



**Downer EDI Limited** ABN 97 003 872 848

Level 3  
190 George Street  
Sydney NSW 2000  
PO Box N692  
Grosvenor Place NSW 1220  
Tel: 61 2 9251 9899  
Fax: 61 2 9251 1987

23 August 2005

Company Announcements Office  
Australian Stock Exchange Limited  
Level 4, Bridge Street  
Sydney NSW 2000

Dear Sir,

Please find attached the Preliminary Final report – Appendix 4E for the twelve months ended 30 June 2005, audit report on the financial statements for the period, media release and review of operations.

Please note that the Directors have declared a final dividend of 12 cents per ordinary share franked to 70% and payable on 19 October 2005.

The record date for determining entitlements is 2 September 2005.

As the Dividend Reinvestment Plan has been reinstated, the last date for receipt of election notices for participation in the DRP is 19 September 2005.

Yours faithfully



**Carl Thompson**  
Company Secretary



**APPENDIX 4E**  
**PRELIMINARY FINAL REPORT**

Current Reporting Period: Financial year ended 30 June 2005  
 Previous Corresponding Reporting Period: Financial year ended 30 June 2004

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

		%		30 June 2005
		Change		A\$'000
<b>Revenue from ordinary activities</b>	up	19.5%	to	3,814,511
<b>Profit from ordinary activities after tax attributable to members</b>	up	27.6%	to	104,035
<b>Net profit after significant items for the period attributable to members</b>	up	27.6%	to	104,035

<b>Dividends *</b>		Amount per Security	Franked Amount per Security
<b>Final dividend:</b>	Current year – Ordinary	12.0 cents	8.4 cents
	Prior year – Ordinary	9.6 cents	4.8 cents
	Prior year – Special Ordinary	2.0 cents	1.0 cent
<b>Interim dividend:</b>	Current year – Ordinary	6.0 cents	3.0 cents
	Prior year – Ordinary	4.0 cents	2.0 cents
	Prior year – Preference	\$26.57	Nil

<b>Record date for determining entitlements to the final dividend</b>	2 September 2005
---	------------------

<b>Date the final dividend is payable</b>	19 October 2005
---	-----------------

	Current Period (cents)	Previous Corresponding Period (cents)
<b>Net tangible asset backing per ordinary share</b>	190	175

For commentary on the results for the period and review of operations, refer to the separate media release attached.

\* The company's Dividend Reinvestment Plan (DRP) applies to the 2005 final dividend. Shareholders wishing to participate or amend their participation in the DRP will need to provide their election notices to the company's share registry by 19 September 2005.

## Statement of financial performance

for the financial year ended 30 June 2005

		Consolidated	
	Note	2005 \$'000	2004 \$'000
Revenues from ordinary activities	2	3,799,653	3,172,782
Share of net profits of associates and joint ventures accounted for using the equity method	7	14,858	20,526
Borrowing costs		(43,974)	(36,193)
Changes in inventories of finished goods and work in progress		(93,701)	(51,495)
Communication expenses		(23,076)	(25,095)
Employee benefits expense		(1,098,539)	(903,149)
Occupancy		(38,576)	(30,434)
Plant and equipment costs		(387,131)	(352,649)
Professional fees		(28,342)	(16,490)
Raw materials and consumables used		(1,202,664)	(1,074,197)
Subcontractors		(639,841)	(518,798)
Travel and accommodation		(46,324)	(31,800)
Other expenses from ordinary activities		(80,713)	(43,773)
<b>Profit from ordinary activities before income tax expense</b>		<b>131,630</b>	<b>109,235</b>
Income tax expense relating to ordinary activities		(27,595)	(27,689)
<b>Net profit attributable to members of the parent entity</b>		<b>104,035</b>	<b>81,546</b>
Increase/(decrease) in foreign currency translation reserve arising on translation of self-sustaining foreign operations		(5,399)	846
<b>Total revenue, expense and valuation adjustments attributable to members of the parent entity recognised directly in equity</b>		<b>(5,399)</b>	<b>846</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>98,636</b>	<b>82,392</b>
<b>Earnings per Share</b>			
Basic (cents per share)		36.3	29.6

Notes to the preliminary final report are included on pages 5 to 19.

## Statement of financial position

as at 30 June 2005

		Consolidated	
	Note	2005 \$'000	2004 \$'000
<b>Current assets</b>			
Cash assets		165,972	148,264
Inventories		173,745	144,189
Receivables		940,445	822,885
Other financial assets		15,594	20,056
Tax assets		8,954	4,202
Other		18,018	15,478
<b>Total current assets</b>		<b>1,322,728</b>	<b>1,155,074</b>
<b>Non-current assets</b>			
Receivables		31,014	20,245
Investments accounted for using the equity method		17,474	21,578
Property, plant and equipment		570,733	552,334
Intangibles		347,657	329,076
Other financial assets		13,429	11,573
Deferred tax assets		38,066	26,855
Other		1,992	2,402
<b>Total non-current assets</b>		<b>1,020,365</b>	<b>964,063</b>
<b>Total assets</b>		<b>2,343,093</b>	<b>2,119,137</b>
<b>Current liabilities</b>			
Payables		705,348	609,473
Interest-bearing liabilities		16,735	107,624
Provisions		108,539	91,471
Tax liabilities		29,414	6,231
<b>Total current liabilities</b>		<b>860,036</b>	<b>814,799</b>
<b>Non-current liabilities</b>			
Payables		15,702	19,698
Interest-bearing liabilities		490,037	377,193
Provisions		37,724	31,507
Deferred tax liabilities		31,574	62,911
<b>Total non-current liabilities</b>		<b>575,037</b>	<b>481,309</b>
<b>Total liabilities</b>		<b>1,435,073</b>	<b>1,296,108</b>
<b>Net assets</b>		<b>908,020</b>	<b>823,029</b>
<b>Equity</b>			
Contributed equity	3	667,603	631,207
Reserves		(16,726)	(11,327)
Retained profits	9	257,143	203,149
<b>Total equity</b>		<b>908,020</b>	<b>823,029</b>

Notes to the preliminary final report are included on pages 5 to 19.

## Statement of cash flows

for the financial year ended 30 June 2005

		Consolidated	
	Note	2005 \$'000	2004 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		4,055,336	3,665,956
Distributions from joint ventures		16,637	19,949
Interest received		4,512	6,490
Payments to suppliers and employees		(3,813,713)	(3,429,415)
Interest and other costs of finance paid		(43,892)	(36,599)
Income taxes paid		(32,923)	(44,901)
<b>Net cash provided by operating activities</b>	<b>6c)</b>	<b>185,957</b>	<b>181,480</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		19,872	41,649
Proceeds from sale of investments		12,849	3,214
Proceeds from sale of businesses	6b)	26,665	3,487
Payment of joint ventures advances		(11,734)	(2,556)
Receipt from other advances		-	2,102
Payment for property, plant and equipment		(127,123)	(166,343)
Payment for investments		(6,531)	(335)
Payment for businesses acquired	6a)	(27,648)	(26,474)
Payment of obligations acquired under business acquisitions		(28,608)	-
<b>Net cash used in investing activities</b>		<b>(142,258)</b>	<b>(145,256)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		612,335	459,256
Repayment of borrowings		(613,039)	(533,031)
Proceeds from issue of equity securities		17	-
Dividends paid		(20,909)	(22,350)
<b>Net cash used in financing activities</b>		<b>(21,596)</b>	<b>(96,125)</b>
<b>Net increase/(decrease) in cash held</b>		<b>22,103</b>	<b>(59,901)</b>
Cash at the beginning of the financial year		147,574	205,725
Effects of exchange rate changes on the balance of cash held in foreign currencies		(3,705)	1,750
<b>Cash at the end of the financial year</b>		<b>165,972</b>	<b>147,574</b>

### Reconciliation of cash

Reconciliation of cash as shown in the statement of cash flows to the statement of financial position is as follows:

Cash		120,003	110,140
Short term deposits		45,969	38,124
Bank overdrafts		-	(690)
<b>Cash at the end of the financial year</b>		<b>165,972</b>	<b>147,574</b>

Notes to the preliminary final report are included on pages 5 to 19.

