Downner EDI Limited
ABN 97 003 872 848

Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

1800 DOWNER
www.downergroup.com

12 August 2020

Company Announcements Office
ASX Limited
Exchange Centre
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Please find attached the following documents:

1. Appendix 4E – results for announcement to the market for the year ended 30 June 2020;
2. 2020 Annual Report;
3. Market release dated 12 August 2020;
4. Investor Presentation; and
5. Appendix 4G – Key to Disclosures Corporate Governance Principles and Recommendations.

Yours sincerely,
Downer EDI Limited

Robert Regan
Company Secretary

Results for announcement to the market
for the year ended 30 June 2020

Appendix 4E

	2020 $'m	2019 $'m	% change
Revenue from ordinary activities	**12,669.4**	12,789.4	
Other income	**73.3**	23.3	
Total revenue and other income from ordinary activities	**12,742.7**	12,812.7	(0.5%)
Total revenue including joint ventures and other income	**13,417.9**	13,448.3	(0.2%)
Earnings before interest and tax	**(41.3)**	462.2	>(100.0%)
Earnings before interest and tax and amortisation of acquired intangible assets (EBITA)	**30.0**	532.6	(94.4%)
(Loss) / profit from ordinary activities after tax attributable to members of the parent entity	**(150.3)**	261.8	>(100.0%)
(Loss) / profit from ordinary activities after tax before amortisation of acquired intangible assets (NPATA)	**(105.8)**	325.6	>(100.0%)

	2020 cents	2019 cents	% change
Basic earnings per share	**(26.6)**	42.9	>(100.0%)
Diluted earnings per share [(i)]	**(26.6)**	42.3	>(100.0%)
Net tangible asset backing per ordinary share [(ii)]	**(26.3)**	9.4	>(100.0%)

(i) At 30 June 2020, the ROADS are anti-dilutive and consequently, diluted EPS remained at a loss of 26.6 cents per share.

(ii) The Net tangible asset backing per ordinary share as at 30 June 2019 has been restated to reflect the correction of payroll benefit provisions as at 1 July 2018 (Refer Note D1). In addition, the intangibles that are added back have been tax effected.

Dividend	2020 Final[(iii)]	2019 Final
Dividend per share (cents)	-	14.0
Franked amount per share (cents)	-	7.0
Conduit foreign income (CFI)	-	50%
Dividend record date	-	**4/09/2019**
Dividend payable date	-	**2/10/2019**

(iii) There will be no final dividend declared / paid for the year ended 30 June 2020. Downer deferred the unfranked interim dividend and will be paid on 25 September 2020.

Redeemable Optionally Adjustable Distributing Securities (ROADS)		
Dividend per ROADS (in Australian cents)	3.75	4.18
New Zealand imputation credit percentage per ROADS	100%	100%

ROADS payment date	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Instalment date FY2020	**16/09/2019**	**16/12/2019**	**16/03/2020**	**15/06/2020**
Instalment date FY2019	17/09/2018	17/12/2018	15/03/2019	17/06/2019

Downer EDI's Dividend Reinvestment Plan (DRP) has been suspended.

For commentary on the results for the year and review of operations, please refer to the Directors' Report and separate media release attached.

Annual Report

Downer
Relationships creating success

2

2

This Annual Report includes the Downer EDI Limited Directors' Report, the Annual Financial Report and the Independent Audit Report for the financial year ended 30 June 2020. The Annual Report is available on the Downer website www.downergroup.com.

Contents

Highlights

Downer's Urban Services businesses performed well during the 2020 financial year with strong demand for the Group's road, rail, power, gas, water, health, education, defence and government services. Total revenue of $13.4 billion was in line with the prior year. Downer reported a statutory net loss after tax of $155.7 million while underlying NPATA was $215.1 million, with $386.0 million ($320.9 million after tax) of items outside the underlying result.

Total Revenue[2]

$13,417.9m

Underlying[1] EBITA

$416.0m

Underlying[1] NPATA

$215.1m

Operating Cash Flow

$178.8m

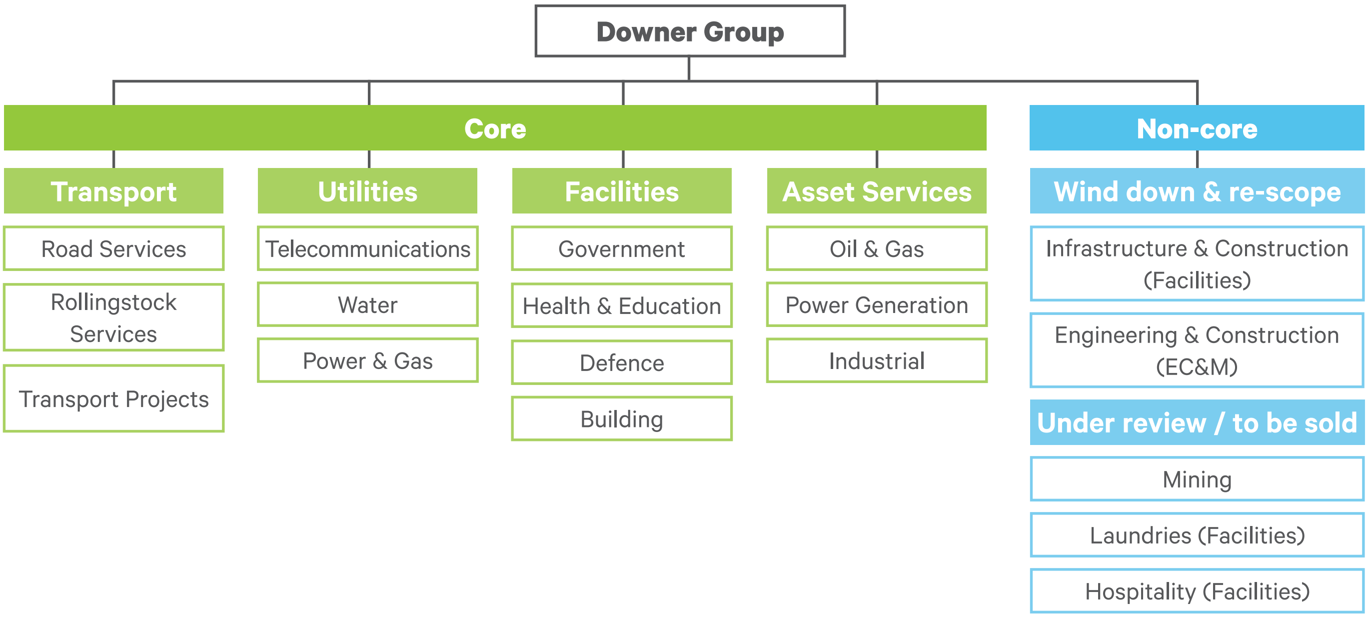
1 Underlying EBITA and NPATA are non-IFRS measures that are used by Management to assess the performance of the business. They have been calculated from the statutory measures and underlying EBITA is reconciled to statutory NPAT in the Directors' Report Group Financial Performance section on page 11.

2 Total revenue is a non-statutory disclosure and includes revenue from joint ventures, other alliances and other income.

Downer's strategy is to focus on its core Urban Services businesses. These businesses have:

- demonstrated strength and resilience
- leading market positions and attractive medium and long-term growth opportunities
- a high proportion of government and government-related contracts
- a capital light, services-based business model generating lower risk, more predictable revenues and cash flows.

The Downer Portfolio



The Directors of Downer EDI Limited submit the Annual Financial Report of the Company for the financial year ended 30 June 2020. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

Board of Directors

R M HARDING (71)

**Chairman since November 2010,
Independent Non-executive Director since July 2008**

Mr Harding has held management positions around the world with British Petroleum (BP), including President and General Manager of BP Exploration Australia.

Mr Harding is currently the Chairman of Lynas Limited and Horizon Oil Limited and a Director of Cleanaway Waste Management Limited. He is a former Chairman of Roc Oil Company Limited, Clough Limited and ARC Energy Limited and a former Director of Santos Limited. Mr Harding will retire from the Board of Lynas Limited on 30 September 2020.

Mr Harding holds a Masters in Science, majoring in Mechanical Engineering.

Mr Harding lives in Sydney.

G A FENN (55)

Managing Director and Chief Executive Officer since July 2010

Mr Fenn has over 30 years' experience in operational management, strategic development and financial management. He joined Downer in October 2009 as Chief Financial Officer and was appointed Chief Executive Officer in July 2010.

He was previously a member of the Qantas Executive Committee, holding a number of senior roles over 14 years, as well as Chairman of Star Track Express and a Director of Australian Air Express. He worked at KPMG for eight years before he joined Qantas.

Mr Fenn is currently a Director of Sydney Airport Limited and Spotless Group Holdings Limited and a Member of the UTS Engineering and IT Industry Advisory Board.

Mr Fenn holds a Bachelor of Economics from Macquarie University and is a member of the Australian Institute of Chartered Accountants.

Mr Fenn lives in Sydney.

P S GARLING (66)

Independent Non-executive Director since November 2011

Mr Garling has over 35 years' experience in the infrastructure, construction, development and investment sectors. He was the Global Head of Infrastructure at AMP Capital Investors, a role he held for nine years. Prior to this, Mr Garling was CEO of Tenix Infrastructure and a long-term senior executive at the Lend Lease Group, including five years as CEO of Lend Lease Capital Services.

Mr Garling is currently the Chairman of Tellus Holdings Limited, Energy Queensland Limited and Newcastle Coal Infrastructure Group and a Director of Charter Hall Limited. He is a former Director of Spotless Group Holdings Limited and a past President of Water Polo Australia Limited.

Mr Garling holds a Bachelor of Building from the University of New South Wales and the Advanced Diploma from the Australian Institute of Company Directors. He is a Fellow of the Australian Institute of Building, Australian Institute of Company Directors and Institution of Engineers Australia.

Mr Garling lives in Sydney.

T G HANDICOTT (57)

Independent Non-executive Director since September 2016

Ms Handicott is a former corporate lawyer with over 30 years' experience in mergers and acquisitions, capital markets and corporate governance. She was a partner of national law firm Corrs Chambers Westgarth for 22 years, serving as a member of its National Board for seven years including four years as National Chairman. She also has extensive experience in governance of local and State government organisations.

Ms Handicott is currently the Chairman of listed company PWR Holdings Limited and of Peak Services Holdings Pty Ltd, which is the subsidiary of the Local Government Association of Queensland that is responsible for its commercial operations. Ms Handicott is also a Divisional Councillor of the Queensland Division of the Australian Institute of Company Directors.

Ms Handicott is a former Director of CS Energy Limited, a former member of the Queensland University of Technology (QUT) Council, the Takeovers Panel and Corporations and Markets Advisory Committee and a former Associate Member of the Australian Competition and Consumer Commission.

A Senior Fellow of FINSIA, Fellow of the Australian Institute of Company Directors and Member of Chief Executive Women, Ms Handicott holds a Bachelor of Laws (Hons) degree from the Queensland University of Technology.

Ms Handicott lives in Brisbane.

N M HOLLOWS (49)

Independent Non-executive Director since June 2018

Ms Hollows has over 20 years' experience in the resources sector in a number of senior managerial roles across both the public and private sectors, including in mining, utilities and rail. Her experience spans operational management, accounting and finance, mergers and acquisitions, capital management and corporate governance.

Ms Hollows is the Non-executive Chair of Jameson Resources Limited, Chair of The Salvation Army Brisbane Red Shield and Fundraising Committee, a member of the Salvation Army Queensland Advisory Council and a member of the CEO Advisory Committee for Dean of Queensland University of Technology (QUT) Business School.

She was formerly the Chief Executive Officer of SunWater Limited, a Queensland Government owned corporation; the Chief Financial Officer and subsequently Chief Executive Officer of Macarthur Coal Limited; Managing Director of AMCI Australia and South East Asia; and Interim Chair of Queensland Rail Limited.

A Fellow of the Australian Institute of Company Directors and a Member of Chief Executive Women and the Institute of Chartered Accountants, Ms Hollows holds a Bachelor of Business – Accounting and a Graduate Diploma in Advanced Accounting (Distinction) from the Queensland University of Technology and is a Graduate of Harvard Business School's Program for Management Development.

Ms Hollows lives in Brisbane.

P L WATSON (63)

Independent Non-executive Director since May 2019

Mr Watson has extensive experience in the construction and engineering sectors in senior executive and governance roles, including in the industrial, transport, defence, health, justice and utilities sectors. He was Chief Executive Officer and Managing Director of Transfield Services Limited, now known as Broadspectrum, for 10 years. During this period, he led the business through a successful transition, cultivating a sustainable and successful public company. He also has considerable experience in various Non-executive Director roles.

Mr Watson is currently a Consultant of Stephenson Mansell Group where he provides coaching and mentoring to senior executives.

Mr Watson is a former Chairman of LogiCamms Limited, Watpac Limited, Regional Rail Link Authority in Victoria and AssetCo Management which managed PPP assets; a former Director of the Major Transport Infrastructure Board in Victoria, Yarra Trams and Save the Children Australia; and was a Board member of Infrastructure Australia.

A Fellow of the Australian Academy of Technological Sciences and Engineering and member of the Institute of Engineers Australia and Australian Institute of Company Directors, Mr Watson holds a Diploma of Civil Engineering from the Caulfield Institute of Technology and is a Graduate of the Wharton Advanced Management Program of the University of Pennsylvania.

Mr Watson lives in Melbourne.

Directors' Shareholdings

The following table sets out each Director's relevant interest (direct and indirect) in shares, debentures, and rights or options in shares or debentures (if any) of the Company at the date of this report. No Director has any relevant interest in shares, debentures and rights or options in shares or debentures, of a related body corporate, as at the date of this report.

Director	Number of Fully Paid Ordinary Shares	Number of Fully Paid Performance Rights	Number of Fully Paid Performance Options
R M Harding	28,856	–	–
G A Fenn[1]	1,877,464	646,097	–
P S Garling	19,962	–	–
T G Handicott	17,000	–	–
N M Hollows	13,000	–	–
P L Watson	16,799	–	–

1 Performance rights granted to Mr Fenn are subject to performance and/or service period conditions over the period 2017 to 2022. Further details regarding the conditions relating to these restricted shares and performance rights are outlined in sections 6.4 and 9.2 of the Remuneration Report.

Company Secretary

The Company Secretarial function is responsible for ensuring that the Company complies with its statutory duties and maintains proper documentation, registers and records. It also provides advice to Directors and officers about corporate governance and gives practical effect to any decisions made by the Board.

Mr Robert Regan was appointed Group General Counsel and Company Secretary in January 2019. He has qualifications in law from the University of Sydney and is an admitted solicitor in New South Wales. Mr Regan was formerly a partner of Corrs Chambers Westgarth and has over 30 years of experience in legal practice.

Mr Peter Lyons was appointed joint Company Secretary in July 2011. A member of CPA Australia and the Governance Institute of Australia, he has qualifications in commerce from the University of Western Sydney and corporate governance from the Governance Institute of Australia. Mr Lyons was previously Deputy Company Secretary and has been in financial and secretarial roles at Downer for over 15 years.

Review of Operations

COVID-19

Downer has complied with all Government regulations and advice in relation to the COVID-19 pandemic and has robust Business Continuity Plans in place. Senior managers communicate regularly with their teams to ensure they are fully informed about the evolving situation and putting in place appropriate strategies.

Downer has implemented a range of control measures across its offices and sites to minimise the risks of COVID-19 transmission. This includes:

- Increased cleaning of site amenities and facilities, including availability of hand sanitiser on all sites
- Ensuring face-to-face meetings involve as few employees as possible and practising appropriate social distancing measures when these do take place
- Implementing plans for office staff to work remotely where possible and increasing social distancing measures in all offices
- Restricting visitors to customer sites and locations to only essential employees and contractors
- Implementing temperature testing procedures at sites
- Banning all non-essential business travel
- Applying all current Government mandated guidelines relating to travel and self-isolation
- Regular communication with employees reinforcing correct hygiene, self-isolation and social distancing practices.

Downer has also put in place strategies to minimise the impact of COVID-19 on its employees and the communities in which it operates, including:

- Increasing the focus on mental health support and activities for employees
- Establishing a hardship program for affected workers
- Establishing a redeployment and retraining program for displaced workers
- Providing support for vulnerable community initiatives.

Under the New Zealand Government's Level 4 restrictions, Downer was only able to perform about 30% of its usual services. These restrictions were eased from late April 2020 and service levels then began gradually returning to normal.

In Australia, Spotless' Hospitality business has been generating virtually no revenue since COVID-19 regulations were introduced in March 2020. As a result, Downer reduced the size of this business in June to reflect the smaller scale of operations.

Several other Downer businesses have also experienced a reduction in revenue, however there has been no material impact on demand for the majority of Downer's Australian businesses, including: Road Services; Rollingstock Services; Transport Projects; Utilities; Defence consulting; Defence base and estate management; Health and Education; and Government services.

Downer is committed to working closely with its customers and partners to minimise the impact on operations while keeping its employees and communities safe.

Principal Activities

Downer EDI Limited (Downer) is a leading provider of integrated services in Australia and New Zealand. Downer employs approximately 52,000 people, mostly in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa.

Downer reports its results under five service lines: Transport; Utilities; Facilities; Engineering, Construction and Maintenance (EC&M); and Mining.

Downer's strategy is to focus on the core Urban Services businesses within the Transport, Utilities and Facilities service lines because they have:

- Demonstrated strength and resilience
- Leading market positions and attractive medium and long-term growth opportunities
- A high proportion of government and government-related contracts
- A capital light, services-based business model generating lower risk, more predictable revenues and cash flows.

On 21 July 2020, Downer announced a package of initiatives to reshape the Group in line with its Urban Services strategy and create a stronger platform for long-term, sustainable growth. These initiatives are:

- Achieving 100% ownership of Spotless (at the date of this Annual report, Downer owned 88% of Spotless)
- Exiting non-core businesses
- Right-sizing the cost base and operating model to align with the Urban Services strategy
- A non-cash impairment of $165.0 million relating to the Spotless cash generating units.

Downer has made an unconditional offer to acquire all of the issued share capital of Spotless not already owned by Downer. It is expected that the outcome of this offer will be known by the end of the 2020 calendar year.

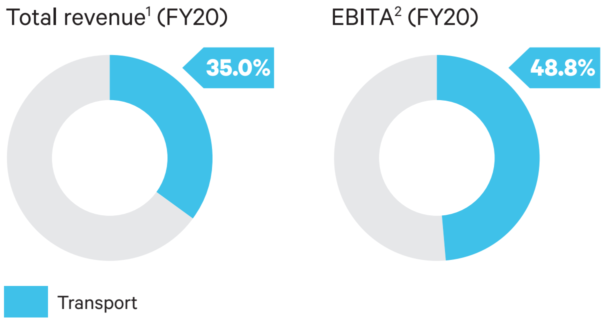
In relation to exiting non-core businesses, Downer is exploring the potential sale of its Mining portfolio (in parts or as a whole) and reviewing the prospects of its Hospitality business (within the Facilities service line) to determine which parts will continue and which will be exited or sold. Downer is also considering the sale of its Laundries business (within Facilities).

In addition, Downer announced during the year that it would focus its construction efforts on areas where it has a competitive differentiation. As a result, Downer will no longer tender for "hard dollar" construction contracts in the solar, coal, iron ore and industrial E&I (electrical and instrumentation) and SMP (structural, mechanical and piping) sectors.

For the 2020 financial year, an outline of each of the five services lines is set out below.

Transport

Transport comprises Downer's Road Services, Transport Projects, and Rollingstock Services businesses.



1 Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.

2 Downer calculates EBITA by adjusting EBIT to add back acquired intangibles amortisation expense. Due to rounding, divisional percentages do not add up precisely to 100%.

Road Services

Downer manages and maintains road networks across Australia and New Zealand and manufactures and supplies products and services to create safe, efficient and reliable journeys. Downer offers one of the largest non-government owned road infrastructure services businesses in Australia and New Zealand, maintaining more than 33,000 kilometres of road in Australia and more than 25,000 kilometres in New Zealand.

Downer creates and delivers solutions to our customers' challenges through strategic asset management and a leading portfolio of products and services. Downer is a leading manufacturer and supplier of bitumen-based products and an innovator in the sustainable asphalt industry and circular economy, using recycled products and environmentally sustainable methods to produce asphalt.

Downer's road network solutions are underpinned by industry-leading research, development and innovation, unique asset management tools and a commitment to safety, environment and sustainability through industry awarded Zero Harm programs.

Downer has formed a number of strategic partnerships to meet the changing needs of our customers and markets. Downer has long-term asset stewardship and road management contracts through DM Roads in Australia, and a number of alliances in New Zealand such as the Infrastructure Alliance in Hamilton, Whanganui Alliance, Tararua Alliance, Waikato District Alliance and the Milford Road Alliance.

Downer works for all of Australia's State road authorities, the New Zealand Transport Agency and a large number of local government councils and authorities in both countries. Customers also include road owners and businesses operating in industries including waste collection and management, mining, construction, airports and motor racing tracks.

Transport Projects

Downer delivers multi-disciplined infrastructure solutions to customers within the transport sector. The services provided by Downer include the design and construction of light rail, heavy rail, signalling, track and station works, rail safety technology, bridges and roads.

Downer has a long history of delivering transport infrastructure projects under a variety of contracting models. Downer's integrated capabilities enable intelligent transport solutions, road network management and maintenance, facility maintenance, utilities services and renewable energy technologies.

Rollingstock Services

Downer has over 100 years' rail experience providing end-to-end, innovative transport solutions.

Downer is a leading provider of rollingstock asset management services in Australia, with expertise in delivering whole-of-life asset management support to our customers. Downer's capability spans all sectors, from rollingstock to infrastructure, and every project phase, from design and manufacture to through-life-support, fleet maintenance, operations and comprehensive overhaul of assets.

Downer sets industry best practice with forward-looking technology solutions to deliver safe, efficient and reliable services for the public transport sector.

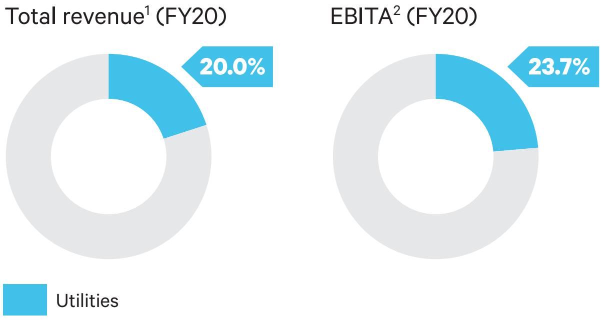
Downer has formed strategic joint ventures and relationships with leading technology and knowledge providers including Keolis, CRRC, Hitachi and Bombardier.

The Keolis Downer joint venture is Australia's largest private provider of multi-modal public transport solutions, with contracts to operate and maintain Yarra Trams in Melbourne, the Gold Coast light rail system in Queensland, and an integrated public transport system for the city of Newcastle in New South Wales. Keolis Downer is also one of Australia's most significant bus operators.

Downer's rollingstock customers include Sydney Trains, Transport for NSW, Public Transport Authority (WA), Metro Trains Melbourne, Public Transport Victoria, and Queensland Rail.

Utilities

Downer offers a range of services to customers across the power and gas, water, communications and renewables sectors.



1 Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.

2 Downer calculates EBITA by adjusting EBIT to add back acquired intangibles amortisation expense. Due to rounding, divisional percentages do not add up precisely to 100%.

Power and Gas

Downer's services include planning, designing, constructing, operating, maintaining, managing and decommissioning power and gas network assets. A collaborative approach has made Downer a benchmark end-to-end service provider to owners of utility assets.

Downer designs and constructs steel lattice transmission towers, designs and builds substations, constructs and maintains electricity and gas networks, provides asset inspection and monitoring services, connects tens of thousands of new power and gas customers each year and provides meter, energy and water efficiency services for governments, utilities and corporations.

Our performance on the network is benchmarked at activity unit level, repeatedly demonstrable and assessed against continually improving key performance indicators.

Water

Downer delivers complete water lifecycle solutions for municipal and industrial water users.

Downer's expertise includes water treatment, wastewater treatment, water and wastewater network construction and rehabilitation, desalination and biosolids treatment.

As a leading provider of asset management services, Downer supports its customers across the full asset lifecycle from conceptual development through to design, construction, commissioning and into operations and maintenance.

Downer collaborates with customers to manage their assets, so they create community benefits that are sustainable, innovative, cost-effective and provide value to all stakeholders.

Communications

Downer is a leading provider of end-to-end technology and communications service solutions, offering integrated civil construction, electrical, fibre, copper and radio network deployment capability throughout Australia and New Zealand. Key capabilities include:

- Design, engineering and network construction of fixed and wireless networks
- Mobile deployment: site acquisition, environmental and design services
- Network operations and help desk outsourcing
- Network maintenance
- Warehousing and logistics
- Smart metering
- Smart home power and technology solutions
- Fleet management
- Network security
- Remedial works and proactive maintenance
- Customer connections, in-premise installations and service activations.

Renewables

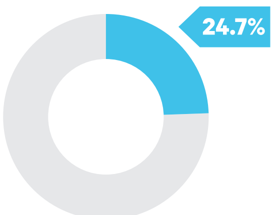
Downer is one of Australia's most experienced providers in the renewable energy market, delivering services to customers requiring both utility and commercial scale sustainable energy solutions.

Downer offers trusted services and integrated solutions required for the entire asset lifecycle including procurement, assembly, design, construction, commissioning and maintenance for a range of renewable assets specifically in the wind, solar and power systems storage sectors including transmission and substations.

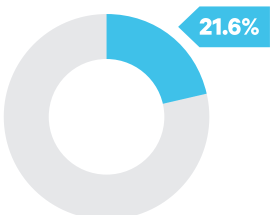
Facilities

The Facilities service line operates in Australia and New Zealand delivering facilities services to customers across a range of industry sectors including: defence; education; health; government; and hospitality.

Total revenue[1] (FY20)



EBITA[2] (FY20)



Facilities

1 Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.

2 Downer calculates EBITA by adjusting EBIT to add back acquired intangibles amortisation expense. Due to rounding, divisional percentages do not add up precisely to 100%.

Facilities businesses include Spotless, AE Smith, Alliance, Ensign, EPICURE, Mustard, Nuvo, Taylors and Envar.

Spotless is the largest integrated facilities management services provider in Australia and New Zealand and its key capabilities include:

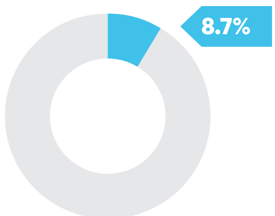
- Air-conditioning, mechanical and electrical
- Asset maintenance and management
- Catering and hospitality
- Cleaning
- Facilities management
- Laundry management
- Security and electronic solutions
- Utility support.

The Facilities services line also includes Hawkins, New Zealand's leading construction business. Hawkins delivers unique transformational projects across a variety of sectors including education, health, airports, commercial office buildings and heritage restorations. It leads the industry in civic projects including art galleries, event centres, stadiums and community facilities.

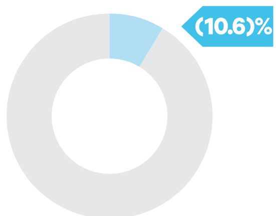
Engineering, Construction and Maintenance (EC&M)

Downer's EC&M service line includes its Engineering & Construction and Asset Services businesses and works with customers in the public and private sectors delivering services including design, engineering, construction and maintenance of critical assets.

