delivered capital works projects and programs for long-term clients including Shell, ExxonMobil, Gippsland Water, Sydney Water and, in New Zealand, Meridian Energy and Transpower. The Company's project management expertise was recognised nationally by the 2006 Process and Control Engineering (PACE) Zenith Awards in the Transport, Power and Infrastructure category for its completion of Kemerton Power Station. Transfield Services is also implementing service delivery models to new clients including The Water Corporation in Western Australia.

The group will continue to invest in system enhancements and services will be expanded to include the Company's growing international operations.

GROWTH

GROWTH

Since listing in 2001, Transfield Services has delivered sustained growth and increased shareholder value. The combination of the building blocks strategy and positive growth culture has continued to drive the Company's success throughout the year.

Work-in-hand has grown to over $7.1 billion, and total revenue is approaching $2 billion.

The support of shareholders has also been instrumental to the Company's growth with a successful capital raising in August 2006 strengthening the Company's balance sheet and providing financial flexibility for future growth opportunities.

Commensurate with the Company's growth in the past year was the induction of more than 2,000 new employees, bringing the total number of employees to more than 15,000. The achievements of the Company's sustainable growth strategy and platform of building blocks in the past financial year include:

Contract Retention
Transfield Services has an alliance-based approach to working with clients. This approach, which focuses on increasing their reliability and productivity while reducing ongoing maintenance costs, is a key success factor to retaining long-term relationships with many valued clients. Key relationships with Caltex, BlueScope Steel, Shell, Woodside, Telstra, Department of Defence (SA), Transit NZ and Transurban were all renewed during the year.

Value Add to Existing Clients
An ability to add value to clients' businesses through continuous improvement and innovation is also integral to the Company's ongoing success. Transfield Services provides clients with best practice maintenance services as well as a broader range of integrated services from delivery of sustaining capital, project and asset management services through to operations of infrastructure facilities and plant. Examples of value adding services include project management services to Telstra as well as capital works services to SP AusNet and Gippsland Water.

Organic Growth
Organic growth has been facilitated by Transfield Services' growing skill-base and expertise across a diverse range of industries. New contracts for the year included: NSW Schools for facilities management and maintenance services of schools, colleges and government sites; Woodside Energy Ltd for an expanded engineering and maintenance services contract, Transit NZ for road maintenance services; and The Water Corporation in Western Australia for network upgrades.

Joint Ventures and Alliances
Through alliances and partnerships, Transfield Services is able to provide a tailored solution to meet clients' unique needs. This philosophy resulted in a number of wins during the year, including the contract to design, build, commission and operate Gippsland Water Factory in an alliance with Gippsland Water, CH2M HILL and Parsons Brinckerhoff.

The Company's work with Woodside Energy Ltd also expanded significantly with Transfield Worley Services signing a new three-year contract for engineering and maintenance services. In addition, joint venture company Five D secured the Australia Post property and facilities management services contract for a three-year period.

Investments and Acquisitions
The acquisition team works closely with the Services and Infrastructure Investments businesses within the Company to deliver new work, skills and assets that complement organic growth strategies. Highlighting this strategic alignment was the acquisition of project management consultancy APP in February 2006. In addition, the acquisition of a stake in Loy Yang A Power Station in Victoria is a valuable addition to Transfield Services' infrastructure investments portfolio and provides an opportunity to participate in the merchant electricity market.

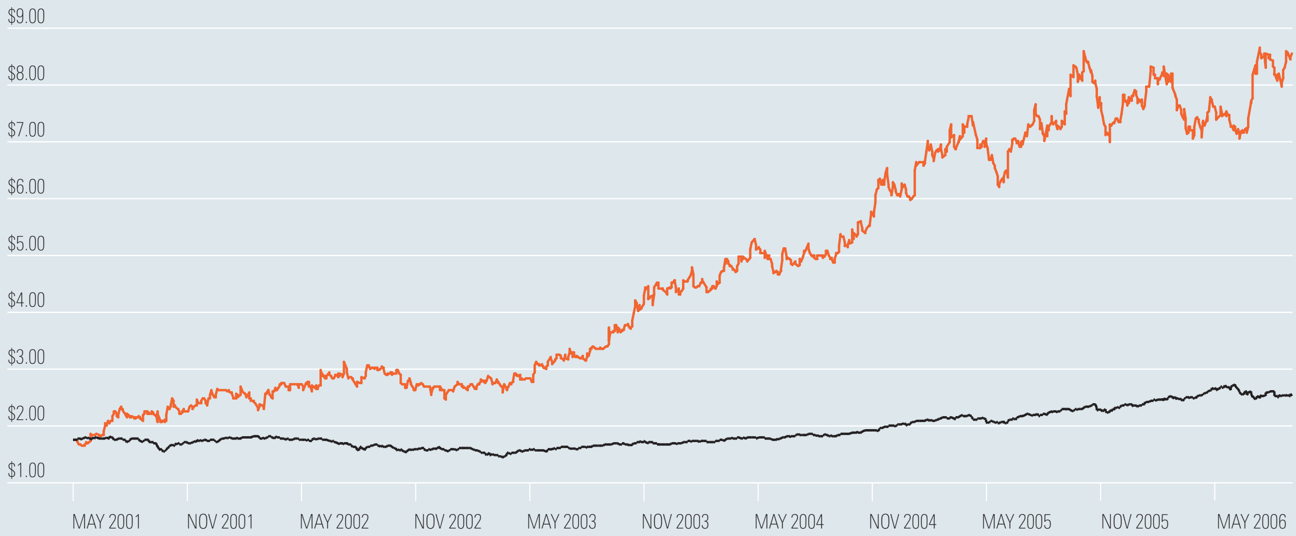
International
International expansion has been a key focus for the Company over the past few years. The Mining, Process and Hydrocarbons group has led this expansion with strong progress being made with RasGas in Qatar and the acquisition of Intergulf in Abu Dhabi providing a significant presence in the Gulf Region's hydrocarbons industry. An office in Canada has been established and a joint venture with Flint Energy Services Ltd. has been formed to capture the emerging opportunities in the oil sands industry. The acquisition of North American-based company US Maintenance also provides a solid platform for Transfield Services to develop an expanded services offering in the expansive US facilities management and maintenance market.

TRANSFIELD SERVICES FINANCIAL PERFORMANCE

YEAR ENDED 30 JUNE 2006	**2006 $M**	2005 $M	PERCENTAGE CHANGE
Revenue	**1,924.1**	1,508.4	+27.6
Earnings before interest, tax and amortisation (EBITA)	**115.7**	73.6	+57.2
Profit after tax	**55.6**	41.0	+35.7
Earnings per share (pre-amortisation)	**37.8 cents**	28.7 cents	+31.7
Dividend per share	**24 cents**	20 cents	+20.0

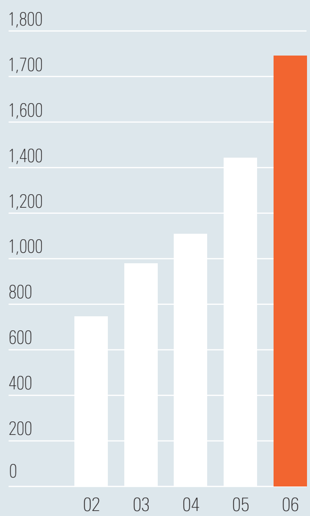
– fully-franked interim dividend of 11 cents per share paid on 10 April 2006.
– fully-franked final dividend of 13 cents per share payable on 9 October 2006.

TRANSFIELD SERVICES SHARE PRICE PERFORMANCE SINCE LISTING ON 3 MAY 2001



TSE $1.60
S&P/ASX 200 $1.67

REVENUE SERVICES $M



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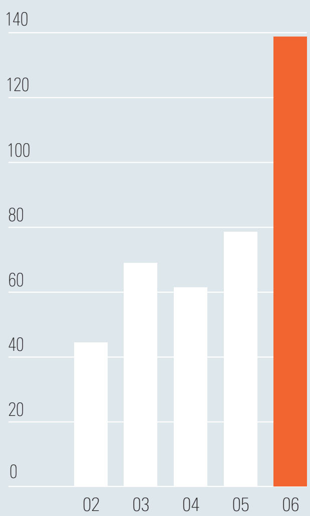
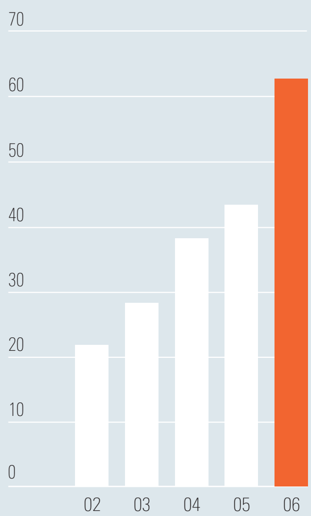
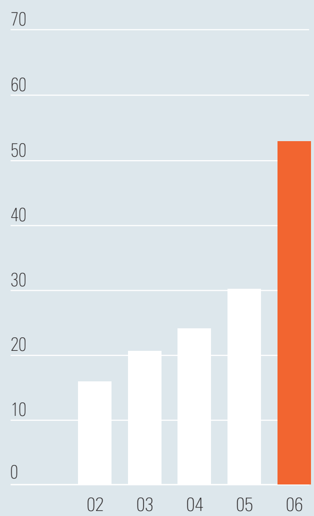


EBITA SERVICES $M



EBITA INFRASTRUCTURE $M



2002–2004 are in accordance with Australian Generally Accepted Accounting Principles (AGAAP) and 2005–2006 are in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).

REVIEW OF OPERATIONS
AUSTRALIA

APP's comprehensive project management strategies continue to deliver innovative solutions for clients.

AUSTRALIA

The Australian business recorded revenue of more than $1.4 billion and EBITA of $48.6 million during the year. While a solid financial position underpins the Australian operations, the focus on continuous improvement will ensure maximum efficiency and sustained growth.

During the year, the business utilised the vast resources and expertise from across its industry groups to enhance the range and delivery of services provided to clients.

Mining, Process and Hydrocarbons

Increased global demand for resources has driven unprecedented expansion in Australia's mining and resources sector. The Mining, Process and Hydrocarbons (MPH) group's capabilities and experience has enabled it to take full advantage of this demand.

During the year, Transfield Services extended long-standing relationships with BlueScope Steel, Caltex, Queensland Nickel (QNI) and Shell.

Other highlights included the expansion of maintenance services work with Santos, the execution of ExxonMobil's and Shell's clean fuels projects and, in an alliance with ADI, significant progress on the upgrade of its Fast Frigate Guided Missile ships. REB Engineering was also integrated into Transfield Services during the year in order to capitalise on synergies and improve efficiencies at BMA as well as meet the market's growing demand for contract engineering services.

Broadspectrum enhanced the range of electrical and instrumentation services provided to Transfield Services' clients and, in addition to sustaining and expanding its core business, it has extended its services to the Western Australian, Queensland and New South Wales mining and hydrocarbons industries.

Extending a 10-year relationship, Transfield Worley Services signed a new contract with Woodside undertaking engineering and maintenance services.

Facilities Management

The Facilities Management group delivered a strong result through a number of high-performing contracts and the growing demand for project and capital works management.

Key highlights for the year included the retention of Garrison Support Services for the Commonwealth Department of Defence in South Australia and the retention and expansion of services to Telstra to include the provision of telepower services through a joint venture with Silcar.

Building on a nine-year relationship with Telstra, Transfield Services also secured an additional 12-month contract for project and capital works management services for internet data centre upgrades at Telstra's exchanges.

Five D, the Company's integrated facilities and property management joint venture with Colonial First State Property, secured new contracts including Australia Post and NSW Commerce (Crown Property Portfolio) and is well placed to take advantage of further opportunities.

Utilities

The Utilities group comprises telecommunications, water and electrical services. Highlights during the year included:

- extension and leveraged growth from the Telstra Access Services' contracts in Brisbane, Queensland Country, Sydney and Canberra;
- growth in leveraged capital works from the long-term relationship with SP AusNet in Victoria;
- growth in capital works with Sydney Water, Melbourne Water and Gippsland Water; and
- securing a capital works contract with The Water Corporation in Western Australia in a joint venture with Sinclair Knight Merz.

Power Operations and Maintenance

The Power Operations and Maintenance group manages more than 1,000MW of power generation assets including Townsville and Collinsville Power Stations in Queensland, Kemerton Power Station in Western Australia and Collie A Power Station through its joint venture company Transfield BRW Services. In the first of a six-year contract for Verve Energy, Transfield BRW Services successfully completed the first major outage at the 330MW Collie A Power Station.

The Company's joint venture with General Electric, TGE Energy Services, won a number of new contracts and acquired Transfield RSA to service growing demand across the east coast.

Transport Infrastructure

Highlights for the year included a two-year extension of the NSW Roads and Traffic Authority roads maintenance contract in the north-east region of Sydney. The Company has commenced pre-operational activities in preparation for the opening of the Lane Cove Tunnel in Sydney and EastLink in Melbourne. The Company also renewed its operations and maintenance contracts with Melbourne CityLink.

Transfield Services has improved maintenance schedules and optimised associated rail assets across the South Australian rail network and the Sydney and Brisbane airport rail links. Enhanced orientation and training programs improved occupational health and safety performance by 40 per cent on the South Australian rail network.

Yarra Trams recorded a robust financial performance through effective cost management and fare revenues. During the 2006 Commonwealth Games, Yarra Trams provided 17,000 extra tram services and its efforts were commended by the Victorian Government. MetroLink Queensland (Brisbane's CityCats and CityFerries) performed well with patronage increasing 55 per cent over the past three years and operating hours increasing by 25 per cent.

Major Projects and Programs

The Major Projects and Programs (MPP) group was established to meet the growing demand for new and sustaining capital works programs and expert project managers. Project management consultancy APP forms part of this group.

ADDING VALUE TO EXISTING CLIENTS

In February this year, the Company acquired APP, a project management consultancy specialising in building and construction management; urban and property development and business project management. The acquisition provides geographic and industry expansion, introduction to new clients and significantly enhances the Company's range of services.

APP has undertaken project management of some of Australia's largest building and construction projects including Canberra's National Portrait Gallery and some of Australia's largest-ever commercial office projects for companies including Westpac, Stockland and Marsh Mercer.

APP will continue to operate as a stand-alone business, identifying and pursuing new opportunities as well as adding value to new and existing clients of Transfield Services.

REVIEW OF OPERATIONS
NEW ZEALAND

NEW ZEALAND

The past year has been a period of consolidation for Transfield Services New Zealand. The business unit was restructured into five divisions to provide greater alignment and synergies across the Company. The new structure includes Facilities Management; Infrastructure; Telecommunications; Electrical, Mechanical and Power; and Mining, Process and Hydrocarbons.

The New Zealand business recorded strong growth during the year, with revenue of $366.3 million and $15.2 million EBITA. While the facilities management and telecommunications markets face significant challenges such as low cost entry barriers for the former and tightening margins for the latter, the increasing demand for road and electricity infrastructure provides significant opportunities.

Facilities Management

As part of the consolidation of the New Zealand business, the Facilities Management group has undergone significant streamlining. The group is focusing on opportunities in which scale, systems and process are an integral part of the value proposition. This is demonstrated through the level of growth and development in the housing market in which the Company provides maintenance services to major customers such as Housing New Zealand and Wellington City Council.

Electrical, Mechanical and Power

The Electrical, Mechanical and Power (EMP) group showed strong growth in the past year resulting in employee numbers increasing 10 per cent to 750, to meet the growing demand for services. Partnerships with many of the industry leaders including Transpower, TrustPower, Meridian Energy, Vector and PowerNet have assisted this growth.

Significant work and contractual successes during the year included:

- ongoing work at Manapouri Power Station for Meridian Energy, refurbishing generation units and replacing turbine runners;
- awarded the contract to build stage three of the Tararua wind farm for Transpower and TrustPower; and
- an upgrade at Central Park substation working with Transpower and Vector to modernise New Zealand's national grid to meet growing demands.

Through its electrical services work, Transfield Services plays a vital part in helping to restore power in the event of storm damage. The Prime Minister of New Zealand, The Right Honourable Helen Clark, commended Transfield Services' responsiveness to restore power to thousands of farms and towns on New Zealand's South Island following a major snowstorm in June.

The outlook for this sector in the medium term is positive, with proposed investment in the national grid and major distribution networks providing a number of growth opportunities.

Infrastructure

The Infrastructure group again performed well. During the year, the group was successful in its tender for the Transit New Zealand West Waikato Hybrid General Maintenance contract. The five-year contract covers 290 kilometres of State Highway Network around Hamilton in the North Island of New Zealand and reinforces the Company's relationship with Transit New Zealand. In July 2006, building on the Company's relationship with Transit New Zealand, Transfield Services was awarded the contract to design and implement a $43 million travel-demand management solution on the Auckland motorway system over the next three years.

Transfield Services was also successful in retaining the maintenance contract for the Lyttelton Tunnel for a further five years. The market environment for road infrastructure remains positive in the medium term given the high level of investment committed to the sector at both the national and regional levels.

Telecommunications

The Telecommunications sector remains challenging with tightening margins, a shortage of skilled resources and regulatory changes. Accordingly, the Company is streamlining processes, recruiting new apprentices and reviewing other ways in which it can meet the demands of this sector.

Mining, Process and Hydrocarbons

The Company's joint venture with WorleyParsons has enjoyed considerable success over the past five years, with significant long-term working relationships with New Zealand Refining Company and Shell Todd Oil Services. Employing nearly 300 people, Transfield Worley Services has successfully diversified into winery development and cement plants, the latter providing significant development work with Golden Bay Cement.

The joint venture's prospects remain strong on the back of continued investment in energy and heavy industry.

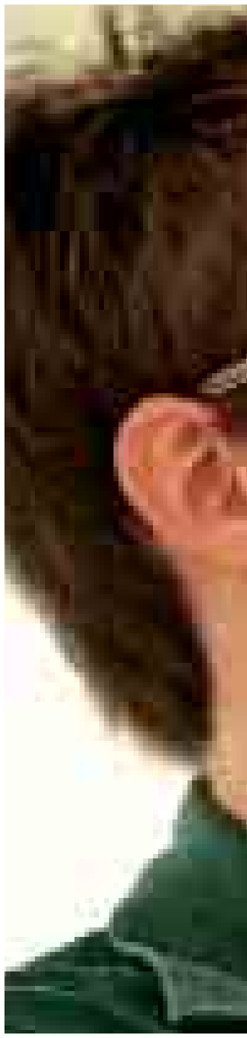
INVESTING IN PEOPLE

New Zealand's current demand for skilled labour has resulted in significant employment pressure in all sectors in which we operate. Transfield Services New Zealand is actively addressing the skills shortage with a focus on its apprenticeship and graduate programs.

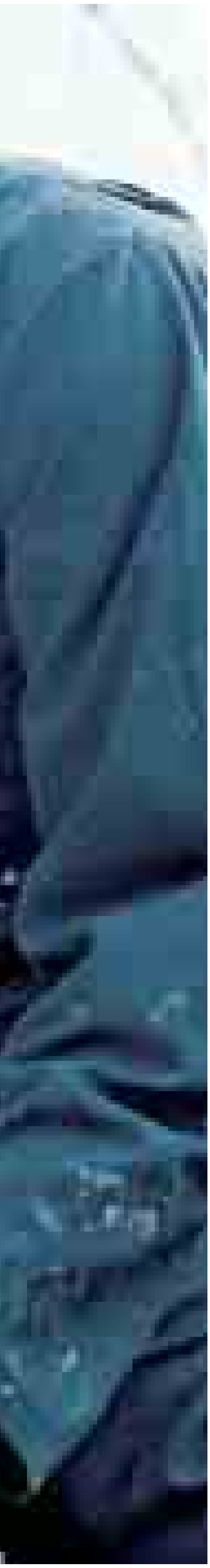
Our apprenticeship recruitment program has three intakes annually – two groups supplying trainees to the Telecommunications group and one for the Electrical, Mechanical and Power group. We employ more than 160 trainees across New Zealand. Training continues throughout the length of the apprenticeship, with regular courses bringing the young tradespeople back together for ongoing upskilling and career development.

Running in parallel with the apprenticeship framework is our graduate recruitment program which actively markets Transfield Services to engineering students at the country's two biggest University engineering faculties – Auckland and Canterbury.

In addition to recruiting new talent, Transfield Services New Zealand is also dedicated to upskilling employees. Throughout the year, more than 1,000 employees undertook training in the areas of safety and risk management, leadership, customer service, compliance, commercial skills and technical trades training.



A Transfield Services apprentice receiving technical training from a mentor (top). Members of the Company's Telecommunication Services apprenticeship program (left). New apprentices on the Transit New Zealand contract (above).



INTERNATIONAL

Due to the Company's highly-skilled expertise and experience across Australia and New Zealand, Transfield Services experienced significant international expansion during the year. Having established a presence in Qatar, Transfield Services extended its MPH reach to Abu Dhabi and is working on expanding into the North American market. Overseas, the concept of facilities management outsourcing is still developing and there is an abundance of opportunity in markets such as North America.

The International business recorded strong growth this year, with revenue increasing 38.9 per cent to $10 million and a number of significant growth opportunities were identified.

Gulf Region (United Arab Emirates and Qatar)

The Company's joint venture with WorleyParsons and local Qatari company TRAGS is now in the second year of operation with the consolidated maintenance contract for RasGas Company Limited in Qatar. The partnership continues to deliver best practice in safety, reliability and cost of operations and maintenance.

Transfield Services' recent acquisition of Intergulf General Contracting LLC, through joint venture company Tespec, has provided a new platform for growth in the Gulf Region. With more than 400 employees, Intergulf provides maintenance and capital works services to the oil, gas and power industries in Abu Dhabi and enhances the Company's skills and resource base in the Gulf Region. Tespec is a joint venture between Transfield Services and Emdad LLC, based in Abu Dhabi in the United Arab Emirates.

With the growth in new oil and gas developments in the Gulf Region, Transfield Services expects to see an increased demand for outsourced maintenance services.

North America

Transfield Services' North American operations were augmented during the year with the opening of an office strategically located in Calgary, which is widely recognised as the heart of the oil and gas province of Alberta.

The Company is actively positioning itself to take advantage of the strong Alberta economy, which is being driven by high oil prices and the subsequent unprecedented capital investment in the extraction of oil sands. With labour shortages reaching critical levels, Transfield Services' ability to improve plant performance and productivity allows clients to redeploy their workforce to alternative activities such as sustainable capital works programs.

The purchase of US Maintenance provides a strong platform for Transfield Services to grow its North American business. In line with the Company's growth strategy, it provides for a significant international footprint, introduces new clients and brings the opportunity to expand Transfield Services' skills and expertise.

Asia

The Company's long-term alliance relationship with Shell Refining Company at Port Dickson in Malaysia was renewed, with our site-based team awarded Shell's prestigious Silver Award for outstanding health, safety and environmental performance after achieving five years lost-time injury-free.

A new joint venture company with our partner, MMC Corporation, was formed to engage the Malaysian market in alternative delivery approaches to operations and maintenance in the hydrocarbons sector. MMC Corporation is listed on the Kuala Lumpur stock exchange and has a diverse portfolio of assets including power stations, ports, fabrication facilities and oil and gas engineering.

As well as adding value to the Australian business, Broadspectrum continues to work in Singapore and recently completed testing and commissioning works on one of the largest petrochemical plants in China. Likewise, joint venture company TGE Energy Services' reputation for quality and safety has led to work in Japan with the repair of a 1,200MW nuclear generator.

INTERNATIONAL ACQUISITION

The acquisition of US Maintenance represents a significant milestone in the Company's international growth strategy.

US Maintenance is a leader in the North American outsourced services market, which is the world's largest. It project manages the delivery of facilities maintenance and electrical service programs to leading companies operating in the retail, financial, transportation and telecommunication industries. The company shares Transfield Services' focus on safety and quality, having an industry benchmark compliance and risk management program.

The company's highly sophisticated services management business model enables US Maintenance to offer a seamless, cost-effective national coverage to its 250 clients, many of which represent long-term relationships. Blue-chip clients include well-known retail brands Wal-Mart, Toys 'R' Us and Target.

US Maintenance has more than 450 employees managing 9,000 subcontractors across the United States, Canada, Puerto Rico and the Virgin Islands with revenue of $230 million for the calendar year of 2005.

Soil nutrient analysis being conducted by US Maintenance.

REVIEW OF OPERATIONS
INFRASTRUCTURE INVESTMENTS

INFRASTRUCTURE INVESTMENTS

Transfield Services' Infrastructure investments are an integral part of the Company, providing low-risk, direct asset ownership. The key features of the investment portfolio include:

– long-term contracts providing predictable cash flows;
– little exposure to market fluctuations in demand or prices for the particular services they provide;
– operations and maintenance alliance contracts with the Services business for the wholly-owned investments;
– proven operating history, with reliable performance;
– all external borrowings are non-recourse to Transfield Services; and
– principal and interest payments are covered by contracted revenue.

Transfield Services has completed the reorganisation of the infrastructure assets into a single wholly-owned subsidiary, as well as the refinancing of $450 million of project finance debt into a single corporate facility. Infrastructure investments are a core part of Transfield Services' growth and the restructuring will provide flexibility for future growth.

The Infrastructure Investments group is building on its existing presence with the acquisition in July this year of 9.3 per cent of Loy Yang A Power Station. The acquisition, which includes 13.8 per cent of the adjacent brown coal mine, provides Transfield Services with the opportunity to enter the merchant electricity market.

In June 2006, Transfield Services entered into a contract with NRG to acquire its 37.5 per cent stake in Gladstone Power Station. Completion of this acquisition is dependent on satisfaction of conditions including obtaining approval of the non-NRG joint venture participants under pre-emptive rights. The timing of this process is uncertain.

Transfield Services' leading market position in the north Queensland and south-west Western Australian power markets, as well as investments in the water sector, provides potential to leverage our existing capability and seek opportunities to further expand the Company's infrastructure investment portfolio.

Key highlights for the financial year included:

Power

– Townsville Power Station (TPS) completed its first full year of baseload operation after expansion to a 220MW combined-cycle plant using coal-seam methane for fuel. In this time, TPS exceeded the plant's guaranteed availability targets for every month.
– Kemerton Power Station was completed on time and on budget in October 2005. Commercial operation on liquid fuel commenced in November 2005, with full commissioning on gas achieved in May 2006. The plant is now available on both natural gas and liquid fuel.
– Collinsville Power Station continued to perform well against its Power Purchase Agreement. Skills were enhanced with the recruitment of apprentices and training of employees. During the year, the human interface of the plant control system was upgraded leading to reduced unit trips and targeted maintenance achieved through detailed data analysis.

Water

– Macarthur and Yan Yean water filtration plants performed well. Both plants are supported by long-term 'take or pay' contracts, which in the case of Macarthur, has minimised its exposure to reduced throughput due to ongoing water restrictions imposed by Sydney Water.

BUILDING OUR INFRASTRUCTURE PORTFOLIO

Commencing commercial operations in October 2005, Kemerton Power Station was the first major privately-owned power station to be constructed in Western Australia. Transfield Services' completion of end-to-end delivery and ongoing maintenance demonstrates the diverse capability of the Company. The right to construct, own, operate and maintain the power station was won against a strong field of domestic and international power industry participants.

Supplying 260MW power to the South West Interconnected System under a 25-year Power Purchase Agreement with Verve Energy (formerly Western Power Generation), Kemerton Power Station is capable of running on dual fuels (natural gas or liquid). The power station takes only 11 minutes to reach full capacity, compared to 30 minutes for similar gas-turbine power stations.

The power station was completed on time and on budget while maintaining an industry best practice safety performance, recording more than 315,000 man-hours with no lost-time injuries.

Transfield Services won the 2006 Process and Control Engineering (PACE) Zenith Award in the Transport, Power and Infrastructure category for the Project Management of Kemerton Power Station's construction. The award recognised Transfield Services' health, safety and environmental management as well as the station's innovative design and control systems.