## Notes to the preliminary final report

for the financial year ended 30 June 2005

### 1 BASIS OF PREPARATION

This preliminary report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

#### Comparative Information

Where necessary comparative amounts have been reclassified and repositioned for consistency with current year accounting policies and disclosures.

### 2 DETAILS OF REVENUE AND EXPENSES

	Consolidated	
	2005 \$'000	2004 \$'000
Profit from ordinary activities before income tax includes the following items of revenue and expense:		
<b>Operating revenue</b>		
Sales revenue:		
Sale of goods	91,836	53,995
Rendering of services	2,186,165	1,831,158
Engineering services contract revenue	1,446,934	1,227,186
Interest revenue:		
Director related entities	-	352
Other entities	5,038	6,433
Equity share of associates and joint venture entities profit	14,858	20,526
Rental income	164	150
Other	5,171	4,467
<b>Total operating revenue</b>	<b>3,750,166</b>	<b>3,144,267</b>
<b>Non-operating revenue</b>		
Proceeds from the sale of non-current assets:		
Property, plant and equipment	24,363	40,112
Investments	13,317	3,214
Sale of business and other	26,665	5,715
<b>Total non-operating revenue</b>	<b>64,345</b>	<b>49,041</b>
<b>Total revenue</b>	<b>3,814,511</b>	<b>3,193,308</b>
Net share of sales revenue in joint venture entities	157,814	224,183
<b>Total turnover</b>	<b>3,972,325</b>	<b>3,417,491</b>

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

**2 DETAILS OF REVENUE AND EXPENSES** continued

	Consolidated	
	2005 \$'000	2004 \$'000
<b>Expenses</b>		
Depreciation of non-current assets:		
Plant and equipment	96,003	94,304
Buildings	2,179	1,566
Quarries	566	123
Amortisation of non-current assets:		
Leased assets	1,540	2,192
Goodwill	19,606	18,613
Intellectual property	1,101	909
Interest:		
Other entities	40,512	34,685
Finance lease charges	835	646

**3 CONTRIBUTED EQUITY**

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

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

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

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

## 4 DIVIDENDS

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

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

**5 ACQUISITION OF BUSINESSES**

Names of Businesses Acquired	Principal Activity	Date of Acquisition	Proportion of shares acquired	Gross cost of acquisition \$'000
<b>Controlled entities:</b>				
Commspec (NZ) Limited	Telecommunications	1 Jul 2004	100%	1,414
Miningtek Consultants & Services Ltd (t/as Snowden)	Mining consultancy services	20 Dec 2004	100%	14,805
Pavement Salvage Pty Ltd	Road maintenance services	11 Mar 2005	100%	10,959
<b>Businesses:</b>				
Bitumen Sealed Services	Bitumen sealing services	29 Oct 2004	-	2,514
Earthex	Bitumen sealing services	30 Sep 2004	-	1,080
DPC Services	Bitumen manufacturing and distribution	14 Dec 2004	-	5,314
DBT Workshop	Mining engineering services	15 Dec 2004	-	2,198
Roche Eitin Joint Venture	Contract mining	17 Feb 2005	- *	1,957

\* Remaining 50% interest in business acquired during the year.

**6 NOTES TO THE STATEMENT OF CASH FLOWS**

	Consolidated	
	2005 \$'000	2004 \$'000
<b>a) Business acquired</b>		
During the financial year, businesses were acquired. Details of the acquisitions are as follows:		
Net cash outflow on acquisition:		
Cash consideration	33,034	27,911
Less net cash balances acquired	4,350	2,092
Cash paid - prior year deferred purchase consideration	(1,036)	655
<b>Payment for business acquired</b>	<b>27,648</b>	<b>26,474</b>
Considerations:		
Gross Cash (refer net cash outflow reconciliation)	33,034	27,911
Deferred purchase consideration/(receivable)	3,457	(1,036)
Issue of ordinary shares	3,750	1,600
<b>Total consideration paid</b>	<b>40,241</b>	<b>28,475</b>

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

6 NOTES TO THE STATEMENT OF CASH FLOWS continued

	Consolidated	
	2005 \$'000	2004 \$'000
<i>a) Business acquired continued</i>		
Fair value of net assets acquired:		
Current assets		
Cash	4,350	2,092
Receivables	28,992	23,685
Inventories	632	5,879
Other	943	989
<b>Total current assets</b>	<b>34,917</b>	<b>32,645</b>
Non-current assets		
Property, plant and equipment	15,690	25,274
Intangibles	66	2,428
Deferred tax assets	627	1,645
Other	165	3,348
<b>Total non-current assets</b>	<b>16,548</b>	<b>32,695</b>
<b>Total assets</b>	<b>51,465</b>	<b>65,340</b>
Current liabilities		
Payables	23,789	9,241
Interest bearing liabilities	62	15,231
Current tax liabilities	988	73
Provisions	3,779	4,373
Other	144	414
<b>Total current liabilities</b>	<b>28,762</b>	<b>29,332</b>
Non-current liabilities		
Interest bearing liabilities	240	12,801
Deferred tax liabilities	10	1,096
Provisions	429	531
<b>Total non-current liabilities</b>	<b>679</b>	<b>14,428</b>
<b>Total liabilities</b>	<b>29,441</b>	<b>43,760</b>
Net assets acquired	22,024	21,580
Goodwill on acquisition	18,217	6,895
<b>Total consideration paid</b>	<b>40,241</b>	<b>28,475</b>

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

6 NOTES TO THE STATEMENT OF CASH FLOWS continued

	Consolidated	
	2005	2004
	\$'000	\$'000
<i>b) Business disposed</i>		
On 19th January 2005 the Roche Castings operations (principal business activity - castings foundry) was disposed, during the previous financial year a number of businesses were disposed, none of which were individually material.		
Details of disposals were as follows:		
Considerations:		
Cash	26,665	1,237
Receivables	-	3,069
Shares	-	1,144
<b>Total consideration received</b>	<b>26,665</b>	<b>5,450</b>
Net assets disposed:		
Current Assets		
Cash	-	60
Receivables	10,628	1,348
Inventories	818	1,132
Other	78	74
<b>Total current assets</b>	<b>11,524</b>	<b>2,614</b>
Non-current assets		
Investment accounted for using the equity method	-	9
Property, plant and equipment	13,035	3,090
Intangibles	1,114	235
Deferred tax assets	-	159
<b>Total non-current assets</b>	<b>14,149</b>	<b>3,493</b>
<b>Total assets</b>	<b>25,673</b>	<b>6,107</b>
Current liabilities		
Payables	2,966	147
Current tax liabilities	-	54
Provisions	1,042	520
<b>Total current liabilities</b>	<b>4,008</b>	<b>721</b>
<b>Total liabilities</b>	<b>4,008</b>	<b>721</b>
<b>Net assets disposed</b>	<b>21,665</b>	<b>5,386</b>

