Downer EDI Limited

2005 First Half Results and Outlook

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STEPHEN GILLIES - MANAGING DIRECTOR AND GEOFF BRUCE - CHIEF FINANCIAL OFFICER

Downer EDi LIMITED

OVERVIEW & HIGHLIGHTS

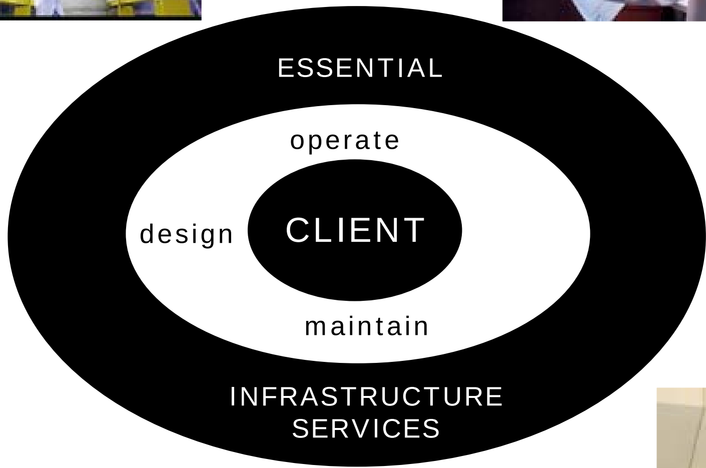
Stephen Gillies

Overview

The Group’s exposure to key growth sectors of energy, resources, rail and infrastructure has produced record sales and a solid result for H1. Our market presence in these sectors combined with major infrastructure expansion and refurbishment and impending skilled labour shortages will sustain current revenue levels and underpin a favourable and maintainable outlook for the Group for next few years.

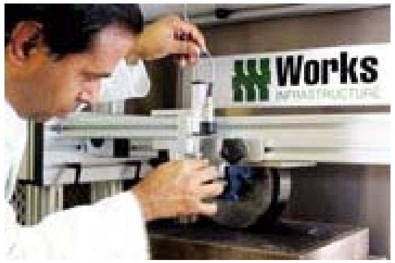
EDI Rail
>1,000 employees

CPG Corporation
>2,500 employees



Roche Mining
>3,000 employees

Engineering
>5,000 employees



Works >3,500 employees

Introduction

- Gross sales revenue of $1.8b, up 16% pcp
- NPAT of $35.6m, up 41% pcp
- Interim dividend of 6.0 cps, up 50% pcp
- Forward orders healthy
- All divisions performing and in line with expectations
- Safety on track to beat long run average of 2.5 LTIFR
- Improved full year financial targets - on track
  - ROFE
  - NWC / Sales
  - Gearing

Sales Growth - Stronger Than Expected & Broadly Based

- Sales up and momentum to continue into H2
- Mining was up strongly, and infrastructure reached record levels reflecting buoyancy in those sectors
- Rail - several contract announcements were in line with expectations and underpin future earnings growth
- Power revenue boosted by energy and resource demand
- CPG – 35% new wins ex-Singapore, eg China, India and Turkey
- Divisions performing well and in line with expectations
- 100% FY05 budgeted revenue in hand

Divisional Highlights

- Mining – improved earnings quality with services now 35% of revenue
- Infrastructure – solid performance with revenue and margins improving in NZ and Australia
- Engineering – on track for full year, with scale and presence emerging as a core strength:
  - power - benefiting from buoyancy in resources and energy sectors
  - telco - new opportunities underpin longer term outlook (Huawei)
- CPG – is successfully growing it’s business in Singapore post-moratorium.
- Rail – $400m in new contracts in H1 are delivering improved earnings quality

Management Highlights

- Free float increased to 94%
- No need for additional capital to fund current growth prospects
- Selective growth and not at the expense of increased gearing
- Credit Rating re-affirmed at BBB -; outlook raise to positive
- IFRS (and corporate governance) impact
- On labour shortages – the issue is quality not quantity
- Spend on marketing and business development will increase to support strength of activity
- Global Mining Consulting Company added to portfolio (Snowdens)

FINANCIAL PERFORMANCE

Geoff Bruce

Reported Earnings Up 41%

Half Year Ended December 2004 *	Dec 04 $m	Dec 03 $m	%
**Revenue ** **	1,784.6	1,541.8	16
Turnover	1,868.7	1,643.9	14
EBITA	73.4	55.7	32
Net Interest	17.7	13.1	35
Profit Before Tax	46.3	33.7	37
Net Profit After Tax	35.6	25.2	41
Goodwill Amortisation	9.4	8.9	6
Net Profit (pre goodwill amortisation)	45.0	34.1	32
EPS (basic) cps	12.5	9.1	37
DPS cps	6.0	4.0	50

