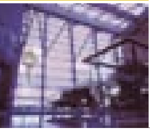
half year shareholders' report

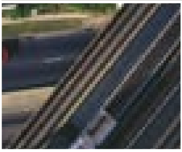


for the six months to 31 December 2003

Downner EDi LIMITED

turnover and profit increases… on-track to meet 2004 full-year expectations

- Profit after tax of $25.2 million, an increase of 15.7% for the half year
- Higher operating turnover of $1.6 billion, an increase of 27.4% for the half year
- Work in hand (order book) continued to grow to record $6.4 billion (2002: $5.0 billion)
- An interim dividend of 4 cents per share, franked to 50%, representing 100% increase (December 2002: 2 cents per share, unfranked)
- 2004 full year guide expected to deliver revenue growth of at least 20% and profit growth of not less than 15%
- Continued improvement in the reliability performance of Sydney's Millennium Train
- Implementation of share consolidation program approved at the 2003 AGM, enabling more streamlined share register
- Level of free float in DOW shares increased to 73%, a substantial lift in liquidity



financial performance

The directors are delighted to report that Downer EDI Limited operating profit after tax for the December half year was up by 15.7% from $21.8 million last year to a record $25.2 million.

This result marks the fifth consecutive year of growth in first half profitability and also lays the foundation for another record full year result for the company. We remain on-track to meet our 2004 full year revenue and profit expectations with revenue expected to grow by at least 20% (with 95% of forecast sales already committed) and profit growth of not less than 15%.

Basic earnings per share (EPS) increased by 14.6% from 7.96 cents per share to 9.12 cents per share reflecting the strong increase in profitability.

The company's profit result, while strong, was nevertheless below internal expectations for the half year. A subdued half year profit result in the Mining & Resources Division and the effect of a very strong A$ on the translation of our Singapore earnings, dragged the company's profit back from what would have been an outstanding result.

Total turnover (total revenue + joint venture revenue) was up 27.4% to $1.6 billion reflecting the strong first half performances in all operating businesses with the exception of Mining & Resources. This division's result was adversely affected by an allowance for a doubtful debt following the appointment of a receiver to Gympie Gold Ltd late December 2003, and the Coppabella coal mine where delayed access to reserves caused the incurrence of additional costs.

The company's strategy of diversifying its revenue streams is delivering numerous opportunities to grow all areas of the company's business in operations and maintenance, facilities management, contracted services and manufacturing of rollingstock. It was very pleasing to see the Engineering Division (Power, Telecommunications and CPG) deliver a record first half turnover contribution of $642 million, up some 77% from the previous half year, with solid contributions from all operating businesses. This included the first full half year for CPG Corporation which was ahead of expectations and is showing a very promising outlook.

Our Infrastructure Division recorded an increase in turnover of around 40% to $338 million reflecting significant penetration into the Australian road maintenance market and a continued strong performance from our New Zealand operations.

Rail Division's turnover increased 14% to $191 million reflecting expanded rollingstock maintenance activity and a solid performance in manufacturing, particularly in locomotive works.

The company's balance sheet remains in a very strong position with gearing (as measured by net debt to equity) at 46% as at 31 December 2003, inside the company's targeted range of 42% to 66% and below management's preferred level of 50%. The company has access to sizeable committed, undrawn banking lines in Australia and is in the process of finalising a US$113 million (approximately $150 million) syndicated loan facility in Asia to support current operations and planned expansion in that region. Scope exists to continue improving working capital management to deliver an increase in free cash flow that can be applied to the funding of growth in continuing operations.

dividend

An interim dividend of 4 cents per share, franked to 50%, was announced by the directors. This represents a 100% increase in dividend per share from the interim period last year (2 cents per share, unfranked). The dividend will be paid on 29 March 2004 (one month earlier than the prior year), with the record date for determining dividend entitlement being 15 March 2004.

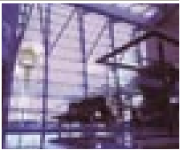
The interim dividend was calculated on profit to 31 December and reflects the dividend payout ratio of approximately 50% of after tax profit. The directors expect that the policy of paying out dividends of approximately 50% of profit after tax and minimum franking of 50% will be maintained.

Shareholders are reminded that the Dividend Reinvestment Plan was suspended following payment of the 2003 final dividend as part of the company's capital management initiatives and will therefore not apply to this interim dividend.

work in hand

Work in hand continued to grow and at 31 December 2003 stood at a record $6.4 billion, compared to $5.5 billion as at 30 June 2003 and $5.0 billion as at 31 December 2002.