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

6 NOTES TO THE STATEMENT OF CASH FLOWS continued

	Consolidated	
	2005	2004
	\$'000	\$'000
<i>b) Business disposed continued</i>		
Net cash inflow on disposal		
Cash consideration	26,665	1,237
Less cash balance disposed	-	60
Cash received - prior year deferred purchase consideration	-	2,310
<b>Proceeds from sale of businesses</b>	<b>26,665</b>	<b>3,487</b>
<i>c) Reconciliation of profit from ordinary activities after income tax to net cash flows from operating activities:</i>		
Profit from ordinary activities after income tax	104,035	81,546
Profit on sale of non-current assets	(8,807)	(7,291)
Share of joint ventures profits/(losses) net of distributions	1,779	(577)
Depreciation and amortisation of non-current assets	120,995	117,707
Amortisation of deferred costs	1,078	1,362
Profit on sale of investment	(2,622)	(1,623)
Unrealised exchange gain/(loss)	(338)	411
Increase/(decrease) in income tax payable	16,808	(19,953)
Increase/(decrease) in income tax balances	(24,297)	(7,104)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current receivables	(114,556)	(63,338)
Current inventories	(36,945)	(12,163)
Other current assets	(17,784)	(6,101)
Non-current receivables	(3,454)	11,319
Other non-current assets	(1,281)	1,072
Increase/(decrease) in liabilities:		
Current trade payables	128,791	58,533
Current provisions	18,707	2,603
Non-current payables	(506)	17,908
Non-current provisions	4,354	7,169
<b>Net cash provided by operating activities</b>	<b>185,957</b>	<b>181,480</b>

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

6 NOTES TO THE STATEMENT OF CASH FLOWS continued

d) Non-cash financing and investing activities

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

- (i) Dividend reinvestment plan elections \$29,123,000 (2004: \$15,246,000);
- (ii) Issue of shares under the terms of Employee Share Plan \$3,523,000 (2004: Nil); and
- (iii) Issue of shares on acquisition of businesses \$3,750,000 (2004: \$1,600,000).

7 JOINT VENTURE ENTITIES AND OPERATIONS

Name of Entity	Principal Activity	Ownership interest	
		2005 %	2004 %
Advanced Separation Engineering Australia Pty Ltd	Supply of mineral separation products	50	50
Allied Asphalt Limited	Supply of asphalt products	50	50
Aromatrix Pte Ltd	Environmental consulting services	33	-
Bitumen Supplies Limited	Supply of bitumen products	50	50
Clyde Babcock Hitachi (Aust) Pty Ltd	Design, construction and maintenance of boilers	27	27
CPG Healthcare FM Pte Ltd	Facilities management	50	50
Downer Crown Castle JV	Mobile phone infrastructure	50	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale of railway rolling stock	50	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	50	50
John Holland EDI JV	Design and construction of a replacement research reactor facility for ANSTO	40	40
MPE Facilities Management Sdn Bhd	Facilities management consultancy services	50	50
Pavement Salvage (SA) Pty Ltd	Road maintenance	50	50
Notus Power Partners	Wind turbine farms	-	33
Roche Carey JV	Contract mining	-	50
Roche Eltin JV *	Contract mining	100	50
Roche Thiess Linfox JV	Contract mining	44	44
Shanghai Shangfang CPG Facilities Management Co. Ltd	Facilities management consultancy services	-	50
Singa Facility Management Pty Ltd	Facilities management	-	50

\* Remaining 50% interest in the Roche Eltin JV was acquired during the year (refer Notes 5 and 6).

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

7 JOINT VENTURE OPERATIONS AND ENTITIES continued

Name of Entity	Principal Activity	Ownership Interest	
		2005 %	2004 %
Snowden Performance Management Pty Ltd	Mining management consulting	50	-
SIP Jiacheng Property Development Co. Ltd	Property development	50	50
St Ives JV	Design and construction of mining treatment plant	50	50
Synthexis Architectural Design Consultants Co. Ltd	Architectural and consultancy services	-	50
YIDA-CPG FM Co Ltd	Facilities management	50	50
		\$'000	\$'000
<b>Total contribution to net profit of joint venture operations and entities</b>		<b>14,858</b>	<b>20,526</b>

8 SEGMENT INFORMATION

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

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

8 SEGMENT INFORMATION continued

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

The economic entity operated predominantly in five business segments:

- Rail - provides rolling stock and associated maintenance services including the design, manufacture, refurbish, overhaul and maintenance of diesel electric locomotives, electric locomotives, electric and diesel multiple units, rail wagons, traction motors and rolling stock generally. Also provides specialist engineered manufacturing services.
- Engineering - provides engineering services (design, project management, construct and maintain) specialising in telecommunications, capital works, power and process engineering.
- Mining and Resources - provides international mine consulting and contracting services including mine planning/optimisation, management and modelling, materials processing consulting and infrastructure, drilling and blasting, bulk excavation, crushing, haulage of ores/waste, tailings management and mine restoration, oil, gas and geothermal activities.
- Infrastructure Services - including the performance of maintenance and construction of roads and highways, construction and maintenance of rail infrastructure including tracks, signals and overhead electrification and infrastructure maintenance services including utilities, water supply, sewage and waste water treatment, refuse disposal, street cleaning and the tending of parks and gardens.
- Unallocated - results include financing and corporate costs for continuing businesses, net of other income.

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

**9 RETAINED PROFITS**

	Consolidated	
	2005 \$'000	2004 \$'000
Balance at beginning of financial year	203,149	158,003
Net Profit	104,035	81,546
Dividends provided for or paid	(50,041)	(36,400)
Balance at end of financial year	<b>257,143</b>	<b>203,149</b>

**10 CONTINGENT LIABILITIES**

	Consolidated	
	2005 \$'000	2004 \$'000
i) The consolidated entity has bank guarantees, bid bonds and performance bonds, issued in respect of contract performance, in the normal course of business	462,263	334,697
ii) Termination benefits under service agreements	889	748
iii) Claim in respect of legal costs associated with contract arbitration	-	1,600
	<b>463,152</b>	<b>337,045</b>

In the ordinary course of business:

- iv) The company and certain controlled entities are called upon to give guarantees and indemnities in respect of the performance by counter parties including controlled entities and related parties of their contractual and financial obligations. Other than as noted above, these guarantees and indemnities are indeterminable in amount.
- v) There exists in some members of the consolidated entity the normal design liability in relation to completed design and construction projects. The directors are of the opinion that there is adequate insurance to cover this area.
- vi) Controlled entities have entered into various partnerships and joint ventures under which the controlled entity could ultimately be jointly and severally liable for the obligations of the partnership or joint venture.
- vii) Controlled entities are subject to claims and counter claims with respect to contracting.

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

**11 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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

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

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

***i) Overview***

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

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

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

***ii) Business combinations***

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

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

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

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

**11 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS** continued

*iii) Goodwill and other intangible assets continued*

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

*iv) Income tax*

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

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

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

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

Under UIG 1052 'Tax Consolidation Accounting', deferred tax balances of wholly-owned subsidiaries in a tax-consolidated group are not recognised by the head entity Downer EDI Limited but will be recognised by each wholly owned subsidiary. These balances were recognised in accordance with AGAAP by the parent entity. The effect to derecognise the deferred tax balances of wholly-owned subsidiaries in the parent entity for the financial year ended 30 June 2005 will be to decrease deferred tax assets by \$24,234,000 and to decrease deferred tax liability by \$6,983,000 with a corresponding net increase in loans to controlled entities. There is no effect on retained earnings to the company or the consolidated entity.