Transfield Services' Kemerton Power Station was completed on time and on budget in October 2005.

CORPORATE GOVERNANCE

ASX CORPORATE GOVERNANCE BEST PRACTICE RECOMMENDATIONS

The Company continues to be committed to genuine and effective corporate governance. Throughout the year the Company has followed the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. The following overview indicates how the Company utilises the guidance provided by those recommendations and identifies and provides reasons for any variance from those recommendations.

BOARD OF DIRECTORS

Board Composition

The Board currently comprises eight Directors, being seven non-executive Directors (including the Chairman) and the Managing Director.

The skills and experience of Directors on the Board represent an appropriate mix in respect to the identified needs of the Company (refer to pages 4 and 5). Future appointments to the Board will be considered based on the Company's needs at the time.

In accordance with the Constitution, three Directors, Messrs Peter Watson and Mel Ward AO and Professor Steve Burdon retired by rotation, were endorsed by the Board for re-election and were re-elected at last year's Annual General Meeting.

Two Directors will retire this year in accordance with the provisions of the Constitution, being Messrs Anthony Shepherd and Bernard Wheelahan. Both offer themselves for re-election.

Board Functions

The Board of Directors of the Company is responsible for the Company's overall performance. It delegates operational authority to the Managing Director (subject to specified limits), but maintains overall responsibility for the strategic direction of the Company.

Under the Board Charter, the Board is responsible for the following functions:

- appointment of the Managing Director;
- approval of appointment of all executive managers that report directly to the Managing Director;
- monitoring executive succession planning;
- considering management recommendations and making decisions on key issues such as budgets, strategic plans, acquisition proposals and significant capital expenditure;
- reviewing financial information, with support from the external auditor, to constantly monitor the financial position of the Company;
- approving, and monitoring compliance with, major policies and the Code of Conduct;
- monitoring, with support from the Company's General Counsel and Group Risk Officer, compliance with the law, the Company's contractual obligations and its management of risk;
- undertaking stewardship and protection of the Company's assets;
- ensuring an informed market exists at all times in respect of the Company; and
- evaluating the performance of management, and determining fair and responsible remuneration.

Some of these functions are referred to Board committees, which report to the main Board and/or make recommendations to it.

Terms of Directors' Appointments

Directors are appointed to the Board on the following terms:

- the term of appointments are agreed as part of such appointment;
- Directors will not usually serve more than 10 years except in special circumstances, as the Board may determine. The Chairman will review all candidatures for re-election, on behalf of the Board;
- Directors are expected to be available to fulfil their obligations as Directors, as and when required;
- the powers and duties of Directors are set out in the Board and committee Charters (referred to below) and the Corporations Act;
- all Directors are to participate on at least one Board committee; and
- new Directors will have induction training, but the Board believes that continuing education is a matter for individual Directors, rather than a matter to be prescribed by the Board.

All Directors receive a copy of the Constitution and other important Company information in their Directors' pack, which is updated periodically.

Assessment of Independence/Skills Required of Directors

The Board believes that independence means independence of mind and action in the interests of all shareholders. Demonstrated independence is one of the performance criteria, against which Directors are assessed as part of their annual review.

Of the seven non-executive Directors, Messrs Guido Belgiorno-Nettis and Luca Belgiorno-Nettis are also Directors of the major shareholder, Transfield (TSL) Pty Limited. The Chairman, Mr Anthony Shepherd, is a former senior executive and adviser to the Transfield Holdings Group. However, upon being appointed Chairman, Mr Shepherd ceased to have any formal connection with the Transfield Holdings Group.

Performance Evaluation of the Board, its Committees and Individual Directors and Key Executives

Since 2003, the Board has and will continue to conduct a performance evaluation of Directors, which includes self-assessment and assessment of the Board as a whole. This process extends to an assessment of the committees. This process was undertaken in 2006. The Chairman and Deputy Chairman provide feedback to Directors (and Committee Chairmen).

The Managing Director's performance is monitored and reviewed by the Chairman on an ongoing basis. The Managing Director assesses performance of his direct reports on an annual basis as part of the Company-wide performance development review process.

OTHER CORPORATE GOVERNANCE MATTERS

In accordance with the Company's commitment to ASX best practice recommendations:

- there is a Charter for the Board;
- at all times there is a non-executive Chairman of the Board and a majority of non-executive Directors;
- potential conflicts of interest by Directors are reported to the Board and, if necessary, interested Directors are excluded from discussion of the relevant matter and are not entitled to vote on the matter;
- Directors provide the Company with details of their shareholdings in the Company and any changes;
- Directors comply with the Company's policies for Continuous Disclosure, Share Trading and the Company Code of Conduct;
- Directors, where necessary at the cost of the Company, have access to independent, external and professional advice;
- Directors, where necessary at the cost of the Company, have access to its senior executives (including the Company Secretary) for direct information on the Company's activities. The appointment and removal of the Company Secretary is a matter for the Board as a whole;
- Directors have the benefit of Directors' and Officers' Insurance;
- Directors have the benefit of an indemnity from the Company to the extent permitted by the Corporations Act as well as access to the Company's Board papers on terms agreed between the Company and the Board;
- the Board sets the membership and Charter for each Board committee;
- Board committees are delegated responsibility only as specifically authorised by the Board. Board committees make recommendations to the Board within their delegated responsibility;

- the Board reviews the performance of the auditor each year, including the performance of the audit partner. Mr Brian Hunter replaced Mr Ross Gavin as the audit partner at the end of the 2004–05 financial year;
- the Managing Director and Chief Financial Officer provide signed letters to the Board in respect of each full year and half year result, that the accounts constitute a true and fair view and are based on an appropriate and effective system of risk management and internal compliance and control; and
- as part of the Business Integrity Policy and Procedure, all Company employees have access to an anonymous toll-free number for employees to contact the Chief Risk Officer with concerns about activities adverse to the Company's interests or policies.

Directors' Shareholdings in the Company
There is no obligation under the Constitution for Directors to hold shares in the Company, although all presently do. Details of Directors' shareholdings are shown in the table on page 73.

Directors and all employees of the Company are restricted to buying or selling shares in the Company only in the one-month period immediately following the announcement of annual and half-yearly results and the Annual General Meeting. The exception is for twice-yearly purchases by TranShare Plan Pty Limited on behalf of Directors participating at a minimum of 20 per cent of base non-executive Directors' fees and superannuation contributions by salary sacrifice in the non-executive Directors' Deferred Share Plan. The Managing Director or Chairman may waive the restriction on when Directors or employees can buy or sell shares in the Company but such waiver will only be given if the beneficial owner of the shares remains unchanged (for example, where shares are being transferred from direct to indirect holdings).

In accordance with the law, Directors and employees are prohibited from buying or selling shares in the Company at any time when they are in possession of market-sensitive information.

Meetings of the Board of Directors
The Board meets at least eight times a year, including a specific two-day strategy review with the executive management team. In addition, there may be extraordinary Board meetings to deal with particular matters – there were eight such other meetings last year.

The Chairman and the Managing Director meet regularly to discuss matters of relevance to the Company. Other Directors are encouraged to and do maintain contact with relevant managers arising from dealings on committees or because of particular business relationships of interest to the Company.

Directors' Fees and Benefits
Fees for non-executive Directors are directly calculated on the extent of their involvement at Board and committee level. They are not based on the Company's performance.

Base Director's fees are $107,200 per annum each (except as noted below), and Board committee fees are $10,000 per annum for each committee member.

The Chairman of Directors receives a base of $219,000 per annum, the Deputy Chairman receives a base of $127,200 per annum and the Committee Chairmen each receive an additional $15,000 per annum, per committee.

The two Directors who are associates of the major shareholder, Transfield (TSL) Pty Limited, have directed their fees to Transfield Corporate Pty Limited.

Non-executive Directors' fees are subject to a minimum 20 per cent salary sacrifice to acquire shares in the Company under the non-executive Directors' Deferred Share Plan. Base fees also include the Superannuation Guarantee Levy of nine per cent which is payable to Directors' nominated superannuation funds.

In line with the ASX best practice recommendations, the retirement allowance for existing Directors ceased accruing with effect from 1 July 2006. The Directors' entitlements up to that date are preserved and fully accrued in the accounts. A resolution will be put to shareholders at this year's Annual General Meeting seeking to convert the existing entitlement to shares, subject to a tax ruling.

All Directors' fees are subject to review by the Remuneration and Organisational Development Committee within the aggregate amount of $1,250,000 per annum set in the Constitution prior to listing of the Company on the ASX. A resolution will be put to shareholders at this year's Annual General Meeting, seeking to increase that aggregate amount to $1,700,000.

Board Committees
The Board has four separate permanent committees:

- Risk, Audit and Compliance Committee;
- Remuneration and Organisational Development Committee;
- Health, Safety and Sustainability Committee; and
- Development and Tender Review Committee.

The full Board constitutes the Nomination Committee. All Directors serve on one or more of these Board committees.

Risk, Audit and Compliance (RAC) Committee
The RAC Committee, which consists of four Directors, is chaired by Mr Mel Ward AO (a non-executive Director) and met four times during the year. Mr Brian Hunter, the external audit partner of PricewaterhouseCoopers, attends these meetings by invitation together with the Managing Director and the Chief Risk Officer.

The committee's Charter requires that it monitors performance in the following areas:

- assess and monitor adequacy of internal controls;
- oversee and monitor integrity of financial reporting;
- review draft annual and half-yearly financial statements with management and the external auditor and make recommendations to the full Board;
- receive reports from the Chief Risk Officer as to the Company's performance against its agreed risk profile and risk management practices;
- review and monitor the Company's compliance with law and ASX Listing Rules;
- review performance against the Company's Code of Conduct;
- report regularly to the Board on its activities and findings; and
- any other responsibilities as may be delegated by the Board.

Remuneration and Organisational Development (REMOD) Committee
The REMOD Committee, which consists of four Directors, is chaired by Mr Mel Ward AO (a non-executive Director) and met seven times during the year.

Under its Charter, the REMOD Committee is required to:

- review and recommend the remuneration of non-executive Directors, the Managing Director and his direct reports;
- review and recommend general remuneration principles, including incentive schemes, bonuses, share purchase plans and share performance award schemes that reward individual and team performance;
- approve senior executive employment contracts and severance arrangements;
- review the Company's recruitment, retention and termination policies for senior executives;
- review the superannuation arrangements for employees; and
- ensure effective disclosure of remuneration practices and the link to Company and individual performance.

CORPORATE GOVERNANCE

Health, Safety and Sustainability (HSS) Committee
The HSS Committee, which consists of three Directors including the Managing Director, is chaired by Mr Bernard Wheelahan (a non-executive Director) and met four times during the year.

Under its Charter, the HSS Committee is required to:

- ensure comprehensive safety strategies are put in place to eliminate injuries;
- review the Company's health, safety and environmental performance and ensure that appropriate action is taken where necessary;
- ensure that systems and procedures for ensuring compliance with policy and legislation are in place and routinely monitor them;
- review high-level risks and plans to mitigate these risks;
- review incident trends across the Company and associated action plans and ensure appropriate action if not satisfied;
- undertake detailed reviews of supporting documentation and draft proposals prior to seeking Board approval;
- benchmark the Company's performance against industry standards; and
- any other responsibilities as may be delegated by the Board.

Development and Tender Review Committee
This committee meets as and when needed and is chaired by the Chairman of the Board, Mr Anthony Shepherd.

The committee comprises four Directors including the Managing Director, and considers significant tenders for new business and major acquisitions and disposals within specific authority limits delegated to it by the full Board. All Directors are provided with the papers considered by this committee and are invited to attend its meetings.

Nomination Committee
This Committee comprises the full Board and is chaired by the Chairman of the Board, Mr Anthony Shepherd (a non-executive Director). The function of the Nomination Committee is to ensure that the Board is of an effective constitution, size and commitment to discharge its duties at all times.

Under its Charter, the committee is required to:

- assess the necessary and desirable competencies of Board members;
- establish and review Board succession plans;
- evaluate the Board's performance;
- consider recommendations to the full Board by the Remuneration and Organisational Development Committee for the appointment of new Directors; and
- establish and oversee induction procedures for new Directors.

Code of Conduct and Company Policies
Under the Code of Conduct:

- the Company will act with fairness, integrity and good faith in its dealings with its employees, customers, subcontractors, shareholders and other stakeholders;
- the Company will strive towards best practice in its internal business controls, financial administration and accounting policies;
- the Company has in place policies to ensure it makes continuous disclosure to the ASX;
- Directors and employees are bound by strict rules in the trading of Company shares;
- the Company is committed to continuous improvement of workplace safety with the ultimate objective of no injuries to anyone, anytime;
- the Company will continually develop its client relationships to provide outstanding service;
- the Company has, and will keep in place, employment practices and policies that accord with best practice including those in respect of occupational health and safety, anti-discrimination and conflicts of interest;
- the Company recognises its place in the community and has in place policies and practices to protect the environment and to support selected community activities and projects in the areas in which it operates;
- the Company will be transparent in its reporting, including in respect of Board and executive remuneration;
- the Company recognises its obligations to individuals' rights to privacy in respect of confidential information;
- the Company is committed to compliance with the law in all its operations; and
- the Company will enforce and monitor compliance with this Code of Conduct through employment contracts, internal communication and education as well as by periodic internal audit.

Executive Remuneration Policy
Details of executive remuneration are included in the Remuneration Report on pages 25 to 34.

Contracts with Directors
Since last financial year, no Director has received or become entitled to receive a benefit because of a contract between the Company (or its related bodies corporate) and the Director, or a firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, other than:

- in the case of non-executive Directors, the remuneration and benefits as disclosed on page 25;
- in the case of the Managing Director, his contract of employment and related executive benefits, as disclosed in the Remuneration Report on pages 24 to 27;
- in the case of Messrs Guido Belgiorno-Nettis and Luca Belgiorno-Nettis, contracts between the Company (or its related bodies corporate) and Transfield (TSL) Pty Limited (or its related bodies corporate) as detailed in Note 36 of the Financial Report; and
- in the case of the Chairman, provision of secretarial support, car parking and office facilities as detailed in Note 36 of the Financial Report.

Website
Visit our website at www.transfieldservices.com for more details on our corporate governance and other policies.

FINANCIAL REPORT

This Financial Report covers both Transfield Services Limited as an individual entity and the consolidated entity consisting of Transfield Services Limited and its controlled entities.

The Financial Report is presented in Australian currency.

Transfield Services Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Transfield Services Limited
Level 12, 201 Kent Street
SYDNEY NSW 2000

The Financial Report was authorised for issue by the Directors on 23 August 2006. The Company has the power to amend and reissue the Financial Report.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities and in the Directors' Report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, Financial Reports and other information are available at our Media and Investor Centre on our website www.transfieldservices.com.

For queries in relation to our reporting please call:
+61 2 9475 5600 or email:
corporateaffairs@transfieldservices.com.

Your Directors present their report on the consolidated entity consisting of Transfield Services Limited and the entities it controlled at the end of, or during, the year ended 30 June 2006.

Directors

The following persons were Directors of Transfield Services Limited during the whole of the financial year and up to the date of this report:

Anthony Shepherd (Chairman)
Guido Belgiorno-Nettis
Luca Belgiorno-Nettis
Professor Steve Burdon
Denis Cleary
Mel Ward AO
Peter Watson (Managing Director and CEO)
Bernard Wheelahan (Deputy Chairman)
Dean Wills AO (retired on 26 August 2005)

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of:

(a) provision of operations and maintenance outsourcing services; and

(b) infrastructure ownership and management.

There were no significant changes in the nature of the activities of the consolidated entity during the year. The consolidated entity expanded the operations of these activities through the:

(a) acquisition of APP Corporation, its subsidiaries and controlled entities (APP group) in January 2006 under an earn-out arrangement;

(b) successful commissioning of the Kemerton Power Station in Western Australia; and

(c) expansion and extension of operations and maintenance contracts both domestically and internationally.

Dividends

Dividends paid to members during the financial year were as follows:

	2006 $'000	2005 $'000
Final ordinary dividend for the year ended 30 June 2005 of 11 cents per fully paid share paid on 10 October 2005 (2004: 9 cents)	**17,598**	12,977
Interim ordinary dividend of 11 cents per fully paid share paid on 10 April 2006 (2005: 9 cents)	**17,771**	13,068
	35,369	26,045

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of 13 cents per fully paid share, being $21,043,853, to be paid on 9 October 2006 out of retained profits at 30 June 2006.

Review of operations

The detailed review of operations is set out on pages 10 to 16.

A summary of consolidated revenues and results by significant business segments is set out below:

	SEGMENT REVENUE		SEGMENT RESULT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Operations and maintenance outsourcing services	**1,787,707**	1,440,845	**42,477**	38,739
Infrastructure ownership and management	**138,734**	69,899	**30,003**	20,433
Total segment revenue	**1,926,441**	1,510,744		
Profit from continuing operations before income tax expense			**72,480**	59,172
Income tax (expense)			**(16,890)**	(18,192)
Profit from continuing operations after income tax expense			**55,590**	40,980
Loss attributable to minority interests			**3**	–
Profit attributable to members of Transfield Services Limited			**55,593**	40,980

EARNINGS PER SHARE	2006 CENTS	2005 CENTS
Basic earnings per share	**34.65**	27.64
Diluted earnings per share	**34.61**	27.63

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year
(i) The consolidated entity has acquired 100% of the issued capital of USM Holdings Corporation, a company which provides operations and maintenance services across North America for a consideration of $372,000,000 on 4 July 2006.

(ii) The consolidated entity has acquired 9.3% of the issued capital of Great Energy Alliance Corporation Pty Limited which owns the Loy Yang A Power Station and the adjacent brown coal mine in Victoria and 13.8% of the attached dispatch and marketing company for a total consideration of $115,050,000 on 2 August 2006.

(iii) The consolidated entity signed a conditional sale agreement with NRG Energy, Inc., NRGenerating International BV and NRG Victoria 1 Pty Limited on 9 June 2006 to acquire 100% of the issued capital of Sunshine State Power BV and Sunshine State Power (No. 2) BV which, together, own 37.5% of the Gladstone Power Station in Queensland for a consideration of $273,000,000 and 100% of NRG Gladstone Operating Services Pty Limited, the Company responsible for providing operating services to the Gladstone Power Station. The transaction has not been completed as it is dependent on conditions precedent including approval of the non-NRG joint venture parties under pre-emptive provisions. As at 23 August 2006, these conditions precedent had not been satisfied.

For further details in respect of these acquisitions, refer to note 43.

(iv) The Group has entered into an agreement to refinance its individually financed project assets into a combined facility for an amount up to $450,000,000. This agreement has been executed with a number of the Group's existing relationship banks.

(v) The Board approved a plan on 23 August 2006 for shareholders to participate in a 2 for 9 Rights Entitlement Offer, through which the Group expects to raise $270,000,000 through the issue of new shares, for the purpose of paying off debt. The new shares will not participate in the final dividend.

Other than the above, there have been no matters or circumstances that have arisen since 30 June 2006 that have significantly affected, or may significantly affect:

(i) the consolidated entity's operations in future financial years; or

(ii) the results of those operations in future financial years; or

(iii) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation
Because of the diversity of its operations in many regulatory frameworks, it is essential that Transfield Services has a systematic and adaptable approach to environmental management across all of its activities.

To manage risk and to ensure protection of the environment, Transfield Services has developed and implemented an Environmental Management System. This system is based on the International Standard: AS/NZS ISO 14001:1996 for environmental management systems, and is integrated into the Transfield Services Operational Systems Manual (which is in turn certified against the AS/NZS ISO: 9001: 2000 Quality Management Systems standard).

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2006, and the numbers of meetings attended by each Director were:

	FULL MONTHLY MEETING OF DIRECTORS AVAILABLE TO ATTEND	EXTRA ORDINARY BOARD MEETINGS HELD	MEETINGS OF COMMITTEES				
			RACC	DTRC	REMOD	HSSC	NOMC
No. of meetings held:	8	8*	4	9	9	4	1
No. of meetings attended by:							
Dean Wills AO**	2	–	–	1	3	–	1
Anthony Shepherd	8	8	–	9	7	–	1
Guido Belgiorno-Nettis	7	7	–	7	8	2	–
Luca Belgiorno-Nettis	8	6	3	1+	2+	–	1
Professor Steve Burdon	8	6	–	2+	9	–	1
Denis Cleary	8	8	4	–	–	–	1
Mel Ward AO	8	7	3	–	3+	1+	1
Peter Watson	8	8	4#	6	8	3	1
Bernard Wheelahan	7	7	4	5+	–	4	1

Note:

* As Extraordinary Board Meetings were called at short notice, not all Directors were available to attend.

\# Peter Watson attended the RACC in his capacity as an executive only.

\+ Directors are invited to attend as non-core members.

** Retired 26 August 2005.

RACC = Risk, Audit and Compliance Committee

DTRC = Development and Tender Review Committee

REMOD = Remuneration and Organisational Development Committee

HSSC = Health, Safety and Sustainability Committee

NOMC = Nomination Committee

Information on Directors

Details of the Directors' responsibilities and shareholdings are set out below.

DIRECTOR	SPECIAL RESPONSIBILITIES	PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND PERFORMANCE AWARDS OF TRANSFIELD SERVICES LIMITED		INDIRECT INTEREST IN TRANSFIELD SERVICES LIMITED THROUGH TRANSFIELD (TSL) PTY LTD
		ORDINARY SHARES	PERFORMANCE AWARDS	
Anthony Shepherd	Chairman of Board of Directors and Chairman of the Development and Tender Review Committee. Member of the Nomination Committee and Remuneration and Organisational Development Committee.	1,373,594*	–	–
Guido Belgiorno-Nettis	Member of the Nomination Committee, Remuneration and Organisational Development Committee, the Development and Tender Review Committee and the Health, Safety and Sustainability Committee.	83,485	–	18,046,875
Luca Belgiorno-Nettis	Member of the Nomination Committee and the Risk, Audit and Compliance Committee.	258,771*	–	18,046,875
Professor Steve Burdon	Chairman of the Remuneration and Organisational Development Committee and member of the Nomination Committee.	48,906	–	–
Denis Cleary	Member of the Nomination Committee and Risk, Audit and Compliance Committee.	88,563*	–	–
Mel Ward AO	Chairman of the Risk, Audit and Compliance Committee and member of the Nomination Committee.	40,170	–	–
Peter Watson	Managing Director and member of the Remuneration and Organisational Development Committee, Health, Safety and Sustainability Committee and the Nomination Committee.	1,277,763	249,000	–
Bernard Wheelahan	Deputy Chairman of Board of Directors and Chairman of the Health, Safety and Sustainability Committee and member of the Nomination Committee and the Risk, Audit and Compliance Committee.	51,466*	–	–

* Includes shares that are held by a related party.

General Counsel and Company Secretary

Kate Munnings (LLB and B Health SC) was appointed General Counsel and Company Secretary to Transfield Services in January 2006. She is also Company Secretary and alternate Director on most subsidiary Boards. Prior to joining Transfield Services, Kate was a partner at Baker & McKenzie Solicitors in Sydney where she was leading the construction law practice group.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

E Additional information

The information provided under headings A to D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the Financial Report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

A. Principles used to determine the nature and amount of remuneration (audited)

The objective of the Company's executive remuneration framework is to ensure reward for performance is competitive in the markets where we compete to recruit executives and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic business objectives to create value for shareholders, and conforms with market best practice for delivery of reward.

Our executive reward framework is:

– market competitive and reasonable;
– acceptable to shareholders;
– performance linked; and
– transparent.

In consultation with external remuneration consultants, the Company has structured an executive remuneration framework that aligns executive performance with shareholders' interests.

Alignment to shareholders' interests is achieved through the following performance measures:

– economic profit (profit less a charge for the cost of capital);
– sustained growth in total shareholder return (TSR) (growth in share price plus dividends); and
– strategic and 'balanced scorecard' non-financial drivers of value.

Alignment to executives' interests to ensure we attract and retain high-calibre executives is achieved by ensuring that rewards are:

– commensurate with the contributions made;
– sufficient to provide adequate recognition;
– competitive in our respective executive employment market; and
– earned within a clear and well-communicated structure.

The framework provides a mix of fixed and variable pay, including short-term and long-term incentives. Not all staff participate in the short-term and long-term incentives. Participation in both plans is selectively applied to people in positions more able to influence the business performance. The proportion of variable or 'at risk' remuneration is higher for the more senior executives.

Non-executive Directors

Fees and payments to non-executive Directors (NEDs) reflect the demands which are made on, and the responsibilities of, the Directors. NEDs' fees and payments are reviewed annually by the Board. The Board has also taken advice from independent remuneration consultants to ensure NEDs' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of NEDs based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. NEDs do not receive share Performance Awards. NEDs receive a minimum 20% of their remuneration in Transfield Services Limited shares, which are acquired on-market in January and July each year and held in the TranShare Deferred Share Plan. Shareholders approved this arrangement in May 2001.

Directors' fees

NEDs receive a Director's fee inclusive of superannuation. The fee was reviewed during the year and amended with effect from 1 July 2006. NEDs who chair or serve on a committee receive additional yearly fees. NEDs' fees are determined within the aggregate Directors' fee pool limit of $1,250,000 approved by shareholders in May 2001. From 1 July 2006, the revised Directors' fee is $107,200 per Director, the Deputy Chairman's fee is $127,200 and the Chairman's fee is $219,000 per annum. Committee members will each receive annually $10,000 per committee and Committee Chairmen will each receive annually $15,000 per committee.

Retirement allowances for Directors

The NEDs retirement allowance has ceased from 30 June 2006. The Board resolved in 2004 to remove retirement allowances for non-executive Directors appointed after that date. In February 2006, the Board further resolved to cease accruing retirement benefits for existing Directors with effect from 1 July 2006. Accordingly the NEDs' retirement allowance ceased from 30 June 2006 and Directors' entitlements up to 30 June 2006 under the previous arrangements are preserved and are fully accrued in the accounts. They will be paid on retirement of the Director.

Executive pay
The executive pay and reward framework has four components:

– fixed remuneration including superannuation;
– short-term performance incentives;
– long-term incentives through participation in the TranShare Executive Performance Awards Plan, and/or Transfield Services Executive Special Scheme; and
– other benefits.

The combination of these elements comprises the executive's total remuneration. The Company intends to issue long-term equity-linked performance incentives specifically to executives during the year ending 30 June 2007.

Fixed remuneration
The fixed remuneration component is structured as a total employment cost package, which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay package that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure fixed base pay is set to reflect the market for comparable roles in peer companies. Fixed remuneration for senior executives is reviewed annually to ensure the executive's pay remains competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in senior executives' contracts.

Other benefits
Executives receive benefits including executive health management, home insurance and salary continuance insurance.

Retirement benefits
Retirement benefits are delivered under the Transfield Services Superannuation Plan (or another complying plan of the executive's choice). These Funds provide defined contribution benefits.

Short-term incentives
If the Company achieves a predetermined profit target set by the Remuneration and Organisational Development Committee, a short-term incentive (STI) is available to executives subject to their achievement of individual targets. Cash incentives (bonuses) are payable following audit clearance of the annual financial statements each year. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. The target is leveraged for performance above a predetermined profit threshold to provide an incentive for executive outperformance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. For the Managing Director the target opportunity is 40% and for other senior executives the target bonus opportunity is 25% to 33% of total fixed remuneration.

Each year, the Remuneration and Organisational Development Committee approves the appropriate targets and key performance indicators (KPIs) for the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of financial performance required to trigger payment of STI.

For the year ended 30 June 2006, the STI plan KPIs were based on Company, business unit and personal objectives. The KPIs included reduction of operating costs and achieving specific targets in relation to earnings before interest, tax and amortisation expense (EBITA) and economic profit, as well as other key, strategic and balanced scorecard non-financial measures linked to drivers of performance in future reporting periods.