The work in hand position was enhanced by renewals in telecommunication maintenance with Telstra and Telecom New Zealand (in excess of $650 million) and road maintenance in Australia and New Zealand.



acquisitions, disposals & investments

The company has continued to invest in its core operations and has used its strong balance sheet to complete the following acquisitions during the first half:

- Civil Construction Corporation Ltd – a leading provider of road maintenance and upgrade works in the state of Tasmania; and
- Stork Electrical Pty Ltd – a national provider of electrical contracting and maintenance services to Australian industry.

These acquisitions totalled approximately $23 million.

During the half year, residual non-core assets of Walkers Pty Ltd and a non-core investment in Horizon Education and Technologies Ltd (Singapore) were disposed of netting around $3 million.

Net acquisitions were funded from operating cash flow.

A number of infrastructure investments in the road and power industries are under active consideration. The company is also considering investment in public-private partnerships (PPP) in Victoria.

millennium train

The Millennium Train reliability performance has consistently exceeded the contracted requirements of RailCorp (the merged StateRail and Rail Infrastructure Corporation) since early November.

The Stage 1 order of 20 four-car sets was completed in December, and production of the Stage 2 order of a further 15 four-car sets is well under way.

The Millennium Train is built to exacting, world class safety standards and with the heightened focus by RailCorp on safety, we believe these vehicles are a highly appropriate choice for the commuters of New South Wales.

operations

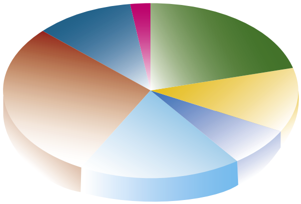
Strong first half performances were recorded in all operating businesses with the exception of Mining & Resources. The company operational focus continues to be on improved and cost efficient execution in the delivery of services to clients through management review, risk assessment and systems enhancement.

financial summary

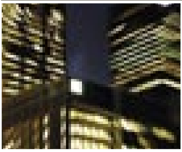
For the half year ended 31 December

Turnover
Revenue
Operating profit before tax
Operating profit after tax
Operating earnings per ordinary share (cents)
Total capital & reserves
Total assets
Cash at bank and on deposit
Undrawn facilities
Value of work on hand (A$bn)

Total Turnover by business streams

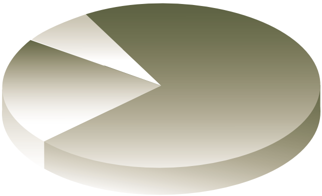


- Road and Rail 21%
- Design & Facilities Management 12%
- Telecommunications 7%
- Power 18%
- Mining and Resources 29%
- Rail (Rollingstock) 11%
- Other activities 2%

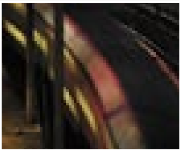


	2003 $M	2002 $M	2001 $M	2000 $M	1999 $M
	1,643.9	1,290.5	1,290.3	611.5	585.0
	1,548.3	1,216.7	1,246.2	578.2	533.4
	33.7	32.8	31.1	19.4	15.8
	25.2	21.8	20.3	14.1	12.0
	9.1	8.0	8.1	8.0	7.2
	771.4	741.4	684.4	426.9	354.7
	1,990.7	1,781.8	1,711.2	1,117.0	927.1
	156.5	127.5	105.3	38.3	32.6
	257.2	266.5	235.3	177.0	128.0
	6.4	5.0	4.5	2.4	1.6

Total Turnover by location



Australia 69%
New Zealand/Pacific 19%
Asia 12%



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. We maintain a pragmatic, flexible approach to business opportunities.

The company secured a number of new contracts during the half year with over $1.8 billion being announced. These included:

- Telecommunications - in excess of $650 million for periods up to 5 years, plus options to extend;
- Power, electrical and maintenance services - $236 million over several years
- Road and rail track maintenance – $255 million over several years;
- Rail rollingstock supply and maintenance - $83 million over several years;
- Mining and resources - in excess of $370 million over several years; and
- Design engineering and facilities management services - $220 million over several years.

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

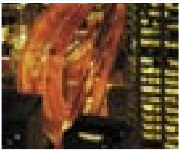
Engineering Division

Power

(Engineering services in power generation and high voltage transmission lines and as Australia's largest provider of electrical contracting services)

Turnover for the period was approximately $300 million and reflected significant new work including installations for Woodside Petroleum Limited, an alliance contract with Bechtel for the Comalco Aluminium Refinery, a three year contract with Worsley Alumina, cogeneration unit for AlintaGas (as part of ongoing development of cogeneration units) and condenser retrofit at Tarong power station.

The power business continues to focus on market opportunities in providing services at the higher end of the engineering value chain and in consolidating its strong market position as Australia's largest provider of electrical contracting services.



Telecommunications

(Complete service provider to the telecommunications industry)

Turnover for the period was approximately $110 million and was principally sourced from the two major carriers in Australia and New Zealand. During the period, contracts with Telstra and Telecom Corporation of New Zealand (TCNZ) were renewed and expanded. The Telstra renewal included a restructuring of the telecommunications network service areas and rationalisation of service providers, and required our operations to relocate activities from South Australia and Victoria in order to focus on the expanded New South Wales service area. In New Zealand, our telecommunications maintenance business is one or two service providers (previously four) to TCNZ with a substantial increase in market share.