Total revenue[1] (FY20)



EBITA[2] (FY20)



EC&M

1 Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.

2 Downer calculates EBITA by adjusting EBIT to add back acquired intangibles amortisation expense. Due to rounding, divisional percentages do not add up precisely to 100%.

Downer announced at its 2020 half-year results that it will focus its construction efforts on areas where it has a competitive differentiation. As a result, Downer will no longer tender for "hard dollar" construction contracts in the coal, iron ore and industrial E&I (Electrical and Instrumentation) and SMP (Structural, Mechanical and Piping) sectors.

In the oil and gas sector, Downer's capabilities cover the full range of services including maintenance, shutdown, turnaround and outage delivery, sustaining capital program delivery, project and commissioning services.

Downer is also the leading provider of original equipment manufacturer (OEM) maintenance and shutdown services essential in running Australia's power stations, servicing customers that supply 80% of the National Electricity Market.

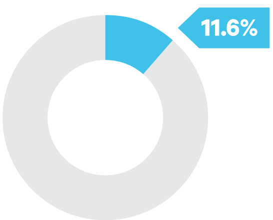
Downer is an OEM specialist in the design, supply, construction, maintenance and overhaul of boilers, turbines and generating plants.

Downer's Mineral Technologies business is the world leader in fine physical mineral separation solutions, including spiral gravity concentrators, magnetic and electrostatic separation technology. Mineral Technologies delivers innovative, process solutions for iron ore beneficiation, mineral sands, silica sands, coal, chromite, gold, tin, tungsten, tantalum and several other fine materials.

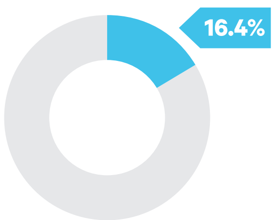
Mining

Downer is one of Australia's leading diversified mining contractors serving its customers across more than 60 sites in Australia, Papua New Guinea, South America and Southern Africa.

Total revenue[1] (FY20)



EBITA[2] (FY20)



Mining

1 Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.

2 Downer calculates EBITA by adjusting EBIT to add back acquired intangibles amortisation expense. Due to rounding, divisional percentages do not add up precisely to 100%.

Downer provides services at all stages of the mining lifecycle, including:

- Exploration drilling
- Open cut mining services in Australia
- Underground mining services in Australia and Papua New Guinea
- Drilling, explosives manufacture and supply, blasting and crushing
- Tyre management (through the subsidiary Otraco International)
- Mine closure and rehabilitation.

Downer's mining services customers include BHP Mitsubishi Alliance, Fortescue Metals Group, the Gold Fields-Gold Roads Resources joint venture, Karara Mining Ltd, Millmerran Power Partners, OZ Minerals and Stanwell Corporation Ltd.

Group Financial Performance

For the 12 months ended 30 June 2020, Downer reported total revenue in line with the prior year while earnings before interest, tax and amortisation of acquired intangible assets (EBITA) and statutory net profit after tax (NPAT) were both lower.

The table below provides a comparison of the underlying earnings for FY20 versus underlying results for FY19 and a reconciliation to statutory NPAT.

Underlying[1] EBITA (A$m)	Reporting Segment	FY20	FY19	Variance (%)
Transport	Transport	235.6	242.4	(2.8%)
Utilities	Utilities	114.6	136.1	(15.8%)
Facilities[2]	Facilities	133.9	133.6	0.2%
Asset Services[3]	EC&M	27.1	13.4	>100%
Core Urban Services Businesses		**511.2**	**525.5**	**(2.7%)**
Infrastructure & Construction (Spotless)[2]	Facilities	(9.0)	(3.1)	>(100%)
Engineering & Construction (Downer)[3]	EC&M	(69.2)	19.9	>(100%)
Businesses in wind down		**(78.2)**	**16.8**	**>(100%)**
Mining	Mining	79.0	76.7	3.0%
Laundries[2]	Facilities	9.1	17.5	(48.0%)
Hospitality[2]	Facilities	(19.7)	22.5	>(100%)
Businesses under review or to be sold		**68.4**	**116.7**	**(41.4%)**
Corporate	Unallocated	(85.4)	(98.4)	13.2%
Group Underlying EBITA		**416.0**	**560.6**	**(25.8%)**
Amortisation of acquired intangibles (pre-tax)		(71.3)	(70.4)	(1.3%)
Underlying EBIT		**344.7**	**490.2**	**(29.7%)**
Net interest expense		(112.0)	(82.4)	(35.9%)
Tax expense		(67.5)	(117.0)	42.3%
Underlying NPAT		**165.2**	**290.8**	**(43.2%)**
Amortisation of acquired intangibles (post tax)		49.9	49.3	1.2%
Underlying NPATA		**215.1**	**340.1**	**(36.8%)**
Items outside of underlying NPATA		(386.0)	(28.0)	>(100%)
Tax effect on items outside NPATA		65.1	13.5	>100%
Statutory NPATA		**(105.8)**	**325.6**	**>(100%)**
Amortisation of acquired intangibles (post tax)		(49.9)	(49.3)	(1.2%)
Statutory NPAT		**(155.7)**	**276.3**	**>(100%)**

1 The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

2 Total underlying EBITA for the Facilities segment in FY20 was $114.3 million (FY19: $170.5 million). Refer to Note B1 on page 68.

3 Total underlying EBITA for the EC&M segment in FY20 was loss $42.1 million (FY19: profit $33.3 million). Refer to Note B1 on page 68.

A reconciliation of the underlying result to the statutory result is provided in the table below:

$m	EBITA	Net interest expense	Tax expense	NPATA	Deduct: Amortisation of acquired intangibles (post-tax)	NPAT
Underlying result	**416.0**	**(112.0)**	**(88.9)**	**215.1**	**(49.9)**	**165.2**
Historical contract claims adjustments	(18.8)	–	5.5	(13.3)	–	(13.3)
Portfolio restructure and exit costs	(142.4)	–	42.2	(100.2)	–	(100.2)
Payroll remediation costs	(16.3)	–	4.5	(11.8)	–	(11.8)
Goodwill impairment	(165.0)	–	–	(165.0)	–	(165.0)
Spotless shareholder class action	(34.0)	–	10.2	(23.8)	–	(23.8)
Legal settlement	(9.5)	–	2.7	(6.8)	–	(6.8)
Total items outside underlying result	(386.0)	–	65.1	(320.9)	–	(320.9)
Statutory result – profit/(loss)	**30.0**	**(112.0)**	**(23.8)**	**(105.8)**	**(49.9)**	**(155.7)**

Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group FY20: $71.3 million, $49.9 million after-tax. (FY19: $70.4 million, $49.3 million after-tax)

Revenue

Total revenue for the Group decreased by $30.4 million, or 0.2%, to $13.4 billion.

Transport revenue increased by 7.9%, or $344.0 million, to $4.7 billion. This growth has been driven by continuing strong performance in the Road Services business particularly in Australia, increased contributions from Transport Projects, both in Australia and New Zealand, and strong performance in the Rollingstock Services business.

Utilities revenue increased by 7.2%, or $181.3 million, to $2.7 billion due to increased activities in water, power and gas, as well as from new renewables projects. This was partially offset by reduced contribution from nbn™ contracts as the project winds down.

Facilities revenue decreased by 2.3%, or $77.0 million, to $3.3 billion largely due to the impact of COVID-19 on Hospitality and projects completed in New Zealand not being fully replaced. This was partially offset by increased revenue from Government-related contracts and contribution from Envar (acquired in 2H19).

EC&M revenue decreased by 31.5%, or $536.6 million, to $1.2 billion as a result of project completions, particularly the Ichthys contract, and reduced construction activity in line with Downer's strategy. In the Asset Services business, COVID-19 resulted in deferrals of non-essential maintenance and shutdowns.

Mining revenue increased by 4.8%, or $71.3 million, to $1.5 billion with higher activities at several sites partially offset by completed contracts at Roy Hill and Cloudbreak. COVID-19 impacted some operational activities due to travel restrictions.

Expenses

Total expenses increased by 3.4% compared to the prior corresponding period (pcp) and includes $386.0 million of items outside the underlying result, while the pcp included a $45.0 million individually significant item balance in relation to the Murra Warra wind farm contract.

Excluding these items, total expenses increased by 0.7%, or $81.5 million.

Employee benefits expenses decreased by 2.8%, or $123.1 million, to $4.2 billion and represent 32.9% of Downer's cost base. The decrease is mainly due to a shift in the mix of labour, where subcontractors' costs as a percentage of revenue has increased, as well as from the benefit of integration and restructuring activities across the Group.

Included in Employee benefits expenses there is $51.0 million of pre-tax items in relation to portfolio restructure and exit costs and payroll remediation costs as described in Note B3 in the Financial Report. Excluding these items, employee benefits expenses would have decreased by 4.0%, or $174.1 million, and would represent 33.5% of Downer's cost base.

Subcontractor costs increased by 5.1%, or $212.3 million, to $4.4 billion and represent 34.4% of Downer's cost base. This increase is a result of higher contract activities and the change in the subcontractor mix on some contracts during the year.

Raw materials and consumables costs increased by 2.0%, or $43.3 million, to $2.2 billion and represent 16.9% of Downer's cost base. The increase is mainly due to bogie overhaul activities in Rollingstock Services and from contract completion activities, particularly in the EC&M segment.

Plant and equipment costs decreased by 4.2%, or $29.2 million, to $660.6 million and represent 5.2% of Downer's cost base. The decrease in plant and equipment costs is attributed to a less capital-intensive business as well as initiatives to drive efficient plant and equipment usage and maintenance practices.

Following the adoption of AASB 16 *Leases* from 1 July 2019, the depreciation charges in relation to the right-of-use assets is now recognised and disclosed separately. The depreciation charge against the right-of-use assets of $151.8 million represents 1.2% of Downer's cost base.

Other depreciation and amortisation increased by 1.5%, or $5.5 million, to $365.5 million and represents 2.9% of Downer's cost base. This increase is driven by ongoing investment in business-critical equipment over recent years.

Impairment of non-current assets of $212.0 million represents $165.0 million impairment of goodwill and $47.0 million impairment of capitalised information systems, right-of-use assets; plant and equipment and leasehold improvement balances as a result of portfolio restructuring activities.

Other expenses, which include communication, travel, occupancy and professional fees costs, decreased by $50.1 million or 7.3% to $632.5 million and represent 4.9% of Downer's cost base. This decrease is primarily as a result of the application of AASB 16 *Leases*, which has resulted in the majority of the Group's leases being brought on balance sheet, and therefore incurring depreciation and interest charges rather than operating lease rental charges that had previously been disclosed as part of Other expenses.

Included in Other expenses is $94.9 million of pre-tax items as described in Note B3 of the Annual Report. Excluding these items, Other expenses would have decreased by 15.7%, or $100.0 million, to $537.6 million and would represent 4.3% of Downer's cost base.

Earnings

The results of the Group have been adversely impacted by contract losses in the EC&M service line as well as by the impact of $367.2 million (pre-tax) of Individually Significant Items.

Transport EBITA decreased by 2.8%, or $6.8 million, to $235.6 million driven by completed Transport Infrastructure projects in Australia and New Zealand, completion of the construction phase of contracts within Rollingstock Services, and lower contribution from the Keolis Downer JV as Yarra Trams patronage was impacted by COVID-19. Road Services in Australia continued to perform strongly.

Utilities EBITA decreased by 15.8% to $114.6 million as a result of reduced contribution from nbn™ contracts as the project winds down and from telecommunications contract completions in New Zealand.

Facilities EBITA decreased by 38.8%, or $66.1 million, to $104.4 million due to the significant impact of COVID-19 on the Hospitality business as well as completion of construction contracts not fully replaced. COVID-19 also reduced volumes in the Laundries business as elective surgery activities were restricted. This was partially offset by increased activity in Government contracts, including additional cleaning activities associated with COVID-19.

EC&M reported an EBITA loss of $51.0 million for the year, a $84.3 million decrease compared to the pcp. This was primarily due to a small number of loss-making construction contracts as well as from the completion of contracts in the pcp not fully replaced. The Asset Services business grew despite COVID-19 causing cancellations and delays of plant maintenance and shutdown activities.

Mining EBITA increased by 3.0% to $79.0 million driven by improved performance from existing contracts, the contribution of new contracts and benefits from restructuring initiatives.

Corporate costs decreased by $13.0 million or 13.2% to $85.4 million following restructuring initiatives.

Net finance costs, excluding $26.4 million of interest on lease liabilities arising from the changes in lease accounting under AASB 16 *Leases*, increased by $3.2 million or 3.9%, to $85.6 million as a result of increase in debt draw downs and debt refinancing to support business activities.

The tax expense of $2.4 million results in an effective tax rate of (1.6)% which is lower than the statutory rate of 30.0% due to the impact of items including non-taxable distributions from joint ventures and lower tax rates in overseas jurisdictions (e.g. New Zealand) as well as non-deductible items outside statutory results such as the Spotless goodwill impairment of $165.0 million.

Group Cash Flow and Financing

Funding, liquidity and capital are managed at Group level, with Divisions focused on working capital and operating cash flow management.

During the year ended 2020, the Group was successful in renegotiating the maturity dates of a significant portion of its debt facilities and establishing $787.8 million of new committed debt facilities, $500 million of which was established in direct response to the global COVID-19 pandemic to ensure the Group's liquidity strength was maintained during a period of heightened global uncertainty and volatility. In addition, the Group deferred payment of the 2019 interim dividend of $83.3 million to further augment its strong liquidity position.

On 21 July 2020, the Group announced the launch of a $400 million equity raising to support the acquisition of the remaining shares in Spotless and provide flexibility for continued investment in Downer's core businesses. The Group now has no material debt facilities maturing in the 12 months to 30 June 2021 and a strong liquidity position which will assist in mitigating any further market volatility.

Operating Cash Flow

Operating cash flow before interest and tax was $340.4 million, a $416.6 million decrease from the prior year. Most of this decrease ($339.6 million) occurred in the first six months of the year as a result of lower operating cash flows in EC&M due to losses incurred on a small number of constructions contracts, the impact of project completions in Utilities, and Waratah bogie overhaul activities in Transport.

Operating cash flow before interest and tax for the second half of the year was $320.9 million, compared to $397.9 million in the second half of the prior year. The decrease of $77.0 million is largely driven by the impact of COVID-19 and project completion activities across the Group. The operating cash flow in the second half of FY20 represents a 74.2% underlying EBITDA conversion.

The Group delivered net operating cash flow of $178.8 million with a FY20 underlying EBITDA conversion of 39.5%.

Net interest paid increased $32.8 million compared to the prior year. Of this increase, $26.4 million relates to interest payments in relation to the lease liabilities recognised on adoption of AASB 16 *Leases* from 1 July 2019.

Investing Cash

Total investing cash outflow was $397.9 million, $111.8 million lower than prior year, driven by $55.5 million lower payments for property, plant and equipment and $33.2 million less payments for business acquisitions. With the onset of COVID-19, the Group has deferred all non-essential investments.

Debt and Bonding

The Group's performance bonding facilities totalled $2,034.8 million at 30 June 2020, $108.3 million lower compared to the pcp with $595.0 million undrawn. There is sufficient available capacity to support the ongoing operations of the Group.

As at 30 June 2020, the Group had liquidity of $1,858.5 million comprising cash balances of $588.5 million and undrawn committed debt facilities of $1,270.0 million.

The Group continues to be rated BBB (Stable) by Fitch Ratings.

Group Financial Position

The ongoing review of the Group's compliance with Modern Award and Enterprise Agreements obligations has determined that the Group had a liability of $24.8 million for periods prior to 1 July 2018. As a result, prior year comparatives have been restated to properly reflect the opening balance of retained earnings, employee benefits provision and related deferred tax assets impact of $7.4 million. The after-tax impact of $17.4 million was reflected as an adjustment in opening retained earnings, of which $15.3 million was attributable to the parent and $2.1 million to non-controlling interests. In the analysis below, the balances as at 30 June 2019 are inclusive of the above adjustments.

The net assets of Downer decreased $412.3 million or 13.6% to $2,620.5 million. The main drivers of this decrease are the impact of the $320.9 million of items outside the underlying results and the adoption of AASB 16 *Leases* from 1 July 2019 which resulted in an adjustment to opening retained earnings of $66.0 million.

Net debt is calculated as borrowings (excluding lease liabilities) less the cash and cash equivalents. Net debt has increased $470.0 million to $1,462.8 million mainly driven by $122.2 million lower cash and cash equivalent balances and a lower operating cash flow to the pcp due to project completion activities as explained above.

As a result of a lower cash balance, drawdowns made to support operational activities and a reduced equity resulting from the items recognised during the year, Group gearing at 30 June 2020 was 35.5% (calculated on a pre-AASB 16 basis) which is 10.5 percentage points higher than 30 June 2019.

Total trade receivables and contract assets have increased 16.7% or $345.2 million to $2,411.1 million as a result of contract asset balance increases in EC&M and in Transport as a result of project commencements and bogie overhaul activities.

Inventories have increased 9.7% or $29.4 million to $334.0 million driven by bogie overhaul activities in Transport and higher stock levels in Utilities as a result of new contracts.

Current tax assets increased $7.5 million to $65.2 million due to the timing of tax payments.

Interest in joint ventures and associates increased by $1.8 million to $110.6 million. This represents Downer's share of net profit from joint ventures and associates of $19.4 million, offset by $17.2 million distributions received and $0.4 million of exchange losses.

Property, plant and equipment decreased by $23.1 million with depreciation and impairment charges of $275.1 million and net disposals of $19.3 million being partially offset by $286.2 million of additions during the year.

Right-of-use assets at 30 June 2020 were $592.6 million. This balance primarily arose as a result of the adoption of AASB 16 *Leases* as at 1 July 2019 recognising an initial balance of $570.6 million. The movement to 30 June 2020 relates to new leases entered since 1 July 2019 net of depreciation and impairment charges.

Intangible assets decreased by $234.6 million reflecting the $165.0 million impairment of goodwill in relation to Spotless, $23.9 million impairment of capitalised information systems and an additional $61.4 million investment in software during the year, offset by $100.5 million of amortisation charges.

Net deferred tax balances (net of deferred tax asset and liabilities) moved from a net deferred tax liability position of $36.7 million as at 30 June 2019 to a net deferred tax asset position of $47.0 million. The net movement of $83.7 million is primarily due to the recognition of available income tax losses as well as the initial adoption of AASB 16 *Leases*.

Total trade payables and contract liabilities increased by $69.4 million or 2.8% largely due to the recognition of $83.3 million on dividend payables following the deferral of the FY20 interim dividend and $34.0 million payable following the Spotless shareholder class action settlement. Excluding these specific payable amounts, trade payables and contract liabilities balances decreased by $47.9 million or 1.9% due to timing of payments and conversion of contract liabilities as project work is delivered. Trade payables and contract liabilities represents 41.7% of Downer's total liabilities.

Other financial liabilities decreased by $7.2 million to $60.2 million, representing 1.0% of Downer's total liabilities. The decrease mainly reflects a $26.7 million reduction in deferred and contingent consideration payable on acquisitions made in prior years, offset by a $17.0 million increase in the fair value of derivative financial instruments.

Lease liabilities at 30 June 2020 were $763.2 million, of which $727.8 million was recognised on adoption of AASB 16 *Leases* as at 1 July 2019. The increase represents new leasing arrangements entered into since 1 July 2019, offset by $152.9 million of principal payments made during the year. Lease liabilities represent 12.6% of Downer's total liabilities.

Provisions of $545.6 million decreased by $56.3 million mainly driven by provision utilisation during the year, particularly for Murra Warra and new Royal Adelaide Hospital, while the adoption of AASB 16 *Leases* resulted in $37.1 million reduction of onerous provisions related to leases being recognised against the right-of-use assets. Provisions represent 9.0% of Downer's total liabilities. Employee related provisions (mainly annual leave and long service leave) made up 79.2% of this balance with the remainder covering contract provisions, decommissioning and restructuring and warranty obligations.

Total equity decreased by $412.3 million compared to pcp. The main drivers of this reduction are the loss for the year of $155.7 million, the $174.0 million dividends paid/declared and the $66.0 million impact for the adoption of AASB 16 *Leases*. Net foreign currency losses on translation of foreign operations, particularly in New Zealand, resulted in a movement in the foreign currency translation reserve of $13.9 million.

The Non-controlling interest's share of the Total Equity decreased $9.6 million to $144.2 million. The reduction is due to $5.4 million losses by the non-controlling interest holders' share of the results in Spotless and Otraco South Africa, $1.0 million of other comprehensive losses and $3.2 million post-tax impact arising from the adoption of AASB 16 *Leases*.

Dividends

In respect of the financial year ended 30 June 2020, the Board:

- Declared an interim dividend of 14.0 cents per share, unfranked, that was to be paid on 25 March 2020 to shareholders on the register at 26 February 2020. On 24 March 2020 the payment date was deferred to 25 September 2020.
- Decided not to declare a final dividend for the 2020 financial year.

The unfranked dividend will be paid out of Conduit Foreign Income (CFI).

The Board also determined to continue to pay a fully imputed dividend on the ROADS security, which having been reset on 15 June 2020 has a yield of 4.32% per annum payable quarterly in arrears, with the next payment due on 15 September 2020. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 3.11% per annum until the next reset date.

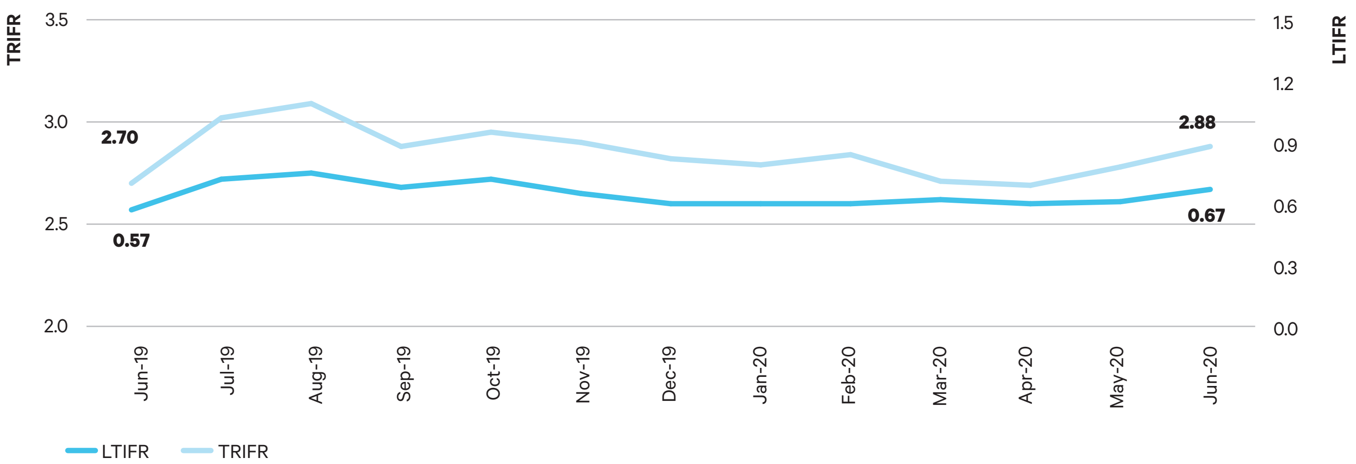
Consistent with prior year, the Company's Dividend Reinvestment Plan remains suspended.

As detailed in the Directors' Report for the 2019 financial year, the Board declared a 50% franked final dividend of 14.0 cents per share, that was paid on 2 October 2019 to shareholders on the register at 4 September 2019, with the unfranked portion paid out of CFI.

Zero Harm

Downer's[1] Lost Time Injury Frequency Rate (LTIFR) increased to 0.67 from 0.57 and its Total Recordable Injury Frequency Rate (TRIFR) increased to 2.88 from 2.70 per million hours worked[2]. Regrettably, in July 2019, an employee of Otraco died as a result of an incident at our facility in Calama, Chile. Senior leaders from the business attended the site to meet with family and colleagues to offer support. Downer continues to co-operate with regulatory investigations.

Downer Group Safety Performance
(12-month rolling frequency rates)



1 Safety data excludes Hawkins and Spotless.

2 Lost time injuries (LTIs) are defined as injuries that cause the injured person (employee or contractor) to be unfit to perform any work duties for one whole day or shift, or more, after the shift on which the injury occurred, and any injury that results, directly or indirectly, in the death of the person. The Lost Time Injury Frequency Rate (LTIFR) is the number of LTIs per million hours worked. Total Recordable Injuries (TRIs) are the number of LTIs + medically treated injuries (MTIs) for employees and contractors. Total Recordable Injury Frequency Rate (TRIFR) is the number of TRIs per million hours worked.

Group Business Strategies and Prospects for Future Financial Years

Downer's **Purpose** is to create and sustain the modern environment by building trusted relationships with our customers.

Our **Promise** is to work closely with our customers to help them succeed, using world-leading insights and solutions.

Our business is founded on **four Pillars**:

- **Safety**: Zero Harm is embedded in Downer's culture and is fundamental to the Company's future success
- **Delivery**: we build trust by delivering on our promises with excellence while focusing on safety, value for money and efficiency
- **Relationships**: we collaborate to build and sustain enduring relationships based on trust and integrity
- **Thought leadership**: we remain at the forefront of our industry by employing the best people and having the courage to challenge the status quo.

Downer's strategic objectives, prospects, and the risks that could adversely affect the achievement of these objectives, are set out in the table below.

Strategic Objective	Prospects	Risks and risk management
Maintain focus on Zero Harm	Downer believes that a sustainable and embedded Zero Harm culture is fundamental to the Company's ongoing success, and to building trusted relationships with customers and business partners. Downer's approach to Zero Harm enables it to work safely and environmentally responsibly in industry sectors with inherently hazardous environments. Zero Harm at Downer means a work environment that supports the health and safety of its people, allows it to deliver its business activities in an environmentally sustainable manner, and advance the communities in which it operates.	Downer has a robust Critical Risk program throughout its business. Risks that could cause serious injury to people or harm to the environment, and the controls needed to eliminate or manage those risks, are understood. This knowledge forms the core of Downer's risk management processes, and the monitoring of its critical controls. There is a strong commitment to Downer's Zero Harm objectives across all levels of the business. Each Division has in place a Zero Harm management system that meets the requirements of the Downer Zero Harm Framework. These systems are certified as a minimum to AS/NZS 4801 or BS OHSAS 18001, and ISO 14001:2015. Each system is reviewed regularly, undergoing internal and external audit. Downer has been developing a single management system known as The Downer Standard that applies across all businesses, and is presently planning for certification of that system. As outlined on page 6 of this Annual Report, Downer developed and implemented a range of measures in response to COVID-19 including Business Continuity Plans and Business Resumption Plans. Policies were also developed for implementing new safety procedures, such as non-contact temperature testing.

