21 February 2008

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

Dear Sir

Please find attached the Company's Half Year report to 31 December 2007 and related media release, in accordance with Listing Rule 4.2A.

Please also note that the Directors have declared an interim dividend of 13 cents per ordinary share unfranked and payable on 11 April 2008. The record date for determining entitlement to the interim dividend is 7 March 2008. The Company's Dividend Reinvestment Plan applies to this dividend, but with no discount.

The last date for receipt of election notices for participation in the DRP is 11 March 2008.

Yours faithfully

Stephen Mockett
Company Secretary

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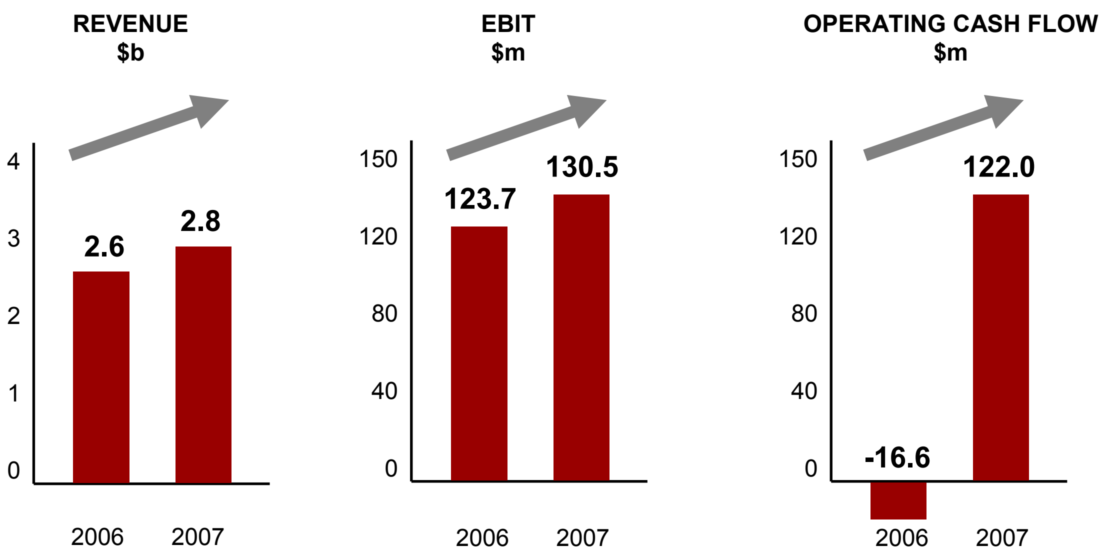
2008 Half Year Results

21 FEBRUARY 2008

Highlights



- Safety performance – LTIFR 2.4
- Half year profit of $82.2 million
- Dividend of 13 cents per share
- Order book $10.1 billion

DownerEDi Rail · DownerEDi Works · DownerEDi Engineering · DownerEDi Mining · Consulting Services

Downer EDI

Company Announcements Platform

Australian Securities Exchange and New Zealand Stock Exchange

Thursday, 21 February 2008

Downer EDI announces half year profit of $82.2M

- *Safety performance – LTIFR – 2.4 per million hours worked*
- *Half year profit after tax of $82.2 million, up 2.0% on previous corresponding period*
- *Turnover increased by 5.2% to $2.8 billion*
- *EBIT of $130.5 million, up 5.5%*
- *Interim dividend of 13 cents (unfranked)*
- *Order book of $10.1 billion*
- *New CEO commenced duties*
- *Appointment of new Chairman*
- *NSW PPP performing to expectations*

Engineering services group, Downer EDI Limited (Downer EDI), today announced a Net Profit after Tax (NPAT) for the half year ended 31 December 2007 of $82.2 million broadly in line with the same period last year. Turnover was $2,766.6 million (2006: $2,628.8 million), up 5.2%, while EBIT was $130.5 million (2006: $123.7 million), up 5.5%.

Operating cash flow for the period was $122 million representing 93% of EBIT, and is expected to remain strong. Gearing (net debt to equity) was at 39% (2006: 71%) which is at the lower end of the target range.

The directors have declared an unfranked dividend of 13 cents per share (2006: 13 cents), payable on 11 April to shareholders on the register at 7 March. The company's Dividend Reinvestment Plan will continue to be applied for this dividend but with no discount.

Commenting on the release of the first half result, the recently appointed Chief Executive Officer of Downer EDI, Mr Geoff Knox, said: "This has been a sound start to the year with all divisions except our Mining division recording strong growth in both revenue and earnings.

"Having been in the role since the beginning of February I have had the opportunity to immerse myself in our operations and meet many of our outstanding people. This experience has confirmed my previously held views that Downer EDI has an excellent portfolio of businesses and operates in markets underpinned by strong macro economic drivers," Mr Knox said.

"Our businesses are uniquely placed with strong market positions in all of our sectors throughout the Asia Pacific. Through a disciplined focus on expanding in our areas of core

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competence Downer EDI will be increasingly recognized for its differentiated market offerings across the Region.

"Safety will be a major focus of my leadership of Downer EDI. While the group's safety record is sound with the group having maintained a steady record in recent years, we will be re-invigorating existing initiatives as a top priority moving forward with a 'zero harm environment' as our goal, as well as defining our objectives in the key area of sustainability," he said.

Six months operating performance

All core businesses performed to expectations during the half year delivering increased revenue and improved financial performance with the exception of Downer EDI Mining. Particularly pleasing during the half was the performance of the Engineering and Rail divisions which grew revenues by 25% and 47% respectively. The Works division also recorded a strong performance achieving revenue growth of approximately 13%.

While the performance of the Mining division was impacted by a range of factors previously foreshadowed, a number of important advances were made during the half including several large contract renewals and an improvement in the overall win rate.

The group's total order book at 31 December 2007 was $10.1 billion, with the most notable new contracts being for new locomotives to meet the demands of the Australian resources sector and for mining/resource based services.