*v) Property, plant and equipment*

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

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

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

**11 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS** continued

*vi) Revenue from ordinary activities*

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

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

*vii) Derivative financial instruments*

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

*viii) Other financial assets and financial liabilities*

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

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

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

On initial application of AIFRS, the directors have elected to apply the exemption in AASB 1 'First time adoption of Australian Equivalents to International Financial Reporting Standards' relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operations represented in the opening foreign currency translation reserve of \$11,327,000 will be deemed to zero at the date of transition to AIFRS and the balance transferred to consolidated retained earnings (company: \$nil). There is no effect on the consolidated or the company's total equity.

*x) Share-based payments*

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

*xi) Non-current assets held for sale*

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

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

**11 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS** continued

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

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

*xii) Retained earnings*

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

Notes to the preliminary final report continued  
for the financial year ended 30 June 2005

**11 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS** continued

*x) Non-current assets held for sale continued*

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

*xii) Retained earnings*

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

## **Annual meeting**

The annual meeting will be held as follows:

Place	The Heritage Ballroom, The Westin Hotel 1 Martin Place, Sydney 2000
Date	2 November 2005
Time	10:00 am
Approximate date the annual report will be available	23 September 2005

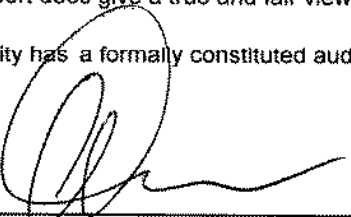
## **Compliance statement**

This report is based on accounts which have been audited.

This report does give a true and fair view of the matters disclosed.

The entity has a formally constituted audit committee.

Sign here:



(Company Secretary)

Carl Thompson

Date: 23 August 2005

## Independent Audit Report to the members of Downer EDI Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Downer EDI Limited (the company) and the consolidated entity, for the financial year ended 30 June 2005 as set out on pages 14 to 79. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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

#### *Audit approach*

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

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

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

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

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

## Audit Opinion

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

~~Deloitte Touche Tohmatsu~~  
DELOITTE TOUCHE TOHMATSU



JA Leotta  
Partner  
Chartered Accountants  
Sydney, 23 August 2005

# media



**Downer EDI Limited** ACN 003 872 848  
Level 3  
190 George Street  
Sydney NSW 2000  
Tel: 61 2 9251 9899  
Fax: 61 2 9251 4845

## For immediate release

Tuesday, 23 August 2005

### **Downer EDI delivers record profit of \$104M - eighth consecutive year of earnings growth**

- *After tax profit of \$104 million, up 28%*
- *Final ordinary dividend of 12 cents per share (franked to 70%) making total ordinary dividends for the year 18 cents per share, up 15%*
- *Good operating performance across all businesses with revenue of \$3.8 billion, up 20%*
- *Our exposure to key growth sectors of energy, resources, rail and infrastructure underpins a favourable and sustainable outlook for Downer EDI over the next few years*

Engineering services group, Downer EDI Limited (Downer EDI), today announced record levels of revenue and profit for the year ended 30 June 2005, its eighth consecutive year of improvement. The company lifted profit after tax by 28% to \$104.0 million (2004: \$81.5 million).

Revenue for the year was \$3.8 billion (2004: \$3.2 billion), a 19% increase. Of this amount core businesses delivered organic growth exceeding \$570 million. Operating earnings (EBITA) increased by 20% to \$188.6 million, reflecting record sales and reliable margins in core businesses.

The directors have declared a final ordinary dividend of 12.0 cents per share, payable 19 October 2005, with an increase in franking from 50% to 70%. An interim dividend of 6 cents per share, franked to 50%, was paid on 22 April 2005, bringing total dividends for the year to 18.0 cents per share, representing a 15% increase (2004: 15.6 cents per share).

The year's total ordinary dividends of \$52.0 million represent a pay-out ratio of 50% of Downer EDI's net profit after tax. The Dividend Reinvestment Plan (DRP) will again apply providing shareholders with the opportunity to reinvest their dividends in Downer EDI at a discount to market.

Commenting on the result, Downer EDI Managing Director Stephen Gillies said: "This is our eighth successive year of earnings and profit increases, a record we are proud of. It was a year of further consolidating the strong market positions of our core businesses, improving the quality of earnings and maintaining a strong level of orders, particularly in the services area, providing sustainability of revenue.

"Whilst this year realised record sales, we also saw the highest number of employees working for the organisation, up 1,600 over the previous year, and it was pleasing to



note that the increased level of personnel also coincided with a reduction in the Lost Time Injury Frequency Rate (LTIFR). For the first time as a total Group, the LTIFR fell below 2.5," Mr Gillies said.

"We have an underlying business prime exposure to the growth areas of transport, energy and infrastructure services. The outlook for these markets continues to be positive across all our operating businesses. Our core businesses delivered around \$600 million of incremental revenue during the year, of which approximately 90% was organic, clearly demonstrating the healthy markets in which Downer EDI participates," Mr Gillies said.

"We continue to deliver stable and growing core earnings streams in operate and maintenance services now estimated to be 75% of our total revenue, to underpin the sustainability of our business," he said.

Mr Gillies said the significant increase in revenue and profit achieved was ahead of guidance provided at the half year. "Excluding a tax consolidation benefit of \$10 million, reported NPAT was \$94 million, up 15% and in line with market estimates.

"Net profit after tax equates to a basic earnings per share of 36.3 cents (last year 29.6 cents), an increase of 23%, underlying another healthy improvement in earnings per share year on year. Net debt was \$340.8 million, in line with the company's minimum target levels.

"Significantly, we also delivered our third consecutive year of strong operating cash flow off the back of increased profitability year on year, with operating cash flow for the period at \$186.0 million.

"This strong cash flow generation continues to help strengthen the composition of Downer EDI's balance sheet. While funds utilised in working capital increased by \$62.5 million to \$420.7 million during 2005 this was on the back of a \$622 million increase in revenue. As a percentage of revenue, working capital has remained steady at 11%. Management remains focused on reductions in working capital to internally fund further growth," Mr Gillies said.

### **Operating performance**

Mr Gillies said profit for the 2005 financial year reflected good operating performances and stronger organic growth while demonstrating the ability to secure long-term earnings and generally improving margins. "Headline sales growth was recorded by all divisions, other than Rail division, due to the completion of Stage 2 of the Millennium Train contract. Turnover and profit across the businesses were in line with expectations with major contributions from Mining and Resources and Infrastructure Services," Mr Gillies said.

For the year ended June 2005, Mining and Resources maintained its positive momentum to deliver record turnover of \$1,413.5 million, an increase of 31%, reflecting a substantial contribution from the engineering service activities of Roche Mining. The

performance also included a doubling of revenue from Century Resources' oil and gas drilling activities compared to the previous year, contributing an EBITA of \$7.7 million, compared to a loss of \$4 million in the prior year.

Infrastructure division increased turnover by 31% to \$893.6 million, reflecting significant penetration into the Australian market and a continued strong performance in New Zealand.

Engineering division turnover increased 10% to \$1,289.9 million, with a strong contribution from power and engineering services offsetting a lower contribution from telecommunications, due largely to a weaker Telstra spend. During 2005, India emerged as a significant new growth market for CPG which is expected to surpass China in revenue generation.

Rail (rollingstock) turnover was down on the previous year at \$360.9 million, reflecting the completion of several build contracts including Stage 2 of the Millennium Train contract, but significant new orders during the period consolidated the division's strong positioning across passenger and freight rollingstock supply and long term maintenance, and have underpinned future earnings growth.