The Remuneration and Organisational Development Committee is responsible for assessing performance against the KPIs. To help make this assessment, the committee receives detailed reports on performance from management.

The Remuneration and Organisational Development Committee has discretion to adjust the short-term bonus payments up or down in line with under or over achievement against the target performance levels. The STI target annual payment is reviewed annually.

TranShare Executive Performance Awards Plan
Information on the TranShare Executive Performance Awards Plan is set out on page 29.

Transfield Services Executive Special Scheme
In May 2003, the Board introduced the Transfield Services Executive Special Scheme to secure the retention of specified senior executives. The scheme seeks to lock in the key executives for a minimum five year retention period by offering a cash bonus conditional on performing satisfactorily throughout the retention period. Should a participant borrow up to the amount of their anticipated cash bonus from a bank or lending institution, the Company will reimburse the annual costs associated with the loan subject to the executive providing a declaration that the loan has been used to produce assessable income. The interest component, if any, is included in fixed remuneration.

The bonus will be forfeited in entirety if, prior to expiry of the retention period, the executive voluntarily resigns or is dismissed for unsatisfactory performance.

Employee Share Ownership Plan – The TranShare Plan
In July 2005, the Company launched a general share purchase plan, available to all employees in its Australian and New Zealand subsidiary companies and Australian joint ventures. Under the plan, employees may acquire up to $1,000 worth of Transfield Services shares annually, and the Company will subsidise 10% of the total cost of purchase. The shares are restricted and may not be traded by employees for three years from the date of purchase. Employee shareholders participate in dividend distributions and have full voting rights equal with all other shareholders. Currently, 27% of direct Australian employees, 12% of New Zealand employees and 21% of all eligible employees have elected to become shareholders under the TranShare Plan.

B. Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the Directors and the key management personnel of the Company and of the Group are set out in the following tables.

The key management personnel of Transfield Services Limited includes the Directors and the following executive officers, who also include the five highest paid executives of the entity:

Joseph Sadatmehr	Chief Executive Officer – International and Mining, Process and Hydrocarbons
Darce Corsie	Chief Executive Officer – Infrastructure Investments
Matthew Irwin	Chief Financial Officer
Bruce James	Chief Executive Officer – Australia
Steve MacDonald	Chief Strategy Officer
Ross Mackiggan	Chief Financial Officer – Australia
Kate Munnings	Company Secretary and General Counsel (from 16 January 2006)
Graeme Sumner	Chief Executive Officer – New Zealand

Key management personnel by virtue of their inclusion in the top five most highly remunerated executives for 2005 included:

Fred Bidwell	Former Company Secretary and General Counsel
Paul McCarthy	Executive General Manager – Mining, Process and Hydrocarbons

Details of their remuneration is included solely for the comparative period.

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed 'Short-term incentives' on page 26, and the Performance Awards do not vest unless performance conditions are met. All other elements of remuneration are not directly related to Company performance.

DIRECTORS OF TRANSFIELD SERVICES LIMITED GROUP AND COMPANY

	SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS		LONG-TERM INCENTIVE	SHARE-BASED PAYMENTS		
NAME	CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	RETIREMENT BENEFITS $	EXECUTIVE SPECIAL SCHEME $	DEFERRED SHARE PURCHASE $	PERFORM-ANCE AWARDS $	TOTAL $
Non-executive Directors									
Anthony Shepherd+	139,715	–	100,000	11,854	51,733	–	28,500	–	331,802
2005	81,400	–	120,000	6,600	38,400	–	20,000	–	266,400
Dean Wills+	23,964	–	–	2,037	28,000	–	18,502	–	72,503
2005	143,800	–	–	12,200	48,000	–	37,000	–	241,000
Bernard Wheelahan	76,047	–	–	4,954	38,400	–	30,000	–	149,401
2005	54,000	–	–	3,000	38,400	–	44,000	–	139,400
Guido Belgiorno-Nettis	80,000	–	–	–	–	–	16,000	–	96,000
2005	80,000	–	–	–	–	–	16,000	–	96,000
Luca Belgiorno-Nettis	72,000	–	–	–	–	–	16,000	–	88,000
2005	72,000	–	–	–	–	–	16,000	–	88,000
Steve Burdon	71,717	–	–	5,284	38,400	–	16,000	–	131,401
2005	71,700	–	–	5,300	38,400	–	16,000	–	131,400
Denis Cleary	66,717	–	–	5,284	38,400	–	16,000	–	126,401
2005	66,700	–	–	5,300	38,400	–	16,000	–	126,400
Mel Ward AO	90,605	–	–	6,354	38,400	–	20,000	–	155,359
2005	75,000	–	–	5,000	38,400	–	20,000	–	138,400
Sub-total	620,765	–	100,000	35,767	233,333	–	161,002	–	1,150,867
non-executive Directors	644,600	–	120,000	37,400	240,000	–	185,000	–	1,227,000
Executive Director									
Peter Watson	800,262	390,375	50,599	12,139	–	250,000	–	160,923	1,664,298
2005	758,047	315,000	63,502	11,585	–	250,000	–	83,956	1,482,090
Total Directors	1,421,027	390,375	150,599	47,906	233,333	250,000	161,002	160,923	2,815,165
2005	1,402,647	315,000	183,502	48,985	240,000	250,000	185,000	83,956	2,709,090
Total for each category		1,962,001		281,239		250,000	321,925		2,815,165
2005		1,901,149		288,985		250,000	268,956		2,709,090

+ Dean Wills retired as Chairman on 26 August 2005 and the Deputy Chairman Anthony Shepherd was appointed as Chairman on the same date.

OTHER KEY MANAGEMENT PERSONNEL AND FIVE MOST HIGHLY REMUNERATED OFFICERS OF THE GROUP AND THE COMPANY

	SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS		LONG-TERM INCENTIVE	SHARE-BASED PAYMENTS		
NAME	CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	RETIREMENT BENEFITS $	EXECUTIVE SPECIAL SCHEME $	OPTIONS $	PERFORM-ANCE AWARDS $	TOTAL $
Darce Corsie	**548,286**	**177,012**	**5,138**	**49,346**	**–**	**–**	**–**	**–**	**779,782**
2005	199,333	84,000	23,448	22,243	–	–	–	–	329,024
Matthew Irwin	**364,968**	**112,200**	**27,500**	**12,139**	**–**	**–**	**–**	**16,963**	**533,770**
2005	202,745	55,000	9,314	6,758	–	–	–	3,842	277,659
Bruce James*	**396,203**	**126,225**	**2,184**	**–**	**–**	**–**	**–**	**18,213**	**542,825**
2005	–	–	–	–	–	–	–	–	–
Steve MacDonald	**532,281**	**163,910**	**4,252**	**12,139**	**–**	**150,000**	**109,980**	**50,803**	**1,023,365**
2005	517,631	163,000	4,071	11,585	–	150,000	109,980	15,742	972,009
Ross Mackiggan	**297,695**	**97,200**	**4,372**	**26,793**	**–**	**100,000**	**–**	**16,900**	**542,960**
2005	315,820	133,000	4,604	25,435	–	100,000	79,913	5,847	664,619
Kate Munnings*	**127,192**	**25,590**	**–**	**11,447**	**–**	**–**	**–**	**3,085**	**167,314**
2005	–	–	–	–	–	–	–	–	–
Joseph Sadatmehr	**709,834**	**196,350**	**4,711**	**12,139**	**–**	**200,000**	**–**	**118,278**	**1,241,312**
2005	660,375	205,000	17,400	11,585	–	200,000	–	62,991	1,157,351
Graeme Sumner*	**243,686**	**66,690**	**–**	**–**	**–**	**–**	**–**	**5,195**	**315,571**
2005	–	–	–	–	–	–	–	–	–
Fred Bidwell	**N/A**	**N/A**	**N/A**	**N/A**	**–**	**–**	**–**	**N/A**	**N/A**
2005	345,000	109,000	2,107	–	–	–	–	7,064	463,171
Paul McCarthy	**N/A**	**N/A**	**N/A**	**N/A**	**–**	**–**	**–**	**N/A**	**N/A**
2005	290,165	168,000	2,917	26,835	–	–	–	9,317	497,234
Totals for each component									
2006	**3,220,145**	**965,177**	**48,157**	**124,003**		**450,000**	**109,980**	**229,437**	**5,146,899**
2005	2,531,069	917,000	63,861	104,441		450,000	189,893	104,803	4,361,067
Total for each category									
2006		**4,233,479**		**124,003**		**450,000**	**339,417**		**5,146,899**
2005		3,511,930		104,441		450,000	294,696		4,361,067

* Bruce James commenced 15 August 2005. Kate Munnings commenced 16 January 2006. Graeme Sumner commenced 16 October 2005.

N/A – These executives were included in the five most highly remunerated employees in 2005. They are not classified as key management personnel in 2006.

C. Service agreements (audited)

Remuneration and other terms of employment for the Managing Director and the other key management personnel are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including executive health management, householder insurance, salary continuance insurance and participation, when eligible, in the TranShare Executive Performance Awards Plan. Other major provisions of the agreements are:

NAME	ROLLING THREE YEARS TERM OF AGREEMENT	% OF TOTAL REMUNERATION (INCLUDING 100% OF ALL SHARE-BASED REMUNERATION) THAT IS PERFORMANCE RELATED	NOTICE PERIOD REQUIRED FOR THE EMPLOYEE TO TERMINATE THE CONTRACT	TERMINATION BENEFIT (AMOUNT OF ANNUAL SALARY) ON EARLY TERMINATION BY THE COMPANY, OTHER THAN FOR GROSS MISCONDUCT	A RESTRICTIVE COVENANT APPLIES
Peter Watson Managing Director and Chief Executive Officer	1 April 2003*	33%	6 months	1 year	1 year
Darce Corsie Chief Executive Officer Infrastructure Investments	9 February 2005	23%	3 months	1 year	1 year
Matthew Irwin Chief Financial Officer	13 December 2004	24%	3 months	6 months	1 year
Bruce James Chief Executive Officer Australia	15 August 2005	27%	3 months	6 months	6 months
Steve MacDonald Chief Strategy Officer	1 March 2003*	21%	3 months	1 year	1 year
Ross Mackiggan Chief Financial Officer Australia	1 July 2003*	21%	6 months	1 year	1 year
Kate Munnings General Counsel and Company Secretary	1 January 2006	17%	3 months	6 months	6 months
Joseph Sadatmehr Chief Executive Officer International and MPH	30 June 2003	25%	6 months	1 year	1 year
Graeme Sumner Chief Executive Officer New Zealand	16 October 2005	23%	3 months	6 months	6 months

* The terms of the agreements allow for continuance until formal renegotiation. As at the date of signing the Financial Report, contract renegotiation was yet to be finalised.

D. Share-based compensation (audited)

Performance Awards and Options

Performance Awards are granted under the TranShare Executive Performance Awards Plan which was approved by shareholders at the 2001 annual general meeting. Executives eligible to participate in the plan are involved in the management of the Company. Awards are granted annually and generally vest no earlier than three years from the date of grant.

The performance conditions of each grant of Awards are subject to Board review and assessed against the business plan and cycle. In April 2006, the hurdles were revised to introduce earnings per share as an additional vesting condition. The Board has determined that relative total shareholder return (TSR) combined with absolute earnings per share (EPS) growth are the most appropriate hurdles for the Company at this time. These conditions were chosen to ensure that eligible executives are only rewarded when profit grows in real terms and the Company achieves superior shareholder growth relative to the performance of the S&P ASX 200 Industrials Index.

The Awards granted to executives on 23 August 2005 are divided into three tranches representing 75%, 10% and 15% of the Performance Awards granted.

These Performance Awards will vest if cumulative TSR over the three to five years of the performance period increases over the Base Price (the five day average closing price of Transfield Services shares one week prior to the date the Remuneration and Organisational Development Committee approved the offer) as follows:

	TRANCHE 1	TRANCHE 2	TRANCHE 3
Performance thresholds	15% per annum	17.5% per annum	20% per annum

The Awards granted to the Managing Director on 16 November 2005 are divided into three tranches representing 75%, 10% and 15% of the Performance Awards granted.

TRANCHE	PROPORTION OF TOTAL AWARD EXERCISABLE	EXERCISE REQUIREMENT
	0%	Average cumulative TSR below 15% per annum from Base Price
1	75%	Average cumulative TSR of 15% per annum from Base Price
2	Additional 10% over the 75% already exercisable	Average cumulative TSR of 17.5% per annum of Base Price
3	Additional 15% over the 85% already exercisable	Average cumulative TSR of at least 20% per annum inclusive
		Proportional vesting of Awards will apply for performance between 15% and 20% average cumulative TSR.

The Awards granted to executives on 19 April 2006 are divided into two equal tranches.

Tranche 1 will vest on the following EPS scale:

PERCENTAGE OF AWARDS THAT VEST	PERFORMANCE CONDITION
0%	Less than 10% per annum compound Basic EPS growth
40% – 70% pro rata	Transfield Services achieving an average compound Basic EPS growth of 10% to 12.5% per annum for a minimum of three years from the 2005 base year EPS
70% – 100% pro rata	Transfield Services achieving an average compound Basic EPS growth of 12.5% to 15% per annum for a minimum of three years from the 2005 base year EPS
100%	Transfield Services achieving an average compound Basic EPS growth of 15% per annum for a minimum of three years from the 2005 base year EPS
	Proportional vesting of Awards will apply for performance between 10% and 15% average compound basic EPS growth.

Tranche 2 will vest on the following relative TSR scale:

TSR represents the change in the capital value of the Company's 10 day average share price over a period with dividends reinvested, expressed as a percentage of the base value. TSR performance will be compared to the S&P ASX 200 Industrials Index, which is the ASX 200 Index after excluding the Energy and Materials sectors. TSR will be measured initially at the end of a period three years from the date of grant, and if the hurdle is not fully met, TSR will be measured three times more at quarterly intervals. Awards that have not vested four years after the date of grant will lapse.

PERCENTAGE OF AWARDS THAT VEST	PERFORMANCE CONDITION
0%	Transfield Services TSR achieving less than the 50th percentile ranking in the ASX 200 Industrials Index
30%	Transfield Services TSR achieving the 50th percentile ranking in the ASX 200 Industrials Index
100%	Transfield Services TSR achieving the 75th percentile ranking in the ASX 200 Industrials Index
	Proportional vesting of Awards will apply for performance between the 51st and 75th percentile ranking.

To qualify, the performance hurdles and vesting conditions must be met at any one of four quarterly assessment times within a specified one year window commencing three years from the date of grant. The assessments are based on the average performance of the shares over the first 10 days of any of the four quarters.

Awards are granted under the plan for no consideration, carry no dividend or voting right. When exercised, each Award is converted into one ordinary share.

The terms and conditions of each grant of Awards and Options affecting remuneration in the previous, this or future reporting periods are as follows:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	VALUE PER AWARD AT GRANT DATE	FIRST DATE EXERCISABLE
Options				
28 November 2002	28 November 2009	$2.62	$0.73	28 November 2005 subject to satisfying vesting conditions
3 March 2003	3 March 2010	$2.70	$0.61	3 March 2006 subject to satisfying vesting conditions
25 February 2004	25 February 2011	$nil	$2.25	25 February 2007 subject to satisfying vesting conditions
30 August 2004	30 August 2011	$nil	$2.67	30 August 2007 subject to satisfying vesting conditions
28 October 2004	28 October 2011	$nil	$3.89	28 October 2007 subject to satisfying vesting conditions
Awards				
28 February 2005	28 February 2012	$nil	$3.45	28 February 2008 subject to satisfying vesting conditions
30 August 2005	30 August 2012	$nil		30 August 2008 subject to satisfying vesting conditions
– Tranche 1			$4.92	
– Tranche 2			$4.42	
– Tranche 3			$3.91	
16 November 2005	16 November 2012	$nil		16 November 2008 subject to satisfying vesting conditions
– Tranche 1			$4.47	
– Tranche 2			$3.98	
– Tranche 3			$3.49	
19 April 2006	19 April 2012	$nil		19 April 2009 subject to satisfying vesting conditions
– Tranche 1			$6.93	
– Tranche 2			$4.81	

Details of Awards over ordinary shares in the Company provided as remuneration to each Director of Transfield Services Limited and each of the key management personnel of the Company are set out below. When exercisable, each Award is convertible into one ordinary share of Transfield Services Limited.

NAME	NUMBER OF AWARDS GRANTED DURING THE YEAR 2006	2005	NUMBER OF AWARDS VESTED DURING THE YEAR 2006	2005
Director of Transfield Services Limited				
Peter Watson	**59,000**	100,000	**–**	–
Other key management personnel of the Group				
Matthew Irwin	**14,000**	20,000	**–**	–
Bruce James	**15,300**	–	**–**	–
Steve MacDonald	**26,800**	42,492	**–**	–
Ross Mackiggan	**8,300**	15,783	**–**	–
Kate Munnings	**7,900**	–	**–**	–
Joseph Sadatmehr	**39,800**	106,231	**–**	–
Graeme Sumner	**13,300**	–	**–**	–
Fred Bidwell	**N/A**	–	**–**	–
Paul McCarthy	**N/A**	14,693	**–**	–
	184,400	299,199	**–**	–

The assessed fair value at grant date of Awards granted to the individuals is allocated equally over the period from grant date to final vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a binomial option pricing model that takes into account the exercise price, the term of the Performance Award, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the Performance Award, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the Performance Award.

Details of Options over ordinary shares in the Company provided as remuneration to each Director of Transfield Services Limited and each of the key management personnel of the Company are listed below. When exercisable, each Option is convertible into one ordinary share of Transfield Services Limited.

	NUMBER OF OPTIONS GRANTED DURING THE YEAR 2006	2005	NUMBER OF OPTIONS VESTED DURING THE YEAR 2006	2005
Peter Watson	**–**	–	**–**	1,280,000
Steve MacDonald	**–**	–	**900,000**	–
Ross Mackiggan	**–**	–	**–**	250,000
Joseph Sadatmehr	**–**	–	**–**	1,180,000
	–	–	**900,000**	2,710,000

The model inputs for Awards granted during the year ended 30 June 2006 included:

2006	AUGUST 2005 TRANCHES 1-3	NOVEMBER 2005 TRANCHES 1-3	APRIL 2006 TRANCHE 1	APRIL 2006 TRANCHE 2
Exercise Price	N/A	N/A	N/A	N/A
Consideration	$nil	$nil	$nil	$nil
Vesting conditions	Satisfaction of TSR performance conditions	Satisfaction of TSR performance conditions	Satisfaction of EPS performance conditions	Satisfaction of TSR performance conditions
Grant Date	30 August 2005	16 November 2005	19 April 2006	19 April 2006
Expiry Date	30 August 2012	16 November 2012	19 April 2012	19 April 2012
Share Price at Grant Date	$8.50	$8.00	$7.63	$7.63
Expected price volatility of the Company's shares	25%	25%	25%	25%
Expected dividend yield	2.6%	3.1%	3.2%	3.2%
Risk-free interest rate	4.94%	5.26%	5.56%	5.56%

The model inputs for Options and Awards granted during the year ended 30 June 2005 included:

2005	AWARDS AUGUST 2004	AWARDS OCTOBER 2004	AWARDS FEBRUARY 2005
Exercise Price	N/A	N/A	N/A
Consideration	$nil	$nil	$nil
Vesting conditions	Satisfaction of performance conditions	Satisfaction of performance conditions	Satisfaction of performance conditions
Grant Date	30 August 2004	28 October 2004	28 February 2005
Expiry Date	30 August 2011	28 October 2011	28 February 2012
Share Price at Grant Date	$5.35	$6.36	$7.06
Expected price volatility of the Company's shares	27%	27%	27%
Expected dividend yield	3.6%	3.2%	3.1%
Risk-free interest rate	5.39%	5.21%	5.53%

Shares provided on exercise of Options
Details of ordinary shares in the Company provided as a result of the exercise of Options to each Director of Transfield Services Limited and other key management personnel of the Company are set out below.

NAME	DATE OF EXERCISE OF OPTIONS	NUMBER OF ORDINARY SHARES ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR 2006	2005
Directors Transfield Services Limited			
Anthony Shepherd	14 January 2005 and 28 February 2005	–	1,000,000
Peter Watson	26 August 2004	–	1,280,000
Other key management personnel of the Company			
Darce Corsie	26 August 2004	–	960,000
Steve MacDonald	23 March 2006	**900,000**	–
Ross Mackiggan	25 August 2005	**250,000**	–
Joseph Sadatmehr	26 August 2004	–	1,180,000
Fred Bidwell	26 August 2004	–	565,000
Paul McCarthy	26 August 2004	–	100,000
		1,150,000	5,085,000

The amounts paid per ordinary share by each Director and other key management personnel on the exercise of Options at the date of exercise were as follows:

EXERCISE DATE	AMOUNT PAID PER SHARE
23 March 2006	$2.70
25 August 2005	$2.82
28 February 2005	$1.82
14 January 2005	$1.82
26 August 2004	$1.66

No amounts are unpaid on any shares issued on the exercise of Options.

E. Additional information (unaudited)
Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance.

The overall level of executive reward takes into account the performance of the Company over a number of years, with greater emphasis given to the current and immediately preceding year. Over the past five years, the Company's profit from ordinary activities after income tax (NPAT) has grown at an average rate of 46% per annum, and shareholder wealth (including dividends) has grown at a cumulative average rate of 37% per annum. During the same period, average executive remuneration has grown by approximately 11% per annum.

Details of remuneration: cash bonuses and Awards
For each cash bonus and grant of Awards included in the tables on pages 27 and 28 and 31, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. The Awards vest over three to five years, provided the vesting conditions are met (see pages 29 to 31 above). No Awards will vest if the conditions are not satisfied, hence the minimum value of the Award yet to vest is nil. The maximum value of the Awards yet to vest has been determined based on the fair value at grant date.

	CASH BONUS			AWARDS				
NAME	PAID %	FORFEITED %	YEAR GRANTED	VESTED %	FORFEITED %	FINANCIAL YEARS IN WHICH AWARDS MAY VEST	MINIMUM TOTAL VALUE OF GRANT YET TO VEST	MAXIMUM TOTAL VALUE OF GRANT YET TO VEST $
Peter Watson	90	10	2006	–	–	2009-2011	–	252,166
			2005	–	–	2008	–	389,000
			2004	–	–	2007	–	202,500
Darce Corsie	89	11	2006	n/a	n/a	n/a	n/a	n/a
			2005	–	–		–	–
Matthew Irwin	85	15	2006	–	–	2009-2010	–	82,180
			2005		–	2008	–	69,000
Bruce James	85	15	2006	–	–	2009	–	72,193
			2005	–	–		–	–
Steve MacDonald	90	10	2006	–	–	2009	–	126,456
			2005	–	–	2008	–	113,454
Ross Mackiggan	70	30	2006	–	–	2009	–	39,164
			2005	–	–	2008	–	42,141
Kate Munnings	85	15	2006	–	–	2009-2010	–	46,373
			2005	n/a	n/a	n/a	n/a	n/a
Joseph Sadatmehr	85	15	2006	–	–	2009	–	187,796
			2005	–	–	2008	–	283,637
			2004	–	–	2007	–	118,314
Graeme Sumner	85	15	2006	–	–	2009-2010	–	78,071
			2005	n/a	n/a	n/a	n/a	n/a
								2,102,445

Share-based compensation: Awards

Further details relating to Awards are set out below.

NAME	A REMUNERATION CONSISTING OF AWARDS %	B VALUE AT GRANT DATE $	C VALUE AT EXERCISE DATE $	D VALUE AT LAPSE DATE $	E TOTAL OF COLUMNS B TO D $
Peter Watson	3.2%	49,432	–	–	49,432
Darce Corsie	–	–	–	–	–
Matthew Irwin	1.0%	5,469	–	–	5,469
Bruce James	3.4%	18,213	–	–	18,213
Steve MacDonald	3.2%	31,903	–	–	31,903
Ross Mackiggan	1.8%	9,880	–	–	9,880
Kate Munnings	1.8%	3,085	–	–	3,085
Joseph Sadatmehr	4.0%	47,378	–	–	47,378
Graeme Sumner	1.6%	5,195	–	–	5,195
		170,555	–	–	170,555

A = The percentage of the value of remuneration consisting of Awards, based on the value at grant date set out in column B.
B = The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of Awards granted during the year as part of remuneration.
C = The value at exercise date of Awards that were granted as part of remuneration and were exercised during the year.
D = The value at lapse date of Awards that were granted as part of remuneration and that lapsed during the year.

Shares under Award

Unissued ordinary shares of Transfield Services Limited under Award at the date of this report are as follows:

DATE AWARDS GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER AWARDS
28 November 2002	28 November 2009	$2.62	472,000
25 February 2004	25 February 2011	$nil	329,545
30 August 2004	30 August 2011	$nil	379,109
28 October 2004	28 October 2011	$nil	100,000
28 February 2005	28 February 2012	$nil	198,298
23 August 2005	23 August 2012	$nil	217,900
16 November 2005	16 November 2012	$nil	59,000
19 April 2006	19 April 2012	$nil	207,000
			1,962,852

No Award holder has any right under the Awards Plan rules to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of Awards

The following ordinary shares of Transfield Services Limited were issued during the year ended 30 June 2006 on the exercise of Awards granted under the TranShare Executive Performance Awards Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

DATE AWARDS GRANTED	ISSUE PRICE OF SHARES	NUMBER OF SHARES ISSUED
28 November 2002	$2.62	995,000
3 March 2003	$2.70	900,000
		1,895,000

Insurance of officers

During the financial year, Transfield Services Limited paid a premium of $143,700 to insure the Directors and secretary of the Company and its Australian-based controlled entities, and the general managers of each of the divisions of the consolidated entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the Company

No person has applied to a court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of a court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 32.

The Board of Directors has considered the position and, in accordance with the advice received from the Risk, Audit and Compliance Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in note 32, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

– all non-audit services have been reviewed by the Risk, Audit and Compliance Committee to ensure 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 Professional Statements F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 35.

It is the consolidated entity's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the consolidated entity's policy to seek competitive tenders for all major consulting projects.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the Directors.

Anthony Shepherd
Director

Peter Watson
Managing Director

at Sydney
23 August 2006

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As lead auditor for the audit of Transfield Services Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Transfield Services Limited and the entities it controlled during the year.