Downer EDI Works delivered a 12.8% increase in revenue to $815.1 million and a 24.2% increase in EBIT to $39.0 million. The period saw overall margin improvement with EBIT as a percentage of revenue increasing from 4.3% to 4.8%. The division has extended its reach and service offering in existing and new markets, in particular the local government and water services markets. It has also continued to grow the scale and capability of its rail services business with encouraging results in New South Wales. The outlook for the division is positive with revenue growth expected to continue.

Mr Knox said: "Downer EDI Works further consolidated its position as the leading private sector provider of road and rail maintenance and rehabilitation services in Australia and New Zealand delivering strong organic growth during the period."

Downer EDI Rail increased revenue by 47.0% to $278.8 million, while EBIT increased 12.5% to $20.7 million. The PPP contract for the provision of 626 new railcars for the Sydney rail network continues to progress with the completion of several important milestones including the commencement of work on the Auburn Maintenance Facility and the release of the full scale model. During the period the division undertook an intensive recruitment program to meet the increased demands on its business. It is also upgrading the Cardiff and Maryborough manufacturing facilities to meet this demand. The outlook for the passenger, freight and spare parts businesses within Downer EDI Rail is positive.

Mr Knox said: "Downer EDI Rail delivered a sound result for the period, further cementing its position as the premium provider of rail rollingstock and maintenance services in Australia, illustrated by renewed passenger car and freight locomotive orders in Western Australia and Queensland."

Downer EDI Engineering and Consulting Services maintained its leading market position in power and electrical services. Revenue for the period increased by 25.0% to $930.1 million, and EBIT rose by 45.7% to $45.6 million, reflecting improved margins. During the period, the division increased business streaming to further align its operations with market opportunities. While the telecommunications market in Australia remains subdued, the division's Technical Services business is developing new opportunities across its geographic spread of Australia, New Zealand and SE Asia. The outlook is positive based on a strengthening order book and strong market opportunities, combined with business improvement initiatives delivering year on year savings. **Consulting Services** (CPG Corporation, Duffill Watts, Coomes Consulting and Snowden Group) has experienced growth and margin improvements and is working on leveraging its knowledge and capability across the Downer EDI group.

Mr Knox said: "Our Engineering division maintained its leading market position in power and electrical while also further developing opportunities for technical services. We foresee continued margin growth in this business as we undertake further business improvement."

Downer EDI Mining generated revenue of $752.1 million, a decrease of 21.2% and EBIT of $40.9 million a decline of 32.5% compared to the previous corresponding period on an underlying basis. As previously foreshadowed, a range of factors impacted the performance of the division including floods on the East Coast of Australia in the first quarter; new business opportunities which were missed; and infrastructure constraints. Despite these challenges the evidence of a turnaround in the Mining division is emerging reflected in increased demand for services and a record level of tendering opportunities of over $5.4 billion. The new management team, regional structural changes, and implementation of the 'back to basics' business improvement processes across the division are working well, with renewed focus on customers and risk management. There has been significant expansion of the division's blasting services business into Western Australia and Tasmania. Strategies ahead include growth in service offerings, renewed customer focus and selectively exploring new opportunities.

"While the challenges faced by Downer EDI Mining have been well flagged it is pleasing to see evidence of the emergence of a turnaround in this business reflected in several important contract wins and an increase in the overall win rate. The increase in secured sales under the new management team is a testament to their competence and to their credibility in this market," Mr Knox said.

Divestment of Century

On 27 October 2007, Downer EDI entered into an agreement with MB Holdings Company LLC (MB Holdings) for the sale of Century Resources in two tranches. The sale of the first tranche of 51% took place on 31 December 2007. The sale agreement grants an option to MB Holdings to purchase the remaining 49% of the shares at any time prior to 1 July 2010. In the event that MB Holdings' call option is not exercised, Downer EDI is able to exercise its put option any time between 1 July 2010 and 30 September 2010.

Outlook/Business Review

The business outlook for Downer EDI is positive underpinned by record levels of spending in our markets across all of the geographies in which we operate, especially in the areas of infrastructure, mining and energy. The company is well positioned to capitalise on these trends through the application of its core competencies in supply, service and maintenance.

The company sees no material change to the guidance provided at the company's AGM in November 2007.

Commenting, the Chief Executive Officer of Downer EDI, Mr Geoff Knox said: "I am resolutely focused on unlocking the inherent value that is within our business through a focus on several basic fundamentals. In particular, I am eager to see that the fundamentals of zero harm, optimization of our portfolio and performance, client engagement and empowerment of our people are in place. These are the key ingredients in the "back to basics" theme which underpins our focus on shareholder value creation.

"It is on top of this platform that we are establishing the programs for the strategic development of the business. One component of this, a review of our businesses undertaken by UBS, has already been completed. This provides an important input into our Strategic Development process being facilitated by leading Strategy Consultants, 2nd Road, the result of which will be delivered to the market in June," Mr Knox said.

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Downner EDI Limited (www.downeredi.com) provides comprehensive engineering and infrastructure management services to the public and private transport, energy, communications and resources sectors across Australia, New Zealand, Asia Pacific and into the United Kingdom.