Strategic Objective	Prospects	Risks and risk management
Embed asset management and standardisation as a cornerstone of the Delivery pillar	Downer has developed extensive asset management knowledge and expertise and also adopts and implements world-leading insights and solutions. Downer strives for standardisation in its risk management and project delivery to ensure consistent quality outcomes for its customers.	The expectations of Downer's customers, and their customers, continue to grow with regards to reliable, intuitive and cost-effective assets and services. Downer has invested in capability and talent to improve asset management, standard processes, data analytics and lifecycle performance analytics. A number of these investments have Group-wide application in addition to their bespoke customer benefit. Risks to be managed include: not delivering value-added services to customers; scope reduction by customers who elect to use pure maintenance/ blue collar services; and an inability to deliver obligations in performance frameworks and service outcome contracts.
Focus on engagement with customers as a cornerstone of the Relationships pillar	Providing valuable and reliable products and services to customers, and their customers, is at the heart of Downer's culture. It enables Downer's customers to focus more on their core expertise while Downer delivers non-core operational services. Through ongoing analysis of markets, customers and competitors, Downer is well positioned to improve value and service for its customers and their customers.	*Relationships creating success* continues to be Downer's core operating philosophy that drives delivery of projects and services. It helps to ensure investment as initiatives and activities are focused on helping Downer's customers to succeed. Risks to be managed include: the threat of new competitors and disruptors in traditional markets; not keeping pace with changing customer expectations; and the threat of commoditisation of core products and services.
Utilise technology in core service offerings as a cornerstone of our Thought Leadership pillar	Technology is an inherent feature of today's world and there is therefore greater demand for technology in the services Downer provides. Customer operations are growing in complexity and this creates opportunities for Downer to connect, manage, monitor and report on core services and infrastructure.	Downer invests in a range of technology platforms and partnerships to meet customer needs. Downer focuses on selecting the right investments – for example those that can be leveraged across a number of service lines to maximise value for the greatest number of customers. Risks to be managed include: intensification of competition as customers converge into large single market procurement channels; introduction of foreign and technology-based competitors that bring a different value proposition; and a need for greater investment in technology and data services.

The following table provides an overview of the key prospects relevant to each of Downer's service lines and summarises Downer's intended strategic response across each sector to maximise the Company's performance and realise future opportunities.

Service line	Prospects	Downer's response
Transport	The multi-billion dollar market for transport services continues to grow in both Australia and New Zealand. Governments in both countries continue to invest in a range of projects to reduce congestion, improve mobility, and provide better linkages between communities.	Downer is a market leader in road services in both Australia and New Zealand, light rail construction in Australia and heavy rail construction and maintenance in Australia. Downer maintains strong strategic partnerships with leading global transport solutions providers and, through this model, is pursuing opportunities in rollingstock manufacture and maintenance, and transport network operations and maintenance. The Keolis Downer joint venture is a leading Australian multi-modal transport operator.
Utilities	Growth across utility markets is multi-faceted with a good pipeline of prospects in both Australia and New Zealand.	Downer has market leading positions in the power, gas, water and communications sectors in both Australia and New Zealand. Downer is strongly positioned to take advantage of the growth opportunities available in these sectors, with a demonstrable track record of excellence in service delivery, and a greater focus on introducing operational technology to improve the value Downer brings to customers.
Facilities	Large-scale and long-term outsourcing contracts continue to come to market, however the long-term nature of contracts in this sector means that a lot of work is already under contract. There is a strong pipeline of opportunities on the short-to-medium term horizon in both Australia and New Zealand.	Through the acquisition of Spotless, Downer is a major force in both Australia and New Zealand with market leading positions across key sectors including: defence; health; education and government. Government restrictions imposed in March 2020 to slow the spread of COVID-19 forced the majority of customers serviced by Spotless' Hospitality business to close. In June 2020, Downer reduced the footprint of this business to reflect the smaller scale of operations.
EC&M	Downer's EC&M service line includes its Engineering and Construction and Asset Services businesses. In recent years, a number of projects in the Engineering and Construction business have underperformed significantly. At the same time, the Asset Services business has performed well and achieved good growth.	Downer announced at its 2020 half year results that it will focus its construction efforts on areas where it has competitive differentiation. As a result, Downer will no longer tender for "hard dollar" construction contracts in the coal, iron ore, and industrial E&I (electrical and instrumentation) and SMP (structural, mechanical and piping) sectors. Downer will continue to invest and grow its Asset Services offering in EC&M.

Service line	Prospects	Downer's response
Mining	Downer has a proven track record as a leading provider of mining services in Australia and is well positioned to build on its strong market position and pipeline of work.	Downer is one of Australia's leading diversified mining contractors offering customers feasibility studies, open cut mining services, underground mining services, tyre management, drilling and blasting services, mine closure and rehabilitation, and asset management. Downer announced in August 2019 that it was conducting a review of its portfolio of businesses and that Mining would be an important area of focus. On 16 March 2020, Downer announced its review of Mining, including a potential sale, had been suspended due to the extraordinary market volatility caused by COVID-19. In July 2020, Downer announced it was again exploring the potential sale of the Mining portfolio, in parts or as a whole, in response to enquiries from a number of interested parties.

Outlook

In the current environment, Downer is not providing earnings guidance for the 2021 financial year. The acquisition of the remaining shares in Spotless will allow Downer to get the full benefits of the acquisition. Spotless is an important part of Downer's Urban Services strategy - driving consistent earnings and reliable cash flow from long term customers in critical sectors.

Downer's diversification across critical services in road, rail, power, gas, water, defence, health, education and government has delivered resilience in earnings and cash flows and there continues to be strong demand for these services.

Subsequent Events

On 21 July 2020 Downer announced the launch of a $400 million equity raising to support the acquisition of the remaining shares in Spotless and provide flexibility for continued investment in Downer's core business.

Downer has also announced it has made an unconditional offer to acquire all of the issued share capital of Spotless not already owned for an upfront cash consideration of approximately $134.5 million, plus a maximum of 7.5 million Downer shares to be issued on exercise of the Downer Contingent Share Option.

Downer has entered into a call option deed with Coltrane Master Fund, L.P. under which it has a call option over 2.99% of Spotless shares, which on exercise will increase Downer's ownership above the 90% threshold required to proceed to compulsory acquisition.

Outside of the above, at the date of this report, there have been no other matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

Environmental Management

Environmental management is a key component of Downer's Zero Harm philosophy and it places a strong emphasis on meeting its environmental compliance obligations. Downer's environmental commitments are outlined in its Environmental Sustainability Policy which can be found on the Downer website at **www.downergroup.com/board-policies**.

Downer's ability to manage the impacts of its activities on the natural and built environment is fundamental to its long-term success. This typically relates to land, air, water and greenhouse gas (GHG) emissions created from the activities it carries out for its customers. Downer's purpose is to create and sustain the modern environment by building trusted relationships with its customers. Downer is committed to helping its customers succeed by developing and delivering environmentally responsible and sustainable solutions, so communities remain resilient for the future.

Downer remains focused on developing solutions to reduce its energy consumption and GHG emissions. Downer is committed to transitioning to a low carbon economy and focusing its attention on managing risks associated with environmental management and climate change. Downer is also taking advantage of the commercial opportunities this presents for its business, in particular the energy transition and delivering infrastructure that is resilient to the physical impacts of climate change.

Downer's Zero Harm Management System Framework sets the minimum standards for health, safety, environment and sustainability within its Divisions. For environmental management each Division's Zero Harm Management System is certified to ISO 14001:2015. Divisions also adhere to environmental management requirements established by customers in addition to all applicable licence and regulatory requirements. Each Division is required to have an Environmental Sustainability Action Plan (ESAP) and strategies in place supported by suitably qualified environment and sustainability professionals. The ESAP allocates internal responsibilities for reducing the impact of its operations and business activities on the environment. In addition, all Divisions' management systems are audited internally and externally by independent third parties.

Employee Discount Share Plan (ESP)

An ESP was instituted in June 2005. In accordance with the provisions of the plan, as approved by shareholders at the 1998 Annual General Meeting, permanent full-time and part-time employees of Downer EDI Limited and its subsidiary companies who have completed six months service may be invited to participate.

No shares were issued under the ESP during the years ended 30 June 2020 or 30 June 2019.

There are no performance rights or performance options, in relation to unissued shares, that are outstanding.

Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of Board Committees) held during the 2020 financial year and the number of meetings attended by each Director (while they were a Director or Board Committee member). During the year, 17 Board meetings, six Audit and Risk Committee meetings, four Zero Harm Committee meetings, two Remuneration Committee meetings and two Nominations and Corporate Governance Committee meetings were held. In addition, 25 ad hoc meetings (attended by various Directors) were held in relation to various matters including tender reviews and major projects.

	Board		Audit and Risk Committee		Remuneration Committee	
Director	**Held[1]**	**Attended**	**Held[1]**	**Attended**	**Held[1]**	**Attended**
R M Harding	17	17	–	–	2	2
G A Fenn	17	17	–	–	–	–
S A Chaplain[5]	3	3	2	2	–	–
P S Garling[2]	17	17	–	–	2	2
T G Handicott[3]	17	17	6	6	2	2
N M Hollows	17	17	6	6	1	1
C G Thorne[4]	17	15	6	5	–	–
P L Watson	17	17	6	6	–	–

	Zero Harm Committee		Nominations and Corporate Governance Committee	
Director	**Held[1]**	**Attended**	**Held[1]**	**Attended**
R M Harding	–	–	2	2
G A Fenn	4	4	–	–
S A Chaplain[5]	2	2	–	–
P S Garling[2]	–	–	–	–
T G Handicott[3]	–	–	2	2
N M Hollows	–	–	–	–
C G Thorne[4]	4	3	–	–
P L Watson	4	4	–	–

1 These columns indicate the number of meetings held during the period each person listed was a Director or member of the relevant Board Committee.
2 Mr Garling is also Chairman of the Rail Projects Committee.
3 Ms Handicott is also Chairman of the Disclosure Committee which meets on an unscheduled basis.
4 Dr Thorne was also Chairman of the Tender Risk Evaluation Committee which meets on an unscheduled basis. Dr Thorne retired as a Director of the Company on 13 July 2020.
5 Ms Chaplain retired as a Director of the Company on 7 November 2019.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary, all officers of the Company and of any related body corporate against a liability incurred as a Director, secretary or executive officer to the extent permitted by the *Corporations Act 2001* (Cth).

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Downer's Constitution includes indemnities, to the extent permitted by law, for each Director and Company Secretary of Downer and its subsidiaries against liability incurred in the performance of their roles as officers. The Directors and the Company Secretaries listed on pages 4 to 6, individuals who act as a Director or Company Secretary of Downer's subsidiaries and certain individuals who formerly held any of these roles also have the benefit of the indemnity in the Constitution.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles). The Group's corporate governance statement is set out at pages 130 to 139 of this Annual Report.

Non-audit Services

Downer is committed to audit independence. The Audit and Risk Committee reviews the independence of the external auditors on an annual basis. This process includes confirmation from the auditors that, in their professional judgement, they are independent of the Group. To ensure that there is no potential conflict of interest in work undertaken by Downer's external auditors, KPMG, they may only provide services that are consistent with the role of the Company's auditor.

The Board has considered the position and, in accordance with the advice from the Audit and Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth).

The Directors are of the opinion that the services as disclosed below do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's *Code of Conduct APES 110 Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

A copy of the auditor's independence declaration is set out on page 51 of this Annual Report.

During the year, details of the fees paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and related audit firms were as follows:

Non-audit Services	2020 $	2019 $
Tax services	242,148	338,957
Advisory and due diligence services	468,318	275,000
	710,466	613,957

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191, relating to the "rounding off" of amounts in the Directors' Report and consolidated financial statements. Unless otherwise stated, amounts have been rounded off to the nearest whole number of millions of dollars and one place of decimals representing hundreds of thousands of dollars.

Remuneration Report

Chairman's Letter

Dear Shareholders,

Downer's 2020 Remuneration Report provides information about the remuneration of its most senior executives and explains how performance has been linked to reward outcomes at Downer for the 2020 financial year.

At the last Annual General Meeting in November 2019, 97.3% of all votes cast by shareholders were in favour of the 2019 Remuneration Report. The structure of the 2020 Remuneration Report has been prepared with the same objective of providing readers with a transparent view of key performance and outcomes using the report structure adopted in previous years.

A strong future

Several decisions have been made since the last Chairman's Letter with a clear objective to create a stronger platform for long-term, sustainable growth and position Downer as one of Australia's largest integrated providers of Urban Services.

These include:

- Repositioning construction efforts to markets and projects where Downer has competitive strength and opportunity to drive long-term services based contracts
- Completing significant refinancing and establishment of new facilities to bolster the Group's liquidity and reduce short-term debt maturities
- Exploring options to sell the Mining and Laundries businesses and reviewing the medium to long-term prospects of the Hospitality business to determine which parts will continue, be exited or be sold
- Undertaking a capital raising to strengthen the balance sheet, fund the acquisition of the remaining shares in Spotless and provide flexibility for continued investment in Downer's core business.

The acquisition of the remaining shares in Spotless continues the reshaping of Downer as an Urban Services business with resilient earnings, long-term customer relationships and more predictable cash flows.

Many of the activities that Downer's people perform every day have potential risks and ensuring they remain safe is of paramount importance. Downer's Lost Time Injury Frequency Rate at 30 June 2020 was 0.67 and the Total Recordable Injury Frequency Rate was 2.88. Downer's culture and our commitment to continuous improvement in Zero Harm remains a core strategic objective.

Key remuneration issues in 2020

2020 will be remembered as one of the more challenging years in corporate memory. COVID-19 has had a significant impact not just on Downer and its people, but also on the national and global economy.

In recognition of these likely impacts:

- The Directors decided to voluntarily reduce their fees by 50% for the Chairman and 30% for the other Non-executive Directors for the period 1 April 2020 to 30 June 2020
- The Managing Director, Chief Executive Officer – New Zealand and Chief Executive Officer – Spotless decided to voluntarily reduce their fixed remuneration by 50% for the period 1 March 2020 to 30 June 2020
- The other KMP decided to voluntarily reduce their fixed remuneration by 30% for the period 1 March 2020 to 30 June 2020
- A significant number of other executives decided to voluntarily reduce their fixed remuneration.

The funds from these voluntary remuneration reductions were used to establish a fund to provide financial assistance to Downer and Spotless employees who are experiencing severe hardship.

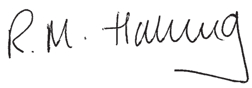
Further, no short-term incentive awards have been made in relation to the 2020 financial year.

Link between Downer performance and reward outcomes

Downer's remuneration framework for key senior employees has been very successful in aligning Downer's strategy and the creation of alignment between senior executives and shareholders. As set out in this Remuneration Report, Downer's remuneration strategy continues to provide:

- A significant proportion of remuneration being at risk linked to clear, objective measures
- A profitability gateway as a precondition to any short-term incentive entitlement
- For deferral of 50% of short-term incentive payments over a further two-year period
- The delivery of a significant proportion of pay in equity.

We trust that this overview and the accompanying detailed analysis are helpful when forming your own views on Downer's remuneration arrangements.




R M Harding
Chairman

T G Handicott
Remuneration Committee Chairman

Remuneration Report – AUDITED

The Remuneration Report provides information about the remuneration arrangements for key management personnel (KMP), which means Non-executive Directors and the Group's most senior executives, for the year to 30 June 2020. The term "executive" in this Report means KMPs who are not Non-executive Directors.

The Report covers the following matters:

1. Year in review
2. Details of Key Management Personnel
3. Remuneration policy, principles and practices
4. Relationship between remuneration policy and Company performance
5. The Board's role in remuneration
6. Description of executive remuneration
7. Details of executive remuneration
8. Executive equity ownership
9. Key terms of employment contracts
10. Related party information
11. Description of Non-executive Director remuneration.

1. Year in Review

1.1 Summary of changes to remuneration policy

Downer has continued to refine its remuneration policy during the period. The Board considered Company strategy and reward plans based on performance measurement, competitive position and stakeholder feedback. Changes to policy are noted in the relevant sections of this Report and are summarised in the table below.

Policy	Enhancements since 2019
Short-term incentive (STI) plan	– The Zero Harm measures for safety and environmental performance have been further refined, building upon previous improvements to move with and support growth in organisational maturity and ensure continual stretch and ongoing Zero Harm improvement through requiring executives to: – Review baselines and set targets for annualised GHG emission reductions to contribute towards meeting Downer's science-based target for areas of control and identify, assess and determine Return on Investment (ROI) for three opportunities that will contribute to Downer's decarbonisation strategy – Implement updated Group-wide consistent policies, procedures and supporting documents.

2. Details of Key Management Personnel

The following persons acted as Directors of the Company during or since the end of the most recent financial year:

Director	Role
R M Harding	Chairman, Independent Non-executive Director
G A Fenn	Managing Director and Chief Executive Officer
S A Chaplain	Independent Non-executive Director (retired 7 November 2019)
P S Garling	Independent Non-executive Director
T G Handicott	Independent Non-executive Director
N M Hollows	Independent Non-executive Director
C G Thorne	Independent Non-executive Director (retired 13 July 2020)
P L Watson	Independent Non-executive Director

The named persons held their current executive position for the whole of the most recent financial year, except as noted:

Executive	Role
S Cinerari	Chief Executive Officer – Transport and Infrastructure to 25 August 2019
	Chief Operating Officer – Australian Operations from 26 August 2019
M J Ferguson	Chief Financial Officer
S L Killeen	Chief Executive Officer – New Zealand
B C Petersen	Chief Executive Officer – Mining, Energy and Industrial Services to 25 August 2019
P J Tompkins	Chief Executive Officer – Spotless

3. Remuneration Policy, Principles and Practices

3.1 Executive remuneration policy

Downer's executive remuneration policy and practices are summarised in the table below.

Policy	Practices aligned with policy
Retain experienced, proven performers, and those considered to have high potential for succession	– Provide remuneration that is internally fair – Ensure remuneration is competitive with the external market – Defer a substantial part of pay contingent on continuing service and sustained performance.
Focus performance	– Provide a substantial component of pay contingent on performance against targets – Focus attention on the most important drivers of value by linking pay to their achievement – Require profitability to reach a challenging level before any bonus payments can be made – Provide a LTI plan component that rewards consistent Scorecard performance over multiple years and over which executives have a clear line of sight.
Provide a Zero Harm environment	– Incorporate measures that embody Zero Harm for Downer's employees, contractors, communities and the environment as a significant component of reward.
Manage risk	– Encourage sustainability by balancing incentives for achieving both short-term and longer-term results, and deferring equity-based reward vesting after performance has been initially tested – Set stretch targets that finely balance returns with reasonable but not excessive risk taking and cap maximum incentive payments – Do not provide excessive "cliff" reward vesting that may encourage excessive risk taking as a performance threshold is approached – Diversify risk and limit the prospects of unintended consequences from focusing on just one measure in both short-term and long-term incentive plans – Stagger vesting of deferred short-term incentive payments to encourage retention and allow forfeiture of rewards that are the result of misconduct or material adjustments – Retain full Board discretion to vary incentive payments, including in the event of excessive risk taking – Restrict trading of vested equity rewards to ensure compliance with the Company's Securities Trading Policy.
Align executive interests with those of shareholders	– Provide that a significant proportion of pay is delivered as equity so part of executive reward is linked to shareholder value performance – Provide a long-term incentive that is based on consistent Scorecard performance against challenging targets set each year that reflect sector volatility and prevailing economic conditions as well as relative TSR and earnings per share measures directly related to shareholder value – Maintain a guideline minimum shareholding requirement for the Managing Director – Exclude the short-term impact of unbudgeted and opportunistic acquisitions and divestments from performance assessment to encourage agility and responsiveness – Encourage holding of shares after vesting via a trading restriction for all executives and payment of LTI components in shares – Prohibit hedging of unvested equity and equity subject to a trading lock to ensure alignment with shareholder outcomes.
Attract experienced, proven performers	– Provide a total remuneration opportunity sufficient to attract proven and experienced executives from secure positions in other companies and retain existing executives.

4. Relationship Between Remuneration Policy and Company Performance

4.1 Company strategy and remuneration

Downer's business strategy includes:

- Maintaining focus on Zero Harm by continually improving health, safety and environmental performance to achieve Downer's goal of zero work-related injuries and significant environmental incidents
- Driving growth in core markets through focusing on serving existing customers better across multiple products and service offerings, growing capabilities and investing in innovation, research and development and community and Indigenous partnerships
- Creating new strategic positions through enhanced value add services that improve propositions for customers and exporting established core competencies into new overseas markets with current customers of the Company
- Reducing risk and enhancing the Company's capability to withstand threats, take advantage of opportunities and reduce cyclical volatility
- Obtaining better utilisation of assets and improved margins through simplifying and driving efficiency
- Identifying opportunities to manage the Downer portfolio through partnering, acquisition and divestment that deliver long-term shareholder value
- Maintaining flexibility to be able to adapt to the changing economic and competitive environment to ensure Downer delivers shareholder value.

The Company's remuneration policy complements this strategy by:

- Incorporating Company-wide performance requirements for both STI and LTI reward vesting for earnings (NPATA), Free Cash Flow (FFO) and People measures to encourage cross-divisional collaboration
- Incorporating performance metrics that focus on cash flow to reduce working capital and debt exposure
- Setting NPATA, EBITA and FFO STI performance and gateway requirements based on effective application of funds employed to run the business for better capital efficiency
- Employing FFO as the cash measure for the STI to provide more emphasis on control of capital expenditure
- Excluding the short-term impacts of opportunistic and unbudgeted acquisitions and divestments on incentive outcomes to encourage flexibility, responsiveness and growth consistent with strategy
- Deferring 50% of STI awards to encourage sustainable performance and a longer-term focus
- Incorporating consistent financial performance in the LTIP Scorecard measure
- Emphasis on Zero Harm measures in the STI to maintain the Company's position as a Zero Harm leader and employer and service provider of choice, thereby delivering a competitive advantage
- Encouraging engagement with, and the development and retention of, its people to help maintain a sustainable supply of talent.

4.2 Remuneration linked to performance

The link to performance is provided by:

- Requiring a significant portion of executive remuneration to vary with short-term and long-term performance
- Applying a profitability gateway to be achieved before an STI calculation for executives is made
- Applying further Zero Harm gateways to be achieved before calculating any reward for safety or environmental performance
- Applying challenging financial and non-financial measures to assess performance
- Ensuring that these measures focus management on strategic business objectives that create shareholder value
- Delivering a significant proportion of payment in equity for alignment with shareholder interests.

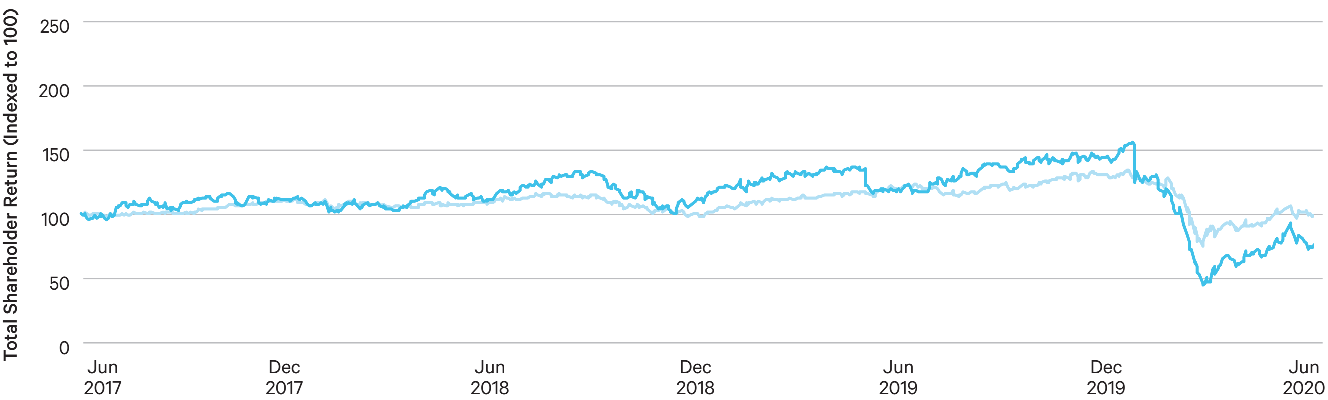
Downer measures performance on the following key corporate measures:

- Earnings per share (EPS) growth
- Total shareholder return (TSR) relative to other ASX 100 companies (excluding ASX "Financials" sector companies)
- Group NPATA
- Divisional EBITA
- FFO
- Engagement with Downer's people
- Zero Harm measures of safety and environmental sustainability.

Remuneration for all executives varies with performance on these key measures.

The following graph shows the Company's performance compared to the median performance of the ASX 100 over the three-year period to 30 June 2020.

Downer EDI TSR compared to S&P/ASX 100 median*

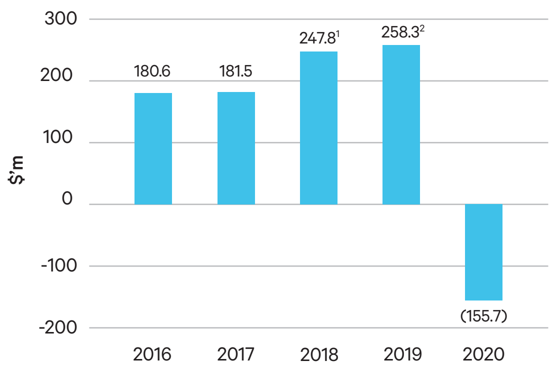


* S&P/ASX 100 companies as at 30/06/2017

Downer EDI TSR S&P/ASX 100 median TSR

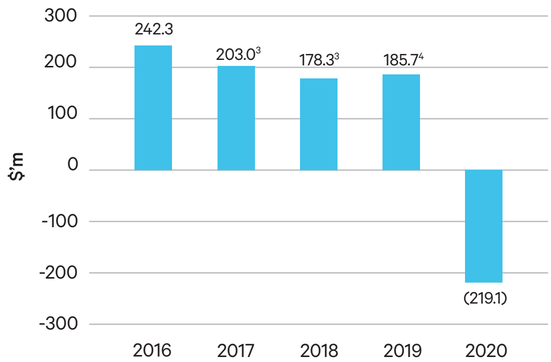
The graphs below illustrate Downer's performance against key financial and non-financial performance indicators over the last five years.

Net profit after tax



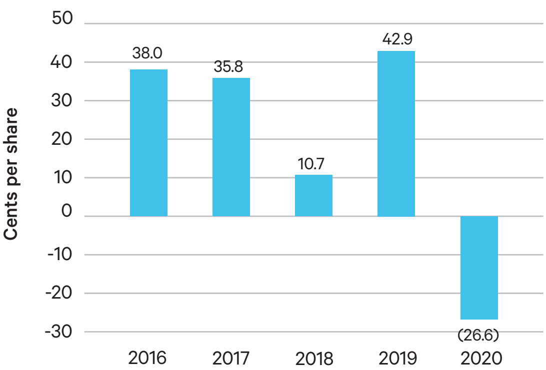
1. Adjusted for material unbudgeted transactions and individually significant items.
2. Adjusted for material unbudgeted transactions.

Free cash flow



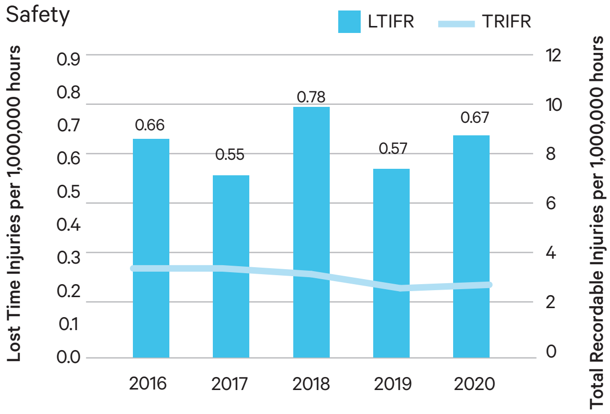
3. Adjusted for material unbudgeted transactions, including payment for Spotless shares.
4. Adjusted for material unbudgeted transactions.