** Discrepancies between values and percentage changes due to rounding*
*** Reported operating revenue,ie excluding JV sales and share of JV profits*

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Financials – Key Points

- Revenue up strongly with Infrastructure and Mining being highlights
- EBITA margin up strongly, reflecting pcp anomolies. Normalised EBITA margins are ahead of pcp
- Margins for Infrastructure, Mining and Rail all up strongly on pcp
- Net interest expense up on pcp due to slightly higher working capital position (eg, 4GT)
- Higher level of franking possible at 30 June 2005
- Tax expense up on pcp. Tax credits linked to FY05 R&D claims (power and rail) provide a partial offset in H1. FY05 tax is likely to be lower than previously forecast
- EPS growth was up 37% pcp

Financials – Key Points

- On track to deliver another year of strong operating cash. Delivery of final 5 4GT sets will release additional cash in H2 ($55m)
- Guidance of at least 12% NPAT growth remains
- 12% growth is not at risk and reflects discipline: we will continue to live inside our growth envelope:
  - keep the momentum on ROE and ROFE
  - not risk becoming overgeared
  - not take on high risk businesses

Divisional EBITA

Half Year to End December 2004 ($m)	2004	2003	↑ %
Mining & Resources	27.9	14.8	89
Engineering	26.1	28.7	(9)
Works Infrastructure	14.8	9.5	56
Rail	11.0	6.6	65
Corporate / Unallocated *	(6.4)	(3.5)	(81)
Total	73.4	56.1	31
**** 2004 impacted by PPP, IFRS costs, insurance premiums, discontinued business costs***			

Mining – Highlights*

Half Year ended 31 December ($m)	2004	2003	%
Turnover	598	462	29
EBITA	25.1	17.3	45

- Process engineering group is seeing particularly strong demand and is a major contributor to the improvement in sales
- Mining services' contribution to divisional sales up from 25% to 35%
- Management continue to drive earnings quality improvements: the divestment of Castings and the acquisition of Snowden Consulting are tangible examples
- A healthy project pipeline of plant expansions and new capacity builds aimed at lifting resource volumes underscores the positive outlook for the Mining division

** Excludes Resources operation*

Engineering - Highlights

Half Year ended 31 December ($m)	2004	2003	↓ %
Turnover	624	642	(3)
EBITA	26.1	28.7	(9)

- The engineering sector faces a critical shortage of skilled labour. In this environment our scale (7,500 employees) and coverage (depth and locations) are giving rise to unique growth opportunities
    - Electrical - unprecedented level of activity due to strength of resource and energy sectors
    - Telco – partnership with Huawei, an emerging international equipment supplier, introduces new capability and revenue stream
- CPG - exporting niche expertise to new growth markets
    - Airports – Wuhan, Shanghai Pudong
    - Transportation – Bosphorous Underwater Rail Link

Infrastructure - Highlights

Half Year ended 31 December ($m)	2004	2003	↑ %
Turnover	411	338	22
EBITA	14.8	9.5	56

- Strong first half, with both turnover and margins improving in both Australia and NZ
- Turnover Australia - Australia accounted for $23m of the increase. Several bolt-on acquisitions made to extend our capabilities and footprint
- Turnover NZ - driven by the backlog of flood related work and major highway construction work which lifted demand for Works bitumen and asphalt product
- Margins NZ – the productivity programme underway is delivering results in the mature NZ market
- Margins Australia – margins improvement due to a combination of stable overheads and an increasing national footprint