Brands of Downer EDI and its primary business divisions:

Contact:
Media: Geoff Fowlstone, Principal, Fowlstone Communications (02) 99559899 or 0413746949
Investors: Ross Moffat, General Manager - Investor Relations, (02) 9240 9042 or 0412 256 224

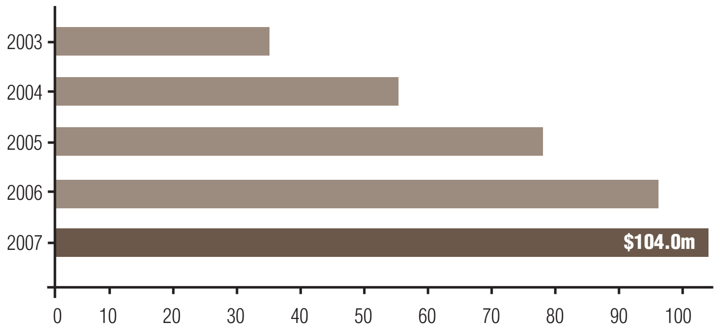
Financial Highlights

	Dec 2007 $'000	Dec 2006 $'000	Change (%)
Operating Revenue - Group	2,707,904	2,593,408	4.4
- Joint Venture Entities	51,165	23,130	121.2
Other Revenue	7,529	12,241	(38.5)
Total Turnover	2,766,598	2,628,779	5.2
Value of Orders in Hand	10.1bn	9.8bn	3.1
Profit from Ordinary Activities Before Tax	104,045	96,242	8.1
Income Tax	(21,853)	(15,634)	39.8
Profit from Ordinary Activities After Tax	82,192	80,608	2.0
Earnings per Ordinary Share	23.7¢	25.6¢	(7.4)
Dividends per Ordinary Share	13.0¢	13.0¢	-

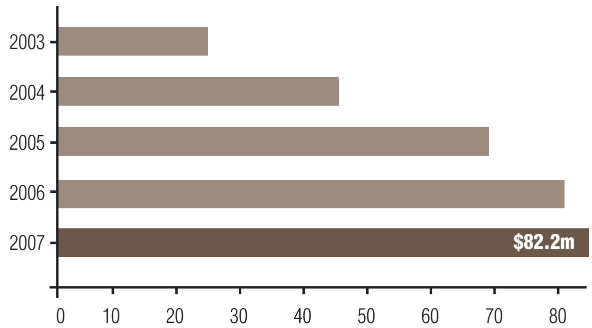
	Dec 2007 $'000	June 2007 $'000	Change (%)
Shares on Issue (millions)	323.6	321.0	0.8
Total Shareholder Funds	1,240,696	1,169,907	6.1
Total Assets	3,117,807	3,180,027	(2.0)
Borrowings, inc. Relevant Hedges	601,908	692,994	(13.1)
Cash	196,377	242,746	(19.1)

Key Performance Indicators
for the half year ended 31 December 2007

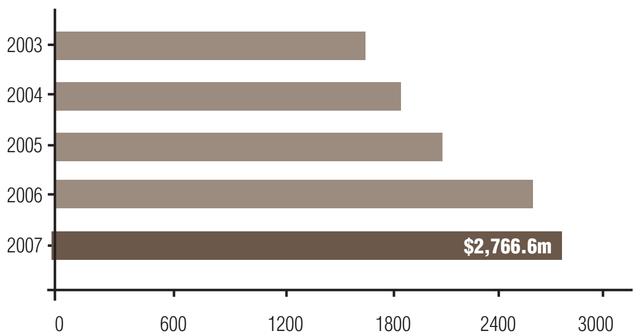
$M Profit Before Tax



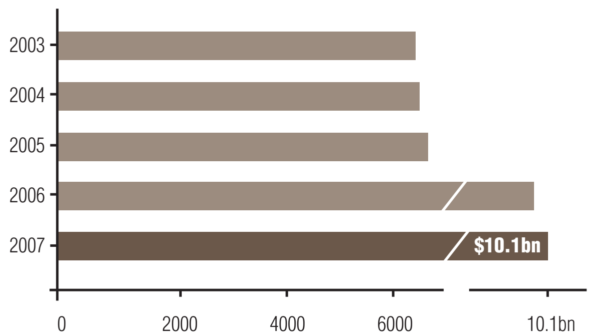
$M Profit After Tax



$M Total Turnover



$M Orders In Hand



Condensed consolidated financial report for the half-year ended 31 December 2007

Downer EDI Limited

Condensed consolidated financial report
for the half-year ended 31 December 2007

Appendix 4D Results

Index	**Page**

Results for announcement to the market

Appendix 4D	**First half 2008 $'000**	First half 2007 $'000	% change
Revenue from ordinary activities	**2,707,904**	2,593,408	4.4%
Total turnover	**2,766,598**	2,628,779	5.2%
Earnings before interest, tax, depreciation and amortisation	**204,689**	190,928	7.2%
Earnings before interest and tax	**130,485**	123,733	5.5%
Profit before tax	**104,045**	96,242	8.1%
Profit after tax	**82,192**	80,608	2.0%
Profit attributable to members of the parent entity	**82,192**	80,608	2.0%

	First half 2008 cents	First half 2007 cents	% change
Basic earnings per share	**23.7**	25.6	(7.4%)
Diluted earnings per share	**23.1**	25.6	(9.8%)
Net tangible asset backing per ordinary share	**154.7**	104.7	47.8%

	First half 2008	First half 2007
Dividend		
Interim dividend per share (cents)	**13.0**	13.0
Franked amount per share (cents)	**Unfranked**	Unfranked
Interim dividend record date	**07/03/2008**	09/03/2007
Interim dividend payable date	**11/04/2008**	13/04/2007
ROADS		
Redeemable Optionally Adjustable Distributing Securities (ROADS)		
Dividend per ROADS (in Australian cents)	**2.9**	
New Zealand imputation credit percentage per ROADS	**100%**	
ROADS payment date		
Second instalment date	**15/09/2007**	
Third instalment date	**15/12/2007**	

Downer EDI's Dividend Reinvestment Plan (DRP) applies to the 2008 interim 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 13 March 2008.

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

Directors' Report

The Directors of Downer EDI Limited (Downer EDI) submit the financial report of the company for the half-year ended 31 December 2007. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Names of Directors

The names of the Directors of the company in office during the half-year and up to the date of this report are as follows:

P E J Jollie, AM (Deputy Chairman, Non-executive Director) (appointed Chairman 1 February 2008)

B D O'Callaghan, AO (Chairman, Non-executive Director) (resigned 1 February 2008)

G Knox (Managing Director and Chief Executive Officer, appointed 1 February 2008)

B D Waldron (Executive Director, appointed 1 August 2007) (resigned 31 January 2008)

S J Gillies (Managing Director, resigned 1 August 2007)

L Di Bartolomeo (Non-executive Director)

J S Humphrey (Non-executive Director)

C J S Renwick, AM (Non-executive Director)

Review of operations

A review of the operations of Downer EDI for the half-year ended 31 December 2007 and the results of those operations are covered in the Shareholders report.

