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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 Belgiorino-Nettis
 Luca Belgiorino-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

NAME	SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS		LONG-TERM INCENTIVE	SHARE-BASED PAYMENTS		TOTAL
	CASH SALARY AND FEES	CASH BONUS	NON-MONETARY BENEFITS	SUPER-ANNUATION	RETIREMENT BENEFITS	EXECUTIVE SPECIAL SCHEME	DEFERRED SHARE PURCHASE	PERFORMANCE AWARDS	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
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

NAME	SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS		LONG-TERM INCENTIVE	SHARE-BASED PAYMENTS		TOTAL
	CASH SALARY AND FEES	CASH BONUS	NON-MONETARY BENEFITS	SUPER-ANNUATION	RETIREMENT BENEFITS	EXECUTIVE SPECIAL SCHEME	OPTIONS	PERFORMANCE AWARDS	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
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
1	0%	Average cumulative TSR below 15% per annum from Base Price
2	75%	Average cumulative TSR of 15% per annum from Base Price
3	Additional 10% over the 75% already exercisable	Average cumulative TSR of 17.5% per annum of Base Price
	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		NUMBER OF AWARDS VESTED DURING THE YEAR	
	2006	2005	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		NUMBER OF OPTIONS VESTED DURING THE YEAR	
	2006	2005	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.

NAME	CASH BONUS		YEAR GRANTED	AWARDS		FINANCIAL YEARS IN WHICH AWARDS MAY VEST	MINIMUM TOTAL VALUE OF GRANT YET TO VEST	MAXIMUM TOTAL VALUE OF GRANT YET TO VEST
	PAID %	FORFEITED %		VESTED %	FORFEITED %			
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
Graeme Sumner	85	15	2004	—	—	2007	—	118,314
			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

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

at Sydney
23 August 2006



Peter Watson
Managing Director



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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.

A handwritten signature in black ink, appearing to read 'B Hunter'.

B Hunter
Partner

Sydney
23 August 2006

The PricewaterhouseCoopers logo, consisting of the company name in a stylized font and a small square icon containing the letters 'PwC'.

PricewaterhouseCoopers

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

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

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

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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.

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

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.

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

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 asset's 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.

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

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 policies*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.

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

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

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
NOTE 7. INCOME TAX				
(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		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	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

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		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 10. CURRENT ASSETS – INVENTORIES				
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

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

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	–	–	–
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Non-current liabilities

Interest rate swap contracts	10,901	–	–	–
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	13,334	–	–	–
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(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.

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

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 contracts 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		EXCHANGE RATE	
	2006 \$'000	2005 \$'000	2006 \$	2005 \$
Maturity				
0-6 months	–	20,086	–	0.6298

BUY USD	SELL AUSTRALIAN DOLLARS		EXCHANGE RATE	
	2006 \$'000	2005 \$'000	2006 \$	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		PARENT ENTITY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 13. NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES					
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

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

Investments in controlled entities – at cost	38	–	–	39,072	39,072
		–	–	39,072	39,072

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

	LAND AND LEASEHOLD IMPROVEMENTS \$'000	PLANT AND EQUIPMENT \$'000	LEASED PLANT AND EQUIPMENT \$'000	CAPITAL WORK IN PROGRESS \$'000	TOTAL \$'000
NOTE 16. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT					
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.										
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.

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

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

	GOODWILL \$'000	CONTRACT INTANGIBLES \$'000	TRADEMARKS AND BRANDS \$'000	CUSTOMER RELATIONSHIPS \$'000	CUSTOMER/ SUPPLIER DATABASES \$'000	SOFTWARE [^] \$'000	TOTAL \$'000
NOTE 19. NON-CURRENT ASSETS – INTANGIBLE ASSETS							
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

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

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.

	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 20. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

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

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		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 22. CURRENT LIABILITIES – PROVISION FOR EMPLOYEE BENEFITS				
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

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**The balance comprises temporary differences attributable to:**

<i>Amounts recognised in profit or loss</i>				
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	–	–
<i>Amounts recognised directly in equity</i>				
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	–	–

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

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

NOTE 27. CONTRIBUTED EQUITY

Ordinary shares – fully paid	283,560	282,836	283,560	282,836
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Movements in ordinary share capital:**2006**

DATE	DETAILS	NUMBER OF SHARES ISSUED	NUMBER OF SHARES ON MARKET ACQUIRED	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

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 Broadpectrum 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.

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

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	2005	2006	2005
\$'000	\$'000	\$'000	\$'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
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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.