B Hunter
Partner

Sydney
23 August 2006

PricewaterhouseCoopers

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Revenue from continuing operations	4	**1,924,051**	1,508,440	**39,778**	8,963
Other income	5	**2,390**	2,304	**120**	120
Share of net profits of associates and joint venture entities and partnerships accounted for using the equity method		**34,932**	19,193	**–**	–
Subcontractors, raw materials and consumables used		**(940,394)**	(948,148)	**–**	–
Employee benefits expense		**(737,865)**	(389,883)	**(1,256)**	(722)
Depreciation, amortisation and impairment	6	**(47,982)**	(27,149)	**–**	(854)
Finance costs	6	**(43,237)**	(16,929)	**(9,849)**	(1,202)
Other expenses		**(119,415)**	(88,656)	**(583)**	(92)
Profit before income tax		**72,480**	59,172	**28,210**	6,213
Income tax (expense)/benefit	7	**(16,890)**	(18,192)	**5,575**	(15,228)
Profit from continuing operations after income tax expense		**55,590**	40,980	**33,785**	(9,015)
Loss attributable to minority interest	29	**3**	–	**–**	–
Profit attributable to members of Transfield Services Limited	28(b)	**55,593**	40,980	**33,785**	(9,015)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company					
Basic earnings per share – cents	42	**34.65**	27.64		
Diluted earnings per share – cents	42	**34.61**	27.63		
Dividends per share cents – interim		**11.0**	9.0		
– final		**13.0**	11.0		
Dividend payout ratio		**69.8%**	74.8%		

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

BALANCE SHEETS
AS AT 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
CURRENT ASSETS					
Cash and cash equivalents	8	**138,210**	89,617	**121**	–
Trade and other receivables	9	**318,084**	266,899	**406,058**	234,192
Income tax refundable		**–**	11,904	**–**	12,167
Inventories	10	**50,662**	57,818	**–**	–
Prepayments and other current assets	11	**5,743**	2,632	**98**	–
Derivative financial instruments	12	**563**	–	**–**	–
Total current assets		**513,262**	428,870	**406,277**	246,359
NON-CURRENT ASSETS					
Receivables	13	**–**	284	**5,872**	4,030
Investments accounted for using the equity method	14	**85,532**	74,649	**43,017**	43,017
Other financial assets	15	**–**	–	**39,072**	39,072
Property, plant and equipment	16	**72,332**	64,940	**–**	–
Power generation assets	17	**559,704**	540,528	**–**	–
Deferred tax assets	18	**39,035**	30,031	**759**	716
Intangible assets	19	**237,969**	243,409	**–**	–
Derivative financial instruments	12	**3,450**	–	**–**	–
Total non-current assets		**998,022**	953,841	**88,720**	86,835
Total assets		**1,511,284**	1,382,711	**494,997**	333,194
CURRENT LIABILITIES					
Trade and other payables	20	**320,062**	261,255	**82**	46
Short-term borrowings	21	**207,950**	192,196	**204,850**	50,007
Current tax liabilities		**8,341**	–	**7,415**	–
Provision for employee benefits	22	**47,568**	44,478	**–**	–
Deferred purchase consideration	37	**9,603**	–	**–**	–
Derivative financial instruments	12	**2,433**	–	**–**	–
Total current liabilities		**595,957**	497,929	**212,347**	50,053
NON-CURRENT LIABILITIES					
Long-term borrowings	23	**464,479**	454,561	**–**	–
Deferred tax liabilities	24	**59,120**	58,806	**–**	–
Provision for employee benefits	25	**17,199**	17,549	**–**	–
Other provisions	26	**4,547**	4,443	**–**	–
Deferred purchase consideration	37	**9,350**	–	**–**	–
Derivative financial instruments	12	**10,901**	–	**–**	–
Total non-current liabilities		**565,596**	535,359	**–**	–
Total liabilities		**1,161,553**	1,033,288	**212,347**	50,053
Net assets		**349,731**	349,423	**282,650**	283,141
EQUITY					
Contributed equity	27	**283,560**	282,836	**283,560**	282,836
Reserves	28(a)	**(18,257)**	2,462	**1,668**	1,299
Retained profits/(accumulated losses)	28(b)	**84,349**	64,125	**(2,578)**	(994)
Parent entity interest		**349,652**	349,423	**282,650**	283,141
Minority interest	29	**79**	–	–	–
Total equity		**349,731**	349,423	**282,650**	283,141

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

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**1,903,978**	1,632,696	**1,322**	120
Payments to suppliers, subcontractors and employees		**(1,763,126)**	(1,522,485)	**(647)**	(1,071)
		140,852	110,211	**675**	(951)
Dividends received		**1,574**	500	**31,574**	500
Distributions received		**11,728**	7,944	**7,500**	7,944
Income taxes (paid)/refunded		**(2,439)**	(22,698)	**25,114**	(2,446)
Net cash inflow from operating activities	41	**151,715**	95,957	**64,863**	5,047
CASH FLOWS FROM INVESTING ACTIVITIES					
Net cash inflow/(outflow) on purchase of controlled entities	37	**342**	(247,563)	**–**	–
Capitalised costs for purchase of controlled entities		**(1,000)**	–	**–**	–
Payments for purchase of equity and other investments		**–**	(500)	**–**	–
(Advances to)/repayment from associates and joint ventures upon increase in equity value		**–**	(336)	**454**	–
Payments for property, plant and equipment		**(28,508)**	(18,940)	**–**	–
Proceeds from disposal of plant and equipment and intangible assets		**554**	2,409	**–**	–
Payments for power generation upgrade		**(39,946)**	(138,472)	**–**	–
Intangible assets acquired		**(3,373)**	–	**–**	–
Interest received		**5,153**	4,086	**704**	519
Net cash (outflow)/inflow from investing activities		**(66,778)**	(399,316)	**1,158**	519
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of shares		**7,535**	109,307	**7,535**	111,407
Acquisition of shares on market		**(7,696)**	–	**(7,696)**	–
Proceeds from power generation loans		**35,572**	137,519	**–**	–
Proceeds from unsecured borrowings		**207,052**	155,018	**141,581**	–
Proceeds from borrowings – associates and joint ventures		**16,969**	10,441	**13,262**	5,472
Loans to controlled entities		**–**	–	**(175,364)**	(108,177)
Repayment of borrowings – other		**(155,018)**	–	**–**	–
Repayment of borrowings – power generation		**(63,268)**	(33,265)	**–**	–
Dividends paid		**(35,369)**	(26,045)	**(35,369)**	(26,045)
Finance costs		**(43,237)**	(16,929)	**(9,849)**	(1,202)
Net cash (outflow)/inflow from financing activities		**(37,460)**	336,046	**(65,900)**	(18,545)
Net increase/(decrease) in cash held		**47,477**	32,687	**121**	(12,979)
Cash/(overdraft) at the beginning of the financial year		**89,617**	57,054	**–**	(8,490)
Effect of exchange rate changes on opening cash		**1,116**	(124)	**–**	–
Cash/(overdraft) at the end of the financial year	8	**138,210**	89,617	**121**	(21,469)

The above statements of cash flows should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Total equity at the beginning of the financial year	**349,423**	221,196	**283,141**	206,072
Adjustment on adoption of AASB 132 and AASB 139, net of tax to:				
Reserves	**(16,905)**	–	**–**	–
Restated total equity at the beginning of the financial year	**332,518**	221,196	**283,141**	206,072
Change in fair value of cash flow hedge – interest rate hedge (net of tax)	**10,380**	–	**–**	–
Exchange differences on translation of foreign operations	**(14,671)**	1,163	**–**	
Net (loss)/income recognised directly in equity	**(4,291)**	1,163	**–**	–
Profit/(loss) for the year	**55,590**	40,980	**33,785**	(9,015)
Total recognised income and expense for the year	**51,299**	42,143	**33,785**	(9,015)
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transaction costs	**724**	111,407	**724**	111,407
Employee Share Options and Performance Awards	**369**	722	**369**	722
Dividends paid	**(35,369)**	(26,045)	**(35,369)**	(26,045)
Minority interest on acquisition of subsidiary	**82**	–	**–**	–
Change in post-acquisition reserves	**108**	–	**–**	–
	(34,086)	86,084	**(34,276)**	86,084
Total equity at the end of the financial year	**349,731**	349,423	**282,650**	283,141
Total recognised income and expense for the year is attributable to:				
Members of Transfield Services Limited	**51,302**	42,143	**33,785**	(9,015)
Minority interest	**(3)**	–	**–**	–
	51,299	42,143	**33,785**	(9,015)

The above statements of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

INDEX TO THE NOTES

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the Financial Report

This general purpose Financial Report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The principal accounting policies adopted in the preparation of the general purpose Financial Report are set out below.

These policies have been consistently applied to all the periods presented, unless otherwise stated. The Financial Report includes separate financial statements for Transfield Services Limited as an individual entity and the consolidated entity consisting of Transfield Services Limited and its controlled entities.

Compliance with International Financial Reporting Standards (IFRS)
Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Transfield Services Limited and its controlled entities comply with IFRS. The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards
These financial statements are the first Transfield Services Limited financial statements to be prepared in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Transfield Services Limited until 30 June 2005 have been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Transfield Services Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 46.

Historical cost convention
These financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments at fair value through equity.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of Transfield Services Limited (Company or parent entity) as at 30 June 2006 and the results of all subsidiaries for the year then ended.

Transfield Services Limited and its subsidiaries together are referred to in this Financial Report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for acquisition of subsidiaries by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statements and balance sheets respectively. Investments in subsidiaries are accounted for at cost in the individual financial statements of Transfield Services Limited.

Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint ventures
Joint venture entities and partnerships:
The interest in a joint venture entity or partnership is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the joint venture entity or partnership is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet.

Profits or losses on transactions establishing the joint venture entity or partnership and transactions with the joint venture entity or partnership are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture entity or partnership on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or a service that are subject to risk and returns that are different to those of the other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency transactions

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is Transfield Services Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
– income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to shareholder's equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences is recognised in the income statement as part of the gain or loss on sale or repayment.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amount of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current tax assets and current tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(f) Tax consolidation legislation

Transfield Services Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision and confirmation has been received.

The head entity, Transfield Services Limited, and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Transfield Services Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 7(e).

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreements are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(g) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease are depreciated over the asset's useful life or the lease term. Lease assets held at reporting date are being amortised over periods ranging from three to eight years.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease. Lease income from operating leases is recognised in income on a straight line basis over the lease term.

(h) Acquisitions of assets/business combinations
The purchase method of accounting is used for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured at the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of the acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill (refer to note 1(t)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

The cost of non-current assets developed by the entity includes the cost of all material used in establishment and direct labour of the project, borrowing costs incurred during construction and an appropriate portion of variable and fixed overhead. Such assets are included in capital work in progress until completed at which time they are transferred into plant and equipment and depreciated in accordance with the policies set out in note 1(q) and note 1(r).

(i) Impairment of assets
Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that have previously suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Revenue recognition
Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

Revenue

Operations and maintenance outsourcing service revenue
Contract revenue is recognised when the service is completed in accordance with the terms of the maintenance contract, unless the contract is long-term or where service activity within a contract period is expected to vary significantly year on year in which case revenue is recognised in accordance with the percentage of completion method.

Infrastructure ownership and management revenue
Infrastructure revenue is recognised when the services are completed or in accordance with individual contracts as appropriate.

Other revenue

Interest income
Interest income is recognised on a time proportion basis using the effective interest rate method.

Dividends
Dividends are recognised as revenue when the right to receive payment is established.

Other income

Management fees
Management fees are recognised as income when the services are provided or in accordance with individual agreements.

(k) Receivables
All trade debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement.

(l) Inventories
Consumables and stores
Consumables and stores are stated at the lower of cost (assigned on the first-in-first-out basis) and net realisable value and charged to specific contracts when used. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Work in progress
Work in progress in respect of standard maintenance contracts represents unbilled contract expenditure on maintenance projects at the period end and is stated at the lower of cost and net realisable value.

Work in progress in respect of long-term maintenance contracts is stated at the aggregate of contract costs incurred to date plus recognised profit less recognised losses and progress billings.

Where progress billings exceed the aggregate costs incurred plus profits less losses, the resulting work in progress is included in liabilities.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the client under the terms of the contract and an allocation of overhead expenses incurred in connection with the consolidated entity's maintenance activities in general.

Costs incurred at the commencement of long-term contracts are capitalised. Deferred costs are amortised from the commencement of commercial production. Such costs are written off immediately in the event that they become irrecoverable.

(m) Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities in the balance sheet.

(n) Other financial assets
From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables, which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(o) Derivatives
From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005.

The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives were accounted for under previous AGAAP.

Interest rate swaps
The net amount receivable or payable under interest rate swap agreements was progressively brought to account over the period to settlement. The amount recognised was accounted for as an adjustment to interest and finance changes during the period and included in other debtors or other creditors at each reporting date.

For further information on previous AGAAP refer to the annual report of the year ended 30 June 2005.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes in the carrying amount of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

For further information concerning the adjustments on transition date, reference should be made to:

– derivative financial instruments – note 12

– reserves and retained profits – note 28

– explanation of transition to AIFRS – note 46

From 1 July 2005
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of various derivative financial instruments used for hedging purposes is disclosed in note 12. Movements in the hedging reserve in shareholders' equity are shown in note 28.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging transactions is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement in the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(p) Fair value estimation
The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(q) Property, plant and equipment – operations and maintenance
Land and buildings are shown at cost, less depreciation for buildings.

All other property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment as well as borrowing costs capitalised on qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repair and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

– buildings	25 – 40 years
– leasehold improvements	Remaining lease term
– plant and equipment	3 – 20 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Development expenditure
Expenditure on development activities, being the application of research findings or other knowledge to a plan or design of the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation.

Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, which ranges from three to 10 years.

(r) Power generation assets – infrastructure
Power generation plant
Power generation assets comprise the plant, equipment, fixtures and fittings of the Townsville, Collinsville and Kemerton power stations together with the associated long-term contractual agreements. In the opinion of the Directors, these assets comprise a separate class of assets.

Power generation assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment as well as borrowing costs capitalised on qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation is calculated on a straight line basis to write off the net cost of each item of plant over its expected useful life to the Group.

Estimates of remaining useful lives are made on a regular basis of all classes of assets, with annual reassessments for major items.

The power generation assets have been componentised in the following categories and are being depreciated over their estimated useful lives as follows:

– gas and steam turbine island	30 years
– electrical interface	30 years
– instrument and control systems	15 years
– ancillary systems	30 years
– civil works	45 years
– short-lived assets	4 – 12 years
– buildings	25 – 40 years

Power generation assets of the Group are required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with the component classifications above. Other routine operating maintenance, repair costs and minor renewals are also charged as expenses as incurred.

Restoration, rehabilitation and environmental expenditure
The estimated costs of dismantling and removing an asset and restoring the site are included in the cost of the asset as at the date the obligation first arises and to the extent that it is first recognised as a provision.

The provision is reviewed at each balance sheet date and the liability is measured at the amount required to settle the present obligation at the reporting date, discounted to net present value where material.

(s) Leasehold improvements
The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease, or the estimated useful life of the improvements to the consolidated entity.

(t) Intangible assets
Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each subsidiary or business unit.

Brand names, trademarks and licences
Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of trademarks and licences over their estimated useful lives of 20 to 22 years.

Contract intangibles
Contract intangibles have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight line method to allocate the cost of contract intangibles over their estimated useful lives of between two to 12 years.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Customer relationships
Customer relationships have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight line method to allocate the cost of customer relationships over their estimated useful lives of 20 to 22 years.

Supplier/contractor databases
Supplier/contractor databases have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight line method to allocate the cost of supplier/contractor databases over their estimated useful lives of 20 to 22 years.

Computer software and licences
Computer software is either purchased or developed within the organisation and is recorded at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method over the effective useful lives of three years for application software to 10 years for licences and other items.

(u) Trade and other payables
These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(v) Short-term and long-term borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(w) Provision for employee benefits
Wages and salaries, annual leave, sick leave and Directors' retirement benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave, accumulating sick leave expected to be settled within 12 months and Directors' retirement benefits are recognised in provision for employee benefits in respect of employees' or Directors' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date of national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Profit sharing and bonus plans
A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

– there are formal terms in the plan for determining the amount of the benefit;
– the amounts to be paid are determined before the time of completion of the Financial Report; or
– past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Superannuation
Contributions to defined contribution superannuation funds are charged as an expense as the contributions are paid or become payable.

Employee benefit on-costs
Employee benefit on-costs, including payroll tax, are recognised and included in provision for employee benefits and are measured at amounts expected to be paid when the liabilities are settled, discounted to net present value.

Termination benefits
Liabilities for termination benefits, not in connection with the acquisition of any entity or operation, are recognised when a detailed plan for the termination has been developed and a valid expectation has been raised in those employees affected that terminations will be carried out.

The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payments is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits relating to an acquired entity or operation that arise as a consequence of acquisitions are recognised at the date of acquisition if, at or before the acquisition date, the main features of the terminations have been planned and a valid expectation has been raised in those employees affected that the terminations would be carried out and this is supported by a detailed plan developed within three months of the acquisition or prior to the completion of the Financial Report, if earlier. These liabilities are disclosed in aggregate with other restructuring costs as a consequence of the acquisition.

Liabilities for termination benefits, which are expected to be settled within 12 months, are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured at the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future payment, where the effect of discounting is material.

Equity-based compensation benefits
Equity-based compensation benefits are provided to employees via the TranShare Executive Performance Awards Plan and the Transfield Services Executive Options Scheme.

(i) *Share Options and Performance Awards granted before 7 November 2002 and/or vested before 1 January 2005*

No expense is recognised in respect of these Options or Performance Awards. The shares are recognised when the Options or Performance Awards are exercised and the proceeds received are allocated to share capital.

(ii) *Share Options and Performance Awards granted after 7 November 2002 and vested after 1 January 2005.*

The fair value of Options and Performance Awards granted under the Transfield Services Executive Options Scheme and the TranShare Executive Performance Awards Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the Options or Performance Awards.

The fair value at grant date is independently determined using a binomial Option pricing model that takes into account the exercise price, the term of the Option or Performance Award, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the Option or Performance Award, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the Option or Performance Award.

The fair value of the Options or Performance Awards granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of Options or Performance Awards that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of Options or Performance Awards that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of Options or Performance Awards, the balance of the share-based payments reserve relating to those Options or Performance Awards is transferred to share capital.

The difference between the market value of shares issued to employees and the employee's consideration under the employee share scheme is recognised as an employee benefit expense with a corresponding increase in equity when the employee becomes entitled to the shares.

(x) Provisions

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required on settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(y) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under that contract, and only after any impairment losses to assets dedicated to that contract have been recognised.

The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date of national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payment, where the effect of discounting is material.

(z) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred (except where they are incurred in the cost of qualifying assets – refer note 1(r)) and include:

- interest on bank overdraft and short-term and long-term borrowings;
- amortisation of discounts or premium relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- finance lease charges.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, in this case 7.25% (2005: 6%).

(aa) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or Options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares, Options or Performance Awards, or for the acquisition of a business are included either as a reduction of equity or in the cost of acquisition as part of the purchase consideration.

(ab) Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

(ac) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the 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 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.

(ad) Financial instrument transaction costs

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP, transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to the carrying amount for the Group was immaterial.

(ae) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(af) Rounding of amounts
The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission (ASIC), relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ag) New accounting standards and Urgent Issues Group (UIG) interpretations
Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) UIG 4 *Determining whether an Asset Contains a Lease*

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.

(ii) UIG 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

The Group does not have interests in decommissioning, restoration or environmental rehabilitation funds. This interpretation will not affect the Group's financial statements.

(iii) AASB 2005-9 *Amendments to Australian Accounting Standards* [AASB 4, AASB 1023, AASB 139 and AASB 132]

AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements of the parent entity, Transfield Services Limited, under guarantees given pursuant to the deed of cross guarantee in respect of amounts payable by certain wholly-owned subsidiaries. An assessment of the fair value of any guarantees has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(iv) AASB 7 *Financial Instruments: Disclosures and Amendments to Australian Accounting Standards* [AASB 132, AASB 2005-10, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(v) AASB 2005-6 *Amendments to Australian Accounting Standards* [AASB 121]

AASB 2005-6 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. Transfield Services Limited has an intercompany loan with its New Zealand subsidiary forming part of a net investment in a foreign operation. This loan is denominated in the functional currency of the subsidiary. The amendment to AASB 121 will therefore have no impact on the Group's financial statements.

NOTE 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rates swaps to hedge certain risk exposures.

Financial risk is managed by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. Group Treasury provides written principles for overall risk management, endorsed by the Board, covering areas such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

(a) Market risk
Foreign exchange risk
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the world currencies, principally United States Dollars (USD) and Euro.

Forward contracts, transacted with Group Treasury, are used to manage foreign exchange risk. Group Treasury is responsible for managing exposures in each foreign currency by using external forward currency contracts where economically viable.

For segment reporting purposes, each subsidiary designates contracts with Group Treasury as fair value hedges or cash flows hedges, as appropriate. External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis. The Group's risk management policy is to hedge between 90% and 100% of anticipated transactions. Approximately 90% of projected purchases qualify as 'highly probable' forecast transactions for hedge accounting purposes.

Fair value interest rate risk
Refer to (d) below.

(b) Credit risk

The Group has no significant concentrations of credit risk since its customers are generally large companies or government authorities. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. Group policy is to fix the rates for approximately 50% of its net borrowings. This policy has been complied with at the year end.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (annually or semi-annually), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the consolidated entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to notes 19(a) and (b) for details of these assumptions and the potential impact of changes to the assumptions.

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Rehabilitation and make-good costs

The Group recognises future provisions for estimated resources required to rehabilitate and make-good leasehold properties, in which it operates under contracts with third parties. The timeframe may vary between two and 30 years and the terminal liability requires management estimates of future costs based on current and future considerations, including environmental considerations. The Group records these provisions using discounted cash flows and reassesses them annually. Refer to note 26 for further details of these provisions.

(b) Critical judgements in applying the entity's accounting polices

Revenue recognition

The Group engages in performance-related contracts with its customers. Under the terms of these contracts the Group is entitled to receive Key Performance Indicator (KPI) income. The Group's policy is to recognise KPI income on a pro rata basis to the extent that the Group is capable of achieving the desired outcomes under the terms of the contract and the value of the KPI revenue can be reliably estimated.

Share-based payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, using assumptions detailed in note 44.

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
NOTE 4. REVENUE				
Revenue from continuing operations				
Operations and maintenance outsourcing services	**1,782,696**	1,436,265	**–**	–
Infrastructure ownership and management	**136,202**	68,089	**–**	–
	1,918,898	1,504,354	**–**	–
Other revenue				
Interest	**5,153**	4,086	**704**	519
Dividends	**–**	–	**39,074**	8,444
	5,153	4,086	**39,778**	8,963
Total revenue	**1,924,051**	1,508,440	**39,778**	8,963
NOTE 5. OTHER INCOME				
Profit on sale of investment	**812**	–	**–**	–
Management fee	**745**	1,021	**120**	120
Other	**833**	1,283	**–**	–
	2,390	2,304	**120**	120
NOTE 6. EXPENSES				
Depreciation				
Power generation assets	**20,770**	10,685	**–**	–
Plant and equipment/leasehold improvements	**17,389**	8,427	**–**	–
Total depreciation	**38,159**	19,112	**–**	–
Amortisation and impairment				
Plant and equipment under finance leases	**771**	1,461	**–**	–
Computer software	**3,905**	4,936	**–**	–
Goodwill and other intangible assets	**4,971**	1,640	**–**	854
Investments	**176**	–	**–**	–
Total amortisation and impairment	**9,823**	8,037	**–**	854
Total depreciation, amortisation and impairment	**47,982**	27,149	**–**	854
Other charges against assets				
Write-off of bad debts	**155**	687	**–**	–
Net loss on disposal of plant and equipment	**2,669**	–	**–**	–
Superannuation contributions	**31,302**	23,506	**–**	–
Finance costs				
Interest and finance charges paid/payable	**48,882**	26,525	**9,849**	1,202
Amount capitalised	**(5,645)**	(9,596)	**–**	–
Finance cost expensed	**43,237**	16,929	**9,849**	1,202
Rental expense relating to operating leases				
Minimum lease payments	**31,386**	25,152	**–**	–

NOTE 7. INCOME TAX

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
(a) Income tax expense attributable to continuing operations				
Current tax	**24,828**	(8,984)	**(5,532)**	17,668
Deferred tax	**(5,077)**	29,099	**(43)**	(477)
Over provided in prior years	**(2,861)**	(1,923)	**–**	(1,963)
	16,890	18,192	**(5,575)**	15,228
Deferred income tax (revenue) expense included in income tax expense comprises:				
(Increase) in deferred tax assets (note 18)	**(4,187)**	(3,380)	**(43)**	(477)
(Decrease)/increase in deferred tax liabilities (note 24)	**(890)**	32,479	**–**	–
	(5,077)	29,099	**(43)**	(477)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**72,480**	59,172	**28,210**	6,213
Income tax calculated at the Australian tax rate of 30% (2005: 30%)	**21,744**	17,752	**8,463**	1,864
Tax effect of amounts which are not deductible in calculating taxable income:				
Non-deductible depreciation and amortisation	**328**	1,365	**–**	–
Non-deductible interest	**2,746**	2,527	**–**	–
Share of net profits of associates and joint venture entities and partnerships	**(3,535)**	(3,284)	**–**	–
Employee benefit expense	**–**	(276)	**–**	(217)
Rebateable dividends	**–**	–	**(11,722)**	(2,533)
Sundry items	**(47)**	1,951	**(2,316)**	238
Income tax expense adjusted for other non-taxable items:	**21,236**	20,035	**(5,575)**	(648)
Effect of higher tax rate on overseas income	**220**	80	**–**	–
Over provision in previous year (includes research and development benefit)	**(2,861)**	(1,923)	**–**	(1,963)
Benefit of prior year tax losses recouped (New Zealand)	**(1,705)**	–	**–**	–
Tax consolidation adjustments	**–**	–	**–**	17,839
Income tax expense	**16,890**	18,192	**(5,575)**	15,228
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax – credited directly to equity (notes 18 and 24)	**(2,796)**	–	**–**	–

(d) Unrecognised temporary differences

A deferred tax liability has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the consolidated entity's subsidiaries. The deferred tax liability will only arise in the event of disposal of the subsidiary, and no such disposal is expected in the foreseeable future.

(e) Tax consolidation legislation

Transfield Services Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement, which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Transfield Services Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Transfield Services Limited for any current tax payable assumed and are compensated by Transfield Services Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Transfield Services Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables (see notes 9 and 21).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000

NOTE 8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Cash at bank and on hand	**100,210**	45,617	**121**	–
Cash on deposit – at call	**38,000**	44,000	**–**	–
	138,210	89,617	**121**	–
The above figures are reconciled to cash at the end of the financial year as shown in the statements of cash flows as follows:				
Parent entity bank overdraft	**–**	–	**–**	(21,469)
Balances per statement of cash flows	**138,210**	89,617	**121**	(21,469)

The parent entity's overdraft has been netted against deposit accounts held across the consolidated entity for cash balance reporting purposes. The cash flow reconciliation recognises the parent entity overdraft for cash flow purposes only.

Deposits at call
The deposits bear floating interest rates between 5.45% and 5.70% (2005: 5.20% and 5.45%) per annum.

Cash at bank
Cash at bank bears floating interest rates between 5.45% and 5.70% (2005: 5.20% and 5.45%) per annum.

Cash balances of $10,041,191 (2005: $6,658,642) in Transfield Collinsville Pty Limited and Transfield Services Collinsville BV are not available for general use by the consolidated entity. These funds can be used for payment of operating costs incurred on the Collinsville Power Station Project but can only be used for other purposes if certain conditions contained in the Collinsville Power Project Credit Facility Agreement are met.

Cash balances of $21,937,185 (2005: $24,245,072) in Transfield Townsville Pty Limited are not available for general use by the consolidated entity. These funds can only be used for purposes prescribed in the Townsville Power Project Syndicated Facilities Agreement.

Cash balances of $17,303,432 (2005: nil) in Transfield Services Kemerton Holdings Pty Limited as trustee for the Transfield Services Kemerton Trust are not available for general use by the consolidated entity. These funds can only be used for purposes prescribed in the Kemerton Power Project Facility Agreement.

NOTE 9. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Trade and other receivables	**315,427**	263,459	**–**	1,202
Less: Provision for doubtful receivables	**(1,258)**	(972)	**–**	–
	314,169	262,487	**–**	1,202
Loans to associates and joint ventures	**3,909**	4,409	**2,729**	3,183
Loans to controlled entities*	**–**	–	**403,329**	229,807
Loans to employees	**6**	3	**–**	–
	318,084	266,899	**406,058**	234,192

* The terms of these loans are set out in note 36 (j).

(a) Bad and doubtful trade receivables
The Group has recognised a loss of $155,000 (2005: $687,000) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in 'other expenses' in the income statement.

(b) Other receivables
These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the term of repayment exceeds six months. Collateral is not normally obtained.

(c) Effective interest rates and credit risk
Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-derivative financial instruments note (note 31) and financial risk management note (note 2).