### **Acquisitions and divestments**

Mr Gillies said in keeping with the company's strategy, Downer EDI has continued to invest in its core operations through small 'bolt-on' acquisitions which totalled \$27.6 million.

"In December, the Perth-based Snowden Consulting Group was acquired, which provides high-level, front-end professional consulting services to the metals mining industry and complements the overall capability of our Mining division (Roche Mining) to provide clients with a complete end-to-end service.

"In July 2005, the New Zealand-based engineering consultancy, Duffill Watts Group, was also acquired which provides a platform to extend Downer EDI's 'front-end' services in design and engineering consulting into Australasia and allows greater opportunities for CPG, with its strong presence in Asia, to operate in the Australian and New Zealand markets.

"Other small acquisitions were made in road surfacing and maintenance in Australia, electrical and telecommunications maintenance in New Zealand, mine maintenance in Australia and environmental services in Singapore.

"At the same time, we continue to advance the divestment of businesses where retention is inconsistent with our long term business strategy. The Perth-based castings foundry business, Roche Castings, was sold to Bradken Limited for \$26.7 million in the second half of the 2005 financial year," Mr Gillies said.

## **Senior Management appointment**

At Downer EDI corporate office, the senior management team has been expanded to meet the needs of a large and growing business. "I am delighted to advise that effective October 2005, Brent Waldron, previously CEO of our Works Infrastructure business in New Zealand, will join the corporate team as Deputy Chief Executive, Downer EDI, and will play a key role in overseeing the further improvements in performance and operations of Downer EDI," Mr Gillies said.

"Further appointments will be made during the course of this year as we strengthen our team to handle the growth likely to occur over the next 18 months."

## **Outlook**

Mr Gillies said the outlook for Downer EDI for the 2006 financial year is positive. "We approach the year in the strongest position we have ever been, with 96% of the year's revenue in hand, on the back of our \$4.5 billion portfolio of operation and maintenance contracts.

"Our pipeline of organic growth opportunities has never been better, and our focus is increasingly on financial year 2007 and beyond.

"In 2006 we expect moderate to high growth in the transportation, energy and resources sectors and that the trend to outsourcing will continue.

"Against this backdrop, our strategic focus will remain unchanged – we will continue to target existing clients in our key markets of Australia, New Zealand and Singapore.

"However, for the 2006 financial year our focus will be on driving improved earnings quality and returns rather than pursuing top line growth. This will be achieved by growing the services side of our businesses, continuing to secure contract renewals and extensions and growing the proportion of alliance style contracts where we jointly manage and share execution risks with our clients in a tight climate for human resources.

"We have in place a large skilled workforce totalling over 17,600 and the organisational capacity to meet the demand challenges. Shortages of skilled labour are expected to continue to adversely impact many companies operating in the industry sectors where we provide services.

"The economic outlook for Australia and New Zealand, our two major markets, is generally positive, and while the economic outlook for countries where we operate within Asia and South East Asia is steady, we remain buoyed by the prospects in our target markets.

"Substantially increased levels of government expenditure in the upgrade and maintenance of essential infrastructure, especially in the rail and road sectors in Australia and New Zealand, were announced during the year and this trend is expected

to continue over the next few years. Downer EDI is well placed to benefit from the flow of work that will be directed to the private sector as a result of these trends

“Demand for mining and resource services in the second half of the 2005 financial year has been strong and is expected to continue. Our focus is on improving margins and the return on capital of this business. The growth that needs to be managed in other parts of our business provides a rich opportunity to ration capital according to risk and return.

“In terms of guidance, we are planning a moderate 8% growth in sales this year, and look to deliver an increase in net profit after tax in excess of top line sales growth.

“Employees and management should take pride in the results to date, and I do believe the current and future direction in the organisation should see returns to shareholders improving further,” Mr Gillies said.

#### **Summary results table**

For year ended 30 June 2005

	<b>2005</b>	<b>2004</b>
	\$M	\$M
Revenue	3,814.5	3,193.3
Turnover *	3,972.3	3,417.5
Earnings before interest, tax and amortisation of intangibles (EBITA)	188.6	157.3
Profit before tax	131.6	109.2
Net profit after tax	104.0	81.5
Net profit (before amortisation of intangibles)	124.7	101.1
Total capital & reserves	908.0	823.0
Total assets	2,343.1	2,119.1
Cash at Bank and on deposit	166.0	148.3
Undrawn facilities	550.3	559.8
Value of work on hand	6,500.0	6,400.0

\* Turnover is defined as total revenue, plus our share of the sales revenues of joint venture activities

#### **Analysis of turnover - 2005 (compared to 2004)**

By major division	Engineering	32.5%	(34.2%)
	Infrastructure	22.5%	(20.0%)
	Mining and resources	35.6%	(31.7%)
	Rail	9.1%	(12.0%)
By location	Australia	71%	(73%)
	New Zealand/Pacific	22%	(20%)
	Asia	7%	( 7%)

**For further information, please contact:**

Media: John Shuey, Group Corporate Affairs Manager, (02) 9251 9899 or  
0413 705 491

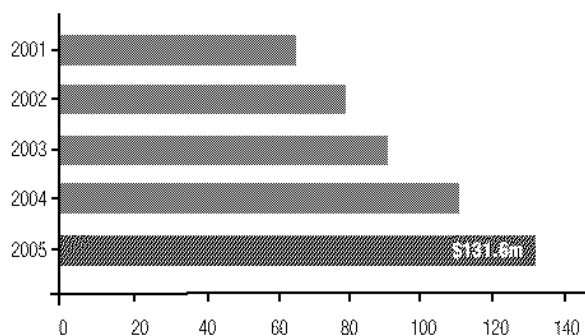
Investors: Lynne Shori, Investor Relations Manager, (02) 9251 9899 or 0417 939 712

## Financial Highlights

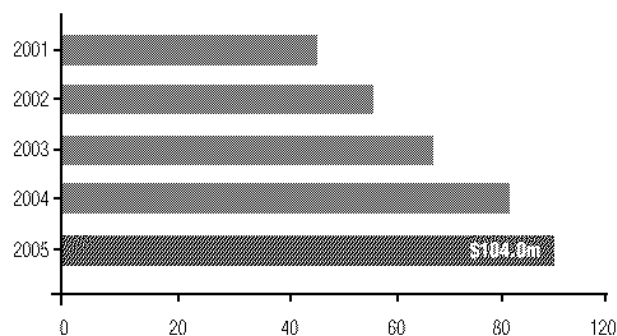
	June 2005 \$'000	June 2004 \$'000	% change
Operating Revenue - Group	3,750,166	3,144,267	19.3%
- Joint Venture Entities	157,814	224,183	-29.6%
Other Revenue	64,345	49,041	31.2%
Total Turnover	3,972,325	3,417,491	16.2%
Value of Work in Hand	6.5bn	6.4bn	+1.6%
Profit from ordinary activities before tax	131,630	109,235	20.5%
Income Tax	(27,595)	(27,689)	-
Profit from ordinary activities after tax	104,035	81,546	27.6%
Earnings per Ordinary Share	36.3¢	29.6¢	22.6%
Dividends per Ordinary Share	18.0¢	15.6¢	15.4%
Total Equity	908,020	823,029	10.3%
Total Assets	2,343,093	2,119,137	10.6%
Borrowings	506,772	484,817	4.5%
Cash	165,972	148,264	11.9%