Auditors' independence declaration

The auditors' independence declaration, as required under Section 307C of the Corporations Act 2001, is set out on page 3.

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

On behalf of the Directors

P E J Jollie, AM
Chairman

Sydney, 21 February 2008

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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Mr Peter Jollie
Chairman
The Board of Directors
Downer EDI Limited
Level 3, 190 George Street
SYDNEY NSW 2000

21 February, 2008

Dear Sir

Downer EDI Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Downer EDI Limited.

As lead audit partner for the review of the condensed consolidated financial report of Downer EDI Limited for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Mark Irving
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Deloitte.

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Independent Auditor's Review Report to the Members of Downer EDI Limited

We have reviewed the accompanying half-year financial report of Downer EDI Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement, statement of recognised income and expense for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 28.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Downer EDI Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Downer EDI Limited is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Mark Irving
Partner
Chartered Accountants
21 February, 2008

Member of
Deloitte Touche Tohmatsu

Condensed consolidated income statement
for the half-year ended 31 December 2007

	Note	First half 2008 $'000	First half 2007 $'000
Revenues	3	**2,707,904**	2,593,408
Other income	3	**7,529**	12,241
Share of net profit of joint ventures and associates	8	**20,906**	2,775
Finance costs		**(35,450)**	(32,386)
Changes in inventories of finished goods and work in progress		**(86,479)**	(19,537)
Communication expenses		**(23,180)**	(20,698)
Employee benefits expense	3	**(909,801)**	(836,527)
Occupancy costs		**(40,316)**	(29,819)
Plant and equipment costs		**(334,361)**	(325,355)
Professional fees		**(23,189)**	(21,570)
Raw materials and consumables used		**(645,558)**	(659,998)
Subcontractor costs		**(471,697)**	(496,455)
Travel and accommodation expenses		**(28,724)**	(31,118)
Other expenses from ordinary activities		**(33,539)**	(38,719)
Profit before income tax		**104,045**	96,242
Income tax expense		**(21,853)**	(15,634)
Profit from continuing operations		**82,192**	80,608
Profit attributable to members of the parent entity		**82,192**	80,608
Earnings per share (cents)			
- basic		**23.7**	25.6
- diluted		**23.1**	25.6

The condensed consolidated income statement should be read in conjunction with the accompanying notes.

Downer EDI Limited

Condensed consolidated balance sheet
as at 31 December 2007

	Note	December 2007 $'000	June 2007 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**196,377**	242,746
Inventories		**195,223**	177,543
Trade and other receivables		**1,077,872**	1,090,420
Other financial assets		**20,885**	19,118
Current tax assets		**2,486**	2,297
Other assets		**34,041**	26,558
Assets classified as held for sale		**65,884**	-
Total current assets		**1,592,768**	1,558,682
Non-current assets			
Trade and other receivables		**11,377**	518
Equity-accounted investments		**26,155**	7,899
Property, plant and equipment		**638,755**	754,154
Intangible assets		**574,945**	569,551
Other financial assets		**82,689**	84,309
Deferred tax assets		**183,702**	197,079
Other assets		**7,416**	7,835
Total non-current assets		**1,525,039**	1,621,345
Total assets		**3,117,807**	3,180,027
LIABILITIES			
Current liabilities			
Trade and other payables		**887,390**	848,791
Borrowings		**202,224**	193,685
Other financial liabilities		**33,300**	18,803
Provisions		**211,001**	196,851
Current tax liabilities		**5,595**	16,467
Total current liabilities		**1,339,510**	1,274,597
Non-current liabilities			
Trade and other payables		**643**	877
Borrowings		**399,684**	499,309
Other financial liabilities		**63,660**	109,404
Provisions		**55,162**	104,893
Deferred tax liabilities		**18,452**	21,040
Total non-current liabilities		**537,601**	735,523
Total liabilities		**1,877,111**	2,010,120
Net assets		**1,240,696**	1,169,907
EQUITY			
Issued capital	4	**1,081,166**	1,065,317
Reserves	9	**(46,126)**	(50,271)
Retained earnings	10	**205,656**	154,861
Total equity		**1,240,696**	1,169,907

The condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Condensed consolidated statement of recognised income and expense
for the half-year ended 31 December 2007

	Note	**First half 2008 $'000**	First half 2007 $'000
Total equity at the beginning of the financial period		**1,169,907**	950,543
Current period movements:			
Cash flow hedges	9	**10,625**	(661)
Exchange rate differences on translation of foreign operations	9	**(6,896)**	7,393
Share based transactions	9	**416**	-
Net income recognised directly in equity		**4,145**	6,732
Profit after tax for the period		**82,192**	80,608
Total recognised income and expense for the period		**86,337**	87,340
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity (net of transaction costs)		**15,849**	16,868
Dividends provided for or paid	10	**(31,397)**	(25,134)
		(15,548)	(8,266)
Total equity at the end of the financial period		**1,240,696**	1,029,617

The condensed consolidated statement of recognised income and expense should be read in conjunction with the accompanying notes.