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000

NOTE 10. CURRENT ASSETS – INVENTORIES

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Raw materials and stores – at cost	**17,199**	13,068	**–**	–
Work in progress – at cost	**33,463**	44,750	**–**	–
	50,662	57,818	**–**	–

Inventories recognised as an expense during the year ended 30 June 2006 amounted to $207,028,000 (2005: $150,130,682).

Inventory pledged as security is disclosed in note 31.

NOTE 11. CURRENT ASSETS – PREPAYMENTS AND OTHER CURRENT ASSETS

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Prepayments	**3,387**	2,632	**98**	–
Tender and security deposits	**1,356**	–	**–**	–
Capitalised investment costs	**1,000**	–	**–**	–
	5,743	2,632	**98**	–

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash flow hedges				
Current assets				
Interest rate swap contracts	**563**	–	**–**	–
Non-current assets				
Interest rate swap contracts	**3,450**	–	**–**	–
	4,013	–	**–**	–
Current liabilities				
Interest rate swap contracts	**2,433**	–	**–**	–
Non-current liabilities				
Interest rate swap contracts	**10,901**	–	**–**	–
	13,334	–	**–**	–

(a) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards of 1 July 2005:

For the Group

A net of tax adjustment of $16,905,000 decrease in net assets was recognised in non-current liabilities representing the identification of interest rate swap cash flow hedges under AASB 139. There was no impact on the parent entity.

For further information refer to note 1(o).

(b) Instruments used by the Group and fair values

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to interest rates and some foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) Interest rate swap contracts – cash flow hedges

It is policy to protect the consolidated entity's loans from exposure to increasing interest rates. Accordingly, the consolidated entity has entered into interest rate swap contracts under which it receives interest at variable rates to pay interest at fixed rates. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is separately disclosed on the face of the balance sheet.

The contracts require settlement of net interest receivable or payable every three, six or 12 months depending on the contract. The settlement dates generally coincide with the dates on which interest is payable on the underlying debt.

Swaps currently in place hedge the outstanding loan principals and are timed to expire as each loan repayment falls due. The fixed interest rates range between 5.67% and 9.518% per annum (2005: 5.67% and 9.518%) and the variable rates are floating rates based on 180-day rollovers. As at balance date the rate was 5.903% (2005: 5.75%) per annum.

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS continued

At 30 June 2006, the principal amounts (2005: notional principal amounts) and periods of expiry of the interest rate swap contracts are as follows:

	2006 $'000	2005 $'000
Less than one year	**19,276**	15,830
Later than one year but less than five years	**113,016**	99,148
Later than five years	**248,376**	284,357
	380,668	399,335

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedging interest expense is recognised. The ineffective portion is recognised in the income statement immediately. In the year ended 30 June 2006, there was no impact to profit or loss.

At balance date for the Group these contracts were net liabilities with fair value of $9,321,000 (included in non-current derivative financial instruments). In the year ended 30 June 2006 there was:

- on the date of transition to AASB 132 and AASB 139 on 1 July 2005, recognition of a liability of $24,150,000 before tax on remeasurement to fair value; and
- a gain from the increase in fair value of $14,829,000 before tax during the year, which was recognised in equity.

(ii) Forward exchange contracts
The construction of Kemerton Power Station was partly funded through the use of Euro and US dollars. It is policy to protect part of the foreign exchange exposure to changing exchange rates. Accordingly, the consolidated entity entered into forward exchange contacts under which it purchased foreign currency (Euro and US dollars) at fixed rates.

The contracts were timed to mature when major deliveries of works were scheduled to be invoiced by the constructor. The settlement dates generally coincided with the date when foreign currency payments were due pursuant to the underlying contractual commitment.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity, net of tax.

The details of outstanding contracts are:

BUY EURO	SELL AUSTRALIAN DOLLARS 2006 $'000	SELL AUSTRALIAN DOLLARS 2005 $'000	EXCHANGE RATE 2006 $	EXCHANGE RATE 2005 $
Maturity				
0-6 months	–	20,086	–	0.6298

BUY USD	SELL AUSTRALIAN DOLLARS 2006 $'000	SELL AUSTRALIAN DOLLARS 2005 $'000	EXCHANGE RATE 2006 $	EXCHANGE RATE 2005 $
0-6 months	–	2,148	–	0.7619

There is no exposure as at 30 June 2006 as the construction has been completed and the plant has been commissioned.

(c) Credit risk exposures
Refer to note 2 (b).

(d) Interest risk exposures
Refer to note 2 (d).

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000

NOTE 13. NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Loan to controlled entity*		–	–	**5,872**	4,030
Other		–	284	–	–
		–	284	**5,872**	4,030

* Refer to note 36(j) for terms of these loans.

NOTE 14. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Investments in associates	39	**39,515**	33,433	**43,017**	43,017
Equity interest in joint venture entities and partnerships	40	**46,017**	41,216	–	–
		85,532	74,649	**43,017**	43,017

Shares in associates
Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost (net of impairment) by the parent entity (refer to note 39).

Equity interest in joint venture entities and partnerships
Investments in joint venture entities and partnerships are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost (net of impairment) by the parent entity (refer to note 40).

NOTE 15. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Investments in controlled entities – at cost	38	–	–	**39,072**	39,072
		–	–	**39,072**	39,072

NOTE 16. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	LAND AND LEASEHOLD IMPROVEMENTS $'000	PLANT AND EQUIPMENT $'000	LEASED PLANT AND EQUIPMENT $'000	CAPITAL WORK IN PROGRESS $'000	TOTAL $'000
Consolidated					
Year ended 30 June 2006					
Opening net book amount	**4,120**	**44,277**	**12,976**	**3,567**	**64,940**
Exchange differences	**(270)**	**(2,334)**	**(468)**	**–**	**(3,072)**
Additions	**127**	**19,981**	**–**	**8,400**	**28,508**
Additions through acquisition of subsidiary	**–**	**1,220**	**–**	**–**	**1,220**
Disposals, write offs and transfers	**2,919**	**3,996**	**(6,511)**	**(1,508)**	**(1,104)**
Depreciation	**(659)**	**(16,730)**	**(771)**	**–**	**(18,160)**
Closing net book amount	**6,237**	**50,410**	**5,226**	**10,459**	**72,332**
At 30 June 2006					
Cost or fair value	**8,047**	**114,442**	**7,535**	**10,459**	**140,483**
Accumulated depreciation	**(1,810)**	**(64,032)**	**(2,309)**	**–**	**(68,151)**
Net book amount	**6,237**	**50,410**	**5,226**	**10,459**	**72,332**
Consolidated					
At 1 July 2004					
Cost or fair value	2,431	48,852	13,861	3,009	68,153
Accumulated depreciation	(283)	(21,682)	(4,304)	–	(26,269)
Net book amount	2,148	27,170	9,557	3,009	41,884
Year ended 30 June 2005					
Opening net book amount	2,148	27,170	9,557	3,009	41,884
Additions	303	1,285	4,880	4,434	10,902
Additions through acquisitions of subsidiary	109	29,216	–	–	29,325
Disposals, write offs and transfers	1,748	(5,155)	–	(3,876)	(7,283)
Depreciation	(188)	(8,239)	(1,461)	–	(9,888)
Closing net book amount	4,120	44,277	12,976	3,567	64,940
At 30 June 2005					
Cost or fair value	4,591	85,188	18,741	3,567	112,087
Accumulated depreciation	(471)	(40,911)	(5,765)	–	(47,147)
Net book amount	4,120	44,277	12,976	3,567	64,940

Secured property, plant and equipment are disclosed in note 31.

No borrowing costs have been capitalised during the year (2005: $nil).

NOTE 17. NON-CURRENT ASSETS – POWER GENERATION ASSETS (INFRASTRUCTURE)

	LAND AND BUILDINGS $'000	REHAB-ILITATION PROVISION $'000	GAS AND STEAM TURBINE ISLAND $'000	CIVIL WORKS $'000	ELECTRICAL INTERFACE $'000	INSTRU-MENT AND CONTROL SYSTEM $'000	ANCILLARY SYSTEMS $'000	SHORT-LIVED ASSETS $'000	CAPITAL WORK IN PROGRESS $'000	TOTAL $'000
Consolidated										
Year ended 30 June 2006										
Opening net book amount	**39**	**1,000**	**259,408**	**24,462**	**29,565**	**11,772**	**12,175**	**7,435**	**194,672**	**540,528**
Additions and transfers from work in progress	**1,322**	**–**	**146,443**	**9,743**	**30,268**	**7,576**	**19,560**	**19,706**	**(194,672)**	**39,946**
Depreciation charge	**–**	**(52)**	**(13,203)**	**(712)**	**(1,789)**	**(1,307)**	**(848)**	**(2,859)**	**–**	**(20,770)**
Closing net book amount	**1,361**	**948**	**392,648**	**33,493**	**58,044**	**18,041**	**30,887**	**24,282**	**–**	**559,704**
At 30 June 2006										
Cost	**1,367**	**1,000**	**454,019**	**37,183**	**65,973**	**21,852**	**32,727**	**30,144**	**–**	**644,265**
Accumulated depreciation	**(6)**	**(52)**	**(61,371)**	**(3,690)**	**(7,929)**	**(3,811)**	**(1,840)**	**(5,862)**	**–**	**(84,561)**
Net book amount	**1,361**	**948**	**392,648**	**33,493**	**58,044**	**18,041**	**30,887**	**24,282**	**–**	**559,704**

Borrowing costs of $5,645,000 (2005: $9,596,000) were capitalised during the year.

	LAND AND BUILDINGS $'000	REHAB-ILITATION PROVISION $'000	GAS AND STEAM TURBINE ISLAND $'000	CIVIL WORKS $'000	ELECTRICAL INTERFACE $'000	INSTRU-MENT AND CONTROL SYSTEM $'000	ANCILLARY SYSTEMS $'000	SHORT-LIVED ASSETS $'000	CAPITAL WORK IN PROGRESS $'000	TOTAL $'000
Consolidated										
At 1 July 2004										
Cost	45	1,000	198,348	15,355	25,751	8,458	5,014	4,875	206,992	465,838
Accumulated depreciation	–	–	(40,741)	(2,600)	(5,262)	(1,787)	(764)	(1,952)	–	(53,106)
Net book amount	45	1,000	157,607	12,755	20,489	6,671	4,250	2,923	206,992	412,732
Year ended 30 June 2005										
Opening net book amount	45	1,000	157,607	12,755	20,489	6,671	4,250	2,923	206,992	412,732
Additions and transfers from work in progress	–	–	109,228	12,085	9,954	5,818	8,153	5,563	(12,320)	138,481
Depreciation charge	(6)	–	(7,427)	(378)	(878)	(717)	(228)	(1,051)	–	(10,685)
Closing net book amount	39	1,000	259,408	24,462	29,565	11,772	12,175	7,435	194,672	540,528
At 30 June 2005										
Cost	45	1,000	307,576	27,440	35,705	14,276	13,167	10,438	194,672	604,319
Accumulated depreciation	(6)	–	(48,168)	(2,978)	(6,140)	(2,504)	(992)	(3,003)	–	(63,791)
Net book amount	39	1,000	259,408	24,462	29,565	11,772	12,175	7,435	194,672	540,528

Refer to note 31 for information on non-current assets pledged as security by the parent entity and its controlled entities.

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
NOTE 18. NON-CURRENT ASSETS – DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	**508**	217	**–**	–
Employee benefits	**20,471**	17,348	**–**	–
Power generation depreciation	**1,898**	2,122	**–**	–
Capitalised development fees	**2,700**	1,200	**–**	–
Share-based payments	**500**	390	**500**	390
Rental obligations	**1,058**	1,067	**–**	–
Creditors and accruals	**3,614**	2,793	**–**	–
Receipts in advance/Deferred income	**2,586**	2,300	**–**	–
Fair value adjustment on acquisition	**–**	2,634	**–**	–
Other	**993**	825	**259**	326
Tax losses*	**707**	185	**–**	–
	35,035	31,081	**759**	716
Amounts recognised directly in equity				
Cash flow hedges	**4,000**	–	**–**	–
Set off deferred tax liabilities of subsidiary	**–**	(1,050)	**–**	–
Net deferred tax assets	**39,035**	30,031	**759**	716
Movements:				
Opening balance at 1 July	**30,031**	26,448	**716**	239
Change on adoption of AASB 132 and AASB 139 (note 1(o))	**4,000**	–	**–**	–
Credited to the income statement (note 7)	**4,187**	3,380	**43**	477
Acquisition of subsidiary (note 37(c))	**817**	203	**–**	–
Closing balance at 30 June	**39,035**	30,031	**759**	716
Deferred tax assets to be recovered after more than 12 months	**23,855**	20,360	**589**	660
Deferred tax assets to be recovered within 12 months	**15,180**	9,671	**170**	56
	39,035	30,031	**759**	716

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

NOTE 19. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	GOODWILL $'000	CONTRACT INTANGIBLES $'000	TRADEMARKS AND BRANDS $'000	CUSTOMER RELATIONSHIPS $'000	CUSTOMER/ SUPPLIER DATABASES $'000	SOFTWARE^ $'000	TOTAL $'000
Consolidated							
Year ended 30 June 2006							
Opening net book amount	**181,013**	**32,826**	**736**	**12,926**	**1,418**	**14,490**	**243,409**
Exchange differences	**(12,896)**	**(2,899)**	**–**	**(867)**	**–**	**(81)**	**(16,743)**
Additions	**15,779**	**–**	**3,300**	**655**	**–**	**3,373**	**23,107**
Disposals and transfers out	**–**	**–**	**–**	**–**	**–**	**(2,119)**	**(2,119)**
Fair value adjustments	**(809)**	**–**	**–**	**–**	**–**	**–**	**(809)**
Amortisation charge	**–**	**(4,052)**	**(97)**	**(756)**	**(66)**	**(3,905)**	**(8,876)**
Closing net book amount	**183,087**	**25,875**	**3,939**	**11,958**	**1,352**	**11,758**	**237,969**
At 30 June 2006							
Cost	**183,087**	**30,993**	**4,050**	**12,897**	**1,445**	**25,011**	**257,483**
Accumulated amortisation and impairment	**–**	**(5,118)**	**(111)**	**(939)**	**(93)**	**(13,253)**	**(19,514)**
Net book amount	**183,087**	**25,875**	**3,939**	**11,958**	**1,352**	**11,758**	**237,969**
At 1 July 2004							
Cost	36,769	–	–	–	–	15,189	51,958
Accumulated amortisation	–	–	–	–	–	(7,905)	(7,905)
Net book amount	36,769	–	–	–	–	7,284	44,053
Year ended 30 June 2005							
Opening net book amount	36,769	–	–	–	–	7,284	44,053
Additions	144,244	34,194	750	13,157	1,445	12,142	205,932
Amortisation charge	–	(1,368)	(14)	(231)	(27)	(4,936)	(6,576)
Closing net book amount	181,013	32,826	736	12,926	1,418	14,490	243,409
At 30 June 2005							
Cost	181,013	34,194	750	13,157	1,445	27,331	257,890
Accumulated amortisation	–	(1,368)	(14)	(231)	(27)	(12,841)	(14,481)
Net book amount	181,013	32,826	736	12,926	1,418	14,490	243,409

^ Software represents capitalised development costs and licence fees for the SAP system used in the business.

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment and country of operation.

A segment-level summary of the goodwill and other intangible assets allocation is presented below.

	AUSTRALIA $'000	NEW ZEALAND $'000	OTHER COUNTRIES $'000	TOTAL $'000
2006				
Operations and maintenance	**91,949**	**122,976**	**1,411**	**216,336**
Infrastructure ownership	**21,633**	**–**	**–**	**21,633**
	113,582	**122,976**	**1,411**	**237,969**
2005				
Operations and maintenance	74,741	144,685	–	219,426
Infrastructure ownership	23,983	–	–	23,983
	98,724	144,685	–	243,409

NOTE 19. NON-CURRENT ASSETS – INTANGIBLE ASSETS continued

(a) Impairment tests for goodwill continued
The recoverable amount of a CGU is determined based on a value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by management, covering a three-year period. Cash flows beyond the three year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

(b) Key assumptions used for value-in-use calculations

	GROWTH RATE**		POST-TAX DISCOUNT RATE***	
	2006 %	2005 %	2006 %	2005 %
Operations and maintenance				
Australia	**3.0**	3.5	**8.57**	8.15
New Zealand	**3.5**	3.5	**8.15**	8.15
Infrastructure				
Australia	**2.5**	3.5	**7.52**	7.10

** Weighted average growth rate used to extrapolate cash flows beyond the budget period.

*** In performing the value-in-use calculations for each CGU, the Company has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. These discount rates are consistent with independent market analysis of the Group. These assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted earnings before interest, tax and amortisation (EBITA) based on past performance and its expectations of the future. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used are post-tax and reflect specific risks relating to the relevant segments and the countries in which they operate.

(c) Impact of possible changes in key assumptions
The recoverable amount of Transfield Services Engineering Group (TSEG) is determined based on significant forecast EBITA growth for the 2007 and 2008 financial years and the operations and maintenance growth rate of 3.0% for subsequent years. The TSEG CGU's recoverable amount exceeds its carrying value by $14.7 million. Should the forecast growth for the 2007 and 2008 years be lower than 58%, the carrying amount of the CGU would equal its recoverable amount.

Other than the above, management does not consider that a change in any of its recently established key assumption criteria would materially impact the assessment of impairment for any CGU.

NOTE 20. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables	**198,307**	186,881	**–**	–
Other payables	**121,755**	74,374	**82**	46
	320,062	261,255	**82**	46

NOTE 21. CURRENT LIABILITIES – SHORT-TERM BORROWINGS

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Unsecured				
Loans from associates and joint venture entities and partnerships	**17,542**	12,945	**16,973**	12,945
Loans from controlled entities*	**–**	–	**24,827**	15,593
Bank overdraft and bridge facility	**163,050**	155,018	**163,050**	21,469
Mandatory convertible note	**5,611**	–	**–**	–
Secured				
Lease liabilities	**1,087**	3,061	**–**	–
Non-recourse project finance loans – power generation	**20,660**	21,172	**–**	–
Total current borrowings	**207,950**	192,196	**204,850**	50,007

Details of the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans as well as interest rate risk and fair values are set out in note 31.

* The terms of these loans are set out in note 36 (j).

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000

NOTE 22. CURRENT LIABILITIES – PROVISION FOR EMPLOYEE BENEFITS

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Annual leave	**33,559**	29,446	**–**	–
Long service leave	**10,208**	7,891	**–**	–
Other	**3,801**	7,141	**–**	–
	47,568	44,478	**–**	–

NOTE 23. NON-CURRENT LIABILITIES – LONG-TERM BORROWINGS

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Unsecured				
Mandatory convertible note	**38,391**	–	**–**	–
Secured				
Lease liabilities	**4,148**	5,437	**–**	–
Non-recourse project finance loans – power generation	**421,940**	449,124	**–**	–
Total non-current borrowings	**464,479**	454,561	**–**	–

Details of the security relating to each of the secured liabilities and of the interest rate risk and fair values are set out in note 31.

NOTE 24. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Depreciation differences on power generation assets, plant and equipment	**28,782**	28,814	**–**	–
Work in progress	**8,604**	13,323	**–**	–
Inventories	**3,995**	2,784	**–**	–
Receivables	**248**	872	**–**	–
Intangible assets	**13,796**	15,440	**–**	–
Timing difference on partnership taxable income	**1,868**	–	**–**	–
Other	**623**	(1,377)	**–**	–
	57,916	59,856	**–**	–
Amounts recognised directly in equity				
Cash flow hedges	**1,204**	–	**–**	–
Set off deferred tax assets of subsidiary	**–**	(1,050)	**–**	–
Net deferred tax liabilities	**59,120**	58,806	**–**	–
Movements				
Opening balance at 1 July	**58,806**	24,316	**–**	–
Change on adoption of AASB 132 and AASB 139 (note 1(o))	**1,204**	–	**–**	–
Charged to the income statement (note 7)	**(890)**	32,479	**–**	–
Acquisition of subsidiary	**–**	2,011	**–**	–
Closing balance at 30 June	**59,120**	58,806		
Deferred tax liabilities to be settled after more than 12 months	**18,788**	18,412	**–**	–
Deferred tax liabilities to be settled within 12 months	**40,332**	40,394	**–**	–
	59,120	58,806	**–**	–

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
NOTE 25. NON-CURRENT LIABILITIES – PROVISION FOR EMPLOYEE BENEFITS				
Annual leave	**5,855**	8,044	**–**	–
Long service leave	**10,374**	9,505	**–**	–
Other	**970**	–	**–**	–
	17,199	17,549	**–**	–
NOTE 26. NON-CURRENT LIABILITIES – OTHER PROVISIONS				
Rehabilitation of site	**1,105**	1,000	**–**	–
Lease make-good provision	**3,442**	3,443	**–**	–
	4,547	4,443	**–**	–

Rehabilitation
Provision is made for the estimated rehabilitation of the leasehold property upon which the Group operates the Townsville Power Station. The lease expires at the completion of the plant's useful life at which time the lessee is required to perform works on the site under agreement with the lessor. Based on current environmental conditions, a provision for rehabilitation has been recognised using discounted cash flows. Management reassesses this provision annually.

Make-good
Provision is made for estimated make-good expenses for the Group's operating leases, namely lease premises and motor vehicles. Reasonable estimates based on historical data have been used to calculate terminal value, which has been subjected to discounted cash flows. Management reassesses this provision annually.

Movements in provisions
Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	REHABILITATION COSTS $'000	LEASE MAKE-GOOD $'000	TOTAL $'000
Consolidated – 2006			
Non-current			
Carrying amount at start of year	**1,000**	**3,443**	**4,443**
Provision gained through acquisition of entity	**–**	**130**	**130**
Finance cost	**105**	**150**	**255**
Unused amounts reversed	**–**	**(281)**	**(281)**
Carrying amount at end of year	**1,105**	**3,442**	**4,547**

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

NOTE 27. CONTRIBUTED EQUITY

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Ordinary shares – fully paid	**283,560**	282,836	**283,560**	282,836

Movements in ordinary share capital:

2006

DATE	DETAILS	NUMBER OF SHARES ISSUED	NUMBER OF SHARES ACQUIRED ON MARKET	EXERCISE PRICE $	$'000
1 July 2005	Opening balance	**159,980,792**	–	–	**282,836**
September 2005	Exercise of employee Options (50,000)	–	–	**1.66**	**83**
September 2005	Exercise of employee Options (750,000)	–	–	**2.82**	**2,115**
September 2005	Exercise of employee Options (135,000)	–	–	**2.62**	**354**
September 2005	Acquisition of shares on-market	–	**935,000**	–	**(7,696)**
March 2006	Shares issued from exercise of employee Options	**995,000**	–	**2.62**	**2,607**
March 2006	Shares issued from exercise of employee Options	**900,000**	–	**2.70**	**2,430**
June 2006	Adjustment for difference between fair value of Options expensed and exercise price of those Options	–	–	–	**886**
	Transaction costs	–	–	–	**(55)**
30 June 2006	Balance	**161,875,792**	**935,000**		**283,560**

2005

DATE	DETAILS	NUMBER OF SHARES ISSUED	NUMBER OF SHARES ACQUIRED ON MARKET	EXERCISE PRICE $	$'000
1 July 2004	Opening balance	138,000,000	–	–	171,429
September 2004	Shares issued to Directors and executives from exercise of Options	7,195,000	–	1.68	12,104
March 2005	Shares issued to the institutional and retail investors	14,500,000	–	6.30	98,600
March 2005	Shares issued to previous owners of the Broadspectrum group	285,792	–	7.35	2,100
	Transaction costs	–	–	–	(1,397)
30 June 2005	Balance	159,980,792	–	–	282,836

(a) Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Options and Performance Awards
Information relating to the respective Option and Award plans is set out in note 44.

(c) Employee share scheme (TranShare Plan)
Information relating to the TranShare Plan is set out in note 44.

(d) Acquisition of shares on market
It is the Company's intention to settle the vesting of employee Options and Performance Awards by way of on-market acquisition of the requisite number of shares. Consequently, at the date of granting of Performance Awards a corresponding deferred tax asset is recognised which represents the temporary difference, which will crystallise when the underlying shares are acquired on market.

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
NOTE 28. RESERVES AND RETAINED PROFITS				
(a) Reserves				
Share-based payments reserve	**1,668**	1,299	**1,668**	1,299
Foreign currency translation reserve	**(13,508)**	1,163	**–**	–
Hedging reserve – cash flow hedges	**(6,525)**	–	**–**	–
Share capital contribution reserve	**108**	–	**–**	–
	(18,257)	2,462	**1,668**	1,299
Movements:				
Share-based payments reserve				
Balance at 1 July	**1,299**	577	**1,299**	577
Performance Awards granted	**1,255**	722	**1,255**	722
Transfer to share capital (Options exercised)	**(886)**	–	**(886)**	–
Balance at 30 June	**1,668**	1,299	**1,668**	1,299
Foreign currency translation reserve				
Balance at 1 July	**1,163**	–	**–**	–
Net exchange differences on translation of foreign controlled entity	**(14,671)**	1,163	**–**	–
Balance at 30 June	**(13,508)**	1,163	**–**	–
Hedging reserve – cash flow hedges				
Balance at 1 July	**–**	–	**–**	–
Adjustment on adoption of AASB 132 and AASB 139 (net of tax) (note 12)	**(16,905)**	–	**–**	–
Revaluation (gross)	**14,829**	–	**–**	–
Deferred tax at 30%	**(4,449)**	–	**–**	–
Balance at 30 June	**(6,525)**	–	**–**	–
Share capital contribution reserve				
Balance at 1 July	**–**	–	**–**	–
Movement for the year	**108**	–	**–**	–
Balance at 30 June	**108**	–	**–**	–
(b) Retained profits/(accumulated losses)				
Retained profits/(accumulated losses) at the beginning of the financial year	**64,125**	49,190	**(994)**	36,054
Net profit/(loss) attributable to members of Transfield Services Limited	**55,593**	40,980	**33,785**	(9,015)
Less: Dividends paid	**(35,369)**	(26,045)	**(35,369)**	(26,045)
Retained profits/(accumulated losses) at the end of the financial year	**84,349**	64,125	**(2,578)**	(994)

Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of Options and Performance Awards granted but not exercised. The share-based payments reserve is tax-effected as a result of the intention to acquire shares to fulfil vested Awards on market (refer to note 44).

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(iii) Hedging reserve – cash flow hedges (interest rate swaps and forward exchange contracts)

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(o). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(iv) Share capital contribution reserve

The share capital contribution reserve is used to recognise the post-acquisition capital contributions by the vendors to equity of subsidiaries.

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

NOTE 29. MINORITY INTEREST

Balance at 1 July	–	–	–	–
Arising on acquisition of subsidiary	82	–	–	–
Loss attributable to minority shareholders	(3)	–	–	–
Balance at 30 June	79	–	–	–

NOTE 30. DIVIDENDS

Ordinary shares – fully franked at 30%				
2006 interim, dividend of 11c per fully paid share (2005: 9c)	17,598	13,068	17,598	13,068
2005 final dividend of 11c per fully paid share (2004: 9c)	17,771	12,977	17,771	12,977
Total dividends provided for or paid	35,369	26,045	35,369	26,045

Since the end of the financial year, the Directors have resolved to pay a final dividend of 13 cents per fully paid ordinary share, fully-franked based on tax paid at 30%. The dividend will be paid on 9 October 2006. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 30 June 2006, but not recognised as a liability, is $21,043,853 (2005: $17,597,887).

Franking credits				
Franking credits available for subsequent financial years based on a tax rate of 30% (2005: 30%)	7,803	3,804	7,803	3,804

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of current tax liabilities,

(b) franking debits that will arise from the payment of the dividends recognised as a liability at the reporting date,

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and

(d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends. The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $9,018,794 (2005: $7,541,956).