## Key Performance Indicators (as at 30 June)

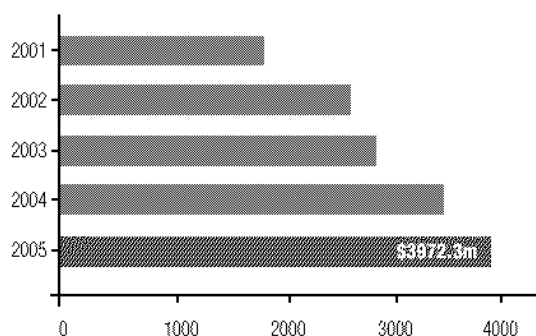
\$M Operating Profit Before Tax



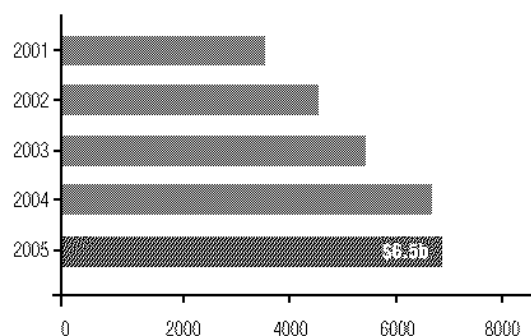
\$M Operating Profit After Tax



\$M Total Turnover



\$M Work In Hand



## **2005 Full Year Results Commentary**

The 2005 financial year for Downer EDI was a further step towards realising our potential with new business at an all-time high. This was our eighth consecutive year of earnings and profit increases, a record we as management are very proud of.

It was a year of further consolidating the strong market positions of our core businesses, improving the quality of earnings whilst maintaining a high level of secured orders, particularly in the services area, confirming our view on sustainability of revenue. We have significant exposure to the growth areas of transport, energy and infrastructure services and the outlook continues to be positive across all our operating businesses.

We continue to deliver stable and growing core earnings streams in services, based on long term contracts, now estimated to be 75% of our total revenue, to underpin the sustainability of our business.

Our focus on opportunities to layer in 'annuity-type' earnings streams that seek to improve the transparency and predictability of our Group earnings continues.

### **Financial commentary**

Revenue for the year was \$3.8 billion, up \$622 million (or 19%) over the previous year. Of this increase, organic growth in our core businesses accounted for the majority of the \$622 million increase. Turnover for the year was \$4.0 billion, up \$556 million (or 16%) over the previous year.

By division:

- Engineering turnover increased 10% to \$1,289.9 million;
- Mining and resources turnover increased 31% to \$1,413.5 million;
- Infrastructure Services turnover increased 31% to \$893.6 million;
- Rail turnover decreased 12% to \$360.9 million; and
- Discontinued businesses and inter segment eliminations accounted for the balance of Group turnover.

Earnings before interest, tax and amortisation of intangibles (EBITA) amounted to \$188.6 million, an increase of \$31.3 million (or 20%) over the prior year. Eliminating the effects of discontinued businesses, EBITA margins from core businesses are up on last year to 5.4%.

Net interest expense for the year was \$36.3 million, which was up \$7.8 million over the previous year and was impacted by the timing of anticipated receipts relating to the Millennium Train contract (which was fully paid for by RailCorp prior to year end) and increases in the level of working capital required to fund the expanded revenue platform. The EBITA to net interest coverage ratio is still greater than five times and approximates with the level achieved in 2004.

Depreciation and amortisation amounted to \$121.0 million compared to net additions to property plant and equipment of \$107.3 million. This sees net capital expenditure returning to levels within our annual depreciation and amortisation charges (2005 89%) and effectively represents a reinvestment of our depreciation and amortisation charges for the year. Depreciation rates adopted by the Group are generally

conservative, with net gains of \$8.8 million reported on disposal of property plant and equipment (2004 \$7.3 million).

The effective tax rate of the Group for 2005 was 21.0%, which was below the level that one would expect. This has principally been driven by the recognition of a \$10.0 million tax benefit arising from the introduction of the consolidated tax return regime in Australia. The effective tax rate has continued to be affected by costs not deductible for tax purposes (including goodwill amortisation), offset by research and development claims and over provisions from prior years (once more primarily related to research and development claims). Profit contributions from overseas operations with tax rates lower than the Australian tax rate (such as Singapore) have also contributed to a reduced overall tax rate.

Net profit after tax at \$104.0 million, was \$22.7 million (27.6%) higher than the previous year. This equates to an earnings per share of 36.3 cents per share, another healthy improvement (22.5% increase) in earnings per share, year on year.

### **Cash flow and capital expenditure**

Operating cash flow for the year was \$186.0 million, reflecting once more strong cash flow levels driven by all divisions and the commitment of operations to manage the use of Group working capital. This strong cash flow generation continues to help strengthen the composition of the Group's balance sheet, while internally funding many of the acquisitions during the year. While funds utilised in working capital increased by \$62.5 million to \$420.7 million during 2005 this was on the back of a \$622 million increase in revenue. As a percentage of revenue, working capital has remained steady at 11%. Management remains focused on reductions in working capital to internally fund further growth.

Net investing activities of \$142.3 million over the 2005 year were slightly less than the 2004 level of \$145.3 million. Of this amount \$107.3 million related to net additions to property plant and equipment reflecting a reinvestment of 89% of our depreciation and amortisation for the year. Proceeds from the sale of non-core business activities during the year totalled \$26.7 million. While this business was successful and well managed, heavy engineering is inconsistent with the company's business strategy and outlook going forward. Funds received were reinvested to fund \$27.6 million in strategic "bolt on" businesses which have an emphasis on consulting and design engineering capability to support long-term maintenance and infrastructure operations. Payment of obligations acquired under business acquisitions of \$28.6 million reflect the funding of payments related to businesses acquired in earlier years.

2005 net debt of \$340.8 million remains consistent with the 2004 level. The Group's gearing as measured by net debt to capitalisation (net debt plus total equity) at 27% remains at historic low levels. On a net debt to equity basis, gearing at 38% also remains at historic low levels. Maintenance of these low levels of gearing continues to be achieved on the back of strong operating cash flows, despite the level of capital investment made during the year. Conservative gearing provides the Group with continued resources and liquidity to fund future growth opportunities.

### **Financial position**

Net assets of the Group have increased from \$823.0 million to \$908.0 million, an increase of \$85.0 million. Major contributors to this increase arose from:

- Dividend reinvestment plan elections of \$29.1 million;
- After tax profits (net of dividends paid) retained in the business of \$54.1 million;
- The issue of shares on acquisition of business of \$3.7 million;
- The issue of shares under the terms of the Group's Employee Share Plan of \$3.5 million; and
- A negative movement in reserves of \$5.4 million, reflecting movements in foreign currencies against the Australian dollar and their effects on translating foreign subsidiary financial statements into Australian dollars.

### **Banking facilities and treasury risk management activities**

As a result of the Group's improving financial position and strong 2004 operating performance, the company's investment grade credit rating was raised from stable to positive outlook. This improving credit profile coupled with solid demand for investment grade corporate debt, enabled the company to extend and expand the capacity and maturity profile of its funded debt late in the 2005 financial year, at significantly better pricing than historical pricing. Following this, our eighth consecutive year of record earnings, we will again look to have our credit rating reviewed.

Debt facilities drawn at year end totalled \$506.8 million (2004 \$484.8 million) with a maturity profile of 2% due within 12 months (2004 22%), 15% due within two years (2004 15%) and 87% due from three to fourteen years (2004 63% due from two to ten years). The Group also maintains \$671.3 million in facilities in the surety market for performance bonds in respect of a number of its operating businesses. Facilities utilised at 30 June 2005 totalled \$462.3 million. Other than \$8.9 million, all debt and surety facilities are provided on an unsecured basis.