Basic earnings per share[5]



5. Historical basic earnings per share were restated as a result of 169.9 million shares issued from the capital raising made as part of the Spotless takeover offer announced on 21 March 2017. The weighted average number of shares (WANOS) to calculate EPS was adjusted by an adjustment factor of 0.943.

Safety



5. The Board's Role in Remuneration

The Board engages with shareholders, management and other stakeholders as required, to continuously refine and improve executive and Director remuneration policies and practices.

Two Board Committees deal with remuneration matters. They are the Remuneration Committee and the Nominations and Corporate Governance Committee.

The role of the Remuneration Committee is to review and make recommendations to the Board in relation to executives in respect of:

- Executive remuneration and incentive policy
- Remuneration of senior executives of the Company
- Executive reward and its impact on risk management
- Executive incentive plans
- Equity-based incentive plans
- Superannuation arrangements
- Recruitment, retention, performance measurement and termination policies and procedures for all Key Management Personnel and senior executives reporting directly to the Managing Director
- Disclosure of remuneration in the Company's public materials including ASX filings and the Annual Report
- Retirement payments for all Key Management Personnel and senior executives reporting directly to the Managing Director.

The Nominations and Corporate Governance Committee is responsible for recommending and reviewing remuneration arrangements for the Executive Director and Non-executive Directors of the Company.

Each Committee has the authority to engage external professional advisors without seeking approval of the Board or management. During the reporting period, the Remuneration Committee retained Guerdon Associates Pty Ltd as its advisor. Guerdon Associates Pty Ltd does not provide services to management and is considered to be independent.

Remuneration arrangements for executives of Spotless are set by the Board of Spotless. Spotless' People and Remuneration Committee is comprised of two independent Directors and one Director nominated by Downer.

Details of the remuneration structure and arrangements for 2020 for the Chief Executive Officer – Spotless, as established by the Spotless Board, are outlined at section 6.7.

6. Description of Executive Remuneration

6.1 Executive remuneration structure

Executive remuneration has a fixed component and a component that varies with performance.

The variable component ensures that a proportion of pay varies with performance. Performance is assessed annually for performance periods covering one year and three years. Payment for performance assessed over one year is an STI. Payment for performance over a three-year period is an LTI.

In order for maximum STIs to be awarded, performance must achieve a stretch goal that is a clear margin above the planned budget for the period. This enables the Company to attract and retain better performing executives, and ensures pay outcomes are aligned with shareholder returns.

Target STIs are less than the maximum STI. Target STI is payable on achievement of planned objectives. For executives, the target STI is 75% of the maximum STI. The maximum total remuneration that can be earned by an executive is capped. The maximums are determined as a percentage of fixed remuneration.

Executive position	Target STI % of fixed remuneration	Maximum STI % of fixed remuneration	Maximum LTI % of fixed remuneration	Maximum total performance based pay as a % of fixed remuneration
Managing Director	75	100	100	200
Executives appointed prior to 2011	75	100	75	175
Executives appointed from 2011	56.25	75	50	125

The proportions of STI to LTI take into account:

- Market practice
- The service period before executives can receive equity rewards
- The behaviours that the Board seeks to encourage through direct key performance indicators
- The guideline for the Managing Director to maintain a shareholding as a multiple of pay after long-term incentive rewards have vested.

6.2 Fixed remuneration

Fixed remuneration is the sum of salary and the direct cost of providing employee benefits, including superannuation, motor vehicles, car parking, living away from home expenses and fringe benefits tax.

The level of remuneration is set to be able to retain proven performers and when necessary to attract the most suitable external candidates from secure employment elsewhere.

Remuneration is benchmarked against a peer group of direct competitors and a sector peer group. While market levels of remuneration are monitored on a regular basis, there is no contractual requirement or expectation that any adjustments will be made.

In recognition of the likely impact of the coronavirus on Downer and its people, the Managing Director, Chief Executive Officer – New Zealand and Chief Executive Officer – Spotless decided to voluntarily reduce their fixed remuneration by 50% for the period 1 March 2020 to 30 June 2020 and the other KMP decided to voluntarily reduce their fixed remuneration by 30% for the same period. A significant number of other executives also decided to reduce their fixed remuneration.

The funds from these voluntary remuneration reductions were used to establish a fund to provide financial assistance to Downer and Spotless employees who are experiencing severe hardship.

Otherwise, no adjustment has been made to remuneration for the Managing Director since July 2012.

6.3 Short-term Incentive

6.3.1 STI tabular summary

The following table outlines the major features of the 2020 STI plan.

Purpose of STI plan	– Focus performance on drivers of shareholder value over 12-month period – Improve Zero Harm and people related results – Ensure a part of remuneration costs varies with the Company's 12-month performance.
Minimum performance "gateway" before any payments can be made	Achievement of a gateway based on budgeted Group NPATA for corporate executives and Division EBITA for divisional heads.
Maximum STI that can be earned	– KMP appointed pre-2011: up to 100% of fixed remuneration – KMP appointed from 2011: up to 75% of fixed remuneration.
Percentage of STI that can be earned on achieving target expectations	75% of the maximum. For an executive to receive more, performance in excess of target expectations will be required.
Individual Performance Modifier (IPM)	– An IPM may be applied based on an executive's individual key performance indicators and relative performance – Moderate individual performance may result in an IPM of less than 1 or outstanding performance may result in an IPM greater than 1. The IPM must average 1 across all participants – Application of an IPM cannot result in an award greater than the maximum STI% level set out in section 6.1.
Discretion to vary payments	The Board, in its discretion, may vary STI payments by up to + or – 100% from the payment applicable to the level of performance achieved, up to the maximum for that executive.
Performance period	1 July 2019 to 30 June 2020.
Performance assessed	August 2020, following audit of accounts.
Additional service period after performance period for payment to be made	50% of the award is deferred with the first tranche of 25% vesting one year following award and the second tranche of 25% vesting two years following award.
Payment timing	September 2020 for the first cash payment of 50% of the award. The deferred components of the STI payments will be paid one and two years following the award, in equal tranches of 25% of the award.
Form of payment	Cash for initial payment. The value of deferred components will be settled in cash or shares, net of personal tax. An eligible leaver's deferred components will be settled in shares or in cash in the sole and absolute discretion of the Board.
Performance requirements	Group NPATA and divisional EBITA, FFO, Zero Harm and people measures.
Board discretion	The Board may exercise discretion to: – Reduce partly or fully the value of the deferred components that are due to vest in certain circumstances, including where an executive has acted inappropriately or where the Board considers that the financial results against which the STI performance measures were tested were incorrect in a material respect or have been reversed or restated – Settle deferred components in shares or cash.
New recruits	New executives (either new starts or promoted employees) are eligible to participate in the STI in the year in which they commence in their position with a pro-rata entitlement.
Terminating executives	There is no STI entitlement where an executive's employment terminates prior to the end of the financial year. Where an executive's employment terminates prior to the vesting date, the unvested deferred components will be forfeited. However, the Board has retained discretion to vest deferred awards, in the form of shares or cash, in their ordinary course where the executive is judged to be an eligible leaver.

6.3.2 STI overview

The STI plan provides for an annual payment that varies with annual performance. This has been applied to performance measured over the Company's financial year to 30 June 2020.

The basis of the plan is designed to align STI outcomes with financial results. No STI is paid unless a minimum profit gateway is met. For corporate executives, the gateway is based on the Group budgeted profit target. For Divisional executives, the gateway is based on the Division budgeted profit target. Profit for this purpose is defined as NPATA for corporate executives and EBITA for Divisional executives. This minimum must be at a challenging level to justify the payment of STI to an executive and deliver an acceptable return for the funds employed in running the business. Positive and negative impacts from material but unbudgeted and opportunistic transactions are excluded from gateway assessment. Whether to exclude the impact of significant items (positive or negative) is considered on a case by case basis.

As noted in section 6.1, the maximum STI that can be earned is capped to minimise excessive risk taking.

Deferral is a key feature as part of the STI structure. Payment of 50% of the award is paid at the time of award in cash and the remaining 50% of the award earned is deferred over two years.

The first payment of 50% of the award will be in cash after finalisation of the annual audited results. The payment of the deferred component of the award will be in the form of two tranches, each to the value of 25% of the award.

The deferred components represent an entitlement to cash or shares, subject to the satisfaction of a continued employment condition. The first tranche will vest one year following award and the second tranche will vest two years following award, provided an executive remains employed by the Group at the time of vesting.

The value of deferred components will generally be settled in shares, net of applicable personal tax. This is designed to encourage executive share ownership, and not adversely impact executives who have to meet their taxation obligations arising from the vesting of the deferred components. However, the Board retains the discretion to vest deferred awards, in the form of shares or cash, and will generally have regard to an executive's individual circumstances and existing level of equity ownership.

No dividend entitlements are attached to the deferred components during the vesting period.

Where an executive ceases employment with the Group prior to the vesting date, the deferred components will be forfeited. However, the Board has retained the discretion to vest deferred awards, in the form of shares or cash, in their ordinary course where the executive is judged to be an eligible leaver.

6.3.3 How STI payments are assessed

Target STI plan percentage of pay	An individual's target incentive under the STI plan is expressed as a percentage of fixed remuneration. The STI plan percentage is set according to policy tabulated in section 6.1.
Organisational or divisional scorecard result	As a principle, "target" achievement would be represented at budget. Thresholds and maximums are also set.
Individual Performance Modifier (IPM)	At the end of the plan year, eligible employees are provided with an IPM against their key performance indicators and relative performance. Individual key performance indicators are set between the individual and the Managing Director (if reporting to the Managing Director) or the Board (if the Managing Director) at the start of the performance period. IPMs must average to 1.
STI plan incentive calculation	Fixed remuneration x maximum STI plan percentage x scorecard result x IPM.

6.3.4 STI performance requirements

Overall performance is assessed on Group NPATA, Divisional EBITA, FFO, Zero Harm and a measure of employee engagement.

NPATA and EBITA include joint ventures and associates and include, inter alia, changes in accounting policy. NPATA and EBITA provide transparency on operational business performance, align with how Downer presents its results to the market and allow for easier understanding of alignment between performance and remuneration outcomes. The Board considers this approach to be appropriate as the Board is the ultimate decision maker for transactions that give rise to acquired intangibles that result in the amortisation expense and the impact of amortisation of acquired intangibles, which in nature relate to long-term strategic decisions, remains reflected in incentive outcomes through the EPS measure in the LTI plan.

FFO is defined as net cash from operating activities (i.e. EBIT plus non-cash items in operating profit plus distributions received from JVs or associates plus movements in working capital plus movements in operating assets less net interest less tax paid), less investing cash flow.

Zero Harm reflects Downer's commitment to safety and environmental, social and governance matters. The Zero Harm element includes safety and environmental measures, underscoring Downer's commitment to customers, employees, regulators and the communities in which it operates.

The measures for the Zero Harm element of the scorecard are as follows:

Measure	Target
Safety	
TRIFR (total recordable injury frequency rate)	Achieve TRIFR and LTIFR below defined threshold for area of responsibility. TRIFR is calculated as the number of recordable injuries per million hours calculated over 12 months.
LTIFR (lost time injury frequency rate)	LTIFR is calculated as the number of lost time injuries per million hours calculated over 12 months.
Environmental GHG emission reductions	Review baselines and set targets for annualised GHG emission reductions to contribute towards meeting Downer's science-based target for areas of control. Identify, assess and determine Return on Investment (ROI) for three opportunities for each Line of Business that will contribute to Downer's decarbonisation strategy.
Critical Risks	Conduct an operationally led review of Bow Tie analyses. Critically analyse Critical Risk control performance and initiate a program of projects to improve the resilience of critical controls.
Zero Harm Leadership	Performance of a minimum number of Critical Risk observations by senior executives within their business, across businesses, and in partnership with clients. Implementation of updated Group-wide consistent policies, procedures and supporting documents.

Should a workplace fatality or serious environmental incident occur, the relevant safety or environmental portion of the STI is foregone.

Weightings applied to the 2020 STI scorecard measures for all executives, including the Managing Director, are set out in the table below.

Executive	Group NPATA	Divisional EBITA	Free cash flow	Zero Harm	People
Corporate	30%	–	30%	30%	10%
Business unit	7.5%	22.5%	30% (7.5% Group, 22.5% Division)	30%	10% (3% Group, 7% Division)

The Board has discretion to vary STI payments by up to + or – 100% from the payment applicable to the level of performance achieved, up to the maximum for that executive.

Specific details of STI performance outcomes are set out in section 7.3.

The Board retains the right to vary from policy in exceptional circumstances. However, any variation from policy and the reasons for it will be disclosed.

6.4 Long-term Incentive

6.4.1 LTI tabular summary

The following table outlines the major features of the 2020 LTI plan.

Purpose of LTI plan	– Focus performance on drivers of shareholder value over three-year period – Manage risk by countering any tendency to over-emphasise short-term performance to the detriment of longer-term growth and sustainability – Ensure a part of remuneration costs varies with the Company's longer-term performance.
Maximum value of equity that can be granted	– Managing Director: 100% of fixed remuneration – KMP appointed pre-2011: 75% of fixed remuneration – KMP appointed from 2011: 50% of fixed remuneration.
Performance period	1 July 2019 to 30 June 2022.
Performance assessed	September 2022.
Additional service period after performance period for shares to vest	Performance rights for which the relevant performance vesting condition is satisfied will not vest unless executives remain employed with the Group on 30 June 2023.
Performance rights vest	July 2023.
Form of award and payment	Performance rights.
Performance conditions	There are three performance conditions. Each applies to one-third of the performance rights granted to each executive.

Relative TSR

The relative TSR performance condition is based on the Company's TSR performance relative to the TSR of companies comprising the ASX 100 index, excluding financial services companies, at the start of the performance period, measured over the three years to 30 June 2022.

The performance vesting scale that will apply to the performance rights subject to the relative TSR test is shown in the table below:

Downer EDI Limited's TSR Ranking	Percentage of performance rights subject to TSR condition that qualify for vesting
< 50th percentile	0%
50th percentile	30%
Above 50th and below 75th percentile	Pro-rata so that 2.8% of the performance rights in the tranche will vest for every 1 percentile increase between the 50th percentile and 75th percentile
75th percentile and above	100%

EPS growth

The EPS growth performance condition is based on the Company's compound annual EPS growth over the three years to 30 June 2022.

The performance vesting scale that will apply to the performance rights subject to the EPS growth test is shown in the table below:

Downer EDI Limited's EPS compound annual growth	Percentage of performance rights subject to EPS condition that qualify for vesting
< 5%	0%
5%	30%
Above 5% to < 10%	Pro-rata so that 14% of the performance rights in the tranche will vest for every 1% increase in EPS growth between 5% and 10%
10% or more	100%

Scorecard

The Scorecard performance condition is based on the Group's NPATA and FFO for each of the three years to 30 June 2022. These measures are considered to be key drivers of shareholder value. Accordingly, they have been included in the LTI plan to reward sustainable financial performance.

The performance vesting scale that will apply to the performance rights subject to the Scorecard test is shown in the table below:

Scorecard result	Percentage of performance rights subject to Scorecard condition that qualify for vesting
< 90%	0%
90%	30%
Above 90% to < 110%	Pro-rata so that 3.5% of the performance rights in the tranche will vest for every 1% increase in the Scorecard result between 90% and 110%
110% or more	100%

How performance rights and shares are acquired	The rights are issued by the Company and held by the participant subject to the satisfaction of the vesting conditions. The number of rights held may be adjusted pro-rata, consistent with ASX adjustment factors, for any capital restructures. If the rights vest, executives can exercise them to receive shares that are normally acquired on-market. The Board retains the discretion to vest awards in the form of cash.
Treatment of dividends and voting rights on performance rights	Performance rights do not have voting rights or accrue dividends.
Restriction on hedging	Hedging of entitlements under the plan by executives is not permitted.
Restriction on trading	Vested shares arising from the rights may only be traded with the approval of the Remuneration Committee. Approval requires that trading complies with the Company's Securities Trading Policy.
New participants	New executives (either new starts or promoted employees) are eligible to participate in the LTI on the first grant date applicable to all executives after they commence in their position. An additional pro-rata entitlement if their employment commenced after the grant date in the prior calendar year may be made on a discretionary basis.
Terminating executives	Where an executive ceases employment with the Group prior to the vesting date, the rights will be forfeited. However, the Board will retain the discretion to retain executives in the plan in certain circumstances including the death, total and permanent disability or retirement of an executive. In these circumstances, the Board will also retain the discretion to vest awards in the form of cash.

Change of control	On the occurrence of a change of control event and providing at least 12 months of the grants' performance period have elapsed, unvested performance rights pro rated with the elapsed service period are tested for vesting with performance against the relevant relative TSR, EPS growth or Scorecard requirements for that relevant period. Vesting will occur to the extent the performance conditions are met. Performance rights that have already been tested, have met performance requirements and are subject to the completion of the service condition, fully vest.

6.4.2 LTI overview

Executives participate in a LTI plan. This is an equity-based plan that provides for a reward that varies with Company performance over three-year measures of performance. Three-year measures of performance are considered to be the maximum reasonable time period for setting incentive targets for earnings per share and are generally consistent with market practice in the Company's sector.

The payment is in the form of performance rights. The performance rights do not have any dividend entitlements or voting rights. If all the vesting requirements are satisfied, the performance rights will vest and the executives will receive shares in the Company or cash at the discretion of the Board.

The 2020 LTI represents an entitlement to performance rights to ordinary shares exercisable subject to satisfaction of both a performance condition and a continued employment condition. Grants will be in three equal tranches, with each tranche subject to an independent performance requirement. The performance requirements for each tranche will share two common features:

- Once minimum performance conditions are met, the proportion of performance rights that qualify for vesting commences at 30% and gradually increases pro-rata with performance. This approach provides a strong motivation for meeting minimum performance, but avoids a large "cliff" which may encourage excessive risk taking
- The maximum reward is capped at a "stretch" performance level that is considered attainable without excessive risk taking.

Performance for the 2020 LTI grants will be measured over the three-year period to 30 June 2022.

The proportion of performance rights that can vest will be calculated in September 2022, but executives will be required to remain in service until 30 June 2023 to be eligible to receive any shares.

Where an executive ceases employment with the Group prior to the vesting date, the rights will be forfeited. However, the Board will retain the discretion to retain executives in the plan in certain circumstances such as the death, total and permanent disability or retirement of an executive. In these circumstances, the Board will also retain the discretion to vest awards in the form of cash.

After vesting, any shares will remain subject to a trading restriction that is governed by the Company's Securities Trading Policy.

All unvested performance rights will be forfeited if the Board determines that an executive has committed an act of fraud, defalcation or gross misconduct or in other circumstances at the discretion of the Board.

6.4.3 Performance requirements

One tranche of performance rights in the 2020 LTI grant will qualify for vesting subject to performance relative to other companies, while the other two tranches of performance rights will qualify for vesting subject to separate, independent absolute performance requirements.

The relative performance requirement applicable to the first tranche of performance rights is based on total shareholder return (TSR). TSR is calculated as the difference in share price over the performance period, plus the value of shares earned from reinvesting dividends received over this period, expressed as a percentage of the share price at the beginning of the performance period. If the TSR for each company in the comparator group is ranked from highest to lowest, the median TSR is the percentage return to shareholders that exceeds the TSR for half of the comparison companies. The 75th percentile TSR is the percentage return required to exceed the TSR for 75% of the comparison companies.

Performance rights in the tranche to which the relative TSR performance requirement applies will vest pro-rata between the median and 75th percentile. That is, 30% of the tranche vest at the 50th percentile, 32.8% at the 51st percentile, 35.6% at the 52nd percentile and so on until 100% vest at the 75th percentile.

The comparator group for the 2020 LTI grants will be the companies, excluding financial services companies, in the ASX 100 index as at the start of the performance period on 1 July 2019. Consideration has been given to using a smaller group of direct competitors for comparison, however:

- Limiting the comparator group to a small number of direct competitors could result in very volatile outcomes from period to period
- Management's strong focus on improving the Company's ranking among ASX 100 companies has become embedded in Company culture, so reinforcing this rather than trying to dislodge it with another focus was considered desirable.

The absolute performance requirement applicable to the second tranche of performance rights is based on Earnings per Share (EPS) growth over the three-year performance period to 30 June 2022. The EPS measure is based on AASB 133 *Earnings per Share*.

The tranche of performance rights dependent on the EPS performance condition will vest pro-rata between 5% compound annual EPS growth and 10% compound annual EPS growth.

Vesting applies on a pro-rata basis from 30% upon meeting the minimum compound annual EPS growth performance level of 5% to 100% at 10% compound annual EPS growth. Capping reduces the tendency for excessive risk taking and volatility that may be encouraged if the annual compound EPS growth bar is set above 10%.

The absolute performance requirement applicable to the third tranche of performance rights is based on the Scorecard condition over the three-year performance period to 30 June 2022.

The Scorecard condition is designed to:

- Strengthen retention through the setting of challenging targets on an annual basis that reflect prevailing market conditions, for a portion of LTI awards
- Align with the STI plan to encourage a long-term approach to achieving annual financial performance targets
- Improve the line of sight for executives so as to increase motivation and focus on consistent performance
- Focus on performance sustainability through reward of consistent achievement of absolute performance targets over the long term.

The Scorecard condition is comprised of two independent absolute components of equal weighting. These components are based on Group NPATA and Group FFO.

The performance of each component will be measured over the three-year period to 30 June 2022.

NPATA and FFO targets are set at the beginning of each of the three financial years. The performance of each component will be assessed each year relative to the targets. Performance of each component will be determined as the average of the annual performance assessments for the three years. The performance rights will vest on a pro-rata basis from 30% upon meeting the minimum three-year average component performance level of 90% of target to 100% at the capped maximum three-year average component performance level of 110% of target.

The processes and timing applicable for the Scorecard measure are outlined below:

Timing	Actions
At the beginning of the plan	Weighting of components is determined. In 2020 the components are equally weighted.
At the beginning of each financial year	NPATA and FFO target performance levels are set.
At the end of each financial year	– Calculate actual performance – Assess actual performance compared to target to determine performance percentage for the year.
At the end of three years	– Calculate average annual performance for each component – Calculate award based on performance against the vesting range.
At the end of four years	Consider the continued service condition and determine vesting.

6.4.4 Post-vesting shareholding guideline

The Managing Director is required to continue holding shares after they have vested until the shareholding guideline has been attained. This guideline requires that the Managing Director holds vested long-term incentive shares equal in value to 100% of his fixed remuneration. The Managing Director's shareholding is currently well in excess of the guideline.

The Remuneration Committee has discretion to allow variations from this guideline requirement. The guideline requirement has been developed to reinforce alignment with shareholder interests.

The Board retains the right to vary from policy in exceptional circumstances. However, any variation from policy and the reasons for it will be disclosed.

6.5 Treatment of major transactions

Downer has delivered significant shareholder value through a long history of strategic mergers, acquisitions and divestments. On each occasion, the Board considers the impact of these transactions. Where a transaction is both material and unbudgeted, the Board considers whether it is appropriate to adjust for its impact on the key performance indicators on which executive performance is measured. The objective of any adjustment is to ensure that opportunities to add value through an opportunistic divestment or acquisition should not be fettered by consideration of the impact on incentive payments. That is, executives should be "no better or worse off" as a result of the transaction. No adjustments are made for market reactions to a transaction as the Board believes that management is accountable for those outcomes.

The Board considers this approach to be appropriate as it:

- Ensures that executives and the Board consider these transactions solely based on the best interests of Downer
- Means executives remain accountable for transaction execution and post-transaction performance from the next budget cycle
- Ensures that executives complete opportunistic transactions that are in the long-term interests of shareholders
- Is consistent with the Board's long-term view when considering the value of major transactions to Downer's shareholders
- Ensures Downer remains agile and responsive in managing its portfolio by pursuing opportunities as and when they emerge rather than be constrained by the annual budget process.

In assessing Zero Harm performance of executives, the results of acquired businesses are excluded for a period of 12 months post acquisition to ensure that management is accountable for the objectives set in the annual business planning process and in recognition that an integration period during which Downer's Zero Harm framework (including systems, processes, definitions and measurement and reporting methods) is implemented through the acquired business is appropriate. Where this transition to Downer's framework takes place over a longer period due to the complexity of the implementation or the maturity profile of the acquired business, the Board will consider an extension to a more appropriate period. The integration of Hawkins and Spotless into the Downer Zero Harm Framework is ongoing. Accordingly, the Zero Harm performance of these businesses remains excluded from Group lagging performance measures at this time. Close attention is given to continuous improvement of the Zero Harm performance and culture of these businesses.

6.6 Treatment of significant items

From time to time, Downer's performance is impacted by significant items. Where these occur, the Board considers whether to adjust for their impact (positive or negative) on a case by case basis, having regard to the circumstances relevant to each item.

The Board considers this approach to be appropriate as it ensures that executives and the Board make decisions solely based on the best interests of Downer.

6.7 Chief Executive Officer – Spotless

Downer has an interest of 87.8% in Spotless Group Holdings Limited (Spotless). Remuneration arrangements for executives of Spotless are set by the Board of Spotless. Spotless' People and Remuneration Committee is comprised of two independent Directors and one Director nominated by Downer.

Following is a summary of the remuneration structure and arrangements for FY20 for P Tompkins in his role as Chief Executive Officer – Spotless as established by the Spotless Board.

6.7.1 Remuneration structure

The remuneration for the CEO – Spotless has a fixed component and a component that varies with performance.

Fixed remuneration is the sum of salary and the direct cost of providing employee benefits, including superannuation and other non-cash benefits.

Remuneration is benchmarked against a peer group of competitors. While market levels of remuneration are monitored on a regular basis, there is no contractual requirement or expectation that any adjustments will be made.

The variable component ensures that a proportion of pay varies with performance. Performance is assessed annually for performance periods covering one year and three years. Payment for performance assessed over one year is an STI. Payment for performance assessed over three years is an LTI.

In 2018, the Spotless Board determined that it was inappropriate to grant performance rights under the LTI, which was based on EPS and TSR performance hurdles, due to the low level of free float shares in Spotless and lack of trading liquidity following the takeover by Downer. Accordingly, for 2020 the Spotless Board determined it was appropriate that P J Tompkins – Chief Executive Officer – Spotless participate in the Downer Group Long-Term Incentive Plan.

6.7.2 STI tabular summary

The following table outlines the major features of the Spotless 2020 STI plan.