NOTE 31. NON-DERIVATIVE FINANCIAL INSTRUMENTS

(a) Fair values and carrying values
Set out overleaf is a comparison, by category, of carrying amounts and fair values of all the Group's non-derivative financial instruments recognised in the financial statements.

The fair value of the liability portion of the mandatory convertible note is estimated using an equivalent market interest rate for a similar convertible bond.

The fair values of borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and other financial assets have been calculated using market interest rates.

NOTE 31. NON-DERIVATIVE FINANCIAL INSTRUMENTS continued

CONSOLIDATED	2006 CARRYING AMOUNT $'000	2006 FAIR VALUE $'000	2005 CARRYING AMOUNT $'000	2005 FAIR VALUE $'000
Financial assets				
Cash and cash equivalents	**138,210**	**138,210**	89,617	89,617
Receivables	**318,084**	**318,084**	267,183	267,183
Income tax receivable	**–**	**–**	11,904	11,904
Security deposits	**1,356**	**1,356**	–	–
	457,650	**457,650**	368,704	368,704
Financial liabilities				
Trade payables	**198,307**	**198,307**	186,881	186,881
Other payables	**121,755**	**121,755**	74,374	74,374
Current tax liabilities	**8,341**	**8,341**	–	–
Deferred purchase consideration	**18,953**	**18,953**	–	–
Mandatory convertible note	**44,002**	**44,002**	–	–
Interest bearing loans and borrowings:				
Non-recourse project finance loans – power generation	**442,600**	**442,600**	470,296	470,296
Bank overdraft and bridge facility	**163,050**	**163,050**	155,018	155,018
Finance lease liabilities	**5,235**	**5,235**	8,498	8,498
Non-interest bearing loans and borrowings:				
Loans from associates and joint venture entities and partnerships	**17,542**	**17,542**	12,945	12,945
	1,019,785	**1,019,785**	908,012	908,012

PARENT	2006 CARRYING AMOUNT $'000	2006 FAIR VALUE $'000	2005 CARRYING AMOUNT $'000	2005 FAIR VALUE $'000
Financial assets				
Cash and cash equivalents	**121**	**121**	–	–
Income tax receivable	**–**	**–**	12,167	12,167
Receivables	**411,930**	**411,930**	238,222	238,222
	412,051	**412,051**	250,389	250,389
Financial liabilities				
Other payables	**82**	**82**	46	46
Interest bearing loans and borrowings:				
Bank overdraft and bridge facility	**163,050**	**163,050**	21,469	21,469
Non-interest bearing loans and borrowings:				
Loans from associates	**16,973**	**16,973**	12,945	12,945
Loans from controlled entities	**24,827**	**24,827**	15,593	15,593
	204,932	**204,932**	50,053	50,053

Where applicable, the fair values are based on cash flows discounted using a current lending rate of 7% (2005: 7%).

(b) Interest rate risk
The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table:

CONSOLIDATED 2006	FLOATING INTEREST RATE $'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS $'000	OVER 1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial assets						
Cash and cash equivalents	138,210	–	–	–	–	138,210
Receivables	–	–	–	–	318,084	318,084
Security deposits	–	–	–	–	1,356	1,356
	138,210	–	–	–	319,440	457,650
Weighted average interest rate	5.5%	–	–	–		
Financial liabilities						
Trade payables	–	–	–	–	198,307	198,307
Other payables	–	–	–	–	121,755	121,755
Current tax liabilities	–	–	–	–	8,341	8,341
Deferred purchase consideration	–	–	–	–	18,953	18,953
Interest bearing loans and borrowings:						
Non-recourse project finance loans – power generation	442,600	–	–	–	–	442,600
Mandatory convertible note	–	5,611	38,391	–	–	44,002
Bank overdraft and bridge facility	163,050	–	–	–	–	163,050
Finance lease liabilities	–	1,087	4,148	–	–	5,235
Non-interest bearing loans and borrowings:						
Loans from associates	–	–	–	–	17,542	17,542
	605,650	6,698	42,539	–	364,898	1,019,785
Weighted average interest rate	6.75%	6.25%	6.25%	–		

CONSOLIDATED 2005	FLOATING INTEREST RATE $'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS $'000	OVER 1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial assets						
Cash and cash equivalents	89,617	–	–	–	–	89,617
Receivables and deposits	–	–	2,106	–	265,077	267,183
Income tax receivable	11,904	–	–	–	–	11,904
	101,521	–	2,106	–	265,077	368,704
Weighted average interest rate	5.25%	–	11.55%	–		
Financial liabilities						
Trade payables	–	–	–	–	186,881	186,881
Other payables	–	–	–	–	74,374	74,374
Interest bearing loans and borrowings:						
Non-recourse project finance loans – power generation	470,296	–	–	–	–	470,296
Bank overdraft and bridge facility	155,018	–	–	–	–	155,018
Finance lease liabilities	–	3,061	5,437	–	–	8,498
Non-interest bearing loans and borrowings:						
Loans from associates	–	–	–	–	12,945	12,945
	625,314	3,061	5,437	–	274,200	908,012
Weighted average interest rate	6.50%	7.43%	7.43%	–		

NOTE 31. NON-DERIVATIVE FINANCIAL INSTRUMENTS continued

PARENT 2006

	FLOATING INTEREST RATE $'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS $'000	OVER 1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial assets						
Cash and cash equivalents	121	–	–	–	–	121
Receivables	–	–	–	–	411,930	411,930
	121	–	–	–	411,930	412,051
Weighted average interest rate	5.00%	–	–	–		
Financial liabilities						
Other payables	–	–	–	–	82	82
Interest bearing loans and borrowings:						
Bank overdraft and bridge facility	163,050	–	–	–	–	163,050
Non-interest bearing loans and borrowings:						
Loans from associates	–	–	–	–	16,973	16,973
Loans from controlled entities	–	–	–	–	24,827	24,827
	163,050	–	–	–	41,882	204,932
Weighted average interest rate	7.00%	–	–	–		

PARENT 2005

	FLOATING INTEREST RATE $'000	FIXED INTEREST RATE MATURING IN: 1 YEAR OR LESS $'000	OVER 1 TO 5 YEARS $'000	MORE THAN 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial assets						
Income tax refundable	12,167	–	–	–	–	12,167
Receivables	–	–	–	–	238,222	238,222
	12,167	–	–	–	238,222	250,389
Weighted average interest rate	6.00%	–	–	–		
Financial liabilities						
Other payables	–	–	–	–	46	46
Interest bearing loans and borrowings:						
Bank overdraft and bridge facility	21,469	–	–	–	–	21,469
Non-interest bearing loans and borrowings						
Loans from associates	–	–	–	–	12,945	12,945
Loans from controlled entities	–	–	–	–	15,593	15,593
	21,469	–	–	–	28,584	50,053
Weighted average interest rate	6.00%	–	–	–		

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
(c) Financing arrangements				
Unrestricted access was available at balance date to the following:				
Credit standby arrangements				
Total facilities				
Bank overdrafts	**5,000**	5,000	**5,000**	5,000
Cash advance/bank guarantees	**355,136**	365,000	**355,136**	365,000
	360,136	370,000	**360,136**	370,000
Used at balance date				
Bank overdrafts	**–**	–	**–**	–
Cash advance/bank guarantees	**274,249**	267,614	**274,249**	267,614
	274,249	267,614	**274,249**	267,614
Unused at balance date				
Bank overdrafts	**5,000**	5,000	**5,000**	5,000
Cash advance/bank guarantees	**80,887**	97,386	**80,887**	97,386
	85,887	102,386	**85,887**	102,386
	360,136	370,000	**360,136**	370,000
(d) Secured liabilities				
Total secured liabilities (current and non-current) are:				
Non-recourse project finance loans – power generation	**442,600**	470,296	**–**	–
Lease liabilities	**5,235**	8,498	**–**	–
Total secured borrowings	**447,835**	478,794	**–**	–

Non-recourse project finance loans – power generation

An amount of $88,562,289 (2005: $95,931,704) is secured by a charge limited to the investment in and the assets of controlled entities, Transfield Services Collinsville Pty Limited and Transfield Services Collinsville BV.

An amount of $155,376,554 (2005: $165,202,996) is secured by a charge limited to the investment in and the assets of a controlled entity, Transfield Services Townsville Pty Limited.

An amount of $198,661,020 (2005: $209,161,571) is secured by a charge limited to the investment in and assets of a controlled entity, Transfield Services Kemerton Holdings Pty Limited as trustee for the Transfield Services Kemerton Trust.

Lease liabilities

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
(e) Assets pledged as security				
Fixed and floating charge				
Power generation plant and equipment	**559,704**	538,901	**–**	–
Total power generation assets pledged as security	**559,704**	538,901	**–**	–
The following current and non-current assets are also pledged as security under the floating charge:				
Cash assets	**49,282**	30,904	**–**	–
Receivables – current and non-current	**24,389**	19,474	**–**	–
Inventories	**2,918**	2,622	**–**	–
Other current assets	**2,050**	1,329	**–**	–
Total assets pledged as security	**638,343**	593,230	**–**	–

(f) Mandatory Convertible Note (MCN)

In September 2005, Transfield Services (New Zealand) Limited (TSNZ) issued a MCN to ANZ Bank New Zealand (ANZ) for NZ$160,000,000. The term of the MCN is seven years with fixed-interest coupons of 6.97% payable by TSNZ semi-annually in arrears. The funds raised by TSNZ from the issue of the MCN, were applied to repay the short-term bridging facility taken out at the time of the AREVA acquisition.

At the same time, Transfield Services (International) Pty Limited (TSIPL) entered into a forward-purchase agreement for NZ$92,800,000 with ANZ under which TSIPL acquires the MCN. TSIPL will pay NZ$92,800,000 to ANZ immediately in consideration for ANZ agreeing to deliver the MCN to TSIPL shortly before the MCN is due to convert.

NOTE 32. REMUNERATION OF AUDITORS

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
During the year the following amounts were paid to the auditor of the parent entity, its related practices and non-related audit firms.				
1. Audit services				
Fees paid to PricewaterhouseCoopers Australian firm				
Audit and review of Financial Reports and other work under the *Corporations Act 2001*	**679,750**	534,500	–	–
Fees paid to related practices of PricewaterhouseCoopers Australian firm	**313,263**	241,214	–	–
Fees paid to non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the Group	**72,000**	–	–	–
Total remuneration for audit services	**1,065,013**	775,714	–	–
2. Other assurance services				
Fees paid to PricewaterhouseCoopers Australian firm				
Due diligence services	**678,519**	261,201	–	–
External service charge reviews	**48,800**	49,426	–	–
Audit of regulatory returns	–	2,000	–	–
Accounting services, principally, AIFRS review	**213,055**	106,280	–	–
Fees paid to related practices of PricewaterhouseCoopers Australian firm for accounting services	**101,945**	30,000	–	–
Fees paid to related practices of PricewaterhouseCoopers Australian firm for due diligence services	–	47,646	–	–
Total remuneration for other assurance services	**1,042,319**	496,553	–	–
3. Taxation services				
Fees paid to PricewaterhouseCoopers Australian firm				
Tax compliance and tax consolidation matters	**127,583**	122,181	–	–
Due diligence services	**616,606**	244,931	–	–
Advise on GST	–	21,300	–	–
Advice re employee taxation	**1,205**	9,050	–	–
Other tax advisory services	**356,100**	33,840	–	–
Fees paid to related practices of PricewaterhouseCoopers Australian firm	**127,369**	–	–	–
Total remuneration for taxation services	**1,228,863**	431,302	–	–
Total remuneration of auditors	**3,356,195**	1,703,569	–	–

NOTE 33. CONTINGENT LIABILITIES

Details and estimates of maximum amounts of contingent liabilities are as follows:

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Bank guarantees in respect of contracts	**66,063**	82,411	**66,063**	82,411
Insurance bonds in respect of contracts	**35,663**	31,295	**35,663**	31,295
	101,726	113,706	**101,726**	113,706

The parent entity has entered into an unsecured Multi Option Bilateral Facility agreement under which bank guarantees and letters of credit are provided.

The consolidated entity is, in the normal course of business, called upon to give guarantees and indemnities in respect of the performance by controlled entities, associates, related parties and joint venture entities and partnerships, of their contractual and financial obligations. These guarantees and indemnities only give rise to a liability where the respective entity fails to perform its contractual obligations. The parent company has a formal deed of guarantee to these entities. The Directors are not aware of any material claims on the parent entity or consolidated entity.

An amount of $88,562,289 (2005: $95,931,704) is secured by charges limited to the investment in, and the assets of, a controlled entity, Transfield Collinsville Pty Limited and Transfield Services Collinsville BV.

An amount of $155,376,554 (2005: $165,202,996) is secured by a charge limited to the investment in, and the assets of, a controlled entity, Transfield Townsville Pty Limited.

An amount of $198,661,020 (2005: $209,161,571) is secured by a charge limited to the investment in and the assets of a controlled entity, Transfield Services Kemerton Holdings Pty Limited as trustee for the Transfield Services Kemerton Trust.

No material losses are anticipated in respect of any of the above contingent liabilities.

For contingent liabilities relating to associates and joint venture entities and partnerships, refer to notes 39 and 40.

NOTE 34. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**22,040**	22,207	**–**	–
Later than one year but not later than five years	**40,019**	36,491	**–**	–
Later than five years	**1,448**	1,067	**–**	–
Commitments not recognised in the financial statements	**63,507**	59,765	**–**	–
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	**1,533**	3,393	**–**	–
Later than one year but not later than five years	**3,199**	4,045	**–**	–
Later than five years	**1,953**	2,499	**–**	–
Minimum lease charges	**6,685**	9,937	**–**	–
Future finance charges	**(1,450)**	(1,439)	**–**	–
Total lease liabilities recognised as a liability	**5,235**	8,498	**–**	–
Representing lease liabilities:				
Current	**1,087**	3,061	**–**	–
Non-current	**4,148**	5,437	**–**	–
	5,235	8,498	**–**	–

The average interest rate implicit in the leases is 7.43% (2005: 7.43%).

At the completion of each operating lease the consolidated entity has the option to renew the lease contract.

At the completion of each finance lease the consolidated entity has an option to acquire the leased asset at its agreed fair value.

Capital commitments				
Commitments for the acquisition of power generation equipment contracted for at reporting date but not recognised as liabilities, payable within one year	**–**	40,669	**–**	–
	–	40,669	**–**	–

NOTE 35. KEY MANAGEMENT PERSONNEL

(a) Directors
The following persons were Directors of Transfield Services Limited during the financial year and up to the date of this report:

Anthony Shepherd (Chairman)
Guido Belgiorno-Nettis
Luca Belgiorno-Nettis
Professor Steve Burdon
Denis Cleary
Mel Ward AO
Peter Watson (Managing Director and Chief Executive Officer)
Bernard Wheelahan (Deputy Chairman)
Dean Wills AO (retired on 26 August 2005)

(b) Other key management personnel

Joseph Sadatmehr	Chief Executive Officer – International and Mining, Process and Hydrocarbons
Darce Corsie	Chief Executive Officer – Infrastructure Investments
Matthew Irwin	Chief Financial Officer
Bruce James	Chief Executive Officer – Australia
Steve MacDonald	Chief Strategy Officer
Ross Mackiggan	Chief Financial Officer – Australia
Kate Munnings	Company Secretary and General Counsel (from 16 January 2006)
Graeme Sumner	Chief Executive Officer – New Zealand

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
(c) Key management personnel compensation				
Short-term employee benefits (cash salary and fees, cash bonuses and non-monetary benefits)	**6,195**	5,413	**–**	–
Long-term employee benefits	**700**	700	**–**	–
Post-employment benefits	**405**	393	**–**	–
Share-based payments	**661**	563	**–**	–
	7,961	7,069	**–**	–

The Company has taken advantage of the exemption provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures in respect of its key management personnel to the Directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 25 to 29.

(d) Equity instrument disclosures relating to key management personnel and Performance Awards
(i) Options and Performance Awards provided as remuneration and shares issued on exercise of such Options and Performance Awards.
Details of Options and Performance Awards provided as remuneration and shares issued on the exercise of such Options and Performance Awards, together with terms and conditions of the Options and Performance Awards, can be found in section D of the remuneration report on pages 29 to 32.

(ii) Options and Performance Awards holdings
The number of Options and Performance Awards over ordinary shares in the Company held during the financial year by each Director of Transfield Services Limited and other key management personnel of the Group, including their personally related parties, are set out below. No Options or Performance Awards are vested and unexercised at the end of the year.

2006 NAME	BALANCE AT THE START OF THE YEAR	GRANTED DURING THE YEAR AS COMPENSATION	EXERCISED DURING THE YEAR	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR	VESTED AND EXERCISABLE AT THE END OF THE YEAR
Directors						
Peter Watson	**190,000**	**59,000**	**–**	**–**	**249,000**	**–**
Other key management personnel of the Group						
Darce Corsie	**–**	**–**	**–**	**–**	**–**	**–**
Matthew Irwin	**20,000**	**14,000**	**–**	**–**	**34,000**	**–**
Bruce James	**–**	**15,300**	**–**	**–**	**15,300**	**–**
Steve MacDonald	**942,492**	**26,800**	**(900,000)**	**–**	**69,292**	**–**
Ross Mackiggan	**265,783**	**16,900**	**–**	**–**	**282,683**	**–**
Kate Munnings	**–**	**7,900**	**–**	**–**	**7,900**	**–**
Joseph Sadatmehr	**158,815**	**39,800**	**–**	**–**	**198,615**	**–**
Graeme Sumner	**–**	**13,300**	**–**	**–**	**13,300**	**–**
	1,577,090	**193,000**	**(900,000)**	**–**	**870,090**	**–**

2005 NAME	BALANCE AT THE START OF THE YEAR	GRANTED DURING THE YEAR AS COMPENSATION	EXERCISED DURING THE YEAR	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR	VESTED AND EXERCISABLE AT THE END OF THE YEAR
Directors						
Anthony Shepherd	1,000,000	–	(1,000,000)	–	–	–
Peter Watson	1,370,000	100,000	(1,280,000)	–	190,000	–
Other key management personnel of the Group						
Darce Corsie	–	–	–	–	–	–
Matthew Irwin	–	20,000	–	–	20,000	–
Bruce James	–	–	–	–	–	–
Steve MacDonald	900,000	42,492	–	–	942,492	–
Ross Mackiggan	250,000	15,783	–	–	265,783	
Joseph Sadatmehr	52,584	106,231	–	–	158,815	–
Fred Bidwell	19,069	–	–	–	19,069	–
Paul McCarthy	114,446	14,693	(100,000)	–	29,139	–
	3,706,099	299,199	(2,380,000)	–	1,625,298	–

(iii) Shareholdings

The number of shares in the Company held during the financial year by each Director of Transfield Services Limited and other key management personnel of the Group, including their personally related parties, are set out below. The Directors' compensation includes semi-annual on-market share acquisition in lieu of cash remuneration.

2006 NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR ACQUISITIONS/ (DISPOSALS)	BALANCE AT THE END OF THE YEAR
Ordinary shares				
Directors				
Anthony Shepherd	1,607,389	–	(233,795)	1,373,594
Bernard Wheelahan	49,638	–	1,828	51,466
Peter Watson	1,350,561	–	(72,798)	1,277,763
Guido Belgiorno-Nettis*	18,129,385	–	975	18,130,360
Luca Belgiorno-Nettis*	18,304,671	–	975	18,305,646
Steve Burdon	47,931	–	975	48,906
Denis Cleary	73,789	–	14,774	88,563
Mel Ward AO	38,952	–	1,218	40,170
Other key management personnel of the Group				
Darce Corsie	197,500	–	–	197,500
Matthew Irwin	10,000	–	131	10,131
Bruce James	13,099	–	–	13,099
Steve MacDonald	10,000	900,000	9,063	919,063
Ross Mackiggan	–	–	131	131
Kate Munnings	–	–	–	–
Joseph Sadatmehr	1,180,000	–	(250,000)	930,000
Graeme Sumner	–	–	–	–
	41,012,915	900,000	(526,523)	41,386,392

* Refer to note 36(e).

NOTE 35. KEY MANAGEMENT PERSONNEL continued

2005 NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR ACQUISITIONS/ (DISPOSALS)	BALANCE AT THE END OF THE YEAR
Ordinary shares				
Directors				
Anthony Shepherd	602,402	1,000,000	4,987	1,607,389
Bernard Wheelahan	42,671	–	6,967	49,638
Peter Watson	70,275	1,280,000	286	1,350,561
Guido Belgiorno-Nettis*	18,126,049	–	3,336	18,129,385
Luca Belgiorno-Nettis*	18,261,049	–	43,622	18,304,671
Steve Burdon	44,171	–	3,760	47,931
Denis Cleary	29,171	–	44,618	73,789
Mel Ward AO	33,964	–	4,988	38,952
Other key management personnel of the Group				
Darce Corsie	197,500	–	–	197,500
Matthew Irwin	10,000	–	–	10,000
Bruce James	13,099	–	–	13,099
Steve MacDonald	10,000	–	–	10,000
Ross Mackiggan	–	–	–	–
Joseph Sadatmehr	46,625	1,180,000	(46,625)	1,180,000
Fred Bidwell	50,000	565,000	(364,714)	250,286
Paul McCarthy	–	100,000	(100,000)	–
	37,536,976	4,125,000	(398,775)	41,263,201

* Refer note 36(e).

Other transactions with Directors and key management personnel
Dividends received by Directors and key management personnel during the year ended 30 June 2006 amounted to $9,036,566 (2005: $7,238,464).

Refer to note 36.

NOTE 36. RELATED PARTY TRANSACTIONS

(a) Parent entity
The parent entity within the Group is Transfield Services Limited.

(b) Controlled entities
Interests in controlled entities are set out in note 38.

(c) Key management personnel
Disclosures relating to key management personnel are set out in note 35.

(d) Remuneration and retirement benefits
Disclosures relating to remuneration and retirement benefits are set out in the Remuneration Report on pages 25 to 34.

(e) Directors and Director-related entities
The following were Directors and shareholders of Transfield Holdings Pty Limited and Transfield (TSL) Pty Limited, a related party and beneficial owners of the shareholding in Transfield Services Limited:

– Guido Belgiorno-Nettis; and
– Luca Belgiorno-Nettis.

Messrs Guido Belgiorno-Nettis and Luca Belgiorno-Nettis each hold 37.5% (2005: 37.5%) in Transfield (TSL) Pty Limited which itself owns 29.73% (2005: 30.08%) of the share capital of Transfield Services Limited. This means they each indirectly own 18,046,875 (2005: 18,046,875) shares in Transfield Services Limited.

(f) Loans to Directors and Director-related entities
There were no loans to Directors of entities in the consolidated entity or their personally related entities during the year or outstanding at the end of the year.

(g) Loans to executives and executive-related entities
There were no loans to executives of entities in the consolidated entity or their personally related entities during the year or outstanding at the end of the year.

(h) Transactions of Directors and Director-related entities concerning shares or Performance Awards
Aggregate numbers of shares, share Options and Performance Awards of Transfield Services Limited acquired or disposed of by the Directors or their Director-related entities from the Company:

	PARENT ENTITY AND CONSOLIDATED ENTITY 2006 NUMBER	2005 NUMBER
Acquisitions		
Ordinary shares	**69,586**	2,401,076
Performance Awards over ordinary shares	**59,000**	100,000
Aggregate acquisition of ordinary shares includes:		
Acquired as part of the Directors' remuneration in July 2004, January 2005 and May 2005	–	40,504
Acquired as part of the Directors' remuneration in January 2006	**9,200**	–
Acquired by Anthony Shepherd, a non-executive Director upon the exercise of Options granted on 3 May 2001	–	1,000,000
Acquired by Peter Watson – Managing Director upon the exercise of Options granted on 9 May 2001	–	1,280,000
Acquired by normal on-market means	**60,386**	80,572
	69,586	2,401,076

Aggregate numbers of shares and Performance Awards of Transfield Services Limited held directly, indirectly or beneficially by Directors of the Company or the consolidated entity or their Director-related entities at balance date:

	2006	2005
Ordinary shares	**39,316,468**	39,602,316
Performance Awards over ordinary shares	**249,000**	190,000

(i) Other transactions with Directors and Director-related entities

There have been no other transactions entered into between the consolidated entity and Directors and/or Director-related entities since 1 July 2005 except:

- that a Director, Anthony Shepherd, received commercial benefits to the value of $100,000 (2005: $120,000) comprising car parking and secretarial support services; and
- commercial rent of $66,252 (2005: $66,252) was paid to a relative of the Managing Director for the use of an apartment for accommodation whilst undertaking business-related activities in Sydney.

Continuation of an agreement for Corporate and IT Services dated 14 February 2001 on normal commercial terms and conditions whereby:

- Transfield Holdings Pty Limited group companies, of which Messrs Guido Belgiorno-Nettis and Luca Belgiorno-Nettis are shareholders, acquires information technology services from Transfield Services (Australia) Pty Limited.

Mutual Indemnity Agreement to provide for indemnities to:

- Transfield Services (Australia) Pty Limited for any tax liability arising from the disallowance of tax loss transfers; and
- Transfield Holdings Pty Limited arising from the corporate and financial guarantees provided in support of Transfield Services Limited.

Ongoing provision of contract operations and maintenance services to entities controlled or significantly influenced by Transfield Holdings Pty Limited on normal commercial terms.

Ad hoc fees for consultancy provided between Transfield Services Limited and Transfield Holdings Pty Limited group companies and various cost sharing arrangements that occur from time to time.

The Group has provided services to ADI Limited, a Company of which Messrs Guido Belgiorno-Nettis and Luca Belgiorno-Nettis are directors.

NOTE 36. RELATED PARTY TRANSACTIONS continued

Aggregate amounts of each of the above types of other transactions with Directors and their Director-related entities recognised as expenses:

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT 2006 $	PARENT 2005 $
Corporate services provided by Transfield Corporate Pty Limited	–	38,239	–	–
Information technology services provided to Transfield Corporate Pty Limited	–	341,638	–	–
Recharge of shared services provided to Transfield Corporate Pty Limited	**205,475**	207,263	–	–
Services received from Transfield Construction Pty Limited	**49,062**	–	–	–
Services received from Transfield Pty Limited	**41,058**	–	–	–
Services provided to Transfield Pty Limited	**369,085**	–	–	–
Services provided to Transfield Construction Pty Limited	**4,098**	–	–	–
Services provided to Transfield Project Development Pty Limited	**93**	–	–	–
Services provided to Transfield Transmission Systems Pty Limited	**4,060**	–	–	–
Services provided to Transfield Tulk Pty Limited	**33,765**	–	–	–
Services provided to ADI Limited	**7,316,573**	–	–	–
The unpaid amounts at 30 June 2006 owing by Director related entities are:				
Transfield Pty Limited	**50,932**	106,423	–	–
Transfield Construction Pty Limited	**150,533**	152,390	–	–
ADI Limited	**2,617,911**	–	–	–
	2,819,376	258,813	–	–
Other amounts paid to Directors and their Director-related entities during the year:				
Dividends	**8,683,122**	6,941,863	**8,683,122**	6,941,863

(j) Wholly-owned group

The wholly-owned group consists of Transfield Services Limited and its wholly-owned controlled entities which are set out in note 38.

Transactions between Transfield Services Limited and other entities in the wholly-owned group during the years ended 30 June 2006 and 30 June 2005 consisted of:

(a) loans advanced by Transfield Services Limited;

(b) loans repaid to Transfield Services Limited; and

(c) transactions between Transfield Services Limited and its wholly-owned Australian controlled entities under the tax sharing and tax funding agreement.

With the exception of the loan advanced to Transfield Services (New Zealand) Limited which bears interest at 7.98% per annum, loans advanced to and by Transfield Services Limited to its controlled entities are repayable within 12 months. Interest was not charged on these loans during the year.