Total available liquidity at year end amounted to \$716.3 million comprising cash of \$166.0 million and undrawn lines of \$550.3 million.

### **Capital management and dividends**

Shareholders should be pleased to note that a 2005 final ordinary dividend of 12.0 cents per share has been declared and has been franked to 70%. This represents an increase 25% over the 2004 final dividend and a 40% increase in the level of franking attached to the final dividend. No special dividend has been declared in respect of the 2005 year.

Dividends on ordinary shares paid or declared in respect of the 2005 year in total, amount to 18.0 cents, an increase of 15% over the previous year's distributions.

The 2005 final dividend is payable on 19 October 2005. The company's Dividend Reinvestment Plan (DRP) applies to the 2005 final dividend, once more providing shareholders with the opportunity to reinvest their dividends in Downer EDI at a discount to market.

### **Operating performance**

Profit for the 2005 financial year reflected good operating performances and stronger organic growth while demonstrating the ability to secure long-term earnings and generally improving margins. Headline sales growth was recorded by all divisions, other than Rail, due to the completion of Stage Two of the Millennium Train contract.

Turnover and profit across the businesses were in line with expectations with major contributions from Mining and Resources and Infrastructure Services.

**Mining and Resources Division** maintained its positive momentum to deliver record turnover of \$1,413.5 million, an increase of 31%. The performance reflected a substantial contribution from the Services side of Roche Mining's business, which now accounts for 37% of revenue (last year 25%), and a doubling of revenue from Century Resources' oil and gas drilling activities compared to the previous year. Forward orders for the division stand at a record \$2.8 billion, and the outlook is positive.

**Infrastructure Division** also reported record turnover of \$893.6 million, reflecting a 31% increase and represented significant penetration into the Australian road maintenance market and a continued strong performance from our New Zealand operations.

**Rail Division's** turnover was down on the previous year at \$360.9 million, reflecting the completion of several build contracts including Stage Two of the Millennium Train contract, but significant new orders during the period consolidated the division's strong positioning across passenger and freight rollingstock supply and long term maintenance, and have underpinned future earnings growth.

**Engineering Division** (Power and Engineering Services, Telecommunications, CPG) delivered turnover for the year of \$1,289.9 million, an increase of 10%, with a strong contribution from power and engineering services offsetting a lower contribution from telecommunications, due largely to a weaker Telstra spend. The scale and presence of the operating businesses within the Engineering Division in an environment where the engineering sector faces a critical shortage of skilled labour are supporting solid growth opportunities.

During 2005, India emerged as a significant new growth market for CPG which is expected to surpass China in revenue generation in the 2006 financial year.

Significant lifts in contributions to Group profit for the year came from Mining and Resources (87%) and Infrastructure (16%). Contribution to Group profit from mining and resources activities included a positive contribution from the drilling business, Century Resources, which delivered an EBITA of \$7.7 million, compared to a loss of \$4 million in the prior year.

The high demand for our services is encouraging. At last year's AGM, shareholders were advised that we were endeavouring to position ourselves to be selective in the work undertaken. There are constraints on our business in meeting the demand and these are associated with the availability of skilled labour and the discipline we are imposing on ourselves when it comes to demand for capital, equipment and costs associated with the increasing opportunities for public private partnerships.

Our focus is on the efficient use of our capital, plant and equipment and the people skills of our large and diverse workforce, now increased a further 2,000 to 17,600, to achieve sustained growth and returns and, in some cases, this has meant turning away tender opportunities.

## Sales inflow

We have been successful in, and continue to place emphasis on, extending the maturity profile of our order book and increasing the level of repeat work, while

maintaining and where possible improving margins. Sales inflow, as measured by our secured order book position remains at healthy levels of \$6-7 billion, and consistent with the positive outlook. Much of Downer EDI's sales inflow is made up of longer term contracts, ongoing contract renewals and repeat work through the services provided across the various businesses.

The order book position for the period was enhanced by major new rail contracts, notably the long term outsourcing maintenance contract with Pacific National and rollingstock supply contracts with BHP Billiton and Queensland Rail. A range of substantial contracts in mining and mine services included the Iluka Douglas mineral sands project in Victoria, 'life of mine' services at the Werris Creek coal mine in New South Wales and a three year extension of Roche Mining's contract at the Sunrise Dam gold mine, Western Australia, based on an open book alliance arrangement.

## **Operating environment**

Governments in Australia and New Zealand have acknowledged the need for substantial investment in new infrastructure, particularly in transport, electricity and water. Just to deal with the current backlog of projects, record levels of expenditure in rail and road infrastructure upgrade have been announced and governments in many jurisdictions are actively embracing public private partnerships (PPPs) as a way of moving forward in funding and managing essential infrastructure.

Downer EDI is well positioned to participate in PPPs and alliance partnering with government. We have the expertise and size to pursue an increasing number of opportunities in this area and to secure infrastructure upgrade and asset management work.

In addition, international and domestic demand for resources and a shift towards greater private investment are expected to launch many new infrastructure projects in the region where Downer EDI will have the opportunity to provide services.

We continue to give active consideration to the development of concepts such as an infrastructure fund, which would allow Downer EDI to co-invest, aligning with selected clients where the investment has long-term business relationship benefits. It is important for the company to deliver value to its partners and clients, but importantly it must deliver value to you as shareholders through benefits from moving up the value chain. These opportunities are now before us and include opportunities for investment in power line assets, water treatment and, of course, the New South Wales PPP for rollingstock and related infrastructure assets.

The company continues its strategy of being highly selective and minimising risk with a focus on Australian, New Zealand and selected Asian based income.

## **Regional commentary**

### **Australia**

Australian economic growth has been strong over the past few years, and is expected to remain strong. This is driving demand in those sectors where Downer EDI is active – power, infrastructure (road and rail), communication services and resources. Government spend on upgrading transport infrastructure, increasing confidence in the global commodity market and a continuing trend towards outsourcing are expected to have a positive impact on our business.

### **New Zealand**

In New Zealand, the government has announced expenditure in land transport of NZ\$21.5 billion over the next ten years. This is expected to have a positive impact on our road maintenance and upgrade business, where Works Infrastructure holds a pre-eminent market share. The government's desire to see improvements in the efficiency and performance of the New Zealand rail services is also likely to drive increased activity in this sector in the coming years. Prospects for Downer EDI businesses operating in the telecommunications, power, water and engineering services are also buoyant.

### **Singapore/Asia**

In the Asian region, a strong platform for growth has been established through Singapore based CPG Corporation (CPG) and its highly skilled staff. The business has successfully established footholds in the growth markets of China and India, and operates in 12 countries. While market conditions in Singapore remain steady, there are signs of growth in GDP after a period of subdued levels of economic activity which is expected to have a positive impact on CPG. CPG has partnered with Macquarie Bank for a large PPP in Singapore, a pointer to a new phase of public development expenditure.

### **Acquisitions and divestments**

In keeping with the company's strategy, we have continued to invest in our core operations through small 'bolt-on' acquisitions which totalled \$27.6 million.

In December, the Perth-based Snowden Consulting Group was acquired, which provides high-level, front-end professional consulting services to the metals mining industry and complements the overall capability of our Mining division (Roche Mining) to provide clients with a complete end-to-end service.

In July 2005, we also acquired the New Zealand-based engineering consultancy, Duffill Watts Group, which provides us with a platform to extend our 'front-end' services in design and engineering consulting into Australasia and allows greater opportunities for CPG, with its strong presence in Asia, to operate in the Australian and New Zealand markets. We expect to further invest to grow our consultancy activities in Australia.