Minimum performance "gateway" before any payments can be made	Achievement of a gateway based on budgeted NPATA must be met before any STI payment can be made. A further Zero Harm gateway must be met for an award for safety performance to be made.
Maximum STI that can be earned	75% of fixed remuneration.
Percentage of STI that can be earned on achieving target expectations	56.25% of the maximum. For an executive to receive more, performance in excess of target expectations will be required.
Discretion to vary payments	The Board, in its discretion, may vary STI payments by up to + or – 50% from the payment applicable to the level of performance achieved, up to the maximum for that executive.
Performance period	1 July 2019 to 30 June 2020.
Performance assessed	August 2020, following audit of accounts.
Additional service period after performance period for payment to be made	50% of the award is deferred with the first tranche of 25% vesting one year following award and the second tranche of 25% vesting two years following award.
Payment timing	September 2020 for the first payment of 50% of the award. The deferred components of the STI payments will be paid one and two years following the award, in equal tranches of 25% of the award.
Form of payment	Payments are made in cash.
Performance requirements	The Spotless performance scorecard is comprised of the following measures:

Measure	Weighting
Group NPATA	7.5%
Divisional EBITA	22.5%
Group FFO	7.5%
Divisional FFO	22.5%
Zero Harm	30%
People	10%

Board discretion	The Board may exercise discretion to reduce partly or fully the value of the deferred components that are due to vest in certain circumstances, including where an executive has acted inappropriately or where the Board considers that the financial results against which the STI performance measures were tested were incorrect in a material respect or have been reversed or restated.
Terminating executives	There is no STI entitlement where employment terminates prior to the end of the financial year. Where employment terminates prior to the vesting date, the unvested deferred components will be forfeited other than where the Spotless Board judges the executive to be an eligible leaver.

Further information on Spotless' remuneration practices is contained in its Remuneration Report which can be found on the Spotless website **www.spotless.com**.

7. Details of Executive Remuneration

7.1 Remuneration received in relation to the 2020 financial year

Executives receive a mix of remuneration during the year, comprising fixed remuneration, an STI paid in cash, and a LTI in the form of performance rights that vest four years later, subject to meeting performance and continued employment conditions.

In recognition of the likely impact of COVID-19 on Downer and its people, the Managing Director, Chief Executive Officer – New Zealand and Chief Executive Officer – Spotless decided to voluntarily reduce their fixed remuneration by 50% for the period 1 March 2020 to 30 June 2020 and the other KMP decided to voluntarily reduce their fixed remuneration by 30% for the same period.

The table below lists the remuneration actually received in relation to the 2020 financial year, comprising fixed remuneration, cash STIs relating to 2020, deferred STIs payable in 2020 in respect of prior years and the value of LTI grants that vested during the 2020 financial year. This information differs to that provided in the statutory remuneration table at section 7.2 which shows the accounting expense of LTIs and deferred STIs for 2020 determined in accordance with accounting standards rather than the value of LTI grants that vested during the year.

	Fixed Remuneration[1] $	Cash Bonus paid or payable in respect of current year[2] $	Deferred Bonus paid or payable in respect of prior years[4] $	Total payments $	Equity that vested during 2020[3] $	Total remuneration received $
G A Fenn	1,828,488	–	793,550	2,622,038	3,068,230	5,690,268
S Cinerari	1,042,861	–	487,080	1,529,941	1,150,589	2,680,530
M J Ferguson	925,001	–	273,947	1,198,948	–	1,198,948
S L Killeen	841,591	–	256,041	1,097,632	–	1,097,632
B C Petersen[5]	165,592	–	327,259	492,851	271,668	764,519
P J Tompkins	877,626	–	215,476	1,093,102	536,943	1,630,045
	5,681,159	**–**	**2,353,353**	**8,034,512**	**5,027,430**	**13,061,942**

1 Fixed remuneration comprises salary and fees, payment of leave entitlements, non-monetary benefits and superannuation payments.

2 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2020 financial year. These comprise the 50% cash component of the award. The remaining 50% of the total award is deferred as described in section 6.3.

3 Represents the value of restricted shares granted in previous years that vested during the year, calculated as the number of restricted shares that vested multiplied by the closing market prices of Downer shares on the vesting date of $7.34.

4 Deferred Bonus represents the deferred cash bonus amount to be paid in September 2020, being the second deferred component of the 2018 award and the first deferred component of the 2019 award, being 25% of each award.

5 Amounts represent the payments relating to the period during which the individual was Key Management Personnel (KMP).

7.2 Remuneration of executive key management personnel required under the *Corporations Act 2001* (Cth)

In recognition of the likely impact of COVID-19 on Downer and its people, the Managing Director, Chief Executive Officer – New Zealand and Chief Executive Officer – Spotless decided to voluntarily reduce their fixed remuneration by 50% for the period 1 March 2020 to 30 June 2020 and the other KMP decided to voluntarily reduce their fixed remuneration by 30% for the same period.

2020	Short-term employee benefits				Post-employment benefits					
	Salary and fees $	Cash Bonus paid or payable in respect of current year[2] $	Deferred Bonus paid or payable[4] $	Non-monetary $	Superannuation $	Other benefits $	Termination Benefits $	Subtotal $	Share-based payment transactions[3] $	Total $
G A Fenn	1,490,664	–	451,217	316,821	21,003	–	–	2,279,705	793,520	3,073,225
S Cinerari	996,497	–	282,755	16,301	30,063	–	–	1,325,616	332,556	1,658,172
M J Ferguson	891,596	–	161,328	12,402	21,003	–	–	1,086,329	208,578	1,294,907
S L Killeen	804,223	–	161,745	–	37,368	–	–	1,003,336	278,369	1,281,705
B C Petersen[1]	162,430	–	30,976	–	3,162	–	–	196,568	51,454	248,022
P J Tompkins	843,346	–	116,541	13,277	21,003	–	–	994,167	213,766	1,207,933
	5,188,756	**–**	**1,204,562**	**358,801**	**133,602**	**–**	**–**	**6,885,721**	**1,878,243**	**8,763,964**

1 Amounts represent the expense relating to the period during which the individuals were Key Management Personnel (KMP).
2 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2020 financial year. These comprise the 50% cash component of the award.
3 Represents the value of vested and unvested equity expensed during the period including reversal for forfeited equity incentives and the probability of the incentives vesting, in accordance with AASB 2 *Share-based Payment*, related to grants made to the executive, as outlined in section 8.3 and an estimate of the fair value of grants to be made in respect of the 2020 financial year attributable to the period. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in section 6.4.
4 Deferred Bonus represents the value of deferred components attributable to the 2020 financial year based on amortisation of deferred components over the period from the commencement of the relevant performance year to the end of financial year to which payment of the relevant deferred component relates.

2019	Short-term employee benefits				Post-employment benefits					
	Salary and fees $	Cash Bonus paid or payable in respect of current year[2] $	Deferred Bonus paid or payable[4] $	Non-monetary $	Superannuation $	Other benefits $	Termination Benefits $	Subtotal $	Share-based payment transactions[3] $	Total $
G A Fenn	1,774,469	746,800	821,975	282,247	20,531	–	–	3,646,022	1,081,156	4,727,178
S Cinerari	1,079,469	481,580	488,492	25,030	29,591	–	–	2,104,162	421,669	2,525,831
M J Ferguson	904,567	280,050	273,482	12,402	20,531	–	–	1,491,032	295,400	1,786,432
S L Killeen	824,997	303,371	222,585	387	24,750	–	–	1,376,090	163,390	1,539,480
D Nelson[1]	312,889	–	–	–	10,266	–	1,040,233	1,363,388	–	1,363,388
B C Petersen	1,079,469	371,374	325,368	1,453	20,531	–	–	1,798,195	294,266	2,092,461
P J Tompkins[1]	686,640	109,874	149,834	8,925	14,571	–	–	969,844	160,108	1,129,952
	6,662,500	**2,293,049**	**2,281,736**	**330,444**	**140,771**	**–**	**1,040,233**	**12,748,733**	**2,415,989**	**15,164,722**

1 Amounts represent the expense relating to the period during which the individuals were Key Management Personnel (KMP).
2 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2019 financial year. These comprise the 50% cash component of the award.
3 Represents the value of vested and unvested equity expensed during the period including reversal for forfeited equity incentives and the probability of the incentives vesting, in accordance with AASB 2 *Share-based Payment*, related to grants made to the executive, as outlined in section 8.3. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in section 6.4.
4 Deferred Bonus represents the value of deferred components attributable to the 2019 financial year based on amortisation of deferred components over the period from the commencement of the relevant performance year to the end of financial year to which payment of the relevant deferred component relates.

7.3 Performance related remuneration

7.3.1 Performance outcomes required under the *Corporations Act 2001* (Cth)

The table below lists the proportions of remuneration paid during the year ended 30 June 2020 that are performance and non-performance related and the proportion of STIs that were earned during the year ended 30 June 2020 due to the achievement of the relevant performance targets.

	Proportion of 2020 remuneration		2020 Short-term incentive	
	Performance Related %	Non-performance Related %	Paid %	Forfeited %
G A Fenn[1]	41%	59%	0%	100%
S Cinerari[1]	37%	63%	0%	100%
M J Ferguson	29%	71%	0%	100%
S L Killeen	34%	66%	0%	100%
P J Tompkins[1]	27%	73%	0%	100%

1 Performance related portion includes the reversal of expense for forfeited equity incentives described in section 6.4.

7.3.2 STI performance outcomes

No STI awards were made in relation to the 2020 financial year.

In order for an STI to be paid, a minimum of 90% of the budgeted profit target must be met. For corporate executives, the hurdle is 90% of the Group budgeted profit target. Profit for this purpose is defined as NPATA. For Divisional executives, the hurdle is 90% of the Division budgeted profit target. Profit for this purpose is defined as EBITA.

Specific STI financial and commercial targets remain commercially sensitive and so have not been reported.

Regrettably, in July 2019, an employee of Otraco died as a result of an incident at our facility in Calama, Chile. Senior leaders from the business attended the site to meet with family and colleagues to offer support. Accordingly, the STI safety gate was not met for Corporate and the relevant business.

An employee engagement survey was not conducted in 2020 due to constraints arising from COVID-19. Accordingly, no award was made in respect of the People measure.

The following table summarises the average performance achieved by the KMP across each element of the scorecard.

		Group NPATA	Divisional EBITA	Group FFO	Divisional FFO	Zero Harm	People
Weighting of scorecard element	Corporate	30.0		30.0		30.0	10.0
	Division	7.5	22.5	7.5	22.5	30.0	10.0
Percentage of the element achieved	Corporate	0.0		0.0		12.5	0.0
	Division[1]	0.0	0.0	0.0	50.0	64.6	0.0

1 Performance includes the results for each Division for each element, even if the EBITA gateway was not achieved.

The following table sets out the performance achieved by each KMP across each element of the scorecard.

G A Fenn and M J Ferguson

Element	Measure	Below Threshold	Threshold	Target	Maximum
Zero Harm	Safety and Environmental	●			
People	Employee engagement	●			
Financial	Profit (NPATA)	●			
	FFO	●			

S Cinerari

Element	Measure	Below Threshold	Threshold	Target	Maximum
Zero Harm	Safety and Environmental	●			
People	Employee engagement	●			
Financial	Profit (NPATA)	●			
	FFO	●			

S L Killeen

Element	Measure	Below Threshold	Threshold	Target	Maximum
Zero Harm	Safety and Environmental		●		
People	Employee engagement	●			
Financial	Profit (NPATA/EBITA)	●			
	FFO	●			

P J Tompkins

Element	Measure	Below Threshold	Threshold	Target	Maximum
Zero Harm	Safety and Environmental			●	
People	Employee engagement	●			
Financial	Profit (NPATA/EBITA)	●			
	FFO			●	

For 2020, the IPM was not applied to the members of the KMP as no STI awards were made.

7.3.3 LTI performance outcomes

The table below summarises LTI performance measures tested and the outcomes for each executive.

Relevant executives[1]	Relevant LTI measure	Performance outcome	% LTI tranche that vested
G A Fenn, S Cinerari, M J Ferguson, B C Petersen, P J Tompkins	**2017 plan – performance period 1 July 2016 to 30 June 2019**		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a three-year period.	Actual performance ranked at the 89th percentile based on a TSR result of 121.65%.	100% became provisionally qualified.
	EPS tranche – compound annual earnings per share growth against absolute targets over a three-year period.	Actual performance was –0.19%.	0% became provisionally qualified. 100% were forfeited.
	Scorecard tranche – sustained NPAT and FFO performance against budget over a three-year period.	Actual performance was 94.3% for NPAT and 162.6% for FFO.	45.1% became provisionally qualified. 54.9% were forfeited.
G A Fenn, S Cinerari, M J Ferguson, P J Tompkins	**2018 plan – performance period 1 July 2017 to 30 June 2020[2]**		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a three-year period.	Actual performance ranked at the 18th percentile based on a TSR result of –17.9%.	0% became provisionally qualified. 100% were forfeited.
	EPS tranche – compound annual earnings per share growth against absolute targets over a three-year.	Actual performance was –186.6%.	0% became provisionally qualified. 100% were forfeited.
	Scorecard tranche – sustained NPAT and FFO performance against budget over a three-year period.	Actual performance was 41.1% for NPAT and 49.7% for FFO.	0% became provisionally qualified. 100% were forfeited.

1 Relevant executive refers to members of the KMP who are participants in the plan tested.
2 Test outcomes for the 2018 plan are provisional and will be confirmed following release of the Company's audited 2020 results. Accordingly, the outcomes are not reflected in the disclosures in section 8.

7.4 Major transactions and significant items

7.4.1 Major transactions

There were no major transactions during 2020.

7.4.2 Adjustments made to incentive calculations for major transactions and significant items

The Board determined that no adjustments be made to KPI calculations for the impact of significant items.

7.5 Variances from policy

There were no variances from policy during the year.

8. Executive Equity Ownership

8.1 Ordinary shares

KMP equity holdings in fully paid ordinary shares and performance rights issued by Downer EDI Limited are as follows:

	Ordinary shares			Performance rights		
	Balance at 1 July 2019	Net Change	Balance at 30 June 2020	Balance at 1 July 2019	Net Change	Balance at 30 June 2020
	No.	No.	No.	No.	No.	No.
G A Fenn	1,164,203	418,015	1,582,218	1,555,492	(631,846)	923,646
S Cinerari	106,463	156,756	263,219	595,766	(236,943)	358,823
M J Ferguson	7,086	(5,086)	2,000	236,670	(40,093)	196,577
S L Killeen	2,663	12,865	15,528	132,045	–	132,045
P J Tompkins	94,811	90,700	185,511	303,149	(110,573)	192,576

8.2 Preference shares

KMP equity holdings in fully paid preference shares issued by Works Finance (NZ) Limited, a wholly-owned subsidiary of Downer EDI Limited, are as follows:

	Preference shares		
	Balance at 1 July 2019	Net change	Balance at 30 June 2020
	No.	No.	No.
S L Killeen	3,000	–	3,000

8.3 Options and rights

No performance options were granted by Downer EDI Limited or exercised during the 2020 financial year.

As outlined in section 6.4.1, the LTI plan for the 2020 financial year is in the form of performance rights. During the year, the LTI plan for the 2020 financial year was approved as outlined in section 6.4 of this report; however due to ongoing restructuring of the Group, grants of performance rights have not yet been made to KMP; however they are expected to be made in early 2021. This means that grants in relation to 2020 and 2021 are expected to be made during the 2021 financial year.

The following table shows the number of performance rights granted by Downer EDI Limited and percentage of performance rights that vested or were forfeited during the year for each grant that affects compensation in this or future reporting periods.

	2016 Plan			2017 Plan		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %
G A Fenn	711,717	58.7	–	503,526	–	42.5
S Cinerari	266,894	58.7	–	188,822	–	42.5
M J Ferguson	–	–	–	94,411	–	42.5
S L Killeen	–	–	–	–	–	–
P J Tompkins	124,551	58.7	–	88,116	–	42.5

1 Grant date 30 June 2016. Expiry date is 1 July 2019. The fair value of shares granted was $3.24 per share for the EPS and Scorecard tranches and $0.97 per share for the TSR tranche.

2 Grant date 21 June 2017. Expiry date is 1 July 2020. The fair value of shares granted was $5.29 per share for the EPS and Scorecard tranches and $4.61 per share for the TSR tranche.

	2018 Plan			2019 Plan		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %
G A Fenn	332,160	–	–	301,791	–	–
S Cinerari	137,016	–	–	113,172	–	–
M J Ferguson	70,584	–	–	71,675	–	–
S L Killeen	66,240	–	–	65,805	–	–
P J Tompkins	66,432	–	–	75,448	–	–

1 Grant date 21 June 2018. Expiry date is 1 July 2021. The fair value of shares granted was $6.12 per share for the EPS and Scorecard tranches and $3.38 per share for the TSR tranche.

2 Grant date 3 June 2019. Expiry date is 1 July 2022. The fair value of shares granted was $5.93 per share for the EPS and Scorecard tranches and $2.22 per share for the TSR tranche.

The maximum number of performance options and rights that may vest in future years that will be recognised as share-based payments in future years is set out in the table below:

	Maximum number of shares for the vesting year[1]		
	2021	2022	2023
G A Fenn	289,695	332,160	301,791
S Cinerari	108,635	137,016	113,172
M J Ferguson	54,318	70,584	71,675
S L Killeen	–	66,240	65,805
P J Tompkins	50,696	66,432	75,448

1 The quantity of performance rights that may vest in future years has been adjusted in the 2021 financial year to reflect the discount to the market price of the Company's shares offered to shareholders in the equity raising announced on 21 July 2020. The adjustment factor of 0.9812 is based on the theoretical ex-rights price (TERP) of $4.18 divided by the last share price prior to the announcement of the equity raising. The quantities in this table are before this adjustment.

The maximum expense for performance options and rights that may vest in future years that will be recognised as share-based payments in future years is set out in the table below. The amount reported is the value of share-based payments calculated in accordance with AASB 2 *Share-based Payment* over the vesting period. In respect of the 2020 plan an estimated expense has been recognised that will be trued up following formal valuation after the grants have been made.

	2021	2022	2023
G A Fenn	1,287,301	854,348	500,000
S Cinerari	517,724	339,131	206,250
M J Ferguson	301,160	209,158	125,000
S L Killeen	278,368	192,028	114,763
P J Tompkins	300,177	213,586	125,000

8.4 Remuneration consultants

Guerdon Associates Pty Ltd was engaged by the Board Remuneration Committee to provide remuneration advice in relation to KMP, but did not provide the Board Remuneration Committee with remuneration recommendations as defined under Division 1, Part 1.2, 9B (1) of the *Corporations Act 2001* (Cth).

The Board was satisfied that advice received was free from any undue influence by Key Management Personnel to whom the advice may relate, because strict protocols were observed and complied with regarding any interaction between Guerdon Associates Pty Ltd and management, and because all remuneration advice was provided to the Board Remuneration Committee chair.

9. Key Terms of Employment Contracts

9.1 Notice and termination payments

Executives are on contracts with no fixed end date.

The following table captures the notice periods applicable to termination of the employment of executives.

	Termination notice period by Downer	Termination notice period by employee	Termination payments payable under contract
Managing Director	12 months	6 months	12 months
Other Executives	12 months	6 months	12 months

Termination payments are calculated based upon total fixed remuneration at the date of termination. No payment is made for termination due to gross misconduct.

9.2 Managing Director and Chief Executive Officer of Downer's employment agreement

Mr Fenn was appointed as the Managing Director of Downer commencing on 30 July 2010. The following table sets out the key terms of the Managing Director's employment agreement.

Term	Until terminated by either party.
Fixed remuneration	$2.0 million per annum. This has remained unchanged since July 2012. Fixed remuneration includes superannuation and non-cash benefits but excludes entitlements to reimbursement for Mr Fenn's home telephone rental and call costs, home internet costs and medical, life and salary continuance insurance. Mr Fenn may also be accompanied by his wife when travelling on business, at the Chairman's discretion. There was no such travel during the year.
STI opportunity	Mr Fenn is eligible to receive an annual STI and the maximum STI opportunity is 100% of fixed remuneration. Any entitlement to an STI is at the discretion of the Board, having regard to performance measures and targets developed in consultation with Mr Fenn including Downer's financial performance, safety, people, environmental and sustainability targets and adherence to risk management policies and practices. The Board also retains the right to vary the STI by + or – 100% (up to the 100% maximum) based on its assessment of performance. The STI deferral arrangements in place for KMP apply to Mr Fenn. There is no STI entitlement where the Managing Director's employment terminates prior to the end of the financial year, other than in the event of a change in control or by mutual agreement.
LTI opportunity	Mr Fenn is eligible to participate in the annual LTI plan and the value of the award is 100% of fixed remuneration calculated using the volume weighted average price after each year's half yearly results announcement. Mr Fenn's performance requirements have been described in section 6.4. In the event of a change of control, providing at least 12 months of a grant's performance period have elapsed, unvested shares and performance rights pro-rated with the elapsed service period are tested for vesting with performance against the relevant hurdles for that period and vest, as appropriate. Shares that have already been tested, have met performance requirements, and are subject to the completion of the service condition, fully vest.
Termination	Mr Fenn can resign: (a) By providing six months' written notice; or (b) Immediately in circumstances where there is a fundamental change in his role or responsibilities. In these circumstances, Mr Fenn is entitled to a payment in lieu of 12 months' notice. Downer can terminate Mr Fenn's employment: (a) Immediately for misconduct or other circumstances justifying summary dismissal; or (b) By providing 12 months' written notice. When notice is required, Downer can make a payment in lieu of notice of all or part of any notice period (calculated based on Mr Fenn's fixed annual remuneration). If Mr Fenn resigns because ill health prevents him from continuing his duties, he will receive a payment in recognition of his past services equivalent to 12 months' fixed remuneration. At the discretion of the Board, his shares under the LTI plan may also vest. If Downer terminates Mr Fenn's employment on account of redundancy, in addition to the notice (or payment in lieu of notice) required to be given by Downer, Mr Fenn will receive a payment in recognition of his past services equivalent to 12 months' fixed remuneration. If Mr Fenn resigns he will be subject to a six-month post-employment restraint in certain areas where the Downer Group operates, where he is restricted from working for competitive businesses.
Other	The agreement contains provisions regarding leave entitlements, duties, confidentiality, intellectual property, moral rights and other facilitative and ancillary clauses. It also contains provisions regarding corporate governance and a provision dealing with the *Corporations Act 2001* (Cth) limits on termination benefits to be made to Mr Fenn.

10. Related Party Information

10.1 Transactions with other related parties

Transactions entered into during the year with Directors of Downer EDI Limited and the Group are within normal employee, customer or supplier relationships on terms and conditions no more favourable than dealings in the same circumstances on an arm's length basis and included:

- The receipt of dividends from Downer EDI Limited
- Participation in the Long-Term Incentive Plan
- Terms and conditions of employment
- Reimbursement of expenses.

A number of Directors of the Company hold directorships in other entities. Several of these entities transacted with the Group on terms and conditions no more favourable than those available on an arm's length basis.

11. Description of Non-executive Director remuneration

11.1 Non-executive Director remuneration policy

Downer's Non-executive Director remuneration policy is to provide fair remuneration that is sufficient to attract and retain Directors with the experience, knowledge, skills and judgement to steward the Company.

In recognition of the likely impact of the coronavirus on Downer and its people, the Directors decided to voluntarily reduce their fees by 50% for the Chairman and 30% for the other Non-executive Directors for the period 1 April 2020 to 30 June 2020.

The funds from these voluntary remuneration reductions were used to establish a fund to provide financial assistance to Downer and Spotless employees who are experiencing severe hardship.

Otherwise, there has been no change to the level of Non-executive Director fees since the prior reporting period and there will be no changes in the 2021 financial year.

Fees for Non-executive Directors are fixed and are not linked to the financial performance of the Company. The Board believes this is necessary for Non-executive Directors to maintain their independence.

Shareholders approved an annual aggregate cap of $2.0 million for Non-executive Director fees at the 2008 AGM. The allocation of fees to Non-executive Directors within this cap has been determined after consideration of a number of factors, including the time commitment of Directors, the size and scale of the Company's operations, the skill sets of Board members, the quantum of fees paid to Non-executive Directors of comparable companies and participation in Board Committee work.

The basis of fees and the fee pool are reviewed when new Directors are appointed to the Board, when the structure of the Board changes, or at least every three years. Reference is made to individual Non-executive Director fee levels and workload (i.e. number of meetings and the number of Directors) at comparably sized companies from all industries other than the financial services sector, and the fee pools at these companies. In addition, an assessment is made on the extent of flexibility provided by the fee pool to recruit any additional Directors for planned succession after allocation of fees to existing Directors.

The Chairman receives a base fee of $375,000 per annum (inclusive of all Committee fees) plus superannuation. The other Non-executive Directors each receive a base fee of $150,000 per annum plus superannuation. Additional fees are paid for Committee duties: $35,000 for the chair of the Audit and Risk Committee; and $15,000 for the chair of each of the Zero Harm Committee, Remuneration Committee, Rail Projects Committee and Tender Risk Evaluation Committee.

Non-executive Directors are not entitled to retirement benefits. All Non-executive Directors are entitled to payment of statutory superannuation entitlements in addition to Directors' fees.

11.2 Non-executive Directors' remuneration

The table below sets out the remuneration paid to Non-executive Directors for the 2020 and 2019 financial years.

In recognition of the impact of the coronavirus pandemic on the Company and its people, Directors fees were reduced for the period 1 April 2020 to 30 June 2020 by 50% for the Chairman and 30% for the other Non-executive Directors.

		Short-term benefits			Post-employment benefits		
	Year	Board fee $	Chair fee $	Total fees $	Super-annuation $	Termination benefits $	Total $
R M Harding	2020	328,125	–	328,125	31,172	–	359,297
	2019	375,000	–	375,000	35,625	–	410,625
S A Chaplain[1]	2020	52,917	–	52,917	5,027	–	57,944
	2019	150,000	21,146	171,146	16,259	–	187,405
P S Garling	2020	138,750	13,875	152,625	14,499	–	167,124
	2019	150,000	15,000	165,000	15,675	–	180,675
T G Handicott	2020	138,750	13,875	152,625	14,499	–	167,124
	2019	150,000	15,000	165,000	15,675	–	180,675
N M Hollows	2020	138,750	32,375	171,125	16,257	–	187,382
	2019	150,000	13,854	163,854	15,566	–	179,420
C G Thorne	2020	138,750	19,167	157,917	15,002	–	172,919
	2019	150,000	30,000	180,000	17,100	–	197,100
P L Watson	2020	138,750	8,583	147,333	13,997	–	161,330
	2019	16,965	–	16,965	1,612	–	18,577

1 Amounts represent the payments relating to the period during which the individual was a Non-executive Director (NED).

11.3 Equity held by Non-executive Directors

The table below sets out the equity in Downer held by Non-executive Directors for the 2020 and 2019 financial years.

	2020			2019		
	Balance at 1 July 2019	Net change	Balance at 30 June 2020	Balance at 1 July 2018	Net change	Balance at 30 June 2019
R M Harding	28,856	–	28,856	14,210	14,646	28,856
P S Garling	19,962	–	19,962	16,940	3,022	19,962
T G Handicott	14,000	3,000	17,000	14,000	–	14,000
N M Hollows	3,000	–	3,000	–	3,000	3,000
C G Thorne	82,922	–	82,922	82,922	–	82,922
P L Watson	–	6,329	6,329	–	–	–

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001* (Cth).