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

CONSOLIDATED	2006		2005	
	CARRYING AMOUNT \$'000	FAIR VALUE \$'000	CARRYING AMOUNT \$'000	FAIR VALUE \$'000
NOTE 31. NON-DERIVATIVE FINANCIAL INSTRUMENTS continued				
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	–	–
<i>Interest bearing loans and borrowings:</i>				
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
<i>Non-interest bearing loans and borrowings:</i>				
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				
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
<i>Interest bearing loans and borrowings:</i>				
Bank overdraft and bridge facility	163,050	163,050	21,469	21,469
<i>Non-interest bearing loans and borrowings:</i>				
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:			NON- INTEREST BEARING \$'000	TOTAL \$'000
		1 YEAR OR LESS \$'000	OVER 1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'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
<i>Interest bearing loans and borrowings:</i>						
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
<i>Non-interest bearing loans and borrowings:</i>						
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:			NON- INTEREST BEARING \$'000	TOTAL \$'000
		1 YEAR OR LESS \$'000	OVER 1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'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
<i>Interest bearing loans and borrowings:</i>						
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
<i>Non-interest bearing loans and borrowings:</i>						
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%	–		

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

NOTE 31. NON-DERIVATIVE FINANCIAL INSTRUMENTS continued

PARENT 2006

	FLOATING INTEREST RATE \$'000	FIXED INTEREST RATE MATURING IN:			NON- INTEREST BEARING \$'000	TOTAL \$'000
		1 YEAR OR LESS \$'000	OVER 1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'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
<i>Interest bearing loans and borrowings:</i>						
Bank overdraft and bridge facility	163,050	–	–	–	–	163,050
<i>Non-interest bearing loans and borrowings:</i>						
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:			NON- INTEREST BEARING \$'000	TOTAL \$'000
		1 YEAR OR LESS \$'000	OVER 1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'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
<i>Interest bearing loans and borrowings:</i>						
Bank overdraft and bridge facility	21,469	–	–	–	–	21,469
<i>Non-interest bearing loans and borrowings:</i>						
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		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'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.				
(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.				

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

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 32. REMUNERATION OF AUDITORS				
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 <i>Corporations Act 2001</i>	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		PARENT ENTITY	
	2006	2005	2006	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	—	—

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

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		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'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	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	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
NAME						
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	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
NAME				
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).

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

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 Belgioro-Nettis*	18,126,049	—	3,336	18,129,385
Luca Belgioro-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 Belgioro-Nettis; and
- Luca Belgioro-Nettis.

Messrs Guido Belgioro-Nettis and Luca Belgioro-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:		
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.

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

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		PARENT	
	2006	2005	2006	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	2005
		\$'000	\$'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
<i>Tax consolidation legislation</i>			
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		PARENT ENTITY	
		2006 \$'000	2005 \$'000	2006 \$'000	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%).

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*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

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

NOTE 36. RELATED PARTY TRANSACTIONS *continued*

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Loans to joint ventures</i>				
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		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	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		INTERGULF		TOTAL	
	ACQUIREE'S CARRYING AMOUNT \$'000	FAIR VALUE \$'000	ACQUIREE'S CARRYING AMOUNT \$'000	FAIR VALUE \$'000	ACQUIREE'S CARRYING AMOUNT \$'000	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	BROADSPECTRUM	PERTH POWER PARTNERSHIP (KWINANA)	TOTAL
	\$'000	\$'000	\$'000	\$'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		COST OF PARENT ENTITY'S INVESTMENT	
			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	—	—
Transshare 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		CONSOLIDATED CARRYING AMOUNT		PARENT ENTITY CARRYING AMOUNT	
			2006 %	2005 %	2006 \$'000	2005 \$'000	2006 \$'000	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	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

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

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	2005	2006	2005
	\$'000	\$'000	\$'000	\$'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		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'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 FOR THE YEAR ENDED 30 JUNE 2006

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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		
<i>Basic earnings per share</i>		
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
<i>Diluted earnings per share</i>		
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	2005
	NUMBER	NUMBER
(d) Weighted average number of shares used as the denominator		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	160,453,244	148,284,161
Adjustments for calculation of diluted earnings per share:		
Options and Performance Awards	143,335	36,167
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	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.

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

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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	2005	2006	2005
	\$'000	\$'000	\$'000	\$'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'.

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

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	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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 policies 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.

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

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

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

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.

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

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.

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

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

at Sydney
23 August 2006



Peter Watson
Managing Director



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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



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Independence

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

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in cursive script that reads "B Hunter".

B Hunter
Partner

Sydney
23 August 2006

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
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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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