	NOTE	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with entities in the wholly-owned group		–	–
Aggregate amounts receivable from entities in the wholly-owned group at balance date:			
Current receivables (loans)	9	**403,329**	229,807
Non-current receivables – loans	13	**5,872**	4,030
Aggregate amounts payable to entities in the wholly-owned group at balance date:			
Current payables (loans)	21	**24,827**	15,593
Tax consolidation legislation			
Current tax payable assumed from wholly-owned tax consolidated entities		**13,438**	19,583
Tax losses assumed from wholly-owned tax consolidated entities		**(7,568)**	(14,070)

The terms of the tax sharing and tax funding agreements are set out in note 7(e). Amounts owing to/from the parent entity to/from members of the tax consolidated group are included in current loans receivable/payable respectively.

(k) Other related parties

Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with each class of other related parties:

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Interest revenue		**437**	530	**437**	431
Dividend revenue and cash distributions		**13,303**	8,444	**39,074**	8,444

Transactions relating to dividends were on the same terms and conditions that applied to other shareholders. Other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The interest rate on the interest bearing loan during the year was 11.55% (2005: 11.55%).

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Proceeds from/(repayments of) borrowings – associates and joint venture entities and partnerships		**5,769**	10,441	**5,199**	5,472
Loans to associates and joint venture entities and partnerships		**500**	2,303	**500**	2,303
Aggregate amounts receivable from, and payable to, each class of other related parties at balance date:					
Current receivables					
Associates and joint venture entities and partnerships (loans)	9	**3,909**	4,409	**2,729**	3,183
Current payables					
Associates and joint venture entities and partnerships (loans)	21	**17,542**	12,945	**16,973**	12,945

No provision for doubtful debts has been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Reconciliation of loans to/from related parties

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Loans to subsidiaries/controlled entities				
Beginning of the year	**–**	–	**233,837**	153,507
Loans advanced (net)	**–**	–	**175,364**	80,330
End of year	**–**	–	**409,201**	233,837
Loans from subsidiaries/controlled entities				
Beginning of the year	**–**	–	**15,593**	19,726
Loans (received) (net)	**–**	–	**9,234**	(4,133)
End of year	**–**	–	**24,827**	15,593
Loans to associates				
Beginning of the year	**2,106**	3,733	**2,106**	3,733
Loans advanced	**–**	–	**–**	–
Loan (repayments) received	**(300)**	(1,627)	**(300)**	(1,627)
Interest charged	**437**	431	**437**	431
Interest (received)	**(437)**	(431)	**(437)**	(431)
End of year	**1,806**	2,106	**1,806**	2,106
Loans from associates				
Beginning of the year	**12,945**	9,967	**12,945**	9,750
Loans received	**4,027**	3,195	**4,028**	3,195
Loan gained on acquisition of entity	**570**	–	**–**	–
Loan (repayments) made	**–**	(217)	**–**	–
End of year	**17,542**	12,945	**16,973**	12,945

NOTE 36. RELATED PARTY TRANSACTIONS continued

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Loans to joint ventures				
Beginning of the year	**2,303**	1,077	**1,077**	1,727
Loans advanced	**500**	1,226	**546**	–
Loan (repayments) received	**(700)**	–	**(700)**	(650)
Interest charged	**–**	–	**–**	–
Interest received	**–**	–	**–**	–
End of year	**2,103**	2,303	**923**	1,077

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(l) Guarantees
The parent entity provides performance guarantees from time to time on behalf of wholly-owned subsidiaries, associates, related parties and joint venture entities and partnerships.

(m) Ownership interests in related parties
Interest held in the following classes of related parties are set out in the following notes:

(a) controlled entities	38
(b) associates	39
(c) joint venture entities and partnerships	40

NOTE 37. BUSINESS COMBINATIONS

(a) Summary of acquisitions
On 31 January 2006, the Group acquired 100% of the issued share capital of APP Corporation and its subsidiaries and controlled entities (APP group):

APP Corporation Pty Limited (parent entity)
Aquas Holdings Pty Limited (66%)
Australian Quality Assurance Superintendence Pty Limited (66%)

The APP group contributed revenues of $15.4 million and net profit of $1.2 million to the Group for the period from 31 January 2005 to 30 June 2006. If the acquisition had occurred on 1 July 2005, consolidated revenue and consolidated profit for the year would have been $1,940.5 million and $56.8 million respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2005 together with the consequential tax effects.

On 11 June 2006, the Group acquired Intergulf General Contracting LLC (Intergulf). Intergulf's acquisition occurred immediately prior to the end of the financial year and no revenue or profit has been booked by the Group. In respect of the year ended 31 December 2005 the Company's accounts show consolidated revenue and consolidated profit for the year as $9.2 million and $0.4 million respectively. Completion accounts for the Company were not available at the date of signing the Financial Report. As a result, fair value adjustments and recognition of minority interests will be determined and reported in the 2007 year. Any such adjustments are likely to be immaterial to the affairs and results of the Group.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	APP GROUP $'000	INTERGULF $'000	TOTAL $'000
Purchase consideration (refer to (b) below):			
Cash payable at end of earn-out period*	19,935	–	19,935
Cash paid	–	4,512	4,512
Direct costs relating to the acquisition	99	185	284
Total purchase consideration	20,034	4,697	24,731
Fair value of net identifiable assets acquired (refer to (c) below):	(5,812)	(3,140)	(8,952)
Goodwill (refer note 19)	14,222	1,557	15,779

* The estimated goodwill is attributable to the high profitability and growth rate of the acquired business.

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
(b) Purchase consideration				
Present value of deferred settlement/liability assumed – purchase price discounted over earn-out period*				
Current	**9,603**	–	**–**	–
Non-current	**9,350**	–	**–**	–
	18,953	–	**–**	–
Outflow of cash to acquired subsidiary, net of cash acquired				
Cash consideration	**(4,512)**	(257,937)	**–**	–
Less: Balances acquired				
Cash and cash equivalents	**4,854**	10,374	**–**	–
Outflow/(inflow) of cash	**342**	(247,563)	**–**	–

* The consideration for the acquisition of the APP group is based on an earn-out formula. At the date of acquisition the estimated purchase price of the APP group was $19,935,000 subject to rise and fall clauses based on economic performance over the next three years. Consequently, the value of goodwill is yet to be absolutely determined. Pursuant to AASB 3 *Business Combinations,* the liability assumed at balance date represents the terminal value discounted at the Group's borrowing rate.

	APP GROUP ACQUIREE'S CARRYING AMOUNT $'000	APP GROUP FAIR VALUE $'000	INTERGULF ACQUIREE'S CARRYING AMOUNT $'000	INTERGULF FAIR VALUE $'000	TOTAL ACQUIREE'S CARRYING AMOUNT $'000	TOTAL FAIR VALUE $'000
(c) Assets and liabilities acquired						
Cash	2,754	2,754	2,100	2,100	4,854	4,854
Trade and other receivables (net of provision)	6,110	6,110	3,300	3,300	9,410	9,410
Inventories and work-in-progress	1,721	1,721	–	–	1,721	1,721
Plant and equipment	950	950	270	270	1,220	1,220
Deferred tax asset	817	817	–	–	817	817
Investments	150	–	–	–	150	–
Intangibles: brand name and customer relationships	–	3,955	–	–	–	3,955
Trade payables	(2,075)	(2,075)	(1,960)	(1,960)	(4,035)	(4,035)
Short-term borrowings	–	–	(570)	(570)	(570)	(570)
Moneys received in advance	(2,563)	(2,563)	–	–	(2,563)	(2,563)
Provision for employee benefits	(2,030)	(2,030)	–	–	(2,030)	(2,030)
Other provisions	(130)	(130)	–	–	(130)	(130)
Current tax liability	(715)	(715)	–	–	(715)	(715)
Provision for dividend	(2,900)	(2,900)	–	–	(2,900)	(2,900)
Net assets	2,089	5,894	3,140	3,140	5,229	9,034
Minority interests	(82)	(82)	–	–	(82)	(82)
Net identifiable assets acquired**	2,007	5,812	3,140	3,140	5,147	8,952

** The fair value of assets and liabilities acquired are based on discounted cash flow models. No acquisition provisions were created.

	AREVA $'000	BROADSPECTRUM $'000	PERTH POWER PARTNERSHIP (KWINANA) $'000	TOTAL $'000
(d) Changes to provisional fair values				
Goodwill provisionally recognised at 30 June 2005	22,228	7,047	12,969	42,244
Reassignment of fair value relating to write off of a receivable	1,507	–	–	1,507
Write-down of property, plant and equipment	–	34	–	34
Reassignment of fair value relating to AIFRS adjustment on equity accounted joint venture partnership	–	–	(2,350)	(2,350)
	23,735	7,081	10,619	41,435

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	COUNTRY OF INCORPORATION	CLASS OF SHARES AS APPLICABLE	EQUITY HOLDING 2006 %	EQUITY HOLDING 2005 %	COST OF PARENT ENTITY'S INVESTMENT 2006 $'000	COST OF PARENT ENTITY'S INVESTMENT 2005 $'000

NOTE 38. INVESTMENTS IN CONTROLLED ENTITIES

	Country of incorporation	Class of shares as applicable	2006 %	2005 %	2006 $'000	2005 $'000
Transfield Services (Holdings) Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services (Australia) Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services (International) Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services (New Zealand) Limited	New Zealand	Ordinary	**100**	100	**–**	–
Transfield Services Infrastructure (New Zealand) Limited	New Zealand	Ordinary	**–**	100	**–**	–
Transfield Services (Fiji) Limited	Fiji	Ordinary	**–**	100	**–**	–
Transfield Energy Fund (No. 2) Pty Limited	Australia	Ordinary	**100**	100	**30,213**	30,213
Transfield Townsville Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Collinsville Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services Collinsville BV	The Netherlands	Ordinary	**100**	100	**8,859**	8,859
Transfield Metrolink Pty Limited	Australia	Ordinary	**100**	100	**–**	–
REB Engineering Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Collinsville Operations Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transhare Plan Company Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Retirement Fund Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services (Malaysia) Sdn Bhd	Malaysia	Ordinary	**100**	100	**–**	–
Transfield Services (Asia) Sdn Bhd	Malaysia	Ordinary	**100**	100	**–**	–
Transfield Services Kemerton Holdings Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services Kemerton Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services (Brisbane Ferries) Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services Kwinana Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services Energy (Kwinana) Pte Limited	Singapore	Ordinary	**100**	100	**–**	–
Broadspectrum Resources Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Broadspectrum Australia (WA) Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Broadspectrum Australia (QLD) Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Crimp – 1 Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Beshold Pty Limited	Australia	Ordinary	**100**	100	**–**	–
Transfield Services E&T (New Zealand) Limited	New Zealand	Ordinary	**100**	100	**–**	–
Global Broadspectrum Sdn Bhd	Malaysia	Ordinary	**100**	100	**–**	–
Global Broadspectrum CCM Limited	Mauritius	Ordinary	**100**	100	**–**	–
Broadspectrum Pte Limited	Singapore	Ordinary	**100**	100	**–**	–
Global Broadspectrum Sdn Bhd	Malaysia	Ordinary	**100**	100	**–**	–
Broadspectrum Asia Pacific Limited	Hong Kong	Ordinary	**100**	100	**–**	–
Austoil & Gas Management Services Pty Limited	Singapore	Ordinary	**100**	100	**–**	–
APP Corporation Pty Limited (acquired 31 January 2006)	Australia	Ordinary	**100**	–	**–**	–
Transfield Services Canada (Holdings) Ltd (incorporated 18 December 2005)	Canada	Ordinary	**100**	–	**–**	–
Transfield Services Canada Ltd (incorporated 21 December 2005)	Canada	Ordinary	**100**	–	**–**	–
Transfield Services (Delaware) Holdings Pty Limited (incorporated 7 June 2006)	Australia	Ordinary	**100**	–	**–**	–
Aquas Holdings Pty Limited (acquired 31 January 2006)	Australia	Ordinary	**66**	–	**–**	–
Australian Quality Assurance Superintendence Pty Limited (acquired 31 January 2006)	Australia	Ordinary	**66**	–	**–**	–
Infrastructure Fund Management Limited (incorporated 9 February 2006)	Australia	Ordinary	**100**	–	**–**	–
					39,072	39,072

NOTE 39. INVESTMENTS IN ASSOCIATES

NAME OF COMPANY	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST 2006 %	OWNERSHIP INTEREST 2005 %	CONSOLIDATED CARRYING AMOUNT 2006 $'000	CONSOLIDATED CARRYING AMOUNT 2005 $'000	PARENT ENTITY CARRYING AMOUNT 2006 $'000	PARENT ENTITY CARRYING AMOUNT 2005 $'000
Yan Yean Water (Holdings) Pty Limited#	Australia	Water filtration plant	**50**	50	**3,691**	3,737	**3,562**	3,562
Macarthur Water (Holdings) Pty Limited#	Australia	Water filtration plant	**50**	50	**15,044**	10,741	**27,348**	27,348
Translink Investments Pty Limited	Australia	Electronic tolling equipment	**50**	50	**1,797**	2,366	**2,107**	2,107
Metrolink Victoria Pty Limited	Australia	Tram franchise operator	**50**	50	**10,000**	10,000	**10,000**	10,000
Transfield Worley Limited	New Zealand	Engineering, consulting and project managers	**50**	50	**6,918**	5,820	**–**	–
Five D Holdings Pty Limited	Australia	Operations and maintenance	**50**	50	**10**	3	**–**	–
Transfield Procurement Services Limited	New Zealand	Procurement services	**50**	50	**329**	255	**–**	–
Transfield BRW Services Pty Limited	Australia	Operations and maintenance	**50**	50	**1,024**	306	**–**	–
Transfield Services Qatar LLC	Qatar	Operations and maintenance	**49**	49	**–**	–	**–**	–
Tespec LLC**	Abu Dhabi	Investment company	**49**	49	**–**	86	**–**	–
MMC – Transfield Services Sdn Bhd	Malaysia	Operations and maintenance	**50**	–	**–**	–	**–**	–
Transfield Worley TRAGS	Qatar	Operations and maintenance	**27.5**	27.5	**702**	119	**–**	–
Australian Pacific Project Holdings	Australia	Project management	**25**	25	**–**	–	**–**	–
					39,515	33,433	**43,017**	43,017

\# Reporting date 31 March.
** This company has been consolidated in 2006.

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000
Movements in carrying amounts of investments in associates		
Carrying amount at the beginning of the financial year	**33,433**	27,433
Effect of exchange rate changes	**(577)**	–
Net additions to equity	**–**	(131)
Share of operating profits after income tax	**8,531**	6,631
Dividends received/receivable	**(1,786)**	(500)
Associate transferred to controlled entity	**(86)**	–
Carrying amount at the end of the financial year	**39,515**	33,433
Share of profits of associates		
Operating profits before income tax	**12,045**	7,264
Income tax expense	**(3,514)**	(633)
Operating profits after income tax	**8,531**	6,631
Less: Dividends received/receivable	**(1,786)**	(500)
	6,745	6,131
Retained profits attributable to associates at the beginning of the financial year	**20,356**	14,225
Retained profits attributable to associates at the end of the financial year	**27,101**	20,356
Share of associates' expenditure commitments		
Lease commitments	**2,448**	1,613
Other commitments	**–**	–
	2,448	1,613

NOTE 39. INVESTMENTS IN ASSOCIATES continued

Summarised financial information of associates

GROUP'S SHARE OF:	ASSETS $'000	LIABILITIES $'000	REVENUES $'000	PROFIT $'000
2006				
Operations and maintenance	**22,891**	**(14,053)**	**85,457**	**4,273**
Infrastructure ownership	**72,363**	**(53,628)**	**3,545**	**4,258**
	95,254	**(67,681)**	**89,002**	**8,531**
2005				
Operations and maintenance	17,987	(12,097)	61,961	2,473
Infrastructure ownership	62,523	(48,045)	3,476	3,869
	80,510	(60,142)	65,437	6,342

NOTE 40. INTERESTS IN JOINT VENTURE ENTITIES AND PARTNERSHIPS

NAME OF JOINT VENTURE ENTITY OR PARTNERSHIP	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST		CONSOLIDATED CARRYING AMOUNT		PARENT ENTITY CARRYING AMOUNT	
			2006 %	2005 %	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Transfield Worley (Woodside) Alliance	Australia	Operations and maintenance	**50**	50	**13,598**	14,872	**–**	–
Transfield RIC JV	Australia	Operations and maintenance	**–**	50	**–**	986	**–**	–
TGE JV#	Australia	Operations and maintenance	**49**	49	**10,963**	10,373	**–**	–
Yarra Trams JV	Australia	Operations and maintenance	**50**	50	**943**	(311)	**–**	–
Transfield Worley Solutions JV	Australia	Operations and maintenance	**50**	50	**933**	1,054	**–**	–
Brisbane Ferries	Australia	Operations and maintenance	**50**	50	**2,688**	1,292	**–**	–
Transfield Worley Services	Australia	Operations and maintenance	**50**	50	**667**	–	**–**	–
Perth Power Partnership (Kwinana)#	Australia	Power station	**30**	30	**16,213**	12,950	**–**	–
Transfield Worley New Zealand	New Zealand	Operations and maintenance	**50**	50	**12**	–	**–**	–
					46,017	41,216	**–**	–

Reporting date 31 December.

CONSOLIDATED

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000
Retained profits attributable to the joint venture entities or partnerships		
At the beginning of the financial year	**13,354**	8,198
Current year profit before tax	**26,401**	13,100
Distributions	**(24,018)**	(7,944)
At the end of the financial year	**15,737**	13,354
Movements in carrying value of investment in joint venture entities or partnerships		
Carrying amount at the beginning of the financial year	**41,216**	26,033
Effect of changes in exchange rates	**10**	–
Fair value adjustment	**2,350**	–
Addition of equity	**–**	13,391
Advances to/(from) joint venture	**(12,444)**	(3,364)
Distributions/dividends received	**(11,516)**	(7,944)
Share of operating profits before tax	**26,401**	13,100
Carrying amount at the end of the financial year	**46,017**	41,216

	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT ENTITY 2006 $'000	PARENT ENTITY 2005 $'000
Share of joint venture entities and partnerships' assets and liabilities				
Current assets	**98,412**	96,329	**–**	–
Non-current assets	**44,807**	82,863	**–**	–
Total assets	**143,219**	179,192	**–**	–
Current liabilities	**(61,891)**	(53,029)	**–**	–
Non-current liabilities	**(41,389)**	(74,517)	**–**	–
Total liabilities	**(103,280)**	(127,546)	**–**	–
Net assets	**39,939**	51,646	**–**	–
Share of joint venture entities and partnerships' revenues, expenses and results				
Revenues	**231,844**	227,177	**–**	–
Expenses	**(211,511)**	(214,019)	**–**	–
Operating profit before income tax	**20,333**	13,158	**–**	–
Share of joint venture entities and partnerships' commitments				
Lease commitments	**41,185**	59,653	**–**	–
Other commitments	**–**	19,743	**–**	–
Total expenditure commitments	**41,185**	79,396	**–**	–

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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NOTE 41. RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Operating profit/(loss) after income tax	**55,590**	40,980	**33,784**	(9,015)
Finance costs (classified as financing activities)	**43,237**	16,929	**9,849**	1,202
Share-based payments	**1,255**	722	**1,255**	1,903
Depreciation and amortisation	**47,982**	27,149	**–**	–
Goodwill written off	**–**	1,706	**–**	–
Unrealised foreign exchange (gain)/loss	**(108)**	566	**–**	–
Interest received (classified as investing activities)	**(5,153)**	(4,086)	**(704)**	(519)
Make-good and other expenses	**(903)**	1,742	**–**	–
(Profit)/loss on disposal of fixed assets and investment	**1,681**	(103)	**–**	–
Share of profits of associates and joint ventures not received as dividends or distributions	**(21,629)**	(10,805)	**–**	–
Bad debts written off	**155**	687	**–**	–
Provision for doubtful debts	**(164)**	(2,491)	**–**	–
Fair value adjustment on Broadspectrum acquisition	**(34)**	–	**–**	–
Change in operating assets and liabilities, net of effects from purchase of controlled entity				
(Increase)/decrease in trade and other receivables	**(43,813)**	(50,429)	**1,202**	–
Decrease/(increase) in inventories	**8,877**	(40,422)	–	–
(Increase)/decrease in deferred tax assets	**(4,188)**	3,583	**(43)**	21,897
Decrease/(increase) in other operating assets	**(1,784)**	(1,920)	**(98)**	(969)
Increase/(decrease) in trade and other payables	**51,364**	78,074	**36**	(10)
Increase/(decrease) in provision for income tax payable	**19,531**	(20,191)	**19,582**	2,374
(Decrease)/increase in provision for deferred tax liabilities	**(891)**	34,490	**–**	(11,816)
(Decrease)/increase in employee and other provisions	**710**	19,776	**–**	–
Net cash inflow from operating activities	**151,715**	95,957	**64,863**	5,047

NOTE 42. EARNINGS PER SHARE

	CONSOLIDATED	
	2006 CENTS	2005 CENTS
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**34.65**	27.64
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	**34.61**	27.63

	CONSOLIDATED	
	2006 $'000	2005 $'000
(c) Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Profit from continuing operations	**55,590**	40,980
Loss from continuing operations attributable to minority interests	**3**	–
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**55,593**	40,980
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**55,593**	40,980
Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**55,593**	40,980
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**55,593**	40,980
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**55,593**	40,980

	CONSOLIDATED 2006 NUMBER	CONSOLIDATED 2005 NUMBER
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**160,453,244**	148,284,161
Adjustments for calculation of diluted earnings per share:		
Options and Performance Awards*	**143,335**	36,167
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**160,596,579**	148,320,328

* Only Options and Performance Awards which have vested but remain unexercised are used in the calculation of diluted earnings per share.

NOTE 43. EVENTS OCCURRING AFTER BALANCE SHEET DATE

The following significant events have occurred since balance date and prior to signing the financial statements.

(a) Acquisition of USM Holdings Corporation
On 4 July 2006, Transfield Services Limited acquired 100% of the issued capital in USM Holdings Corporation, a provider of operations and maintenance services across North America for a consideration of $372,000,000.

Details of net assets acquired and goodwill are not able to be determined as completion accounts are not available as of the date of signing the financial statements. Management accounts from the acquiree state net assets of $12,500,000 resulting in intangibles on consolidation of $359,500,000.

(b) Acquisition of 37.5% of Gladstone Power Station and NRG Gladstone Operating Services
The consolidated entity signed a conditional sale agreement with NRG Energy, Inc., NRGenerating International BV and NRG Victoria 1 Pty Limited on 9 June 2006 to acquire 100% of the issued capital of Sunshine State Power BV and Sunshine State Power (No. 2) BV which, together, own 37.5% of the Gladstone Power Station in Queensland for a consideration of $273,000,000 and 100% of NRG Gladstone Operating Services Pty Limited, the company responsible for providing operating services to the Gladstone Power Station. The transaction has not been completed as it is dependent on conditions precedent including approval of the non-NRG joint venture parties under pre-emptive provisions. As at 23 August 2006, these conditions precedent had not been satisfied.

(c) Acquisition of 9.3% interest in the Loy Yang A Power Station
On 2 August 2006, Transfield Services acquired 9.3% of the issued capital of Great Energy Alliance Corporation Pty Limited which owns the Loy Yang A Power Station and the adjacent brown coal mine in Victoria and 13.8% of the attached dispatch and marketing Company for a total consideration of $115,050,000.

(d) Dividend declared
On 23 August 2006, the Directors resolved to pay a fully-franked dividend of 13 cents per share on 9 October 2006.

(e) Infrastructure debt refinancing
The Group has entered into an agreement to refinance its individually financed project assets into a combined facility for an amount up to $450,000,000. This agreement has been executed with a number of the Group's existing relationship banks.

(f) Entitlement Offer
The Board approved a plan on 23 August 2006 for shareholders to participate in a 2 for 9 Rights Entitlement Offer, through which the Group expects to raise $270,000,000 (net of fees) through the issue of new shares, for the purpose of paying off debt. The new shares will not participate in the final dividend.

NOTE 44. SHARE-BASED PAYMENTS

(a) TranShare Executive Performance Awards Plan

A detailed analysis of the conditions of the TranShare Executive Performance Awards Plan are set out in the Remuneration Report on pages 25 to 34.

Set out below are summaries of Options and Performance Awards granted under the Plan:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT THE START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	FORFEITED DURING THE YEAR NUMBER	BALANCE AT THE END OF THE YEAR NUMBER	EXERCISABLE AT THE END OF THE YEAR NUMBER
CONSOLIDATED AND PARENT ENTITY – 2006								
Options								
22 August 2002	26 August 2009	$2.82	750,000	–	(750,000)	–	–	–
28 November 2002	28 November 2009	$2.62	1,632,000	–	(1,162,000)	(100,000)	370,000	370,000
3 March 2003	3 March 2010	$2.70	900,000	–	(900,000)	–	–	–
Performance Awards								
25 February 2004	25 February 2011	$nil	333,998	–	–	(9,647)	324,351	–
30 August 2004	30 August 2011	$nil	379,109	–	–	–	379,109	–
28 February 2005	28 February 2012	$nil	198,298	–	–	(24,480)	173,818	–
30 August 2005	30 August 2012	$nil	–	217,900	–	–	217,900	–
16 November 2005	16 November 2012	$nil	–	59,000	–	–	59,000	–
19 April 2006	19 April 2012	$nil	–	207,000	–	–	207,000	–
			4,193,405	483,900	(2,812,000)	(134,127)	1,731,178	370,000
Weighted average exercise price			$2.69	$nil	–	$1.76	$0.60	$2.62

The weighted average range of the share price at the various dates of the Options exercised during the year was $7.35 to $8.35.

The weighted average remaining contractual life of the Performance Awards outstanding at the end of the period was 5.02 years.

Fair value of Performance Awards granted

The assessed fair value at grant date of Performance Awards granted during the year ended 30 June 2006 is set out in the following table. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the Performance Award, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the Performance Award.

The model inputs for Performance Awards granted during the year ended 30 June 2006 included:

GRANT DATE	30 AUGUST 2005	16 NOVEMBER 2005	19 APRIL 2006
Grant consideration	$nil	$nil	$nil
Life of grant	4.3 years	3.2 years	3.2 years
Conditions of grant	refer to Remuneration Report on pages 25 to 34		
Exercise price	N/A	N/A	N/A
Expiry date	30 August 2012	16 November 2012	19 April 2012
Share price at grant date	$8.50	$8.00	$7.63
Expected volatility of the Company's shares	25%	25%	25%
Expected dividend yield	2.6%	3.1%	3.2%
Risk-free interest rate	4.94%	5.26%	5.56%

The expected price volatility is based on the historic volatility (based on the remaining life of the Performance Awards), adjusted for any expected changes to future volatility due to publicly available information.

(b) Employee share plan (TranShare Plan)

A scheme, for which shares are acquired on-market on behalf of employees, was approved by shareholders at the 2004 annual general meeting. All Australian and New Zealand permanent full-time and part-time employees (excluding executive Directors) are eligible to participate in the scheme. Employees may elect not to participate in the scheme.

Under the scheme, eligible employees may be granted up to $1,000 worth of fully-paid ordinary shares in Transfield Services Limited annually, for consideration of $900. The market value of shares acquired under the scheme, measured as the market price on the day of acquisition of the shares, is recognised in the balance sheet as share capital. The net shortfall of $100 per employee is expensed and as part of the employee benefit costs in the period the shares are acquired.

Shares acquired on-market under the scheme may not be sold until the earlier of three years after acquisition or cessation of employment from the respective Group company or joint venture. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

The number of shares acquired on behalf of participants in the scheme is the offer amount of $1,000 divided by the market price at which the Company's shares are traded on the Australian Stock Exchange on the day of acquisition on market.

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
Shares acquired under the Plan to participating employees	**220,364**	–	**220,364**	–

Other conditions applicable to the scheme are identified in the Remuneration Report on pages 25 to 34.