Downer EDI Limited

Condensed consolidated cash flow statement
for the half-year ended 31 December 2007

	Note	First half 2008 $'000	First half 2007 $'000
Cash flows from operating activities			
Receipts from customers		**2,885,614**	2,761,131
Distributions from joint ventures		**1,081**	2,687
Interest received		**8,309**	4,666
Dividends received		**1,067**	91
Payments to suppliers and employees		**(2,717,491)**	(2,765,479)
Interest and other costs of finance paid		**(33,496)**	(31,849)
Income tax (paid)/refunded		**(23,102)**	12,167
Net cash inflow/(outflow) from operating activities		**121,982**	(16,586)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**25,797**	45,259
Proceeds from sale of financial assets		**-**	50
Proceeds from sale of businesses		**52,584**	-
Payment for investments		**-**	(67,861)
Payment for property, plant and equipment		**(129,398)**	(87,039)
Payment to joint ventures		**(2,129)**	(862)
Payment for businesses acquired	6	**(14,114)**	(49,019)
Net cash (used) in investing activities		**(67,260)**	(159,472)
Cash flows from financing activities			
Proceeds from borrowings		**368,193**	678,950
(Payment)/proceeds from issue of equity securities		**(11)**	260
Repayment of borrowings		**(451,078)**	(498,522)
Dividends paid		**(16,184)**	(15,371)
Net cash (outflow)/inflow from financing activities		**(99,080)**	165,317
Net decrease in cash and cash equivalents		**(44,358)**	(10,741)
Cash and cash equivalents at the beginning of the period		**233,664**	164,359
Effect of exchange rate changes		**(1,893)**	465
Cash and cash equivalents at the end of the period		**187,413**	154,083

The condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.

Note 1. Summary of accounting policies

Statement of Compliance

These condensed consolidated financial statements present the consolidated results of Downer EDI Limited (ABN 97 003 872 848). The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. This half-year financial report does not include all of the notes that would normally be included in an Annual Financial Report. These condensed consolidated financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2007. These condensed consolidated financial statements have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the condensed consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS').

The condensed consolidated financial statements were authorised for issue by the directors on 21 February 2008.

Rounding of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Basis of preparation

The condensed consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange of assets.

The preparation of the condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are critical judgments, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the condensed consolidated financial statements:

Revenue recognition
Revenue and expense are recognised in net profit by reference to the stage of completion of each identifiable component for engineering services contracts.

A fundamental condition for being able to estimate percentage of completion profit recognition is that project revenues and project costs can be established reliably. This reliability is based on such factors as compliance with the group's system for project control and that project management has the necessary skills. Project control also includes a number of estimates and assessments that depend on the experience and knowledge of project management in respect of project control, industrial relations, risk management, training and the prior management of projects.

Note 1. Summary of accounting policies - *continued*

Basis of preparation - *continued*

In determining revenues and expense for construction contracts management make key assumptions regarding estimated revenues and expense over the life of the contracts. Where variations are recognised in revenue, assumptions are made regarding the probability that customers will approve variations and the amount of revenue arising from variation. In respect of costs, key assumptions regarding costs to complete contracts may include estimation of labour, technical costs, impact of delays and productivity.

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been consistently applied in preparing the condensed consolidated financial statements for the half-year ended 31 December 2007, as well as the comparative information presented in these financial statements.

Comparative information

Where necessary comparative amounts have been reclassified and repositioned for consistency with current period accounting policy and disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current period accounting policy and disclosures, where considered material, are referred to separately in the condensed consolidated financial statements or notes thereto.

Principles of consolidation

The condensed consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the condensed consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at fair value at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

The condensed consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the condensed consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

Note 1. Summary of accounting policies - *continued*

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Engineering services contracts

(i) Construction contracts
Construction contracts are contracts specifically negotiated for the construction of an asset or combination of assets.

Revenues and expenses from construction contracts are recognised in net profit by reference to the stage of completion of the contract as at the reporting date. The stage of completion is determined by reference to physical estimates, surveys of the work performed or costs incurred and it is usually measured as the ratio of contract costs incurred for work performed to date against total contract costs. Any expected loss is recognised as an expense immediately.

Contract revenue is measured at the fair value of the consideration received or receivable. In the early stages of a contract, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. That is, no margin is recognised until the outcome of the contract can be reliably estimated. An assessment is generally made once 25% of contract completion is achieved.

Contract price and cost estimates are reviewed periodically as the work progresses and reflect adjustments proportionate to the percentage-of-completion in income statement in the period when those estimates are revised. Provisions are made for all known or anticipated losses. Variations from estimated contract performance could result in a material adjustment to operating results for any financial period. Claims are included for extra work or changes in scope of work to the extent of costs incurred in contract revenues when collection is probable.

Where claims with customers result in dispute and the amount in dispute is significant, and it is expected that the matters in dispute will not be resolved within 12 months from the company's semi annual reporting date, the provision will be based on the company's assessment of the risk associated with construction contracts, such provision being at least 75% of the disputed amount on each contract.

(ii) Construction contract - PPP (Public Private Partnership)
Revenue and expenses from the PPP construction contract are recognised in net profit by reference to the stage of completion of each separately identifiable component of the contracts for the design and manufacture of rolling stock and construction of a maintenance facility. The rolling stock manufacturing contract comprises detailed engineering design, prototype development and full scale manufacture. These identifiable separate components have been determined based on:

- each component being subject to separate customer acceptance procedures; and
- the costs and revenues of each component having been identified.

Contract revenue is measured at the fair value of consideration received or receivable. Contract revenue is recognised to the extent of costs incurred plus margin. Margin is recognised based on the relative risk assessment of each component and costs incurred to achieve operational milestones.

(iii) Other engineering services contracts (long term)
Revenues and expenses from engineering services contracts are recognised in net profit by reference to the stage of completion of the contract as at the reporting date. The stage of completion is determined by reference to physical estimates, surveys of the work performed or cost incurred and it is usually measured as the ratio of contract costs incurred for work performed to date against total contract costs.

Note 1. Summary of accounting policies - *continued*

Revenue recognition - *continued*

The stage of completion method requires management to make judgments and estimates by forecasting the final outcome of the project and it includes analysis of divergences compared to earlier assessment dates.

Where an engineering services contract is expected to make a loss, the loss is recognised as an expense immediately.

Engineering services contracts are reported in trade receivables and trade payables, as gross amount due from/to customers. If cumulative work done to date (contract costs plus contract net profit) of contracts in progress exceeds progress payments received, the difference is recognised as an asset and included in amounts due from customers for contract work. If the net amount after deduction of progress payments received is negative, the difference is recognised as a liability and included in amounts due to customers for contract work.