Rail - Highlights

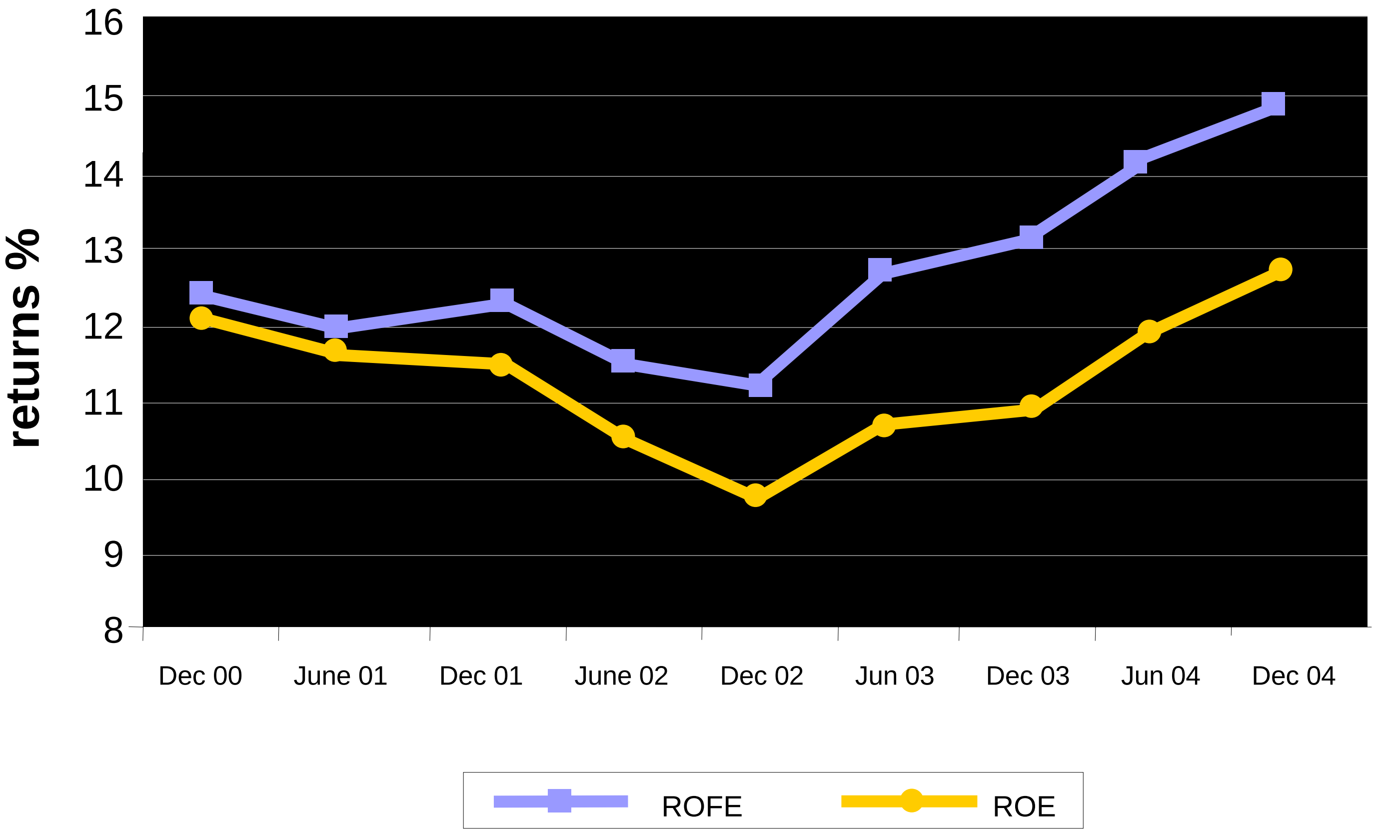
Half Year ended 31 December ($m)	2004	2003	↑ %
Turnover	193	191	1
EBITA	11.0	6.6	65

- Performing in line with guidance
- $600m in new contract wins in H1 reinforce EDI Rail's positioning in freight and passenger markets:
  - Secured outsourced maintenance for largest loco fleet (PN)
  - Additional loco order cements relationship with QR
  - PURD commissioning (WA Government) on time and budget and publicly lauded a success
- BHP iron ore contract signals entry into high growth Pilbara freight market
- NSW Railcorp PPP - process delayed, short list due March quarter