On behalf of the Directors

R.M. Harding

R M Harding
Chairman
Sydney, 12 August 2020

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Downer EDI Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Downer EDI Limited for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Cameron Slapp
Partner

Sydney
12 August 2020

Independent Auditor's Report

To the shareholders of Downer EDI Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Downer EDI Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2020
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recognition of revenue
- Value of goodwill

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue

Refer to Note B2 'Revenue' ($12,669.4m)

The key audit matter	How the matter was addressed in our audit
Recognition of revenue is a key audit matter due to the: • Significance of revenue to the financial statements; and • Large number of contracts with numerous estimation events potentially occurring over the course of the contract's life. This results in complex and judgemental revenue recognition from rendering of services and construction contracts and therefore significant audit effort is required to gather sufficient audit evidence for revenue recognition. We focused on the Group's assessment of the following elements of revenue recognition for rendering of services and construction contracts, as applicable: • Revisions to total expected costs for certain events or conditions occurring during the performance of the contract, or are expected to occur to complete the contract, which is difficult to estimate; • The Group's assessment of when a modification to the contract scope and/or price for variations and claims is approved and enforceable. The Group's consideration of the enforceability or approval may include evidence that is written, oral or implied by customary business practice and therefore requires a degree of judgement. The Group's assessment of the enforceability of variations and claims can drive different accounting treatments, increasing the risk of inappropriately recognising revenue; and	Our procedures included: • We obtained an understanding of the Group's process of accounting for rendering of services and construction contract revenues. We considered the appropriateness of the Group's accounting policy for rendering of services and construction contract revenues, including variations and claims and variable consideration, against the requirements of the accounting standards. We tested key controls such as: – Management's review and approval of bid information including estimated project milestones, projected Earnings Before Interest and Tax (EBIT), Net Present Value (NPV), Return On Funds Employed (ROFE), and potential legal risks; – Management's review of key contracts where events or conditions have occurred that require changes to revenue recognition; – The Group's requirement to obtain customer acceptance prior to billing an invoice. • We selected a statistical sample of revenue recognised and checked to customer approval of the service being performed or cash received. • We used data analytic routines to select a sample of contracts for testing based on a number of quantitative and qualitative factors. These factors included contracts with significant deterioration in margin, significant variations and claims or variable consideration. We also included factors which indicated to us a greater level of judgement was required by the Group

• The Group's policy for the determination of the amount of revenue recognised from variable consideration which is highly probable of not reversing. Variable consideration is contingent on the Group's performance and includes key performance payments, abatements offsetting revenue under the contract and liquidated damages. The Group's determination that variable consideration is highly probable requires a degree of estimation and judgement. This increased the audit effort we applied to gather sufficient audit evidence.	when assessing the revenue recognition based on the estimates developed for current and forecast contract performance. For the samples selected, where relevant: – we read the selected contract terms and conditions to evaluate the individual characteristics of each contract reflected in the Group's estimate of revenue; – we assessed the estimation of total expected costs, including cost contingencies for contracting risks, by challenging the Group's project and finance managers on their estimations. We also checked key forecast cost assumptions to underlying documentation such as Enterprise Bargaining Agreements for wage rates, salary costs and agreements with subcontractors; – we assessed the Group's ability to forecast margins on contracts by analysing the accuracy of previous margin forecasts to actual outcomes; – we evaluated the Group's assessment of when a modification to the contract scope and/or price for variations and claims is approved and enforceable. This included assessing the underlying records, legal documents, customer correspondence and contracts. We recalculated the amount of revenue using the modified features of the contract. We compared the recalculated amounts against the amounts recorded by the Group; – we assessed the Group's estimation of the highly probable amount of revenue for variations and claims. This included comparing underlying evidence such as timesheets, correspondence with customers, and reports from objective time and cost claim experts (where applicable) for consistency with contract terms; – we evaluated the Group's legal and external experts' reports received on contentious matters to identify conditions indicating inappropriate recognition of variations and claims. We checked the consistency of this to the inclusion or not of an amount in the estimates used for revenue recognition; – we assessed the scope, competency and objectivity of the legal and external experts engaged by the Group; and • we evaluated the method applied by the Group to estimate the highly probable amount of the

	key performance payments, liquidated damages and abatements against the specific contract terms. This included gathering underlying evidence in relation to the Group's performance against the terms of the contract. We then recalculated the amount of variable consideration. We compared the recalculated amounts to the amounts recorded by the Group as offsets to revenue.

Value of goodwill	
Refer to Note C7 'Intangible assets' ($2,281.3m)	
The key audit matter	**How the matter was addressed in our audit**
The value of goodwill is a key audit matter due to the size of the balance (being 26.3% of total assets) and the significant audit effort arising from: • The Group having 8 groups of Cash Generating Units (CGUs) for which the impairment of goodwill is assessed; • Significantly higher estimation uncertainty continuing from the business disruption impact to the Spotless CGU arising from the COVID-19 global pandemic; • A recorded impairment charge of $165m against goodwill in the Spotless CGU, increasing the sensitivity of the model to small changes in key assumptions. We focused on the following key forward looking assumptions in the Group's value in use models and fair value less cost of disposal models including: • Forecast cash flows including budgeted EBIT - the Group experienced significant business disruption in the Spotless CGU as a result of the COVID-19 pandemic and announced restructuring. The uncertainty continuing from the business interruption of the COVID-19 pandemic increases the risk of inaccurate forecasts or a significantly wider range of possible outcomes for us to consider. We focused on what the Group considers to be the future Spotless business model when assessing the feasibility of the CGU's forecast cashflows. • Discount rates – these are complicated in nature and vary according to the conditions and environment the specific CGU is	Our procedures included: • We obtained an understanding of the Group's goodwill impairment assessment process and tested key controls such as the review and approval of the budget by management and the Board. • We considered the appropriateness of the value in use and fair value less cost of disposal (FVLCOD) methods applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards. • We assessed the integrity of the value in use and FVLCOD models used, including the accuracy of the underlying calculation formulas. • We assessed the accuracy of previous Group forecasting to inform our evaluation of forecasts included in the value in use and FVLCOD models. We applied increased scepticism to current period forecasts in areas where previous forecasts were not achieved and/or where future uncertainty is greater or volatility is expected. • We obtained the Group's value in use models and FVLCOD model and checked amounts to the Board approved FY21 budget and the FY22-FY23 business plan. We challenged the Group's projected cash flows by comparing the budget and business plan to our understanding of the business. We compared actual performance in FY20 to the budget for FY20. We also compared the compound annual growth rate between FY19 and the terminal year in the models to further challenge the projected cash flows in a COVID-19 economic environment.

KPMG

subject to from time to time; and • Long-term growth rates – certain valuations for CGUs of the Group are highly sensitive to changes in this assumption. Using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. The significant judgement involved in key assumptions required the involvement of valuation specialists to supplement our senior audit team members in assessing this key audit matter.	• For the Spotless CGU we challenged the Group's assessment of cash flow synergies a market participant would expect to generate following the acquisition of the minority interest in Spotless. We compared cost savings to the Group's Board approved restructuring plans following the acquisition. • We considered the sensitivity of the models by varying key assumptions including budgeted EBIT, long-term growth rates and discount rates, within a reasonably possible range. We considered the interdependencies of key assumptions when performing the sensitivity analysis. We did this to identify those CGUs at higher risk of impairment and those assumptions at higher risk of bias or inconsistency in application to focus our further procedures. • For the Spotless CGU, we further challenged the Group's significant forecast cash flow assumptions including impacts of COVID-19 and expected rate of recovery, what the Group considers as their future business model and budgeted EBIT for the CGU. We compared forecast cash flows to authoritative published studies of industry trends and expectations, and considered differences for the Group's operations. • We checked the consistency of the forecast cash flows to the Group's business plans and our experience regarding the feasibility of these in the industry and COVID-19 economic environment in which they operate. • Working with our valuation specialists we: – independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in; – independently assessed the long term growth rate for each of the CGUs against publicly available market data for comparable entities and compared this to the Group's assumption; and – compared the implied multiples from comparable market transactions to the implied multiple from the Group's FVLCOD model. • For the Spotless CGU we recalculated the impairment charge against the recorded amount. • We assessed the Group's disclosures of the

	quantitative and qualitative considerations in relation to the valuation of goodwill, by comparing these disclosures to our understanding and the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Downer EDI Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2020, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 24 to 50 of the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Cameron Slapp
Partner

Stephen Isaac
Partner

Sydney
12 August 2020

Financial Statements

for the year ended 30 June 2020

Notes to the consolidated financial statements

Other information

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2020

	Note	2020 $'m	2019 $'m
Revenue	B2	**12,669.4**	12,789.4
Other income	B2	**73.3**	23.3
Total revenue and other income		**12,742.7**	12,812.7
Employee benefits expense	D1	**(4,217.3)**	(4,340.4)
Subcontractor costs		**(4,406.0)**	(4,193.7)
Raw materials and consumables used		**(2,157.7)**	(2,114.4)
Plant and equipment costs		**(660.6)**	(689.8)
Depreciation on leased assets	C6	**(151.8)**	–
Other depreciation and amortisation	C5,C7	**(365.5)**	(360.0)
Impairment of non-current assets		**(212.0)**	–
Other expenses from ordinary activities		**(632.5)**	(682.6)
Total expenses		**(12,803.4)**	(12,380.9)
Share of net profit of joint ventures and associates	F1(a)	**19.4**	30.4
Earnings before interest and tax		**(41.3)**	462.2
Finance income		**6.0**	8.8
Lease finance costs		**(26.4)**	–
Other finance costs		**(91.6)**	(91.2)
Net finance costs		**(112.0)**	(82.4)
(Loss) / profit before income tax		**(153.3)**	379.8
Income tax expense	B5(a)	**(2.4)**	(103.5)
(Loss) / profit after income tax		**(155.7)**	276.3
(Loss) / profit for the year is attributable to:			
– Non-controlling interest		**(5.4)**	14.5
– Members of the parent entity		**(150.3)**	261.8
(Loss) / profit for the year		**(155.7)**	276.3
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
– Actuarial movement on net defined benefit plan obligation	D2	**0.7**	–
– Income tax effect of actuarial movement on defined benefit plan obligation		**(0.2)**	–
Items that will be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**(14.6)**	9.6
– Net loss on foreign currency forward contracts taken to equity		**(3.3)**	(2.0)
– Net loss on cross currency and interest rate swaps taken to equity		**(5.3)**	(13.7)
– Income tax effect of items above		**2.9**	4.3
Other comprehensive loss for the year (net of tax)		**(19.8)**	(1.8)
Other comprehensive loss for the year is attributable to:			
– Non-controlling interest		**(1.0)**	(0.9)
– Members of the parent entity		**(18.8)**	(0.9)
Other comprehensive loss for the year		**(19.8)**	(1.8)
Total comprehensive (loss) / income for the year		**(175.5)**	274.5
Earnings per share (cents)			
– Basic earnings per share	B4	**(26.6)**	42.9
– Diluted earnings per share(i)	B4	**(26.6)**	42.3

(i) At 30 June 2020, the ROADS are anti-dilutive and consequently, diluted EPS remained at a loss of 26.6 cents per share.

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 64 to 124.

Consolidated Statement of Financial Position

as at 30 June 2020

	Note	30 June 2020 $'m	Restated[(i)] 30 June 2019 $'m
ASSETS			
Current assets			
Cash and cash equivalents	C1(c)	**588.5**	710.7
Trade receivables and contract assets	C2	**2,315.9**	1,991.5
Other financial assets	G3	**26.2**	35.0
Inventories	C3	**334.0**	304.6
Lease receivables	C8	**18.5**	12.4
Current tax assets		**65.2**	57.7
Prepayments and other assets		**56.4**	52.8
Total current assets		**3,404.7**	3,164.7
Non-current assets			
Trade receivables and contract assets	C2	**95.2**	74.4
Interest in joint ventures and associates	F1(a)	**110.6**	108.8
Property, plant and equipment	C5	**1,350.2**	1,373.3
Right-of-use assets	C6	**592.6**	–
Intangible assets	C7	**2,896.1**	3,130.7
Other financial assets	G3	**21.4**	5.2
Lease receivables	C8	**48.3**	38.7
Deferred tax assets	B5(b)	**141.5**	100.9
Prepayments and other assets		**11.9**	18.7
Total non-current assets		**5,267.8**	4,850.7
Total assets		**8,672.5**	8,015.4
LIABILITIES			
Current liabilities			
Trade payables and contract liabilities	C4	**2,497.4**	2,405.5
Borrowings	E1	**1.4**	14.6
Lease liabilities	E3	**168.9**	–
Other financial liabilities	G3	**45.8**	47.4
Employee benefits provision	D1	**377.1**	365.3
Other provisions	C9	**74.1**	107.0
Current tax liabilities		**11.0**	15.4
Total current liabilities		**3,175.7**	2,955.2
Non-current liabilities			
Trade payables and contract liabilities	C4	**28.8**	51.3
Borrowings	E1	**2,049.9**	1,688.9
Lease liabilities	E3	**594.3**	–
Other financial liabilities	G3	**14.4**	20.0
Employee benefits provision	D1	**55.0**	45.1
Other provisions	C9	**39.4**	84.5
Deferred tax liabilities	B5(b)	**94.5**	137.6
Total non-current liabilities		**2,876.3**	2,027.4
Total liabilities		**6,052.0**	4,982.6
Net assets		**2,620.5**	3,032.8
EQUITY			
Issued capital	E5	**2,429.7**	2,425.1
Reserves	E7	**(47.7)**	(27.5)
Retained earnings		**94.3**	481.4
Parent interests		**2,476.3**	2,879.0
Non-controlling interest	E6	**144.2**	153.8
Total equity		**2,620.5**	3,032.8

(i) June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations (Refer to Note D1).

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 64 to 124.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

2020 $'m	Issued capital	Reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total
Restated balance at 30 June 2019	**2,425.1**	**(27.5)**	**481.4**	**2,879.0**	**153.8**	**3,032.8**
Opening balance adjustment on application of AASB 16[i] (net of tax)	–	–	**(62.8)**	**(62.8)**	**(3.2)**	**(66.0)**
Balance at 1 July 2019	**2,425.1**	**(27.5)**	**418.6**	**2,816.2**	**150.6**	**2,966.8**
Loss after income tax	–	–	**(150.3)**	**(150.3)**	**(5.4)**	**(155.7)**
Other comprehensive loss for the year (net of tax)	–	**(18.8)**	–	**(18.8)**	**(1.0)**	**(19.8)**
Total comprehensive income for the year	–	**(18.8)**	**(150.3)**	**(169.1)**	**(6.4)**	**(175.5)**
Vested executive incentive share transactions	**4.6**	**(4.6)**	–	–	–	–
Share-based employee benefits expense	–	**4.8**	–	**4.8**	–	**4.8**
Income tax relating to share-based transactions during the year	–	**(1.6)**	–	**(1.6)**	–	**(1.6)**
Declared dividends[ii]	–	–	**(174.0)**	**(174.0)**	–	**(174.0)**
Balance at 30 June 2020	**2,429.7**	**(47.7)**	**94.3**	**2,476.3**	**144.2**	**2,620.5**

(i) Refer to Note G1 for details on opening balance adjustments made on application of new accounting standard AASB 16.

(ii) Relates to the 2019 final dividend and $7.4 million ROADS dividends paid during the financial year. The payment of 2020 interim dividend of $83.3 million was deferred to 25 September 2020 (Refer to Note E8).

2019	Issued capital	Reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total
Balance at 30 June 2018	2,421.9	(26.9)	655.1	**3,050.1**	155.0	**3,205.1**
Adjustment on restatement of employee obligations (net of tax)[i]	–	–	(15.3)	**(15.3)**	(2.1)	**(17.4)**
Restated balance at 1 July 2018	2,421.9	(26.9)	639.8	**3,034.8**	152.9	**3,187.7**
Opening balance adjustment on application of AASB 15 (net of tax)[ii]	–	–	(245.3)	**(245.3)**	(12.7)	**(258.0)**
Restated balance at 1 July 2018	2,421.9	(26.9)	394.5	**2,789.5**	140.2	**2,929.7**
Profit after income tax	–	–	261.8	**261.8**	14.5	**276.3**
Other comprehensive loss for the year (net of tax)	–	(0.9)	–	**(0.9)**	(0.9)	**(1.8)**
Total comprehensive income for the year	–	(0.9)	261.8	**260.9**	13.6	**274.5**
Vested executive incentive share transactions	3.2	(3.2)	–	–	–	–
Share-based employee benefits expense	–	4.0	–	**4.0**	–	**4.0**
Income tax relating to share-based transactions during the year	–	(0.5)	–	**(0.5)**	–	**(0.5)**
Payment of dividends[iii]	–	–	(174.9)	**(174.9)**	–	**(174.9)**
Restated balance at 30 June 2019	2,425.1	(27.5)	481.4	**2,879.0**	153.8	**3,032.8**

(i) June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations (Refer to Note D1).

(ii) Refer to Annual Report as at 30 June 2019 for details on opening balance adjustments made on application of new accounting standard AASB 15.

(iii) Payment of dividend relates to the 2018 final dividend, 2019 interim dividend and $8.3 million ROADS dividends paid during the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 64 to 124.

Consolidated Statement of Cash Flows

for the year ended 30 June 2020

	Note	2020 $'m	2019 $'m
Cash flows from operating activities			
Receipts from customers		**13,841.5**	14,177.4
Payments to suppliers and employees		**(13,518.3)**	(13,442.8)
Distributions from equity accounted investees	F1(a)	**17.2**	22.4
Operating cash flow before interest and tax		**340.4**	757.0
Interest received		**4.7**	5.2
Interest paid on lease liabilities(i)		**(26.4)**	–
Interest and other costs of finance paid		**(82.0)**	(76.1)
Income tax paid		**(57.9)**	(55.9)
Net cash generated by operating activities	C1(a)	**178.8**	630.2
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**21.9**	16.1
Payments for property, plant and equipment		**(290.7)**	(346.2)
Payments for intangible assets		**(61.7)**	(44.8)
Payments for acquisition of businesses, net of cash acquired	F2	**(29.8)**	(63.0)
Investment in joint venture entities	F1(a)	**–**	(8.5)
Divestment of Freight Rail		**–**	(6.9)
Advances to joint ventures		**(3.6)**	(5.5)
Purchases of assets as a lessor		**(34.0)**	(52.6)
Recovery on acquisition of business		**–**	1.7
Net cash used in investing activities		**(397.9)**	(509.7)
Cash flows from financing activities			
Proceeds from borrowings		**7,411.9**	3,859.3
Repayments of borrowings		**(7,063.2)**	(3,704.2)
Payment of principal of lease liabilities(ii)	C1(b)	**(152.9)**	–
Dividends paid		**(90.7)**	(174.9)
Net cash generated by / (used in) financing activities		**105.1**	(19.8)
Net (decrease) / increase in cash and cash equivalents		**(114.0)**	100.7
Cash and cash equivalents at the beginning of the year		**710.7**	606.2
Effect of exchange rate changes		**(8.2)**	3.8
Cash and cash equivalents at the end of the year	C1(c)	**588.5**	710.7

(i) The Group has classified:
- cash payments for the interest portion of lease payments as operating activities consistent with the presentation of other interest payments
- short-term lease payments and payments for leases of low-value assets as operating activities.

(ii) The Group has classified cash payments for the principal portion of lease payments as financing activities.

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 64 to 124.

A About this report

Statement of compliance

These financial statements represent the consolidated results of Downer EDI Limited (ABN 97 003 872 848). The consolidated Financial Report (Financial Report) is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth). The Financial Report complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The Financial Report was authorised for issue by the Board of Directors on 12 August 2020.

Rounding of amounts

Downer is a company of the kind referred to in ASIC Corporations (Rounding in Financial / Directors' reports) Instrument 2016/191, relating to the "rounding off" of amounts in the Directors' Report and consolidated financial statements. Unless otherwise expressly stated, amounts have been rounded off to the nearest whole number of millions of dollars and one place of decimals representing hundreds of thousands of dollars in accordance with that Instrument. Amounts shown as $- represent amounts less than $50,000 which have been rounded down.

Basis of preparation

The Financial Report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies used in the preparation of the Financial Report are consistent with those adopted and disclosed in Downer's Annual Report for the financial year ended 30 June 2019, except in relation to the relevant new and amended accounting standards adopted by the Group and their effects on the current period or prior periods as described in Note G1.

During the current reporting period the Group completed a review of employment arrangements relating to Spotless. This review identified an underpayment of employee entitlements relating to current and previous years. The comparative balances have been voluntarily restated under AASB 101 *Presentation of Financial Statements* in respect of these adjustments as described in Note D1.

Accounting estimates and judgements

Preparation of the Financial Report requires management to make judgements, estimates and assumptions about future events. Information on material estimates and judgements considered when applying the accounting policies can be found in the following notes:

Accounting estimates and judgements	Note	Page
Revenue recognition	B2	73
Recovery of deferred tax assets	B5	76
Income taxes	B5	76
Credit risk	C2	82
Useful lives and residual values	C5 to C7	83
Impairment of assets	C7	86
Other provisions	C9	90
Employee benefits obligations	D1	93
Valuation of the defined benefit plan assets and obligations	D2	94
Lease liabilities	E3	98
Acquisition of businesses	F2	108

Significant accounting policies

Accounting policies are selected and applied in a manner that 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. Other significant accounting policies are contained in the notes to the Financial Report to which they relate.

(i) Principles of consolidation

The Financial Report incorporates the financial statements of the Company and entities controlled by the Group and its subsidiaries. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Financial Report includes 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.

A. About this report – continued

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

(ii) Foreign currency

Transactions, assets and liabilities denominated in foreign currencies are translated into Australian dollars at reporting date using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities carried at fair value	Date fair value is determined

Foreign exchange gains and losses resulting from translation are recognised in the statement of profit or loss, except for qualifying cash flow hedges which are deferred to equity.

On consolidation the assets, liabilities, income and expenses of foreign operations are translated into Australian dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average exchange rate
Assets and liabilities	Reporting date
Equity	Historical date

Foreign exchange differences resulting from translation are initially recognised in the foreign currency translation reserve and subsequently transferred to the profit or loss on disposal of the foreign operation.

(iii) Finance and borrowing costs

Finance costs comprise interest expense on borrowings, unwind of discount on provisions, costs to establish financing facilities (which are expensed over the term of the facility), losses on ineffective hedging instruments that are recognised in profit or loss and lease charges.

(iv) Non-current assets held for sale and discontinued operations

On 22 August 2019, the Group announced it was undertaking a review of its Mining and Laundries businesses.

As a consequence of market volatility caused by the COVID-19 pandemic, these businesses have not met the definition of assets held for sale under AASB 5, as any potential disposal is not considered highly probable of occurring at the reporting date.

B
Business performance

This section provides the information that is most relevant to understanding the financial performance of the Group during the financial year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

B1. Segment information

Identification of reportable segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker in order to effectively allocate Group resources and assess performance.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Group CEO in assessing performance and in determining the allocation of resources. The operating segments are identified by the Group based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the Group CEO on a recurring basis.

The reportable segments are based on a combination of operating segments determined by the similarity of the services provided, and the sources of the Group's major risks that could therefore have the greatest effect on the rates of return. Downer has determined that reportable segments are best represented as service lines.

B1. Segment information – continued

The reportable segments identified within the Group are outlined as follows:

Service line	Segment description
Transport	Comprises the Group's road services, transport infrastructure and rail businesses. Downer's road and transport infrastructure services include: road network management; routine road maintenance; asset management systems; spray sealing; asphalt laying; manufacture and supply of bitumen-based products and asphalt products; the use of recycled products and environmentally sustainable methods to produce asphalt; landfill diversion solutions; intelligent transport systems; design and construction of light rail and heavy rail networks; signalling; track and station works; rail safety technology; and bridges. The Rail business spans all light rail and heavy rail sectors, from rollingstock to infrastructure; from design and manufacture to through-life-support including fleet maintenance, operations and comprehensive overhaul of assets.
Utilities	Comprises the Group's power, gas, water, renewable energy and telecommunications businesses. This includes: planning, designing, constructing, operating, maintaining, managing and decommissioning power and gas network assets; providing complete water lifecycle solutions for municipal and industrial water users including water and wastewater treatment, network construction and rehabilitation; design, construction and maintenance services for a range of renewable assets in the wind, solar and power system storage sectors; and end-to-end technology and communications solutions including design, civil construction, network construction, operations and maintenance across fibre, copper and radio networks.
Facilities	Facilities operates in Australia and New Zealand and provides outsourced facility services to customers across a diverse range of industry sectors including: defence; education; government; healthcare; resources; leisure; and hospitality. Facilities provides catering and laundry services; technical and engineering services; maintenance and asset management services and refrigeration solutions to various industries; as well as building and construction solutions across a variety of sectors in New Zealand.
Engineering, Construction and Maintenance (EC&M)	Provides design, engineering, construction, shutdowns, turnaround and outage delivery, operations maintenance and ongoing management of strategic assets across a range of sectors and in all stages of the project lifecycle including: feasibility studies; engineering design; procurement and construction; structural, mechanical and piping; electrical and instrumentation; commissioning and decommissioning services; and design and manufacture of mineral process equipment.
Mining	Provides services across all stages of the mining lifecycle including: resource definition; exploration drilling and mine feasibility studies; open cut and underground mining services; drilling, explosives manufacture and supply; blasting and crushing; asset management; tyre management; and mine closure and rehabilitation.

B1. Segment information – continued

2020 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Segment revenue and other income	**4,081.1**	**2,688.0**	**3,308.4**	**1,168.0**	**1,493.1**	**4.1**	**12,742.7**
Share of sales revenue from joint ventures and associates(i)	**611.2**	**–**	**7.3**	**–**	**56.7**	**–**	**675.2**
Total revenue including joint ventures and other income(i)	**4,692.3**	**2,688.0**	**3,315.7**	**1,168.0**	**1,549.8**	**4.1**	**13,417.9**
Share of net profit from joint ventures and associates	**15.3**	**–**	**0.3**	**–**	**3.8**	**–**	**19.4**
Depreciation and amortisation	**150.2**	**40.1**	**109.8**	**15.3**	**119.2**	**82.7**	**517.3**
EBIT before amortisation of acquired intangibles and historical contract claims adjustments	**235.6**	**114.6**	**114.3**	**(42.1)**	**79.0**	**(452.6)**	**48.8**
Historical contract claims adjustments(ii)	**–**	**–**	**(9.9)**	**(8.9)**	**–**	**–**	**(18.8)**
EBIT before amortisation of acquired intangibles (EBITA)	**235.6**	**114.6**	**104.4**	**(51.0)**	**79.0**	**(452.6)**	**30.0**
Amortisation of acquired intangibles	**(10.9)**	**(2.6)**	**(9.8)**	**–**	**–**	**(48.0)**	**(71.3)**
Total reported segment results (EBIT)	**224.7**	**112.0**	**94.6**	**(51.0)**	**79.0**	**(500.6)**	**(41.3)**
Net finance costs							**(112.0)**
Total loss before income tax							**(153.3)**
Acquisition of segment assets	**98.3**	**34.9**	**68.5**	**3.8**	**107.0**	**30.2**	**342.7**
Segment assets	**2,649.1**	**1,193.6**	**2,624.2**	**617.4**	**939.0**	**649.2**	**8,672.5**
Segment liabilities	**1,278.6**	**478.5**	**1,751.2**	**345.6**	**339.8**	**1,858.3**	**6,052.0**
Carrying value of equity accounted investees	**101.1**	**–**	**1.2**	**–**	**8.3**	**–**	**110.6**

2019 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Segment revenue and other income	3,775.7	2,506.7	3,384.7	1,704.6	1,423.5	17.5	12,812.7
Share of sales revenue from joint ventures and associates(i)	572.6	–	8.0	–	55.0	–	635.6
Total revenue including joint ventures and other income(i)	4,348.3	2,506.7	3,392.7	1,704.6	1,478.5	17.5	13,448.3
Share of net profit from joint ventures and associates	26.6	–	0.5	–	3.3	–	30.4
Depreciation and amortisation	67.2	18.0	90.1	9.4	114.2	61.1	360.0
EBIT before amortisation of acquired intangibles (EBITA)	242.4	136.1	170.5	33.3	76.7	(126.4)	532.6
Amortisation of acquired intangibles	(8.3)	(3.2)	(11.9)	–	–	(47.0)	(70.4)
Total reported segment results (EBIT)	234.1	132.9	158.6	33.3	76.7	(173.4)	462.2
Net finance costs							(82.4)
Total profit before income tax							379.8
Acquisition of segment assets	228.0	24.0	101.5	14.7	184.1	39.4	591.7
Segment assets(iii)	2,126.0	1,268.9	2,787.7	570.4	839.1	423.3	8,015.4
Segment liabilities(iii)	925.0	566.5	1,591.7	327.6	294.0	1,277.8	4,982.6
Carrying value of equity accounted investees	99.1	–	1.6	–	8.1	–	108.8

(i) This is a non-statutory disclosure as it relates to Downer's share of revenue from equity accounted joint ventures and associates.
(ii) Relates to historical Spotless contracts on foot at the time of Downer acquisition which are separately monitored by the Group's Chief Operating Decision Maker.
(iii) June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations (Refer to Note D1).