Rendering of services
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. This is normally determined as services performed up to and including the balance sheet date as a proportion of the total to be performed, and revenue from time and material contracts recognised at the contractual rates as labour hours are delivered at direct expenses are incurred. Services rendered include international mine consulting and contracting services, maintenance and construction of roads, highways and rail infrastructure, infrastructure maintenance services, engineering and consultancy services and facilities management.

Other revenue

(i) Royalties
Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(ii) Dividend and interest revenue
Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(iii) Fee based revenue
Fee based revenue generated by Corporate office is recognised on an accrual basis as derived.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:
- where the amount of GST incurred is not recoverable from the taxation authorities, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to the taxation authorities is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to the taxation authorities is classified as operating cash flows.

Note 1. Summary of accounting policies - *continued*

Income tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except when the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or when it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or the excess.

Tax consolidation
Downer EDI Limited and its wholly-owned Australian controlled entities are part of a tax-consolidated group under Australian taxation law. Downer EDI Limited is the head entity in the tax-consolidated group. Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Downer EDI Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

Note 1. Summary of accounting policies - *continued*

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the parent entity financial statements.

Investments in associates are accounted for under the equity method in the consolidated financial statements.

Available-for-sale financial assets
Available-for-sale financial assets are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the profit or loss for the period.

Loans and receivables
Trade receivables, loans and other receivables are recorded at amortised cost using the effective interest method less impairment.

Non-current asset held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amounts and fair value less cost to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

Joint ventures

Jointly controlled assets and operations
Interests in jointly controlled assets and operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

Note 1. Summary of accounting policies - *continued*

Joint ventures - *continued*

Jointly controlled entities
Interests in jointly controlled entities are accounted for under the equity method in the condensed consolidated financial statements.

Property, plant and equipment

Land is measured at cost. Buildings, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The expected useful lives of PPE are generally:

Buildings	20-30 years
Plant and equipment	3-25 years
Equipment under finance lease	5-15 years

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at an amount equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Finance leases
Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Finance leased assets are depreciated on a straight line basis over the estimated useful life of each asset.

Operating leases
Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Intangible assets

Goodwill
Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Note 1. Summary of accounting policies - *continued*

Intangible assets - *continued*

Intellectual property
Patents, trademarks and licenses are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives having considered contractual terms, which is not greater than 40 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Research and development costs
Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible assets can be recognised, development expenditure is recognised as an expense in the period as incurred.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

Derivative financial instruments

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The consolidated entity designates certain derivatives as either hedges of the fair value of recognised assets or liabilities, firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

Note 1. Summary of accounting policies - *continued*

Derivative financial instruments - *continued*

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the profit or loss.

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

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss. Amounts deferred in equity are included in the profit or loss in the same periods the hedged item is recognised in the profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those host contracts. This only occurs when the host contracts are not measured at fair value.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, redundancy and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date. Contributions to defined contribution superannuation plans are expensed when incurred.

Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Decommissioning and restoration
Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on estimated future costs.
The provision is discounted using a current market-based pre-tax discount rate.

The provision is the best estimate of the present value of the expenditure required to settle rectification obligations at the reporting date, based on current legal requirements and technology. Future rectification costs are reviewed annually and any changes are reflected in the present value of the rectification provision at the end of the reporting period.

Note 1. Summary of accounting policies - *continued*

Provisions - *continued*

Warranty
Provision is made for the estimated liability on products under warranty at balance date. This provision is estimated having regard to service warranty experience. Other warranty costs are accrued for as and when the liability arises.

Foreign currency

Foreign currency transactions
All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at reporting date exchange rates are recognised in the income statement except when deferred in equity as qualifying cash flow hedges.

Foreign operations
On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

Financial instruments

Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends
Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

Note 1. Summary of accounting policies - *continued*

Share-based transactions

Equity-settled share-based transactions are measured at fair value at the date of grant.

The Group makes share-based awards to certain employees. The fair value is determined at the date of grant taking into account any market related performance conditions. For equity-settled awards, the fair value is charged to the income statement and credited to share equity.

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

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

Accounting for Financial guarantee contracts

The AASB released AASB 2005-9 'Amendments to the Australian Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 'Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognised in accordance with AASB 139 and measured initially at their fair values, and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies.

Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members of the parent entity, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.
Diluted EPS is calculated as net profit attributable to members of the parent entity, adjusted for:
- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and finance costs associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

Note 2. Segment information

Downer EDI's material business segments are **Mining and Resources** (provides international mine consulting and contracting services including mine planning, optimisation management and modeling, materials processing consulting and infrastructure, blasting, bulk excavation, crushing and processing, haulage of ores/waste, tailings management and mine restoration, oil, gas, geothermal and mineral drilling activities), **Works** (provides 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).

Rail and Engineering Services (provides engineering and consultancy services, design, project management, facilities management, construct and maintain, specialising in telecommunications, power and process engineering, rolling stock and associated maintenance services including the design, manufacture, refurbish, overhaul and maintenance of diesel electric locomotives, electric and diesel multiple units, rail wagons, traction motors and rolling stock) and **Unallocated** (comprises financing and corporate costs). Included in Unallocated is a net loss of $4m resulting from a loss of $34m on the settlement of two long standing mining contracts managed by corporate and the release of a $30m onerous contract provision following the successful renegotiation of the relevant contracts.