Each participant was issued with shares worth $1,000 based on the weighted average market price of between $7.20 and $7.70.

(c) Expenses arising from share-based payment transactions
Total expenses before tax arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED		PARENT ENTITY	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Performance Awards issued under TranShare Executive Performance Awards Plan	**1,255**	722	**1,255**	722
Shares under TranShare Plan acquired on market	**127**	–	**127**	–
	1,382	722	**1,382**	722

NOTE 45. SEGMENT INFORMATION

Business segments
(i) Operations and maintenance outsourcing services
These services involve the provision of structural, mechanical, civil, instrumentation and electrical maintenance, as well as the management of facilities and systems.

(ii) Infrastructure ownership and management
The Company owns or part owns six infrastructure investments which comprise interests in the Townsville, Kemerton, Collinsville and Kwinana power stations and the Macarthur and Yan Yean water filtration plants.

Intersegment pricing
Intersegment pricing is on an 'arm's-length' basis and transactions are eliminated on consolidation.

Geographical segments
As a result of the consolidated entity's expansion overseas, New Zealand is now considered as a separate geographical segment. All other international locations are summarised under 'other countries'.

NOTE 45. SEGMENT INFORMATION continued

Primary Reporting – Business Segments

2006	SERVICES $'000	INFRASTRUCTURE $'000	CONSOLIDATED $'000
Sales to external customers	1,782,696	136,202	1,918,898
Total sales revenue	1,782,696	136,202	1,918,898
Other revenue and other income	5,011	2,532	7,543
Segment revenue	1,787,707	138,734	1,926,441
Shares of net profits of associates and joint venture entities and partnerships	26,977	7,955	34,932
Total	1,814,684	146,689	1,961,373
Segment result	42,477	30,003	72,480
Unallocated revenue less unallocated expenses	–	–	–
Profit from ordinary activities before income tax expense	42,477	30,003	72,480
Income tax expense	(8,421)	(8,469)	(16,890)
Profit from ordinary activities after income tax expense	34,056	21,534	55,590
Segment assets	816,239	695,045	1,511,284
Unallocated assets	–	–	–
Total assets	816,239	695,045	1,511,284
Segment liabilities	535,666	625,887	1,161,553
Unallocated liabilities	–	–	–
Total liabilities	535,666	625,887	1,161,553
Investments in associates and joint venture entities and partnerships	50,584	34,948	85,532
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	52,835	39,946	92,781
Depreciation and amortisation expense	26,999	20,807	47,806
Impairment of investment	176	–	176
Share-based payments	1,255	–	1,255
Other non-cash expense	155	–	155

2005	SERVICES $'000	INFRASTRUCTURE $'000	CONSOLIDATED $'000
Sales to external customers	1,436,265	68,089	1,504,354
Total sales revenue	1,436,265	68,089	1,504,354
Other revenue and other income	4,580	1,810	6,390
Segment revenue	1,440,845	69,899	1,510,744
Shares of net profits of associates and joint venture entities and partnerships	14,654	4,539	19,193
Total	1,455,499	74,438	1,529,937
Segment result	38,739	20,433	59,172
Unallocated revenue less unallocated expenses	–	–	–
Profit from ordinary activities before income tax expense	38,739	20,433	59,172
Income tax expense	(8,587)	(9,605)	(18,192)
Profit from ordinary activities after income tax expense	30,152	10,828	40,980
Segment assets	735,810	646,901	1,382,711
Unallocated assets	–	–	–
Total assets	735,810	646,901	1,382,711
Segment liabilities	460,801	572,487	1,033,288
Unallocated liabilities	–	–	–
Total liabilities	460,801	572,487	1,033,288
Investments in associates and joint venture entities and partnerships	47,221	27,428	74,649
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	253,727	163,722	417,449
Depreciation and amortisation expense	16,464	10,685	27,149
Impairment expense	1,705	–	1,705
Share-based payments	722	–	722
Other non-cash expense	687	–	687

Secondary Reporting – Geographical Segments

	SEGMENT REVENUES FROM SALES TO EXTERNAL CUSTOMERS		SEGMENT ASSETS		ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLES AND OTHER NON-CURRENT SEGMENT ASSETS	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Australia	**1,550,027**	1,236,323	**1,257,802**	1,105,724	**84,843**	251,270
New Zealand	**366,322**	267,234	**242,377**	273,536	**6,029**	166,108
Other countries	**10,092**	7,187	**11,105**	3,451	**1,909**	71
	1,926,441	1,510,744	**1,511,284**	1,382,711	**92,781**	417,449

Notes to and forming part of the segment information

Accounting policies

Segment information is prepared in conformity with the accounting polices of the Group as disclosed in note 1 and the accounting standard, AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment, goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee entitlements and other provisions.

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NOTE 46. EXPLANATION OF TRANSITION TO AIFRS

(1) Reconciliation of equity reported under AGAAP to equity under AIFRS

(a) At the date of transition to AIFRS: 1 July 2004

	NOTE 46(4)	AGAAP $'000	EFFECT OF TRANSITION TO AIFRS $'000	AIFRS $'000
ASSETS				
Current assets				
Cash and cash equivalents		57,054	–	57,054
Receivables	(c), (l)	205,709	8,425	214,134
Inventories		17,396	–	17,396
Other		712	–	712
Total current assets		**280,871**	**8,425**	**289,296**
Non-current assets				
Receivables	(l)	8,530	(8,401)	129
Investments accounted for using the equity method	(g)	56,348	(2,660)	53,688
Property, plant and equipment – infrastructure	(i)	411,732	1,000	412,732
Property, plant and equipment – operations and maintenance	(m)	49,168	(7,284)	41,884
Deferred tax assets	(k)	34,627	(8,179)	26,448
Intangible assets	(d), (e), (m)	37,446	6,607	44,053
Total non-current assets		**597,851**	**(18,917)**	**578,934**
Total assets		**878,722**	**(10,492)**	**868,230**
LIABILITIES				
Current liabilities				
Payables		183,181	–	183,181
Interest bearing liabilities		13,444	–	13,444
Non-interest bearing liabilities	(l)	–	9,967	9,967
Current tax liabilities		8,287	–	8,287
Provisions		29,221	–	29,221
Total non-current liabilities		**234,133**	**9,967**	**244,100**
Non-current liabilities				
Interest bearing liabilities		361,145	–	361,145
Non-interest bearing liabilities	(l)	9,967	(9,967)	–
Deferred tax liabilities	(k)	15,755	8,561	24,316
Provisions	(i), (j)	14,716	2,757	17,473
Total non-current liabilities		**401,583**	**1,351**	**402,934**
Total liabilities		**635,716**	**11,318**	**647,034**
Net assets		**243,006**	**(21,810)**	**221,196**
EQUITY				
Contributed equity		171,429	–	171,429
Reserves	(a), (b), (h)	10,455	(9,878)	577
Retained earnings	(o)	61,122	(11,932)	49,190
Total equity		**243,006**	**(21,810)**	**221,196**

(1) Reconciliation of equity reported under AGAAP to equity under AIFRS continued

(b) At the end of the last reporting period under AGAAP: 30 June 2005

	NOTE 46(4)	AGAAP $'000	EFFECT OF TRANSITION TO AIFRS $'000	AIFRS $'000
ASSETS				
Current assets				
Cash and cash equivalents		89,617	–	89,617
Trade and other receivables	(c), (l)	261,967	4,932	266,899
Income tax refundable		11,904	–	11,904
Inventories		57,818	–	57,818
Other		2,632	–	2,632
Total current assets		**423,938**	**4,932**	**428,870**
Non-current assets				
Receivables	(l)	4,694	(4,410)	284
Investments accounted for using the equity method	(g)	76,953	(2,304)	74,649
Property, plant and equipment – infrastructure	(i)	539,528	1,000	540,528
Property, plant and equipment – operations and maintenance	(c), (f), (m)	80,162	(15,222)	64,940
Deferred tax assets	(k)	32,411	(2,380)	30,031
Intangible assets	(a), (c), (e), (m)	212,093	31,316	243,409
Total non-current assets		**945,841**	**8,000**	**953,841**
Total assets		**1,369,779**	**12,932**	**1,382,711**
LIABILITIES				
Current liabilities				
Payables	(l)	260,573	682	261,255
Interest bearing liabilities		179,251	–	179,251
Non-interest bearing loans	(l)	–	12,945	12,945
Provisions	(j)	43,977	501	44,478
Total non-current liabilities		**483,801**	**14,128**	**497,929**
Non-current liabilities				
Non-interest bearing liabilities	(l)	12,945	(12,945)	–
Interest bearing liabilities		454,561	–	454,561
Deferred tax liabilities	(k)	31,124	27,682	58,806
Provisions	(i), (j)	17,417	4,575	21,992
Total non-current liabilities		**516,047**	**19,312**	**535,359**
Total liabilities		**999,848**	**33,440**	**1,033,288**
Net assets		**369,931**	**(20,508)**	**349,423**
EQUITY				
Contributed equity		282,836	–	282,836
Reserves	(a), (b), (h)	10,894	(8,432)	2,462
Retained earnings	(o)	76,201	(12,076)	64,125
		369,931	**(20,508)**	**349,423**

NOTE 46. EXPLANATION OF TRANSITION TO AIFRS continued

(2) Reconciliation of profit for the year ended 30 June 2005

	NOTE 46(4)	AGAAP $'000	EFFECT OF TRANSITION TO AIFRS $'000	AIFRS $'000
Revenue	(n)	1,513,523	(2,779)	1,510,744
Raw materials and consumables used		(150,131)	–	(150,131)
Subcontractors		(798,017)	–	(798,017)
Employee benefits expense	(h), (j)	(389,161)	(722)	(389,883)
Depreciation and amortisation expense	(c), (e)	(30,727)	3,578	(27,149)
Borrowing costs		(16,929)	–	(16,929)
Other expenses	(e), (f), (i), (o)	(87,986)	(670)	(88,656)
Share of profit from associates and joint ventures	(g)	18,837	356	19,193
Profit before income tax		**59,409**	**(237)**	**59,172**
Income tax expense		**(18,285)**	**93**	**(18,192)**
Profit attributed to members of Transfield Services Limited		**41,124**	**(144)**	**40,980**

(3) Reconciliation of cash flow statement for the year ended 30 June 2005
The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations
(a) Foreign Currency Translation Reserve: cumulative translation differences
The Group has decided to apply the exemption in AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards*. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero at the date of transition to AIFRS. The effect is:

At 1 July 2004
For the Group, the balance of the $1,501,654 credit in foreign currency translation reserve is reduced to zero. Retained earnings are increased by this amount.

At 30 June 2005
For the Group, the foreign currency translation reserve has decreased by $777,654. There is an increase in goodwill resulting from the translation of business combinations at the rate of exchange as at 30 June 2005 of $724,000. Retained earnings have increased by $1,501,654.

(b) Asset Revaluation Reserve
The Group has elected to transfer the balances in asset revaluation reserve to retained earnings under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* on transition to AIFRS. The effect is:

At 1 July 2004
For the Group, the balance of $8,953,497 credit in asset revaluation reserve is reduced to zero. Retained earnings are increased by this amount.

At 30 June 2005
The adjustment as at 1 July 2004 is also applicable for 30 June 2005.

(c) Business combinations and fair value adjustments
(i) Business combinations
The Group has made a number of business acquisitions in recent years. Business combinations prior to the date of transition have been grandfathered and therefore not required to be restated in accordance with AIFRS criteria. The Group has elected to apply AASB 3 *Business Combinations* to the business combinations that occurred since transition date.

At 1 July 2004
No impact.

At 30 June 2005
For the Group, there has been an increase in intangibles of $47,905,662, an increase in deferred tax liabilities of $15,439,638, a decrease in goodwill of $30,979,862 and an increase in retained earnings of $1,486,162.

For the year ended 30 June 2005
For the Group, there has been a decrease in amortisation expense of $1,166,741, a decrease in income tax expense of $319,421 and an increase in retained earnings of $1,486,162.

(ii) Fair value adjustments to retained earnings
The Group has identified fair value adjustments in relation to the adoption of AIFRS. The fair value adjustments have been adjusted against goodwill and retained earnings. The effects are:

At 1 July 2004
For the Group, there has been an increase in receivables of $24,188 and a corresponding increase in retained earnings.

(4) Notes to the reconciliations continued

At 30 June 2005
For the Group, there has been a decrease in goodwill of $1,214,394, an increase in plant and equipment – operations and maintenance of $134,912, an increase in tax receivable of $521,922, an increase deferred tax liability of $791,229, an increase in deferred tax assets of $2,883,815, an increase in payables of $681,590, an increase in provisions of $576,310 and an increase in retained earnings of $277,126.

For the year ended 30 June 2005
For the Group, there has been a decrease in amortisation expense of $338,323 and an increase in income tax expense by $61,197.

(d) Property, plant and equipment – infrastructure – impact on deferred tax balances
Previously recognised permanent differences now become temporary differences under AASB 112 *Income Taxes* which gives rise to new deferred tax balances. The effect is:

At 1 July 2004
For the Group, there has been an increase in deferred tax liabilities of $9,707,504, an increase in deferred tax assets of $2,528,141, a decrease in goodwill of $131,718 and a corresponding decrease in retained earnings of $7,311,081.

At 30 June 2005
For the Group, there has been an increase in deferred tax liabilities of $10,273,833, an increase in deferred tax assets of $2,121,986, a decrease in goodwill of $131,718 and a corresponding reduction in retained earnings of $8,283,565.

For the year ended 30 June 2005
For the Group, income tax expense has increased by $972,484.

(e) Goodwill
In addition to the impacts on goodwill identified at note (c) – Business combinations, amortisation of goodwill is no longer applicable from 1 July 2004. Other changes in Group structure have led to the requirement to write off items of goodwill. The effect is:

At 1 July 2004
For the Group, there has been a decrease in goodwill of $545,277 due to impairment and a corresponding decrease in retained earnings.

At 30 June 2005
For the Group, there has been a decrease in goodwill of $1,383,860 due to impairment and a write-back of amortisation expense of $1,905,699. The impact on goodwill is a net increase of $521,839 and a corresponding increase in retained earnings.

For the year ended 30 June 2005
For the Group, amortisation expense has decreased by $2,072,529 and other expenses have increased by $838,583.

(f) Impairment of assets
Changes in customer requirements have led to a write-off of items of deferred expenditure, which were previously recognised under AGAAP and subject to amortisation. Under AIFRS this deferred expenditure is subject to impairment testing. The effect of this is:

At 1 July 2004
No impact.

At 30 June 2005
For the Group, there has been a decrease in plant and equipment – operations and maintenance of $867,356 and a corresponding decrease in retained earnings.

For the year ended 30 June 2005
For the Group, other expenses have increased by $867,356 through a write-off of plant and equipment – services.

NOTE 46. EXPLANATION OF TRANSITION TO AIFRS continued

(4) Notes to the reconciliations continued

(g) Joint ventures

The Group's joint venture entities and partnerships are subject to the same obligations under AIFRS as the Group. As a consequence of restatement of some assets and liabilities of joint ventures, the Group recognises changes to the carrying value of its equity investments and changes to amortisation of goodwill from 1 July 2004. The effect of this is:

At 1 July 2004
For the Group there has been a decrease of $2,660,000 in investments accounted for using the equity method and a corresponding decrease in retained earnings of $2,660,000.

As the Group has sufficient influence over the distribution of profits for each joint venture there is no impact on deferred tax balances.

At 30 June 2005
For the Group, there has been a decrease of $2,304,306 in investments accounted for using the equity method, and an increase in retained earnings of $2,304,306.

For the year ended 30 June 2005
The share of profits from joint venture entities and partnerships has increased by $355,694.

(h) Share-based payments

Under AASB 2 *Share-based Payments* from 1 July 2004 the Group is required to recognise an expense for those Options and Performance Awards that were issued to employees under the various Plans after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

At 1 July 2004
For the Group, there has been a decrease in retained earnings of $403,803, an increase in reserves of $576,861 and an increase in deferred tax assets of $173,058.

At 30 June 2005
For the Group, there has been a decrease in retained earnings of $909,552, an increase in reserves of $1,299,360 and an increase in deferred tax assets of $389,808.

For the year ended 30 June 2005
For the Group, there has been an increase in employee benefits expense of $722,499 and a decrease in income tax expense of $216,750.

(i) Rehabilitation and contractual make-good costs

The Group is under contractual legal obligations to rehabilitate the leasehold property upon which the Townsville Power Station site operates. Similar make-good obligations apply to its numerous rented locations. Under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, such liabilities are now required to be recognised at inception of each lease. The effect of this is:

At 1 July 2004
For the Group, there is an increase in provisions for make-good of $2,700,122, an increase in property, plant and equipment – infrastructure of $1,000,000, an increase in deferred tax assets of $521,559 and a decrease in retained earnings of $1,178,563.

At 30 June 2005
For the Group, there is an increase in provisions for make-good of $4,442,981, an increase in property, plant and equipment – infrastructure of $1,000,000, an increase in deferred tax assets of $1,067,152 and a decrease in retained earnings of $2,375,829.

For the year ended 30 June 2005
For the Group, there has been an increase in other expenses of $1,742,859 and a decrease in income tax expense of $545,593.

(j) Employee benefits expense

AASB 119 *Employee Benefits* provides wages and salaries, annual leave, and sick leave as examples of short-term benefits. Liabilities for long-term employee benefits such as annual leave (not expected to be taken within 12 months of balance date) and long service leave are to be measured at their present value. Under AGAAP annual leave was measured at nominal amounts. The effect of this is:

At 1 July 2004
For the Group, there is an increase of $56,803 in provisions, an increase in deferred tax assets of $217,894 and an increase in retained earnings of $161,091.

At 30 June 2005
For the Group, there is an increase of $57,340 in provisions, an increase in deferred tax assets of $217,894 and a corresponding increase in retained earnings of $160,554. In addition, there has been a reclassification of $501,114 from non-current provisions to current provisions for employee entitlements.

For the year ended 30 June 2005
For the Group, there is a decrease of $537 in employee benefits expense and a decrease in income tax expense of $59,553.

(4) Notes to the reconciliations continued

(k) Deferred tax balances

Under AGAAP, income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of AIFRS has resulted in a change in accounting policy. The application of AASB 112 *Income Taxes* adopts a balance sheet approach to accounting for taxes. Each adjusting entry made on transition or during the comparative year was required to be tax-effected. On transition, adjustments are made against retained earnings. In the comparative year for transactions recognised in the profit and loss statement, related tax effects are also recognised in the profit and loss statement. For transactions recognised directly in equity, any related tax effects are recognised directly in equity.

At 1 July 2004 and at 30 June 2005

The effects on the deferred tax liability and deferred tax asset of the adoption of AIFRS are as follows. Some items have been identified in the above notes.

In addition, as at 1 July 2004, pursuant to AASB 112 *Income Taxes* the Group has written off $10,438,419 from deferred tax assets. Deferred tax assets are only recognised if it is probable that future taxable amounts will be available to utilise the temporary differences that arise under AASB 112. As there is no certainty that sufficient taxable profit will be generated to crystallise the deferred tax balance, it has been written off on transition to AIFRS and charged to retained earnings. Movement in the deferred tax asset was $152,064 for the year ended 30 June 2005 respectively. The effect was a decrease in income tax expense for each period.

	NOTE 46(4)	1 JULY 2004 $'000	30 JUNE 2005 $'000
Deferred tax liabilities			
Application of AASB 112 to adjustments arising from adoption of AIFRS			
Recognition of temporary differences on power generation assets	(d)	9,707	10,274
Business combinations/fair value adjustments	(c)	–	16,231
Relocation from/(to) deferred tax assets		(1,146)	1,177
Increase in deferred tax liability		8,561	27,682
Deferred tax assets			
Adjustment arising from adoption of AASB 112	(k)	(10,439)	(10,287)
Application of AASB 112 to adjustment arising from adoption of the AIFRS			
Recognition of temporary differences on power generation assets	(d)	2,528	2,122
Share-based payments	(h)	173	390
Rehabilitation and make-good provisions	(i)	522	1,067
Capital raising		66	66
Employee benefits	(j)	218	218
Business combinations/fair value adjustments	(c)	–	2,884
Relocation (from)/to deferred tax liability		(1,247)	1,160
Increase/(decrease) in deferred tax assets		(8,179)	(2,380)

(l) Loans payable and loans receivable

The Group's loans with related parties are repayable within one year and generally, interest free. Loan documents are renewed once annually. Consequently all related party loans payable and receivable, previously classified as non-current, have been reclassified as current.

(m) Software

Under AGAAP, software used in the Group's business was classified as property, plant and equipment. Under AIFRS it has been reclassified to intangible assets.

At 1 July 2004

The amount reclassified was $7,284,000.

At 30 June 2005

The amount reclassified was $14,503,200.

(n) Proceeds from disposal of fixed assets

AASB 116 *Property, Plant and Equipment* requires the gain or loss on disposal of an item of property, plant and equipment to be recognised on a net basis as revenue or an expense, rather than separately recognising the consideration received as revenue and the current written-down value as an expense.

NOTE 46. EXPLANATION OF TRANSITION TO AIFRS continued

(4) Notes to the reconciliations continued

(o) Retained earnings
The effects on retained earnings of the changes set out above are as follows:

	NOTE 46(4)	1 JULY 2004 $'000	30 JUNE 2005 $'000
Foreign currency reserve	(a)	1,502	1,502
Asset revaluation reserve	(b)	8,953	8,953
Business combinations/fair value adjustments	(c)	–	1,823
Plant and equipment – infrastructure	(d)	(7,311)	(8,283)
Goodwill and intangibles	(e)	(545)	522
Impairment	(f)	–	(867)
Joint ventures	(g)	(2,660)	(2,304)
Share-based payments and employee benefits	(h), (j)	(243)	(749)
Rehabilitation and make-good	(i)	(1,179)	(2,376)
Income tax and deferred taxes	(k)	(10,449)	(10,297)
Total		**(11,932)**	**(12,076)**

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2006

In the Directors' opinion:

(a) the financial statements and notes set out on pages 36 to 96 and remuneration disclosures in the Directors' Report on pages 25 to 34 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) the audited remuneration disclosures set out on pages 25 to 34 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) at the date of the declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Parent Guarantee described in notes 33 and 36.

The Directors have been given the declaration by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Anthony Shepherd
Director

Peter Watson
Managing Director

at Sydney
23 August 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TRANSFIELD SERVICES LIMITED

PRICEWATERHOUSECOOPERS

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Facsimile +61 2 8266 9999

Audit opinion

In our opinion,

1. the Financial Report of Transfield Services Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Transfield Services Limited and the Transfield Services Group as at 30 June 2006, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

2. the audited remuneration disclosures that are contained on pages 25-32 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The Financial Report and Directors' responsibility

The Financial Report comprises the balance sheets, income statements, statements of changes in equity, statements of cash flows, accompanying notes to the financial statements, and the Directors' declaration for both Transfield Services Limited (the Company) and the Transfield Services Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Company has disclosed information about the remuneration of key management personnel (remuneration disclosures) as required by AASB 124, under the heading 'Remuneration Report' on pages 25-32 of the Directors' Report, as permitted by the *Corporations Regulations 2001*.

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. The Directors are also responsible for the remuneration disclosures contained in the Directors' Report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the Financial Report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further information on an audit, visit our website: http://www.pwc.com/au/ .

We performed procedures to assess whether in all material respects the Financial Report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the Financial Report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the Financial Report.

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.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TRANSFIELD SERVICES LIMITED

PRICEWATERHOUSECOOPERS

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

PricewaterhouseCoopers

B Hunter
Partner

Sydney
23 August 2006

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 25 August 2006.

A. Distribution of equity securities

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 – 1,000	2,532	2,070,256	1.28%
1,001 – 5,000	5,460	13,382,485	8.27%
5,001 – 10,000	980	6,865,702	4.24%
10,001 – 100,000	559	12,487,471	7.71%
100,001 and over	58	127,069,878	78.50%
	9,589	161,875,792	100.00%

B. Equity security holders

The names of the 20 largest holders of quoted equity securities are listed below:

NAME	UNITS AS AT 25/08/06	% OF ISSUED CAPITAL	RANK
Transfield (TSL) Pty Ltd	48,125,000	29.73%	1
Citicorp Nominees Pty Ltd (various funds)	18,242,522	11.27%	2
National Nominees Limited	11,491,703	7.10%	3
J P Morgan Nominees Australia Ltd	11,076,388	6.84%	4
Westpac Custodian Nominees Ltd	8,847,156	5.47%	5
Cogent Nominees Pty Limited	4,626,494	2.86%	6
ANZ Nominees Limited	3,540,170	2.19%	7
AMP Life Limited	2,670,718	1.65%	8
Queensland Investment Corporation Limited	2,666,059	1.65%	9
Westpac Financial Services Limited	1,758,714	1.09%	10
Frami Pty Limited	1,521,911	0.94%	11
Anthony Francis Shepherd	1,373,594	0.85%	12
UBS Nominees Limited (various funds)	1,343,326	0.83%	13
Peter Lawrence Watson	1,277,763	0.79%	14
Joseph Hossein Sadatmehr	930,000	0.57%	15
Steven MacDonald	900,000	0.56%	16
RBC Dexia Investor Services Aust Nominees	730,019	0.45%	17
Victorian Workcover Authority	670,704	0.41%	18
Argo Investments Limited	610,764	0.38%	19
Sandhurst Trustees Limited	563,475	0.35%	20
	122,966,480	75.96%	

C. Substantial shareholders

Substantial shareholders in the Company are set out below:

	NUMBER HELD	PERCENTAGE
Transfield (TSL) Pty Ltd	48,125,000	29.73%
Citicorp Nominees Pty Ltd (various funds)	18,242,522	11.27%
National Nominees Limited	11,491,703	7.10%
J P Morgan Nominees Australia Ltd	11,076,388	6.84%
Westpac Custodian Nominees Ltd	8,847,156	5.47%

D. Voting rights

The voting rights attached to each class of share are as follows:

(a) Ordinary shares

On a show of hands, every member present at a meeting in person or by proxy shall have one vote, and upon a poll each share shall have one vote.

(b) Options and Performance Awards

No voting rights.

CORPORATE DIRECTORY

Directors
Anthony Shepherd
Chairman

Bernard Wheelahan
Deputy Chairman

Peter Watson
Managing Director and Chief Executive Officer

Guido Belgiorno-Nettis

Luca Belgiorno-Nettis

Professor Steve Burdon

Denis Cleary

Mel Ward AO

Dean Wills AO was a Director from the beginning of the financial year until his retirement on 26 August 2005.

Secretary and General Counsel
Kate Munnings

Executive managers
Joseph Sadatmehr
Chief Executive Officer – International and Mining, Process and Hydrocarbons

Steve MacDonald
Chief Strategy Officer

Darce Corsie
Chief Executive Officer – Infrastructure Investments

Matthew Irwin
Chief Financial Officer

Bruce James
Chief Executive Officer – Australia

Graeme Sumner
Chief Executive Officer – New Zealand

Notice of Annual General Meeting
The Annual General Meeting of Transfield Services Limited will be held at the AGL Theatre, Level 2, Museum of Sydney, 37 Phillip Street (corner Bridge Street), Sydney.

Time 10.00am

Date 30 October 2006

A formal notice of meeting is enclosed.

Principal registered office in Australia
Level 12, Maritime Towers, 201 Kent Street
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Share and debenture registers
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Auditors
PricewaterhouseCoopers
Chartered Accountants
Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000

Solicitors
Minter Ellison
Aurora Place
88 Phillip Street
Sydney NSW 2000

Bankers
Australia and New Zealand Banking Group Limited
20 Martin Place
Sydney NSW 2000

Westpac Banking Corporation
255 Elizabeth Street
Sydney NSW 2000

Stock exchange listing
Transfield Services Limited shares are listed on the Australian Stock Exchange.

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AUSTRALIA

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