Returns on Equity and Funds Employed

Strategy of improving earnings quality is delivering

ROFE FY05 target of 15% now likely to be exceeded



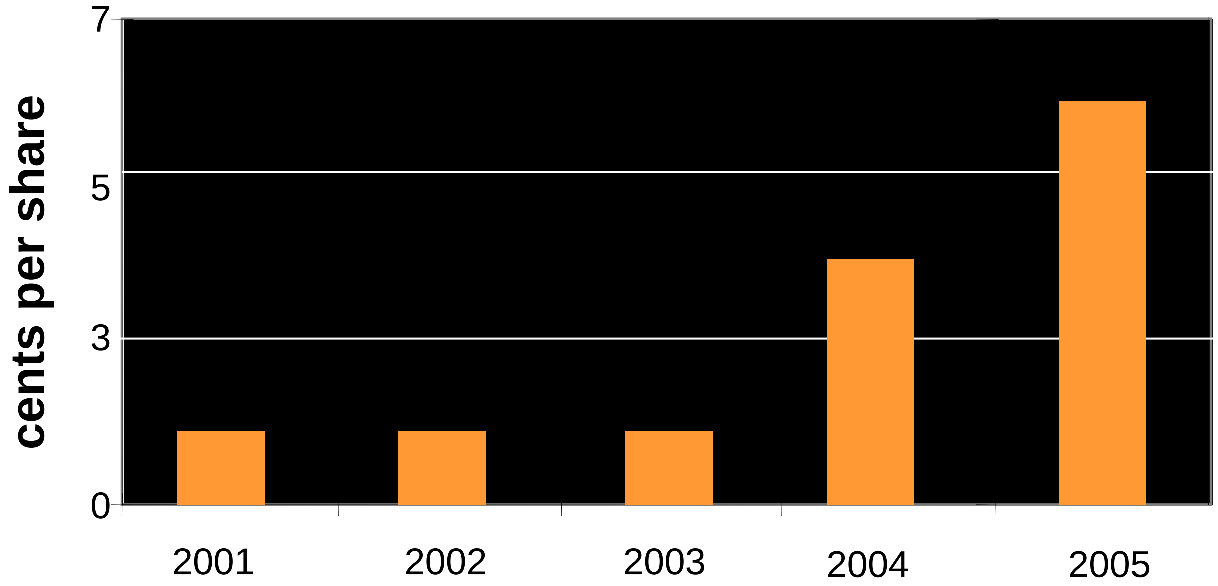
Note: ROE (NPAT/Equity), ROFE (EBITA/AFE) adjusted for goodwill

Dividends Per Share – Interim ⬆ Strongly

⬆ 50 % pcp

Interim dividend of 6.0 cps, up from 4.0 cps pcp

Environment requires continued disciplined approach to emerging opportunities



OUTLOOK & SUMMARY

Stephen Gillies

Outsourced Engineering Services Market is Evolving

Traditional Model

- Motivated by cost
- A means to an end: enforced cultural change
- “Arms length” style arrangement

Emerging Model

- Motivated by **<u>skilled</u>** resource shortages
- Organisational change more than cultural change
- “Trusted partner” in negotiated, alliance style arrangements
- Premiums earned for reputation, track record, and financial and management discipline

Operating Environment Is Evolving

Growth is not an issue

- Infrastructure and engineering outlook to remain strong in Australian and NZ markets over a 2-3 year period
- Major resource players are embarking on major projects to deliver quantum lift in volumes
- The need for additional capacity (infrastructure and resources) will drive growth in rail, mining, power divisions in the short to medium term

The resource shortage is changing the relationship between outsourcer & client

- Our large pool of 16,000 <u>**skilled**</u> employees is a core strength
- Demand and supply dynamics are reshaping client – provider relationships and improving our risk profile (more negotiated contracts and alliance partnerships)

Quality the critical issue

- of people;

- of earnings;

- of clients

- Behind the buoyant conditions market competitiveness is leading to aggressive behaviour: observe the series of high profile collapses
- In this environment, management discipline and experience will be tested to stay focused on quality not quantity

A Team Focused on Quality

Earnings Quality

Organic growth focus will deliver improved earnings quality

People Quality

Attract, grow, reward and keep the best quality people

Client Quality

Optimise client relationships

Sustainable, long term earnings

- Reliable, Sustainable Organic Growth
  - High value IP
  - Consulting services based culture
- Best People and Team Performance
  - Training
  - Strong safety culture
  - "Employee Ownership" – ESP, Pride & Performance
- Quality Clients, Superior Risk Management
  - 'Outsource service provider' => 'partner'
  - Client selectivity - playing to our strengths
  - Reinforce sales and marketing competencies (client needs)

Guidance & Assumptions – FY05

Guidance Intact

Sales revenue > 12%.

NPAT growth in line with sales >12%

↑ EPS, ↑ ROI, ↑ ROE

No Change to Underlying Assumptions

No requirement for new share capital

↑ EBITA / AFE (>12%)

↑ Non-mining revenues as % total revenue

↑ Order Book ($6.3 - $6.5b)

Continue to hold margins relative to peer group (3 yr average)

Interest cover > 5.0 times

Gearing (Net Debt/Equity <50%)

Summary

- H1 result in line with FY05 guidance
- Underlying sales growth is tracking target levels.
- On track to deliver our FY target. But spend on business processes (including IT, IFRS) will require higher corporate overheads. Additional margin from sales will be invested to secure future sales and margin expansion.
- We re-affirm our commitment to a goal of delivering sustainable, long term earnings growth for shareholders.
- Review of guidance end of 3rd quarter

QUESTIONS & ANSWERS

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