Both of these businesses have excellent management and a high level of technical skill - as such, they bring tremendous value to Downer EDI and its clients.

Other small acquisitions were made in road surfacing and maintenance in Australia, electrical and telecommunications maintenance in New Zealand, mine maintenance in Australia and environmental services in Singapore.

At the same time, we continue to advance the divestment of businesses where retention is inconsistent with our long term business strategy. The Perth-based castings foundry business, Roche Castings, was sold to Bradken Limited for \$26.7 million in the second half of the 2005 financial year.

Acquisitions were primarily funded from the divestment of non-core businesses.

## **Century Resources**

Downer EDI has previously advised that it intends to exit the non-core activities of its resource services business known and trading as Century Resources (Century). Interest in acquiring Century continues to be expressed from prospective parties.

The Century business has continued to improve having doubled revenue in financial year 2005 compared to 2004 with even greater growth in profitability. As such, we believe the value of Century has also increased in parallel with the current particularly buoyant oil and gas market and see greater value in a divestment process to be revisited at a future date reflecting current and future earnings.

## **Achieving operational effectiveness**

Achieving operational effectiveness and maximising the benefits of a fully integrated organisation able to cross-sell and implement seamlessly its capabilities as a service organisation continue to be a key focus for the Group.

While there is still much to do in this area, during the year significant progress was made within business divisions and across our business groups to heighten awareness, both internally and with our clients, of our organisational and skills capacity to provide integrated and complementary services from front-end design and technology, through to project management, operation and maintenance. Resources have been applied at a corporate level to help facilitate and drive this process. Roche Mining, in particular, has been active in applying the 'one stop' model with its major clients, although it has presented a new set of challenges, particularly that of getting the management to harmonise delivery processes.

Improved and cost efficient execution in the delivery of our services to clients remains a high priority across our businesses and this is being achieved through greater attention to management review, risk assessment and systems enhancement.

Also important is being a client focused organisation. The company has recognised for some time the importance of shifting the culture from one driven by short-term contractual relationships with clients to one based on value added services provided to clients on a long-term basis – in other words, a true service organisation.

Annual conferences for senior operational management and other cross-divisional activities are being used more frequently to share ideas, develop cohesion and team work and instigate steps to enhance operational effectiveness. Our people are encouraged to stay focused on simple objectives, those things which are practical and actionable.

Our customers will continue to see the benefits of these steps and the company's focus on client service and surpassing client expectations.

## **New contracts/recognition**

Our focus is on providing service and developing client relations that lead to long-term quality contracts and repeat business. Our overall approach is to be highly

selective - to focus on opportunities that contribute to our long-term success and which entail us assuming those risks that we can control.

Indicative of the range of contracts awarded to Downer EDI during the period:

- Roche Mining was awarded in excess of \$1.6 billion of new and repeat business contracts during the period, including 'life of mine' services at the Werris Creek coal mine in New South Wales, a three year extension of the alliance contract at the Sunrise Dam gold mine in Western Australia and over \$350 million in design and engineering consultancy, minerals technology and process engineering services in the mining and minerals sectors both in Australia and overseas.
- Works Infrastructure New Zealand successfully retained a number of key contracts with local government authorities at improved margins to retain its dominant market position in New Zealand's road maintenance business.
- Works Infrastructure Australia succeeded in securing long term contracts, including railtrack maintenance in Victoria with ARTC over four years and a significant proportion of VicRoads' long-term road maintenance work.
- CPG's continued its success in exporting some of its key services outside of Singapore, including the design of the prestigious Emirates Financial Towers in Dubai, lead design contract for the world's deepest underwater railway tunnel linking the Asian and European borders of Turkey and substantial expansion of its international portfolio of airport consultancy projects, especially in the growing economies of China and India.
- Downer Engineering's telecommunications business built on its term maintenance contract with Telecom New Zealand by securing a new five year contract for the maintenance of payphones throughout New Zealand.
- Downer Engineering's power business unit entered into an alliance contract with Alcan for the provision of electrical and instrumentation installation services for the \$2 billion expansion of the Alcan Gove Alumina Refinery in the Northern Territory, continuing Downer Engineering's long association with Alcan.
- EDI Rail was awarded a major outsourcing contract with Australia's largest private rail freight operator, Pacific National, for long term maintenance of up to eleven years of over 300 of their locomotive fleet.

We continue to pursue strategic alliances, partnering and joint ventures where these lead to complementary skill sets and the opening up of new business opportunities in our core business areas. An increasing number of partnership associations with companies like Mitsubishi in the power sector and Hitachi in the rail sector are likely moving forward.

### **Management appointments**

At Downer EDI head office, the senior management team has been expanded to meet the needs of a large and growing business. Effective October 2005, Brent Waldron, previously CEO of our Works Infrastructure business in New Zealand, will join the corporate team as Deputy Chief Executive, Downer EDI, and will play a key role in overseeing the further improvements in performance and operations of Downer EDI.

In December 2004, Mr Khor Poh Hwa, previously CEO and President of CPG Corporation, was appointed Downer EDI's regional director and senior advisor for the Asian region to help facilitate the company's overall business development and growth. Mr Pang Toh Kang, previously deputy CEO of CPG, was appointed CEO and President of CPG Corporation.

## **Outlook**

The outlook for Downer EDI for the 2006 financial year is positive. We approach the year in the strongest position we have ever been, with 96% of the year's revenue in hand, on the back of our \$4.5 billion portfolio of operation and maintenance contracts.

Our pipeline of organic growth opportunities has never been better, and our focus is increasingly on financial year 2007 and beyond.

In 2006 we expect moderate to high growth in the transportation, energy and resources sectors and that the trend to outsourcing will continue.

Against this backdrop, our strategic focus will remain unchanged – we will continue to target existing clients in our key markets of Australia, New Zealand and Singapore.

However, for the 2006 financial year our focus will be on driving improved earnings quality and returns rather than pursuing top line growth. This will be achieved by growing the services side of our businesses, continuing to secure contract renewals and extensions and growing the proportion of alliance style contracts where we jointly manage and share execution risks with our clients in a tight climate for human resources.

We have in place a large skilled workforce now totalling over 17,600. Shortages of skilled labour are expected to continue to adversely impact many companies operating in the industry sectors where we provide services. Like other major employers, we have been recruiting qualified and capable talent for the last two years from the United Kingdom.

The economic outlook for Australia and New Zealand, our two major markets, is generally positive, and while the economic outlook for countries where we operate within Asia and South East Asia is steady, we remain buoyed by the prospects in our target markets.

Substantially increased levels of government expenditure in the upgrade and maintenance of essential infrastructure, especially in the rail and road sectors in Australia and New Zealand, were announced during the year and this trend is expected to continue over the next few years. Downer EDI is well placed to benefit from the flow of work that will be directed to the private sector as a result of these trends.

Demand for mining and resource services in the second half of the 2005 financial year has been strong and is expected to continue. Our focus is on improving margins and the return on capital of this business. The growth that needs to be managed in other parts of our business provides a rich opportunity to ration capital according to risk and return.

In terms of guidance, we are targeting a moderate 8% growth in sales this year, but as was the case last year, market demand will probably see this statistic exceeded. We still look to deliver an increase in net profit after tax in excess of top line sales growth.

Again, as in past years, we will maintain our ongoing focus on a strong balance sheet and delivering sustainable long term earnings growth for shareholders. This is a core business philosophy of the management at Downer EDI.

23 August 2005