	Total revenue [1]		**Share of sales revenue in joint venture entities**		**Total turnover**	
	First half 2008 $'000	First half 2007 $'000	**First half 2008 $'000**	First half 2007 $'000	**First half 2008 $'000**	First half 2007 $'000
By business segment						
Mining and Resources	**730,177**	940,159	**21,902**	14,277	**752,079**	954,436
Works	**812,135**	719,321	**2,912**	3,487	**815,047**	722,808
Rail and Engineering Services	**1,182,562**	927,987	**26,351**	5,366	**1,208,913**	933,353
Total	**2,724,874**	2,587,467	**51,165**	23,130	**2,776,039**	2,610,597
Eliminations	**(12,972)**	(5,193)	**-**	-	**(12,972)**	(5,193)
Unallocated	**3,531**	23,375	**-**	-	**3,531**	23,375
Total	**2,715,433**	2,605,649	**51,165**	23,130	**2,766,598**	2,628,779

1 Total revenue includes Inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods. Not separately disclosed as not considered material.

	Segment result	
	First half 2008 $'000	First half 2007 $'000
By business segment		
Mining and Resources	**40,859**	32,274
Works	**38,984**	31,379
Rail and Engineering Services	**66,292**	49,706
Unallocated	**(42,090)**	(17,117)
Income tax expense relating to ordinary activities	**(21,853)**	(15,634)
Total net profit	**82,192**	80,608

Note 3. Profit from ordinary activities

	First half 2008 $'000	First half 2007 $'000
a) Revenue and other income		
Sales revenue		
Rendering of services	**2,363,211**	2,067,142
Engineering services contract revenue	**263,398**	463,675
Sale of goods	**70,680**	53,910
Interest revenue	**7,852**	4,422
Other revenue		
Other revenue	**1,031**	3,933
Rental income	**665**	235
Dividends	**1,067**	91
	2,707,904	2,593,408
Other income		
Net income on disposal of property, plant and equipment	**7,015**	7,562
Net income on disposal of investments	**-**	139
Net foreign exchange gains	**416**	104
Other	**98**	4,436
Total other income	**7,529**	12,241
Total revenue and other income	**2,715,433**	2,605,649
Net share of sales revenue in joint venture entities	**51,165**	23,130
Total turnover	**2,766,598**	2,628,779
b) Operating expenses		
Interest expense	**33,309**	31,489
Finance lease expense	**983**	424
Amortisation of deferred borrowing costs	**1,158**	473
Depreciation and amortisation of non-current assets:		
Plant and equipment	**70,593**	65,244
Buildings	**1,572**	631
Amortisation of leased assets	**1,291**	783
Amortisation of intellectual property	**748**	537
Total depreciation and amortisation	**74,204**	67,195
Doubtful debts	**775**	1,442
Operating lease expenses	**68,714**	78,011
Employee benefits expense:		
Defined contribution plans	**54,425**	42,680
Employee benefits	**855,376**	793,847
Total employee benefits expense	**909,801**	836,527

Note 4. Issued capital

a) Ordinary Shares	December 2007 $'000	June 2007 $'000
323,591,028 ordinary shares (June 2007: 321,003,899)	**902,563**	886,714
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (June 2007: 200,000,000)	**178,603**	178,603
Total issued capital	**1,081,166**	1,065,317

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

	December 2007		June 2007	
Fully paid ordinary share capital	**No.('000's)**	**$'000**	No.('000's)	$'000
Balance at beginning of financial period	**321,004**	**886,714**	314,171	846,345
Issue of shares through dividend reinvestment plan elections	**2,490**	**15,213**	5,197	32,367
Issue of shares on acquisition of businesses	**97**	**647**	803	5,469
Issue of shares under terms of Employee Share Plan [1]	**-**	**-**	833	5,429
Payment of share issue costs	**-**	**(11)**	-	(2,896)
Balance at end of financial period	**323,591**	**902,563**	321,004	886,714

[1] In the current financial period, there were no acceptances under the employee share plan for eligible employees.

ROADS are perpetual, redeemable, exchangeable preference shares.

	December 2007		June 2007	
b) ROADS	**No.('000's)**	**$'000**	No.('000's)	$'000
Balance at beginning of financial period	**200,000**	**178,603**	-	-
ROADS issued during the period	**-**	**-**	200,000	178,603
Balance at end of financial period	**200,000**	**178,603**	200,000	178,603

Note 5. Dividends

a) Ordinary shares	Interim 2008	Final 2007	Interim 2007
Dividend per share (in Australian cents)	**13.0**	8.0	13.0
Franking percentage	**unfranked**	unfranked	unfranked
Cost (in $'000)	**42,067**	25,680	41,219
Payment date	**11/04/2008**	18/10/2007	13/04/2007
Dividend record date	**07/03/2008**	04/09/2007	09/03/2007

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)	Interim 2008	Interim 2008	Final 2007
Dividend per ROADS (in Australian cents)	**1.45**	**1.41**	1.09
New Zealand imputation credit percentage per ROADS	**100%**	**100%**	100%
Cost (in $'000)	**2,894**	**2,812**	2,189
Payment date	**15/12/2007**	**15/09/2007**	15/06/2007

Note 6. Acquisition of businesses

(a) Summary of acquisitions

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition $'000
Controlled entities:				
John Piper Traffic Pty Ltd	Traffic Consulting	1 July 2007	100	2,850
Businesses:				
Highway Systems	Road Marking	1 November 2007	-	3,933
Pavement Treatments Limited	Road Surface Rejuvenation	1 November 2007	-	3,177
Bruce Wallace	Consulting	25 August 2007	-	1,233

	December 2007 $'000
Purchase consideration	
Cash paid	10,239
Ordinary shares	647
Deferred purchase consideration	307
Total purchase consideration	**11,193**
Fair value of net identifiable assets acquired (refer Note 6(b))	
Net assets acquired	11,193
	11,193
Outflow of cash to acquire subsidiaries, net of cash acquired	
Cash consideration	10,239
Less net cash and cash equivalents acquired (refer Note 6(b))	461
Cash paid – deferred post acquisition settlement	4,336
Outflow of cash	**14,114**

Note 6. Acquisition of businesses - *continued*

(b) The assets and liabilities arising from the acquisitions are as follows:

	December 2007 $'000
Current assets	
Cash and cash equivalents	461
Trade and other receivables	2,172
Inventories	514
Tax assets	119
Total current assets	**3,266**
Non-current assets	
Property, plant and equipment	6,724
Intangible assets	3,740
Total non-current assets	**10,464**
Total assets	**13,730**
Current liabilities	
Trade and other payables	1,653
Borrowings	73
Current tax liabilities	98
Provisions	301
Total current liabilities	**2,125**
Non-current liabilities	
Provisions	354
Borrowings	58
Total non-current liabilities	**412**
Total liabilities	**2,537**
Net Assets	**11,193**

The initial accounting for these acquisitions has been determined provisionally at 31 December 2007 due to differences between book and fair value determinations and in certain instances, earn out consideration being based on future profits, estimates of which have been made.