B1. Segment information – continued

Reconciliation of segment EBIT to net (loss) / profit after tax:

	Note	Segment results 2020 $'m	Segment results 2019 $'m
Segment EBIT		**459.3**	635.6
Unallocated:			
Portfolio restructure and exit costs	B3	**(142.4)**	–
Payroll remediation costs	B3	**(16.3)**	–
Goodwill impairment	B3	**(165.0)**	–
Spotless Shareholder class action	B3	**(34.0)**	–
Legal settlement	B3	**(9.5)**	–
Murra Warra wind farm loss	B3	**–**	(45.0)
Amortisation of Spotless and Tenix acquired intangible assets		**(48.0)**	(47.0)
Fair value gain on revaluation of existing interest in Downer Mouchel Joint Venture		**–**	17.0
Corporate costs		**(85.4)**	(98.4)
Total unallocated		**(500.6)**	(173.4)
Earnings before interest and tax		**(41.3)**	462.2
Net finance costs		**(112.0)**	(82.4)
(Loss) / profit before income tax		**(153.3)**	379.8
Income tax expense	B5(a)	**(2.4)**	(103.5)
(Loss) / profit after income tax		**(155.7)**	276.3

Segment assets by geographical location:

	Segment assets Non-current(ii) 2020 $'m	Segment assets Non-current(ii) 2019 $'m	Acquisition of segment assets Non-current 2020 $'m	Acquisition of segment assets Non-current 2019 $'m
Geographical location(i)				
Australia	**4,394.7**	4,222.5	**273.1**	545.0
New Zealand and Pacific	**559.2**	404.4	**64.8**	46.4
Rest of the world	**7.5**	4.6	**4.8**	0.3
Total	**4,961.4**	4,631.5	**342.7**	591.7

(i) Assets are allocated based on the geographical location of the legal entity.
(ii) Total of non-current assets other than deferred tax assets and financial instruments.

B2. Revenue

Revenue and other income

2020 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Service revenue	**2,837.0**	**1,730.4**	**2,425.8**	**833.5**	**1,446.1**	**–**	**9,272.8**
Construction contracts	**1,025.2**	**936.7**	**749.7**	**315.4**	**–**	**–**	**3,027.0**
Sale of goods	**191.7**	**1.1**	**108.5**	**13.9**	**42.6**	**–**	**357.8**
Total revenue from contracts with customers	**4,053.9**	**2,668.2**	**3,284.0**	**1,162.8**	**1,488.7**	**–**	**12,657.6**
Other revenue	**2.9**	**1.1**	**–**	**3.7**	**–**	**4.1**	**11.8**
Total revenue	**4,056.8**	**2,669.3**	**3,284.0**	**1,166.5**	**1,488.7**	**4.1**	**12,669.4**
Government grants(i)	**21.1**	**17.1**	**24.4**	**–**	**–**	**–**	**62.6**
Other	**3.2**	**1.6**	**–**	**1.5**	**4.4**	**–**	**10.7**
Other income	**24.3**	**18.7**	**24.4**	**1.5**	**4.4**	**–**	**73.3**
Total revenue and other income	**4,081.1**	**2,688.0**	**3,308.4**	**1,168.0**	**1,493.1**	**4.1**	**12,742.7**
Share of sales revenue from joint ventures and associates(ii)	**611.2**	**–**	**7.3**	**–**	**56.7**	**–**	**675.2**
Total revenue including joint ventures and other income(ii)	**4,692.3**	**2,688.0**	**3,315.7**	**1,168.0**	**1,549.8**	**4.1**	**13,417.9**

2019 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Service revenue	2,628.4	1,441.7	2,381.7	914.6	1,363.5	(1.4)	8,728.5
Construction contracts	936.9	1,061.5	821.6	767.0	–	–	3,587.0
Sale of goods	204.4	1.2	180.5	14.9	57.0	–	458.0
Total revenue from contracts with customers	3,769.7	2,504.4	3,383.8	1,696.5	1,420.5	(1.4)	12,773.5
Other revenue	5.2	1.4	–	6.9	0.9	1.5	15.9
Total revenue	3,774.9	2,505.8	3,383.8	1,703.4	1,421.4	0.1	12,789.4
Other income	0.8	0.9	0.9	1.2	2.1	17.4	23.3
Total revenue and other income	3,775.7	2,506.7	3,384.7	1,704.6	1,423.5	17.5	12,812.7
Share of sales revenue from joint ventures and associates(ii)	572.6	–	8.0	–	55.0	–	635.6
Total revenue including joint ventures and other income(ii)	4,348.3	2,506.7	3,392.7	1,704.6	1,478.5	17.5	13,448.3

(i) Government grants represents incentives received under the New Zealand Government's wage subsidy scheme available to eligible businesses impacted by the COVID-19 pandemic.

(ii) This is a non-statutory disclosure as it relates to Downer's share of revenue from equity accounted joint ventures and associates.

B2. Revenue – continued

Revenue from contracts with customers by geographical location:

2020 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Geographical location(i)							
Australia	**2,883.8**	**2,098.1**	**2,549.5**	**1,124.5**	**1,429.2**	–	**10,085.1**
New Zealand and Pacific	**1,170.0**	**570.1**	**734.5**	–	–	–	**2,474.6**
Rest of the world	**0.1**	–	–	**38.3**	**59.5**	–	**97.9**
Total revenue from contracts with customers	**4,053.9**	**2,668.2**	**3,284.0**	**1,162.8**	**1,488.7**	–	**12,657.6**

2019 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Geographical location(i)							
Australia	2,610.2	2,007.8	2,481.6	1,676.5	1,364.0	(1.4)	10,138.7
New Zealand and Pacific	1,159.5	496.6	902.2	0.2	–	–	2,558.5
Rest of the world	–	–	–	19.8	56.5	–	76.3
Total revenue from contracts with customers	3,769.7	2,504.4	3,383.8	1,696.5	1,420.5	(1.4)	12,773.5

(i) Revenue is allocated based on the geographical location of the legal entity.

Recognition and measurement

Revenue

The Group recognises revenue when a customer obtains control of the goods or services, in accordance with AASB 15 *Revenue from Contracts with Customers*. Revenue is measured at the fair value of the consideration received or receivable. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. Revenue is recognised if it meets the criteria below.

(i) Rendering of services

The Group primarily generates service revenue from the following activities:

- Maintenance and management of transport infrastructure
- Utilities infrastructure maintenance services (gas, power and water)
- Maintenance and installation of infrastructure in the telecommunications sector
- Industrial plant maintenance
- Contract mining services, mining assets maintenance services, tyre management and blasting
- Rolling stock maintenance and rail asset management services
- Engineering and consultancy services
- Facilities management.

Typically, under the performance obligations of a service contract, the customer consumes and receives the benefit of the service as it is provided. As such, service revenue is recognised over time as the services are provided.

(ii) Construction contracts

The contractual terms and the way in which the Group operates its construction contracts is predominantly derived from projects containing one performance obligation. Under these performance obligations, customers either simultaneously receive and consume the benefits as the Group performs them or performance creates or enhances an asset that the customer controls as the asset is created or enhanced. Therefore, contracted revenue is recognised over time based on stage of completion of the contract.

(iii) Sale of goods

Revenue is recognised at a point in time when the customer obtains control of goods.

(iv) Other revenue

Other revenue primarily includes rental income.

(v) Other income

Other income for the current year primarily relates to government grants received under the New Zealand Government's Wage Subsidy Scheme available to eligible businesses that were adversely impacted by the COVID-19 pandemic. The Group elects to present these subsidies in "Other income" as allowed under AASB 120 *Accounting for Government grants and disclosure of Government assistance.*

B2. Revenue – continued

Recognition and measurement – continued

Contract modifications
For services and construction contracts, revenue from variations and claims is recognised to the extent they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent it is highly probable that a significant reversal of revenue will not occur. In making this assessment, the Group considers a number of factors including nature of the claim, formal or informal acceptance by the customer of the validity of the claim, stage of negotiations, or the historical outcome of similar claims to determine whether the enforceable and "highly probable" threshold has been met. Revenue in relation to modifications, such as a change in the scope of the contract, will only be included in the transaction price, when it is approved by the parties to the contract or the modification is enforceable and the amount becomes highly probable. Modifications may also be recognised when client instruction has been received in line with customary business practice for the customer.
Contract costs (tender costs)
Costs incurred during the tender/bid process are expensed, unless they are incremental to obtaining the contract and the Group expects to recover those costs or where they are explicitly chargeable to the customer regardless of whether the contract is obtained.
Performance obligations and contract duration
Revenue is allocated to each performance obligation and recognised as the performance obligation is satisfied which may be at a point in time or over time. AASB 15 requires a granular approach to identify the different revenue streams (i.e. performance obligations) in a contract by identifying the different activities that are being undertaken and then aggregating only those where the different activities are significantly integrated or highly interdependent. Revenue will be recognised, on certain contracts over time, as a single performance obligation when the services are part of a series of distinct goods and services that are substantially integrated with the same pattern of transfer. AASB 15 provides guidance in respect of the term over which revenue may be recognised and is limited to the period for which the parties have enforceable rights and obligations. When the customer can terminate a contract for convenience (without a substantive penalty), the contract term and related revenue is limited to the termination period. The Group has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for the services is expected to be one year or less.
Measure of progress
The Group recognises revenue using the measure of progress that best reflects the Group's performance in satisfying the performance obligation within the contracts over time. The different methods of measuring progress include an input method (e.g. costs incurred) or an output method (e.g. milestones reached). The same method of measuring progress will be consistently applied to similar performance obligations.
Variable consideration
Variable consideration that is contingent on the Group's performance, including key performance payments, liquidated damages and abatements that offset revenue under the contract, is recognised only when it is highly probable that a reversal of that revenue will not occur. In addition, where the identified revenue stream is determined to be a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (for example maintenance services), variable consideration is recognised in the period/(s) in which the series of distinct goods or services subject to the variable consideration are completed.
Loss-making contracts
Loss-making contracts are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as onerous contracts.

B2. Revenue – continued

Recognition and measurement – continued

Key estimates and judgements: Revenue recognition

Stage of completion

Determining the stage of completion requires an estimate of expenses incurred to date as a percentage of total estimated costs.

Modifications

When a contract modification exists and the Group has an approved enforceable right to payment, revenue in relation to claims and variations is only included in the transaction price when the amount claimable becomes highly probable. Management uses judgement in determining whether an approved enforceable right exists.

Variable consideration

Determining the amount of variable consideration requires an estimate based on either the "expected value" or the "most likely amount". The estimate of variable consideration can only be recognised to the extent it is highly probable that a significant revenue reversal will not occur in future.

Changes in these estimates or judgements could have a material impact on the financial statements of the Group.

B3. Individually significant items

The following material items of expenses, forming part of the unallocated segment, are relevant to an understanding of the Group's financial performance:

2020 $'m	Portfolio restructure and exit costs	Payroll remediation costs	Goodwill impairment	Spotless shareholder class action	Legal settlement	Total
Employee benefits expense	42.1	8.9	–	–	–	51.0
Raw materials and consumables used	9.7	–	–	–	–	9.7
Impairment of non-current assets	46.6	–	165.0	–	–	211.6
Other expenses from ordinary activities	44.0	7.4	–	34.0	9.5	94.9
Loss before interest and tax	142.4	16.3	165.0	34.0	9.5	367.2
Income tax benefit	(42.2)	(4.5)	–	(10.2)	(2.7)	(59.6)
Loss after income tax	100.2	11.8	165.0	23.8	6.8	307.6

Portfolio restructure and exit costs

Represents restructuring costs incurred following management's decision to scale back the Group's construction service offerings as well as costs associated in rightsizing the business to reflect the new business model and remain competitive in a post-COVID-19 environment. The material elements of the costs associated with the portfolio restructure program are as follows:

- The Hospitality business has been the most acutely affected part of the Group through COVID-19 with all major event venues and other customer premises either closed or running at a fraction of capacity. The business has effectively been placed into hibernation, awaiting demand to recover, with cost plus arrangements in place for those customers requiring service. Downer is not eligible for the Federal Government's JobKeeper subsidy. Restructure costs of $46.4 million have been expensed to cover redundancies, asset impairments, stock write-offs, onerous contracts and other exit costs.
- The Group has exited the resource based electrical and mechanical major construction market within the Engineering and Construction (E&C) business unit. Restructure costs of $15.0 million have been expensed to cover redundancies and other exit costs. Spotless has exited the facilities based electrical and mechanical major construction market within the Infrastructure and Construction (I&C) business unit. Restructure costs of $9.3 million have been expensed to cover redundancies and other exit costs.

B3. Individually significant items – continued

Portfolio restructure and exit costs – continued

- Downer has reduced management overhead across the Group through reduction in management layers, head-count, property footprint, systems and discretionary spend to better reflect the new operating model. Restructure costs of $35.6 million have been expensed.
- Transaction costs of $10.0 million relating to the portfolio review of Mining and Laundries have been expensed in FY20.
- The carrying value of information systems has been impaired by $26.1 million. The impairment relates to applications and infrastructure in businesses that are being wound down.

Payroll remediation costs

During the year, Spotless commenced a review of the applicable Enterprise Agreements (EAs) and Modern Award obligations, together with the assumptions regarding their interpretation and application in its payroll systems in order to validate the correct application of pay rates to employees as well as identify historical underpayments and overpayments. The process is ongoing.

On 1 July 2020, Spotless lost a Federal Court case with respect to Ordinary and Customary Turnover of Labour rate (OCTL) redundancy payments for employees made redundant on cessation of specific contracts.

Spotless has recognised an employee benefits provision of $41.1 million in relation to these matters, including interest and other remediation costs. Of this amount, $24.8 million relating to the EAs and Modern Award obligations that should have been incurred in previous years, has been recognised as a prior period error in opening retained earnings (Refer to Note D1), with $16.3 million being recognised as an expense in the period. The $16.3 million comprises all the estimated OCTL redundancy amounts and EAs and Modern Award obligation amounts relating to FY20.

The expected liability is the Group's best estimate of the shortfall at this time, and has required assumptions regarding complex variables including the assessment of large volumes of payroll data and the interpretation of a number of applicable EAs and Modern Award obligations. Changes to any of these variables have the potential to result in further adjustments to the calculation of the shortfall, which could result in a further liability and expense being required in subsequent reporting periods.

Downer is committed to ensuring its people are paid in accordance with their employment agreements and the law and has a dedicated team investigating Spotless and Downer practices, systems and processes.

Goodwill impairment

Following the identification of possible impairment indicators, the Group undertook an assessment of the carrying value of the Spotless Group of CGUs. As a result of this assessment, a goodwill impairment of $165.0 million was recognised as at 30 June 2020. Refer to Note C7 for further details.

Spotless Shareholder class action

This represents the expense (net of insurance recoveries) to settle the shareholder class action commenced against Spotless in the Federal Court of Australia in May 2017. The settlement was without admission of liability and includes interest and costs to the Applicant. This claim has previously been disclosed as a contingent liability.

Legal settlement

Downer has entered into a settlement agreement in relation to a legacy leaky building claim in New Zealand. The amount represents the costs of remediation works to be undertaken in excess of the insurance cover. This claim has been previously disclosed as a contingent liability.

2019

The Group recognised $45.0 million as an individually significant item in relation to Downer's obligation to complete the Murra Warra wind farm following Senvion's insolvency as announced to the market on 1 August 2019. The provision related to the credit risk assumed by Downer to complete the contract as Downer and Senvion shared liability under the project jointly and severally. This individually significant item is classified to the unallocated segment and is disclosed as part of "other expenses from ordinary activities" in the statement of profit or loss at 30 June 2019.

B4. Earnings per share

Basic earnings per share

The calculation of basic earnings per share (EPS) is based on the result attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding.

	2020	2019
(Loss) / profit attributable to members of the parent entity ($'m)	**(150.3)**	261.8
Adjustment to reflect ROADS dividends paid ($'m)	**(7.4)**	(8.3)
(Loss) / profit attributable to members of the parent entity used in calculating EPS ($'m)	**(157.7)**	253.5
Weighted average number of ordinary shares (WANOS) on issue (m's)(i)	**592.3**	591.2
Basic earnings per share (cents)	**(26.6)**	42.9

Diluted earnings per share

The calculation of diluted EPS is based on the result attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares.

	2020	2019
(Loss) / profit attributable to members of the parent entity used in calculating basic EPS ($'m)	**(150.3)**	261.8
Weighted average number of ordinary shares		
– Weighted average number of ordinary shares (WANOS) on issue (m's)(i) (ii)	**593.0**	592.2
– WANOS adjustment to reflect potential dilution for ROADS (m's)(iii)	**29.4**	26.9
WANOS used in the calculation of diluted EPS (m's)	**622.4**	619.1
Diluted earnings per share (cents)(iv)	**(26.6)**	42.3

(i) The WANOS on issue has been adjusted by the weighted average effect of the unvested executive incentive shares.

(ii) For diluted earnings per share, the WANOS has been further adjusted by the potential vesting of executive incentive shares.

(iii) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the reporting date. It is calculated based on the issued value of ROADS in New Zealand dollars converted to Australian dollars at the spot rate prevailing at the reporting date, which was $186.9 million (2019: $191.2 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2019 to 30 June 2020 discounted by 2.5% according to the ROADS contract terms, which was $6.37 (2019: $7.10).

(iv) At 30 June 2020, the ROADS are anti-dilutive and consequently, diluted EPS remained at a loss of 26.6 cents per share.

B5. Taxation

(a) Reconciliation of income tax expense

The prima facie income tax expense on the pre-tax result for the year reconciles to the income tax expense / (benefit) in the financial statements as follows:

	2020 $'m	2019 $'m
(Loss) / profit before income tax	**(153.3)**	379.8
Tax using the Company's statutory tax rate	**(46.0)**	113.9
Effect of tax rates in foreign jurisdictions	**(1.4)**	(1.7)
Non-deductible expenses	**0.9**	0.8
Profits and franked distributions from joint ventures and associates	**(4.2)**	(6.8)
Impairment of goodwill	**49.5**	–
Non-taxable gains	**–**	(5.1)
Other items	**2.9**	0.1
Under provision of income tax in previous year	**0.7**	2.3
Total income tax expense	**2.4**	103.5
Current tax expense	**45.0**	63.4
Deferred tax (benefit) / expense	**(42.6)**	40.1

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous year.

B5. Taxation – continued

(a) Reconciliation of income tax expense – continued

Recognition and measurement

Current tax

Current tax assets and liabilities are measured at the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period; this is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amount of assets and liabilities and the corresponding tax base.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and tax offsets, to the extent that it is probable that sufficient taxable profits will be available to utilise them.

Deferred tax assets and liabilities are not recognised for:

- Temporary differences that arise from the initial recognition of assets or liabilities in a transaction that is not a business combination which affects neither taxable income nor accounting profit
- Temporary differences relating to investments in subsidiaries, associates and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future
- Temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates and tax laws that are expected to apply in the year when the asset is utilised or liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Offsetting deferred tax balances

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

Tax consolidation

Downer EDI Limited and its wholly-owned Australian 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 agreement and a tax sharing agreement with the head entity. Under the terms of the tax funding agreement, Downer EDI Limited and each of the entities in the tax consolidated group have agreed to pay (or receive) a tax equivalent payment to (or from) the head entity, based on the current tax liability or current tax asset of the entity.

Key estimate and judgement

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and tax offsets, to the extent it is probable that sufficient future taxable profits will be available to utilise them. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Judgement is required to determine the worldwide provision for income taxes and to assess whether deferred tax balances are recognised on the statement of financial position. Changes in circumstances will alter expectations, which may impact the amount of provision for income taxes and deferred tax balances recognised.

B5. Taxation – continued

(b) Movement in deferred tax balances

2020 $'m	At 30 June 2019 (Restated)	Application of AASB 16	At 1 July 2019	Recognised in profit or loss	Recognised in other comprehensive income	Net foreign currency exchange differences	Acquisition and disposal	Net balance at 30 June 2020	Deferred tax assets	Deferred tax liabilities
Trade receivables and contract assets	**(63.4)**	**–**	**(63.4)**	**(70.3)**	**–**	**0.4**	**–**	**(133.3)**	**–**	**(133.3)**
Property, plant and equipment, right-of-use assets and lease liabilities	**(40.9)**	**28.9**	**(12.0)**	**(29.9)**	**–**	**(0.2)**	**–**	**(42.1)**	**–**	**(42.1)**
Intangible assets	**(153.7)**	**–**	**(153.7)**	**34.6**	**–**	**0.1**	**–**	**(119.0)**	**–**	**(119.0)**
Income tax losses	**28.3**	**–**	**28.3**	**68.3**	**–**	**–**	**–**	**96.6**	**96.6**	**–**
Trade payables and contract liabilities	**27.9**	**–**	**27.9**	**9.1**	**–**	**0.1**	**–**	**37.1**	**37.1**	**–**
Employee benefits and other provisions	**154.0**	**–**	**154.0**	**27.4**	**(0.2)**	**0.5**	**11.2**	**192.9**	**192.9**	**–**
Other	**11.1**	**–**	**11.1**	**3.4**	**1.3**	**(1.0)**	**–**	**14.8**	**14.8**	**–**
Net deferred tax assets/ (liabilities)	**(36.7)**	**28.9**	**(7.8)**	**42.6**	**1.1**	**(0.1)**	**11.2**	**47.0**	**341.4**	**(294.4)**
Set-off of DTA against DTL									**(199.9)**	**199.9**
Net tax assets / (liabilities)								**47.0**	**141.5**	**(94.5)**

2019 $'m	At 30 June 2018	Application of AASB 15 and balance restatement(i)	At 1 July 2018 (Restated)	Recognised in profit or loss	Recognised in other comprehensive income	Net foreign currency exchange differences	Acquisition and disposal	Net balance at 30 June 2019 (Restated)	Deferred tax assets	Deferred tax liabilities
Trade receivables and contract assets	(100.5)	83.2	(17.3)	(36.6)	–	(0.3)	(9.2)	(63.4)	–	(63.4)
Joint ventures and associates	(0.9)	–	(0.9)	0.9	–	–	–	–	–	–
Property, plant and equipment	(32.2)	–	(32.2)	(8.0)	–	(0.1)	(0.6)	(40.9)	–	(40.9)
Intangible assets	(164.1)	–	(164.1)	19.7	–	(0.2)	(9.1)	(153.7)	–	(153.7)
Income tax losses	32.5	–	32.5	(4.2)	–	–	–	28.3	28.3	–
Trade payables and contract liabilities	34.5	–	34.5	(9.5)	–	(0.2)	3.1	27.9	27.9	–
Employee benefits and other provisions(i)	129.4	33.0	162.4	(1.7)	–	(0.4)	(6.3)	154.0	154.0	–
Other	6.6	–	6.6	(0.7)	3.8	1.0	0.4	11.1	11.1	–
Net deferred tax assets/ (liabilities)	(94.7)	116.2	21.5	(40.1)	3.8	(0.2)	(21.7)	(36.7)	221.3	(258.0)
Set-off of DTA against DTL									(120.4)	120.4
Net tax assets / (liabilities)								(36.7)	100.9	(137.6)

(i) 1 July 2018 balances have been restated by $7.4 million following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations (Refer to Note D1). The remaining $25.6 million relates to the adjustment on adoption of AASB 15.

B6. Remuneration of auditor

	2020 $	2019 $
Audit and review of financial statements	**5,224,180**	5,402,736
Assurance services:		
Regulatory assurance services	**50,000**	–
Other assurance services	**340,211**	452,044
Total assurance services	**390,211**	452,044
Other services:		
Tax services	**242,148**	338,957
Advisory services	**468,318**	275,000
Total other services	**710,466**	613,957

The auditor of the Group is KPMG.

B7. Subsequent events

On 21 July 2020, the Group announced the launch of a $400 million equity raising to support the acquisition of the remaining shares in Spotless and provide flexibility for continued investment in Downer's core business.

Downer has also announced it has made an unconditional offer to acquire all of the issued share capital of Spotless not already owned for an upfront cash consideration of approximately $134.5 million, plus a maximum of 7.5 million Downer shares to be issued on exercise of the Downer Contingent Share Option.

Downer has entered into a call option deed with Coltrane Master Fund, L.P. under which it has a call option over 2.99% of Spotless shares, which on exercise will increase Downer's ownership above the 90% threshold required to proceed to compulsory acquisition.

Outside of the above, at the date of this report, there have been no other matters or circumstances that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

C

Operating assets and liabilities

This section provides information relating to the operating assets and liabilities of the Group. Downer has a strong focus on maintaining a strong balance sheet through continued focus on cash conversion. The Group's strategy also considers expenditure, growth and acquisition requirements.

C1. Reconciliation of cash and cash equivalents

(a) Reconciliation of cash flows from operating activities

	Note	2020 $'m	2019 $'m
(Loss) / profit after tax for the year		**(155.7)**	276.3
Adjustments for:			
Share of joint ventures and associates' profits net of distributions	F1(a)	**(2.2)**	(8.0)
Depreciation on right-of-use of assets	C6	**151.8**	–
Depreciation and amortisation of other non-current assets	C5,C7	**365.5**	360.0
Impairment of goodwill	C7	**165.0**	–
Impairment of other non-current assets	C5,C6,C7	**47.0**	–
Amortisation of deferred borrowing costs		**6.7**	4.2
Net gain on sale of property, plant and equipment		**(5.7)**	(4.8)
Termination of right-of-use assets / lease liabilities		**(0.2)**	–
Fair value gain on revaluation of existing interest in Downer Mouchel Joint Venture	F2	**–**	(17.0)
Unrealised exchange gains		**(0.1)**	(1.5)
Movement in current tax balances		**(11.9)**	6.9
Movement in deferred tax balances		**(43.7)**	40.5
Movements on net defined benefit plan obligation	D2	**7.0**	–
Share-based employee benefits expense	D1	**4.8**	4.0
Other		**0.1**	2.3
		684.1	386.6
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase) / decrease in assets:			
Current trade receivables and contract assets		**(315.1)**	(67.1)
Current inventories		**(31.9)**	(29.3)
Other current assets		**(4.3)**	(1.5)
Non-current trade receivables and contract assets		**(21.0)**	(10.2)
Other non-current assets		**8.1**	0.4
Increase / (decrease) in liabilities:			
Current trade payables and contract liabilities		**15.8**	65.9
Current financial liabilities		**4.8**	(3.7)
Shareholder class action payable	C4	**34.0**	–
Current provisions		**(18.8)**	16.1
Non-current trade payables and contract liabilities		**(22.3)**	24.2
Non-current financial liabilities		**8.3**	(3.1)
Non-current provisions		**(7.2)**	(24.4)
		(349.6)	(32.7)
Net cash generated by operating activities		**178.8**	630.2

C1. Reconciliation of cash and cash equivalents – continued

(b) Reconciliation of liabilities arising from financing activities

$'m	1 July 2019	AASB 16 Transition adjustment	Net cash flows	Lease net additions and remeasure	Amortisation and foreign exchange movement	30 June 2020
Interest bearing loans	1,693.3	–	348.7	–	9.3	**2,051.3**
Lease liabilities[(i)]	10.2	717.6	(152.9)	193.5	(5.2)	**763.2**
Total liabilities from financing activities	**1,703.5**	**717.6**	**195.8**	**193.5**	**4.1**	**2,814.5**

(i) Upon adoption of AASB 16 *Leases*, the 30 June 2019 lease liabilities that were disclosed as finance leases in the comparative figures have been presented as part of the lease liability balances in Note E3.

