

# Shareholders' Half Year Report

For the six months to 31 December 2006



Solid half year result positions **Downer EDI** for a good second half and the ability to generate growth into 2008.

- Net Profit After Tax (NPAT) of \$80.6 million, an increase of 15.8% over the previous corresponding period;
- Turnover of \$2.6 billion was up 15.3% on the previous first half;
- EBIT grew by 24.7% to \$123.7 million;
- Earnings per share grew by 7.6% from 23.8 cents to 25.6 cents;
- Overall safety performance LTIFR (Lost Time Injury Frequency Rate) was 2.3, compared to 2.8 at the end of December 2005;
- Total secured sales are strong at \$9.8 billion;
- Return on Funds Employed (ROFE) of 16.4%, expect to meet goal of 18% over the next 12 months;
- The directors declared an interim dividend of 13 cents (unfranked). This dividend will be paid on 13 April for those shareholders on the register at 9 March. The company's Dividend Reinvestment Plan applies;
- Secured the New South Wales Rail \$3.6 billion PPP contract as part of the Reliance Rail consortium;
- Works Infrastructure secured over \$300 million of new work in Australia and New Zealand;
- Continued overseas expansion for Works Infrastructure with acquisitions in Singapore and the United Kingdom.

## Managing Director's Review



## Recovery Year Progressing Well

Downer EDI has delivered on key targets with solid performances from most business segments. During the period we have improved our market position with key contract wins and the successful integration of acquisitions, including Emoleum.

The business has focused on the quality of our contracts and key client relationships resulting in high levels of contract renewals and retention rates. This demonstrates market confidence in our ability to deliver on our commitments.

Significant new contracts for the group include the largest Public Private Partnership (PPP) contract in Australia. As a member of the Reliance Rail consortium, Downer EDI will design, manufacture and maintain for 30 years 72 eight-car sets for the CityRail network in Sydney. This contract is a good example of the annuity style revenue streams that Downer EDI continues to pursue as a key part of our strategy for long term growth.

Downer EDI also signed alliance contracts with Xstrata Coal for the development of two new coal handling processing plants. These contracts are a reflection of the company's focus on quality clients and quality contracts designed to maximise our long term value.

Other contracts of note include a contract with Powerlink for the long term maintenance of power lines in Queensland, extension of contracts with Queensland Rail and the Western Australia Public Transport Authority for additional passenger trains, and more than \$300 million of new work secured by the Works Infrastructure division.

## Managing Director's Review cont.



### Acquisitions

During the period, we continued to invest to strengthen our business in line with our strategy.

Overseas, we are expanding in our target markets of the United Kingdom and Singapore. Most recently, we acquired a civil engineering and road maintenance business, Sillars Holdings, in the United Kingdom as an expansion of the Works Infrastructure division.

In Singapore, we acquired the roads engineering and maintenance companies, Chan & Chan and Chan Lian, and these have now been rebranded as Works Infrastructure.

We have enhanced our front end consulting capability with the addition of Singleton to the Coomes consulting business. This acquisition is expected to be the first of a number of opportunities in Australia to be brought into the Coomes fold.

Downer EDI will continue to evaluate opportunities for new business growth that will add to our existing capabilities and provide value for shareholders.

### Our People

Downer EDI now employs more than 22,000 valued staff across our business divisions.

The group's safety performance continues to improve with an LTIFR (Lost Time Injury Frequency Rate) of 2.3, compared to 2.8 in December 2005.

Operating safely and ensuring that we are able to deliver to our clients' expectations are key areas of focus for all staff.

## Managing Director's Review cont.



### Outlook

Our ability to design, operate and maintain key infrastructure assets on behalf of our clients forms the backbone of our business. This ability, combined with continued public and private sector spending on essential infrastructure and the market's confidence in Downer EDI, will continue to deliver increased revenue and profits.

Downer EDI is on track to provide strong revenue and profit growth with target revenue of \$5.3 billion and net profit after tax of \$157-160 million for the full year.

Our focus for the remainder of the year is the execution of opportunities in our identified markets. We have a strong order book of \$9.8 billion and are well placed to deliver strong shareholder returns and quality outcomes for our clients.

The recovery achieved this year will deliver a rejuvenated balance sheet and combined with strong demand in our markets and acquisition opportunities, lead to sustainable double digit growth in FY08 and beyond.

**Stephen Gillies**  
Managing Director

## Operational Highlights



### Infrastructure

Maintenance and construction of roads, rail infrastructure, and infrastructure maintenance services

Works Infrastructure further consolidated its position as the leading non government provider of road and rail maintenance and rehabilitation services in Australia and New Zealand.

The successful integration of the Emoleum and Southern Asphalters businesses in Australia and the new acquisitions in Singapore and the United Kingdom have been key milestones for the period.

Growth opportunities for this division have been identified as the continued expansion of the business model in our chosen markets, increasing our share of rural work, and increased opportunities in the West Australian, New South Wales and Queensland markets.

- Turnover growth of 59.6% to \$722.8 million
- EBIT growth of 49.1% to \$31.4 million

The group's exposure to key growth sectors, as well as a reputation for delivery of projects, continue to produce **solid operating performances** and a **high demand** for our services across our business divisions.