Note 7. Disposal of business

On 27 October, Downer EDI entered into a sale agreement with MB Holdings Company LLC (MB Holdings) to divest 51% of its Century Resources business, the company's oil, gas and geothermal drilling division. The sale of 51% of the business was completed on 31 December 2007 and the results were consolidated until that date. The aggregate impact of the sale and the results of the Century Resources business on the consolidated profit after tax for the period was a loss of $2 million.

The sale agreement grants an option to MB Holdings to purchase the remaining 49% of the shares at any time prior to 1 July 2010. In the event MB Holdings' call option is not exercised, Downer EDI is able to exercise their put option any time between 1 July 2010 and 30 September 2010. The remaining 49% of the business has been classified as held for sale.

Note 8. Joint venture and associate entities

The consolidated entity and its controlled entities have interests in the following joint venture and associates entities:

Name of entity	Principal activity	Country of incorporation	% interest held December 2007 %	% interest held December 2006 %
Advanced Separation Engineering Australia Pty Ltd	Supply of mineral separation products	Australia	**50**	50
Allied Asphalt Limited	Supply of asphalt products	New Zealand	**50**	50
Aromatrix Pte Ltd	Environmental engineering and consulting services	Singapore	**33**	33
Clyde Babcock Hitachi (Aust) Pty Ltd	Design, construction and maintenance of boilers	Australia	**27**	27
CPG Healthcare FM Pte Ltd	Facilities management	Singapore	**50**	50
Duffill Watts & Tse Limited	Consultancy engineering	New Zealand	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale of railway rolling stock	Australia	**50**	50
EDI Rail-Bombardier Transportation (Maintenance) Pty Ltd	Maintenance of railway rolling stock	Australia	**50**	50
John Holland EDI Joint Venture	Design and construction of a replacement research reactor facility for ANSTO	Australia	**40**	40
MB Century Drilling Pty Ltd	Oil, gas and geothermal drilling	Australia	**49**	-
MPE Facilities Management Sdn Bhd	Facilities management consultancy services	Malaysia	**50**	50
Pavement Salvage (SA) Pty Ltd	Road maintenance	Australia	**50**	50
Reliance Rail Pty Ltd	Rail manufacturing and maintenance	Australia	**49**	49
Roche Thiess Linfox Joint Venture	Contract mining	Australia	**44**	44
Snowden Performance Management Pty Ltd	Mining management consulting	Australia	**50**	50
SIP Jiacheng Property Development Co Ltd	Property development	China	**50**	50
St Ives Joint Venture	Design and construction of mining treatment plant	Australia	**50**	50
Western Lee Joint Venture	Mechanical and electrical services to ALCOA	Australia	**50**	50
YIDA-CPG FM Co Ltd	Facilities management	China	**-**	50

	$'000	$'000
Total contribution of joint venture and associate entities to net result	**20,906**	2,775

Note 9. Reserves

	December 2007 $'000	June 2007 $'000
Reserves comprise:		
Foreign currency translation	**(28,023)**	(21,127)
Hedging	**(20,335)**	(30,960)
Employee benefits	**2,232**	1,816
Total reserves	**(46,126)**	(50,271)
Foreign currency translation reserves:		
Balance at beginning of financial period	**(21,127)**	(16,612)
Translation of foreign operations	**(6,896)**	(4,515)
Balance at end of financial period	**(28,023)**	(21,127)
Hedging reserves:		
Balance at beginning of financial period	**(30,960)**	(1,280)
Revaluation during the period	**8,006**	(31,240)
Transferred to assets during the period	**2,619**	1,560
Balance at end of financial period	**(20,335)**	(30,960)
Employee benefits reserves:		
Balance at beginning of financial period	**1,816**	185
Share-based transactions	**416**	1,631
Balance at end of financial period	**2,232**	1,816
Total balance of reserves at end of financial period	**(46,126)**	(50,271)

Note 10. Retained earnings

Balance at beginning of financial period	**154,861**	121,905
Net profit	**82,192**	101,498
Dividends paid	**(31,397)**	(68,542)
Balance at end of financial period	**205,656**	154,861

Note 11. Contingent liabilities

		December 2007 $'000	June 2007 $'000
i)	The consolidated entity has bid bonds and performance bonds, issued in respect of contract performance in the normal course of business for wholly owned controlled entities	**707,239**	736,445
ii)	Termination benefits under service agreements	**-**	1,062
		707,239	737,507

In the ordinary course of business:

iii) 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.

iv) 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 and accordingly, no amounts are recognised in the condensed consolidated financial statements.

v) 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.

vi) Controlled entities are subject to claims and counter claims with respect to projects and services provided.

vii) The company may become subject to a claim by certain shareholders who purchased shares prior to 8 August 2006. No claim has been received, and the company will defend rigorously any such claim if and when received.

Downner EDI Limited

Directors' declaration
for the half-year ended 31 December 2007

In the opinion of the Directors of Downer EDI Limited:

a) the attached condensed consolidated financial statements and notes thereto comply with Accounting Standards;

b) the attached condensed consolidated financial statements and the notes thereto give a true and fair view of the financial position and performance of the consolidated entity;

c) the attached condensed consolidated financial statements and notes thereto are in accordance with the Corporations Act 2001;and

d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

Peter Jollie

P E J Jollie, AM
Chairman

21 February 2008, Sydney