We were particularly pleased that in both renewals the high quality of service provided by the company was a key point of differentiation.

Design, Facilities Management & Other

(Architectural, engineering, project management and facilities management)

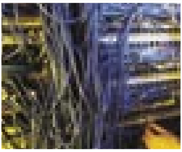
Turnover for Design & Facilities Management was approximately $230 million reflecting strong contributions from CPG and process engineering design. CPG contracts awarded during the period included multi-year facilities management services to Singapore’s Changi Airport Terminal 1 and National University of Singapore, project management for several large projects in China, design and master planning for Royal Garden City, India, and the design of Sri Lanka’s largest private women’s and children’s hospital. Process engineering business unit, Downer MBL, was awarded the major Clandeboye Dryer project for Fonterra in New Zealand and provided process engineering support to Heinz in China and consultancy support to Goodman Fielder in relation to plant relocation initiatives.

Infrastructure Division

Road & Railtrack

(Routine maintenance, preventative maintenance and construction services)

Turnover was approximately $340 million reflecting significant growth in Australian road maintenance, as forecast at the company’s Annual General Meeting. The business was




successful in renewing major road maintenance contracts with Transit New Zealand and New Zealand local government authorities, and in Victoria and Tasmania, was awarded multi-year contracts for road maintenance services. A contract with Transit New Zealand was awarded for substantial highway upgrade work over four years on the upper harbour drive duplication in Auckland. In railtrack maintenance, the division successfully renewed a major contract with Australian Rail Track Corporation (100% owned by the Commonwealth Government) for a further four years.

The former New Zealand Capital Works business, now integrated into Infrastructure Division, won New Zealand's premier construction industry award for the Britomart rail interchange project in Auckland.

Rail Division

(Major provider of rollingstock and associated maintenance services)

Turnover was approximately $190 million and reflected significant achievements for the period. The business successfully delivered rollingstock to Asia Pacific Transport for the landmark Alice Springs to Darwin rail link, won an extension to supply and maintain a further 125 rail wagons and commenced maintenance activity at our Darwin depot. At the division's Maryborough facility, production of 93 railcars for Perth's New Metro Rail program is on track, together with a further eleven 4000-class diesel locomotives for Queensland Rail. A contract to supply Pacific National with thirteen new PN Class locomotives was also awarded. In New South Wales, the Stage 1 order of 20 four-car sets of the Millennium Train was completed and production of Stage 2 order of a further 15 four-cars sets is well underway. The reliability performance has consistently exceeded the contracted requirements of RailCorp since early November.

The Cairns Tilt Train, manufactured by the division, was awarded Australia's 'Project of the Year' by the Institute of Project Management.

Mining and Resources Division

(Turnkey mine services, including operations (open cut, underground, highwall), mine management, drilling and blasting, minerals processing and minerals technology)

Turnover at approximately $490 million was below expectations for the half year. Contracts awarded during the period reflected Roche Mining's increased focus on providing clients with a broader mix of services and securing a steady flow of new and

repeat work across its operations. The range of projects secured during the period included the design and construction of process plant facilities for a number of clients, preparation work and installing an underground decline and exploratory drilling at Argyle diamond mines, open cut mining of tantalum for Sons of Gwalia at the Wodgina mine, exploratory and geotechnical drilling at the Ok Tedi copper mine and the extension of a ballast supply contract to ADRail for the Alice Springs to Darwin rail link.

company prospects

Our overall assessment of business trading over the next six months affords good visibility with the expectation that a second half result in line with budget expectations will be recorded. We continue to stand behind previous guidance given to the market, with revenue expected to grow by at least 20% (with 95% of forecast sales already committed) and profit growth of not less than 15% for the 2004 financial year.

Notwithstanding the subdued contribution from Mining and Resources in the first half, the outlook for Downer EDI continues to be positive. The one-off nature of the issues affecting Mining and Resources are not expected to impact second half results. Profit is 15.7% ahead of this time last year, with revenue streams across the company's operations projected to meet our full year expectations.

The continuing strong Australian dollar against international currencies has the potential to impact 2004 profit and earnings, largely through erosion of translation upside resulting from the above budget performance out of Singapore and to a lesser extent New Zealand. It does, however, provide further opportunities in mining and resources as clients with significant exposure seek to lower their cost structures and look to outsource.

Earnings per share will continue to improve given our strengthening earnings outlook and lack of need for new capital to support further growth initiatives.

We will maintain our ongoing focus on targeting a strong balance sheet with improved earnings per share.

Stephen Gillies
Managing Director
26 February 2004

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