## Operational Highlights



### Engineering

Power and engineering services, telecommunications, and consulting businesses CPG, Duffill Watts Group and Coomes Consulting

#### Telecommunications and Power

Buoyant market conditions in the resources, oil and electricity markets continue to drive growth in the Downer Engineering Power business unit. These conditions are generating increases in alliance style contracting and negotiated contract opportunities.

The Telecommunications business is performing well and has returned to profitability.

Growth opportunities from the backlog of demand for infrastructure spend in the telecommunications, resources and power sectors are expected to provide further growth opportunities for this division.

#### Consulting

Downer EDI's consulting businesses continue to expand to deliver a broader and more comprehensive range of services to our clients. A leader in project management and specialised consulting services, the group is working to design, deliver and support local projects as well as international landmark projects.

Continued spending on infrastructure development and increasing concerns around sustainability of population growth, climate change and industrial development provide significant growth opportunities for this part of the business.

- Turnover of \$743.8 million
- EBIT growth of 27.7% to \$31.3 million

## Operational Highlights



### Mining and Resources

Roche Mining – turnkey mine services, including design and engineering consultancy, operations (open cut and underground), mine management, explosives supply and minerals processing; Century Resources – oil and gas drilling

Under the stewardship of Downer EDI Deputy CEO, Brent Waldron, Roche Mining is working to restore confidence with a renewed focus on delivering a solid result for 2007.

The performances of our mining operations, consulting and blasting services were at or above expectations.

The Minerals Processing group has had some success during the half, with new alliance contracts signed with Xstrata Coal for the development of two new coal handling processing plants to service Xstrata Coal's Mt Owen and Liddell operations in New South Wales.

Century Resources' position as the largest provider of medium to heavy land drilling contracting services to the South East Asia and Australasian oil, gas and geothermal markets remains strong with new contracts recently signed with Premier Oil, Canoro Resources and Exxon Mobil.

Underlying EBIT for the period was \$60.6 million. EBIT has, however, been impacted by further provisioning in the minerals processing business.

The outlook for the mining and resources sector remains robust, and continues to support strong demand for Mining's services.

- Turnover growth of 15.4% to \$954.4 million
- Underlying EBIT growth of 47% to \$60.6 million

## Operational Highlights



### Rail

Major provider of rollingstock and associated maintenance services

Continuing growth in passenger rail patronage and rail freight is providing expanding opportunities for EDI Rail. These opportunities, together with our experience, workforce and excellent client relationships, are driving continuing revenue and profit growth for this division.

Significant contract wins during the period will see this business unit significantly expand market share and cement our position as the premium provider of rail rollingstock and maintenance services in Australia. Contracts of particular note include the New South Wales Railcorp PPP contract, the Queensland Rail contract for additional passenger trains and the Western Australian Public Transport Authority contract for additional trains.

The freight business goes from strength to strength with current work supplying new locomotives for BHP in the Pilbara region, SCT for their logistics operations, and Queensland Rail for coal haulage in Central Queensland.

Investment is being made in plant, equipment and recruitment of new staff to meet current demand and to allow capacity to continue to expand.

- Turnover of \$189.6 million
- EBIT growth of 10.8% to \$18.4 million

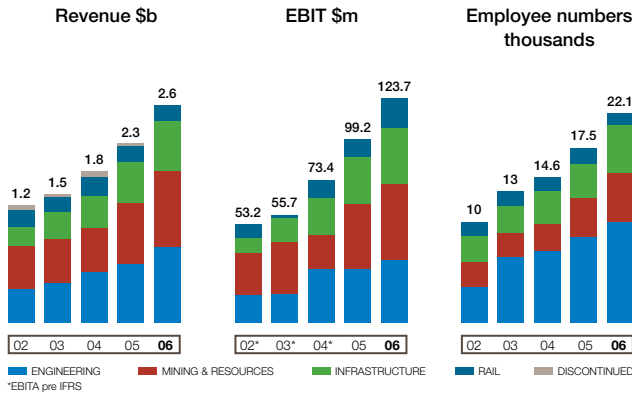
## Key Performance Indicators



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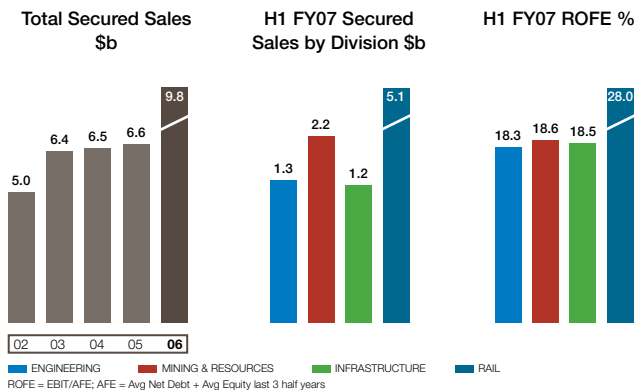
### Growth trend continues



### Financial Summary

Half Year to 31 December (\$m)	2006	2005	Change
Turnover	2,628.8	2,279.5	15.3%
Underlying EBIT	136.5	99.2	37.6%
Reported EBIT	123.7	99.2	24.7%
Net Interest	(27.5)	(21.1)	30.3%
Profit Before Tax	96.2	78.1	23.2%
Taxation	(15.6)	(8.5)	84.7%
Net Profit After Tax	80.6	69.6	15.8%
EPS (cents)	25.6	23.8	7.6%
DPS (cents)	13.0	12.0	8.3%

### Secured Sales expand





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