(c) Cash and cash equivalents

	2020 $'m	2019 $'m
For the purpose of the statement of cash flows, cash and cash equivalents comprises:		
Cash	**567.9**	663.2
Short-term deposits	**20.6**	47.5
Total cash and cash equivalents	**588.5**	710.7

C2. Trade receivables and contract assets

	2020 $'m	2019 $'m
Trade receivables	**792.1**	888.0
Contract assets[(i)]	**1,573.5**	1,084.4
	2,365.6	1,972.4
Other receivables	**64.7**	111.0
Loss allowance on trade receivables and contract assets arising from contracts with customers	**(19.2)**	(17.5)
Total	**2,411.1**	2,065.9
Included in the financial statements as:		
Current[(i)]	**2,315.9**	1,991.5
Non-current	**95.2**	74.4

(i) Current contract assets: $1,482.9 million (2019: $1,074.8 million).

Allowance for credit losses:

The Group's trade receivables and contract assets are disaggregated based on their expected credit risks between Government and Private (non-government) customers. An analysis of the balances is presented below:

	2020 $'m	2019 $'m
Government – not due	**1,193.7**	1,058.0
Government – 0 to 90 days past due	**43.5**	34.7
Government – more than 90 days past due	**46.5**	44.4
Private – not due	**1,013.3**	754.8
Private – 0 to 90 days past due	**42.8**	42.9
Private – more than 90 days past due	**25.8**	37.6
Total gross carrying amount	**2,365.6**	1,972.4
Credit impaired – specific allowance	**6.9**	11.9
Not credit impaired – lifetime expected credit loss	**12.3**	5.6
Loss allowance on trade receivables and contract assets arising from contracts with customers	**19.2**	17.5

The Group has policies to manage its overall exposure to credit risk as set out in Note G2(e).

C2. Trade receivables and contract assets – continued

In assessing lifetime expected credit losses (ECL) as at 30 June 2020, the Group has considered the increased risk arising from the economic impacts of the COVID-19 pandemic. The Group has assessed ECLs by segmenting the portfolio of trade receivables and contract assets by customer (i.e. Government and private) as well as by geography to better assess inherent credit risk. The Group defines counterparties as "Government" if the contract is with a National, Federal, State or Local Government body, or an agency or entity that is owned, controlled or guaranteed by such bodies. Any counterparties other than those defined as "Government", are classified as "Private", and include Blue-Chip listed companies, PPPs, large multinational companies, network infrastructure companies as well as other private sector businesses.

The credit risk associated with Government balances is considered to be negligible (FY19: negligible) due to the high credit worthiness of the counterparties. No Government balances are currently in default.

For "Private" balances, the Group has recorded specific impairment losses for counterparties that are currently in default. The $19.2 million loss allowance as at 30 June 2020 includes a specific provision of $6.3 million for a customer following the entity entering administration.

The remaining ECLs have increased from $5.6 million at 30 June 2019 to $12.3 million at 30 June 2020 reflecting additional credit risk in the current portfolio of trade receivables and contract assets mainly from the effect of the economic downturn caused by the COVID-19 pandemic is expected to have on private counterparties.

Credit losses on "Private" counterparty balances have historically averaged less than 1%. The allowance for credit losses, excluding specific provisions, is 1.1% (2019: 0.7%) of the private trade receivables and contract assets.

Remaining performance obligations

As of 30 June 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations is $13,466.1 million (2019: $14,514.3 million). The Group will recognise this revenue when the performance obligations are satisfied. Approximately ~46% of remaining performance obligations are expected to occur within the next five years; with the remaining ~54% related to long-term service/maintenance contracts ranging up to 42 years.

The remaining performance obligations balances for both 30 June 2020 and 30 June 2019 presented above relate to the revenue expected to be recognised from ongoing construction type contracts with an expected duration of more than 12 months.

During the current financial year revenue of $1,372.0 million has been recognised in relation to performance obligations satisfied or partially satisfied in previous periods.

Recognition and measurement

Trade receivables

Trade receivables and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for impairment.

Contract assets

Contract assets primarily relate to the Group's rights to consideration for work performed but not billed at the reporting date. The contract assets are transferred to trade receivables when the rights have become unconditional. This usually occurs when the Group issues an invoice in accordance with contractual terms to the customer.

Payments from customers are received based on a billing schedule/ milestone basis, as established in our contracts.

Costs to obtain or fulfil contracts

Costs incremental to obtaining a contract and that are expected to be recovered or are explicitly chargeable to the customer regardless of whether the contract is obtained are capitalised.

Financial assets and liabilities

AASB 9 *Financial Instruments* (AASB 9) contains a classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

Fair value

Due to the short-term nature of these financial rights, the carrying amounts of the trade receivables and contract assets are estimated to represent their fair values.

Impairment

The Group has applied the simplified approach to recognise lifetime expected credit losses for trade receivables, contract assets and finance lease receivables as permitted by AASB 9.

The Group considers the relevant credit risk associated with disaggregated portions of the financial assets and after considering specific provisions against counterparties and defaults, applies an expected credit loss (ECL) percentage derived from recorded historic credit losses associated with specific population. The key disaggregation of the balances is between those that are backed by Government funding and those that are not and, between those that are current or are overdue less than 90 days or become more than 90 days overdue. The Group exercises considerable judgement about how economic factors (such as the economic downturn triggered by the COVID-19 pandemic) affect this ECL of each of the disaggregated balances independently, and applies a premium as deemed appropriate to adjust the historically determined default rates to present the total expected credit losses on the current balances.

This impairment model applies to financial assets measured at amortised cost or FVOCI (except for investments in equity instruments).

C2. Trade receivables and contract assets – continued

Key estimate and judgement: Credit risk

Credit risk represents the risk that a counterparty will fail to perform an obligation causing a financial loss to the Group. The Group minimises credit risk by undertaking transactions with a large number of customers in various industries and geographical areas. A credit risk management policy is in place and exposure to credit risk is monitored on an ongoing basis.

The Group uses historical information as a basis for the estimation of expected credit losses and then adjusts its assessment of credit risk based on current macro/micro economic conditions however, judgement is applied in doing this assessment.

C3. Inventories

	2020 $'m	2019 $'m
Current		
Raw materials	**134.6**	127.0
Work in progress	**1.3**	7.3
Finished goods	**57.7**	56.2
Components and spare parts	**140.4**	114.1
Total inventories	**334.0**	304.6

Recognition and measurement

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

C4. Trade payables and contract liabilities

	Note	2020 $'m	2019 $'m
Trade payables		**697.7**	810.6
Contract liabilities		**497.7**	501.5
Accruals		**1,034.4**	1,007.2
Shareholder class action payable	B3	**34.0**	–
Dividends payable	E8	**83.3**	–
Other payables		**179.1**	137.5
Total trade payables and contract liabilities		**2,526.2**	2,456.8
Included in the financial statements as:			
Current		**2,497.4**	2,405.5
Non-current		**28.8**	51.3

Recognition and measurement

Trade payables, accruals and other payables

Trade payables, accruals and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

Contract liabilities

Contract liabilities primarily relate to the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are recognised as revenue when work is performed under the contract.

If the net amount of the Group's rights to consideration for work performed after deduction of progress payments received is negative, the difference is recognised as a liability and included as part of contract liabilities.

Of the Contract liabilities balance of $501.5 million at 30 June 2019, substantially all has been recognised in the current year.

Fair value

Due to the short-term nature of these financial obligations, their carrying amounts are estimated to represent their fair values.

C5. Property, plant and equipment

2020 $'m	Freehold land and buildings	Plant, equipment and leasehold improvements	Equipment under finance lease[ii]	Laundries rental stock	Total
Balance at 30 June 2019	**124.0**	**1,196.2**	**9.0**	**44.1**	**1,373.3**
Opening balance adjustment on application of AASB 16	**–**	**–**	**(9.0)**	**–**	**(9.0)**
Balance at 1 July 2019	**124.0**	**1,196.2**	**–**	**44.1**	**1,364.3**
Additions	**4.0**	**248.7**	**–**	**33.5**	**286.2**
Disposals at net book value	**(0.2)**	**(19.1)**	**–**	**–**	**(19.3)**
Depreciation expense	**(4.4)**	**(225.6)**	**–**	**(35.0)**	**(265.0)**
Impairment charge[i]	**–**	**(6.8)**	**–**	**(3.3)**	**(10.1)**
Net foreign currency exchange differences at net book value	**(0.3)**	**(5.5)**	**–**	**(0.1)**	**(5.9)**
Net book value as at 30 June 2020	**123.1**	**1,187.9**	**–**	**39.2**	**1,350.2**
Cost	**155.1**	**2,748.7**	**–**	**139.0**	**3,042.8**
Accumulated depreciation and impairment	**(32.0)**	**(1,560.8)**	**–**	**(99.8)**	**(1,692.6)**
2019					
Carrying amount as at 1 July 2018	118.8	1,106.3	14.1	41.2	1,280.4
Additions	10.5	305.3	2.3	35.2	353.3
Disposals at net book value	(3.0)	(8.5)	(2.3)	–	(13.8)
Acquisition of businesses	0.1	12.0	–	–	12.1
Depreciation expense	(2.9)	(219.8)	(4.8)	(32.5)	(260.0)
Reclassifications at net book value	–	0.4	(0.4)	–	–
Reclassified as intangible assets	–	(0.8)	–	–	(0.8)
Net foreign currency exchange differences at net book value	0.5	1.3	0.1	0.2	2.1
Net book value as at 30 June 2019	**124.0**	**1,196.2**	**9.0**	**44.1**	**1,373.3**
Cost	152.8	2,722.1	24.5	105.9	3,005.3
Accumulated depreciation and impairment	(28.8)	(1,525.9)	(15.5)	(61.8)	(1,632.0)

(i) Impairment relates to leasehold improvement assets as a result of the portfolio restructure.
(ii) These assets, previously disclosed as Property, plant and equipment have been derecognised on application of AASB 16 and are now presented separately within Right-of-use assets (refer to Note C6).

Recognition and measurement

The value of property, plant and equipment is measured as the cost of the asset less accumulated depreciation and impairment.

The expected useful life and depreciation methods used are listed below:

Item	Useful life	Depreciation method
Freehold land	n/a	No depreciation
Buildings	20 to 50 years	Straight-line
Leasehold improvements	Life of lease	Straight-line
Plant and equipment – mining, power and gas	Working hours	Based on hours of use
Plant and equipment – other	3 to 25 years	Straight-line
Laundries rental stock	18 months to 5 years	Straight-line

Key estimate and judgement: Useful lives and residual values

The estimation of the useful lives and residual values of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leasehold improvements) and turnover policies. In addition, the condition of the assets is assessed at least annually and considered against the remaining useful life. Adjustments to useful lives and residual values are made when considered necessary.

C6. Right-of-use assets

The Group leases many assets including property, motor vehicles and plant and equipment. Information about leased assets for which the Group is a lessee is presented below:

2020 $'m	Leasehold Property	Motor Vehicles	Plant and Equipment	Total
Balance recognised on adoption of AASB 16	385.5	101.7	83.4	570.6
Additions	57.5	56.4	86.1	200.0
Remeasure	(24.1)	9.2	10.1	(4.8)
Depreciation charge for the period	(60.8)	(56.0)	(35.0)	(151.8)
Impairment charge[(i)]	(13.0)	–	–	(13.0)
Disposals at net book value	(1.5)	(0.9)	(1.2)	(3.6)
Net foreign currency exchange differences at net book value	(2.7)	(1.3)	(0.8)	(4.8)
Net book value as at 30 June 2020	**340.9**	**109.1**	**142.6**	**592.6**
Cost	413.9	164.8	176.8	755.5
Accumulated depreciation and impairment	(73.0)	(55.7)	(34.2)	(162.9)

(i) Impairment recognised as a result of the impact that the portfolio restructure had on property footprint across the businesses (refer to Note B3).

Recognition and measurement

Right-of-use assets

The right-of-use assets are initially measured at cost, which comprises:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date, less any lease incentives and any initial direct costs incurred by the lessee
- An estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset.

Subsequently the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The right-of-use asset is depreciated over the shorter period of the lease term and the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the costs of the right-of-use asset reflects that the Group will exercise a purchase option, the asset will be depreciated from the commencement date to the end of the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Where the initially anticipated lease term is subsequently reassessed, any changes are reflected in a remeasurement of the lease liability and a corresponding adjustment to the asset.

If the recoverable amount of a right-of-use asset is less than its carrying value, an impairment charge is recognised in the profit or loss, and the carry value of asset written-down to its recoverable amount. Should the recoverable amount increase in future periods the carrying value may be adjusted to the lower of the recoverable value or the amortised cost of the asset had it not been impaired.

Key estimate and judgement: Useful lives/lease term and recoverable value

The estimation of the useful lives has been based on the assets' lease terms. There are a number of judgements made in determining the lease terms as noted in the Key estimate and judgement section of Note E3.

The expected useful life of the asset includes a judgement as to whether available extension changes will be exercised. Changes to this assessment are reflected as a remeasurement, with a corresponding adjustment for the liability.

In assessing whether a right-of-use asset is impaired, judgement is required to determine the recoverable value of the asset. For corporate right-of-use assets, impairment is assessed against the recoverable amount of cash generating units to which they are allocated.

C7. Intangible assets

2020 $'m	Goodwill	Customer contracts and relationships	Brand names on acquisition	Intellectual property on acquisition	Software and system development	Total
Carrying amount as at 1 July 2019	**2,454.5**	**345.0**	**71.3**	**2.0**	**257.9**	**3,130.7**
Additions	**–**	**2.7**	**–**	**–**	**61.4**	**64.1**
Disposals at net book value	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Business acquisition adjustments	**(5.5)**	**–**	**–**	**–**	**–**	**(5.5)**
Amortisation expense	**–**	**(67.1)**	**(4.0)**	**(0.2)**	**(29.2)**	**(100.5)**
Impairment charge[(i)]	**(165.0)**	**–**	**–**	**–**	**(23.9)**	**(188.9)**
Net foreign currency exchange differences at net book value	**(2.7)**	**–**	**(0.3)**	**–**	**(0.6)**	**(3.6)**
Net book value as at 30 June 2020	**2,281.3**	**280.6**	**67.0**	**1.8**	**265.4**	**2,896.1**
Cost	**2,598.7**	**494.7**	**79.1**	**2.4**	**478.0**	**3,652.9**
Accumulated amortisation and impairment	**(317.4)**	**(214.1)**	**(12.1)**	**(0.6)**	**(212.6)**	**(756.8)**
2019						
Carrying amount as at 1 July 2018	2,351.5	381.1	74.7	2.2	241.2	3,050.7
Additions	–	–	–	–	45.3	45.3
Disposals at net book value	–	–	–	–	(0.3)	(0.3)
Acquisition of businesses	98.2	30.2	–	–	–	128.4
Reclassifications at net book value	–	–	–	–	0.8	0.8
Amortisation expense	–	(66.3)	(3.9)	(0.2)	(29.6)	(100.0)
Net foreign currency exchange differences at net book value	4.8	–	0.5	–	0.5	5.8
Net book value as at 30 June 2019	**2,454.5**	**345.0**	**71.3**	**2.0**	**257.9**	**3,130.7**
Cost	2,606.9	494.1	79.4	2.4	419.3	3,602.1
Accumulated amortisation and impairment	(152.4)	(149.1)	(8.1)	(0.4)	(161.4)	(471.4)

(i) $165.0 million impairment as a result of assessment of the carrying value of the Spotless group of CGUs (Refer to recoverable amount section in Note C7 and to Note B3). $23.9 million impairment of capitalised Information Systems (including applications and IT infrastructure), in CGUs that are being wound down as part of the portfolio restructure (Refer to Note B3).

Recognition and measurement

Goodwill

Goodwill acquired in a business combination is measured at cost and subsequently measured at cost less any impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Customer contracts and relationships on acquisition

Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill and are carried at fair value at date of acquisition less accumulated amortisation and any accumulated impairment losses.

Brand names on acquisition

Brand names acquired as part of a business combination are recognised separately from goodwill and are carried at fair value at date of acquisition less accumulated amortisation and any accumulated impairment losses.

Intellectual property on acquisition

Intellectual property acquired as part of a business combination is recognised separately from goodwill and is carried at fair value at date of acquisition less accumulated amortisation and any accumulated impairment losses.

Intellectual property, software and system development

Intangible assets acquired by the Group, including intellectual property (purchased patents, trademarks and licences) and software are initially recognised at cost, and subsequently measured at cost less accumulated amortisation and any impairment losses. Internally developed systems are capitalised once the project is assessed to be feasible. The costs capitalised include consulting, licensing and direct labour costs. Costs incurred in determining project feasibility are expensed as incurred.

C7. Intangible assets – continued

Amortisation

Intangible assets with finite useful lives are amortised on a straight-line basis over their useful lives. The estimated useful lives are generally:

Item	Useful Life
Software and system development	5 to 15 years
Brand names	20 years
Intellectual property acquired	15 to 20 years
Customer contracts and relationships	1 to 20 years
Other intangible assets	20 years

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life 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 purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units or CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to CGUs or groups of CGUs ("CGUs") that are significant individually or in aggregate, taking into consideration the nature of service, resource allocation, how operations are monitored and where independent cash flows are identifiable.

Consistent with prior year, eight independent CGUs have been identified across the Group against which goodwill has been allocated and for which impairment testing has been undertaken.

The goodwill allocation to each CGUs is presented below:

	Carrying value of consolidated goodwill	
	2020 $'m	2019 $'m
Transport Australia(i)	**275.1**	283.6
Utilities Australia	**335.0**	335.0
Rail	**55.3**	55.3
Defence	**53.7**	53.7
Downer NZ Services	**69.3**	70.5
Building Projects NZ	**62.2**	63.7
Spotless(i) (ii)	**1,276.3**	1,438.3
EC&M	**154.4**	154.4
Total	**2,281.3**	2,454.5

(i) Included in this amount is the adjustment of goodwill for certain acquisitions made during the year ended 30 June 2019, for which the acquisition accounting has been finalised.

(ii) FY20 balance is net of an impairment of $165.0 million. Refer to results of impairment testing section.

Key estimate and judgement:

Impairment of assets

Determination of potential impairment requires an estimation of the recoverable amount of the CGUs to which the goodwill and intangible assets with indefinite useful lives are allocated. Key assumptions requiring judgement include projected cash flows, discount rates, budgeted EBIT growth rate and long-term growth rate.

Estimation of useful life

The estimation of the economic useful lives of software is initially determined based on historical experience. The useful lives of intangible assets recognised on business combinations is independently determined based on detailed reviews of similar assets and underlying factors. These useful lives are regularly reassessed for indicators of any change to the initial assessments. If the economic useful lives are determined to have changed, the amortisation of the assets is adjusted to reflect the new expected useful life, impacting the future amortisation recognised.

Recoverable amount testing

The recoverable amount of the identified CGUs has been assessed using the higher of "value in use" ("VIU") and "fair value less costs of disposal" ("FVLCD").

The carrying value of the Transport Australia, Utilities Australia, EC&M, Rail, Defence, Building Projects NZ and Downer NZ Services CGUs have been assessed using a VIU model, consistent with prior periods.

In assessing VIU, the estimated future cash flows are discounted to their present value using a discount rate that uses current market assessments of the time value of money and the risks specific to the CGU.

As an impairment has been identified for the Spotless CGU, the recoverable amount of the Spotless CGU has been assessed based on both a 'VIU' and a 'FVLCD' methodology. The recoverable amount has been determined based on a FVLCD basis (2019: VIU) as this provided the higher recoverable amount.

C7. Intangible assets – continued

Recoverable amount testing – continued

In determining the FVLCD, a discounted cash flow model is used. These calculations, classified as level 3 on the fair value hierarchy, are compared to valuation multiples, or other fair value indicators where available, to ensure reasonableness.

Results of impairment testing

All CGUs, except the Spotless CGU

For all CGUs, with the exception of the Spotless CGU, the recoverable values (based on the present value of future cash flows) are greater than the carrying value of the operating assets and no impairment has been identified.

Spotless CGU

The forecast cash flows for the Spotless CGU have been adversely impacted by a number of issues, including declining margins and contract base, poor performance on certain contracts, and more recently, the impact of COVID-19 particularly on its Hospitality business. Consequently, the present value of future expected cash flows has reduced and no longer support the carrying value of the operating assets of the CGU.

The recoverable amount of the Spotless CGU has been determined to be $1,721.0 million.

As a result, an impairment of $165.0 million has been recognised against the goodwill allocated to the CGU. The impairment amount has been recognised in "Impairment of non-current assets" in the statement of profit or loss and disclosed as an individually significant item in Note B3.

The reduction in the recoverable amount of the Spotless CGU was the result of:

- An increase in the post tax discount rate from 8.1% to 8.3% applied to forecast cash flows
- A reduction in the terminal growth rate from 2.5% to 2.25% due to the macro-economic environment
- The impact of COVID-19 on future earnings particularly in Hospitality
- A reduction in earnings from the Infrastructure & Construction (I&C) division (Nuvo and AE Smith) as that business repositions away from major construction exposure.

Recoverable amount testing – Key assumptions

The table below summarises the key assumptions utilised in the VIU and FVLCD calculations.

	2020			2019		
	Budgeted EBIT(i)	Long-term growth rate	Discount rate (post-tax)	Budgeted EBIT(i)	Long-term growth rate	Discount rate (post-tax)
Transport Australia	**4.7%**	**2.25%**	**9.0%**	5.4%	2.5%	8.9%
Utilities Australia	**(2.6)%**	**2.25%**	**8.2%**	(0.5)%	2.5%	9.2%
Rail	**0.3%**	**2.25%**	**9.1%**	(10.1)%	2.5%	9.8%
Defence	**16.8%**	**2.25%**	**10.3%**	16.9%	2.5%	9.3%
Downer NZ Services	**3.9%**	**2.25%**	**8.3%**	2.5%	2.5%	9.2%
Building Projects NZ	**(2.0)%**	**2.25%**	**9.5%**	(3.7)%	2.5%	8.8%
Spotless	**1.8%**	**2.25%**	**8.3%**	5.2%	2.5%	8.1%
EC&M	**1.8%**	**2.25%**	**9.7%**	7.8%	2.5%	8.7%

(i) Budgeted EBIT for both 2019 and 2020 is expressed as the compound annual growth rates (CAGR) from FY19 actual to terminal year forecast based on the CGUs business plan.

The impact of COVID-19 and return to a steady state of performance by the terminal year is a key assumption as detailed below for each CGU. The EBIT CAGR shown above is based on FY19 to terminal year to 'normalise' for the impacts of COVID-19 on the current year results.

For all CGUs the FY21 budget and the business plan for FY22 and FY23 have included consideration of the impact of climate risk. The impact of climate risk is not a key assumption in the "value in use" or "fair value less cost of disposal" calculations.

(i) Projected cash flows – budgeted EBIT and the impact of COVID-19 pandemic

Value in use calculation

The Group determines the recoverable amount, using three-year cash flow projections based on the FY21 budget (as approved by the Board) and the business plans for the years ending 30 June 2022 and 2023. For FY24 onwards, the Group assumes a long-term growth rate of 2.25% to reflect the organic growth expectations of the industry.

Cash flow projections are determined utilising the budgeted Earnings Before Interest and Tax (EBIT) less tax, capital maintenance spending and working capital changes, adjusted to exclude any uncommitted restructuring costs and future benefits to provide a "free cash flow" estimate. This calculated "free cash flow" is then discounted to its present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

C7. Intangible assets – continued

(i) Projected cash flows – budgeted EBIT and the impact of COVID-19 pandemic – continued

COVID-19 Impact on projected cash flows

Budgeted EBIT has been based on past experience and the Group's assessment of economic and regulatory factors affecting the industry within which the Downer businesses operate. The COVID-19 pandemic has impacted the Group business lines to varying degrees, with impacts including forced lockdown in New Zealand, event cancellations, travel restrictions, supply chain restrictions and general productivity constraints.

Whilst the near-term future health and economic consequences of COVID-19 remain uncertain, the experience to date of the impacts of COVID-19 on FY20 has been taken into consideration in the preparation of the projected cash flows for the FY21 budget and the business plans for FY22 and FY23.

Generally speaking, the Transport Australia, Utilities Australia, Rail and Defence CGUs were resilient with FY20 performance on or near budget, mainly as their customer base includes Government Agencies or Government-owned corporations.

The Building Projects NZ and Downer NZ Services business units were supported through the level 4 restrictions in New Zealand through both wage subsidies and recognition that COVID-19 was a valid cause for delay and disruption claims.

Through FY20 the EC&M CGU experienced several large contract losses in relation to construction contracts as well as some deferral of activity in relation to long term Asset Maintenance contracts as a result of COVID-19. Due to the critical nature of these maintenance activities this activity is anticipated to return in FY21.

The above impacts have been considered in forming the FY21 budget in the discounted cash flow models.

Ongoing cash flow forecasts

The FY22 through to terminal year cash flow projections assume a return from the current economic position consistent with economic projections, with the terminal year reflecting a steady-state performance. Specifically for each CGU:

- Transport Australia is expected to benefit from an increase in activity in the transport infrastructure sector due to population growth, increasing user expectation and higher Government spend.
- Utilities Australia is expected to benefit from an increase in activity in fixed telecommunication networks, electricity and water sectors, partially offsetting the reduction in EBIT following completion of the current nbn construction contracts.
- Rail is expected to be relatively stable over the medium term following the transition from construction to the Through Life Support (TLS) phase with the timing of overhauls impacting the short-term cash flows.
- The Defence business has grown following acquisitions in 2018. From a low EBIT is expected to benefit from an increase in activity in the defence consulting sector and revenue growth through the integration of activities from building an end-to-end service offering and expanding its offering and services to current and new customers. A higher discount rate reflects the risk in achieving the growth projections and the relatively smaller CGU.
- Downer New Zealand Services is expected to benefit from increased investment in infrastructure, particularly in transport and utilities.
- Building Projects New Zealand is expected to continue to deliver on opportunities, particularly government-linked expenditure in the vertical build area.
- EC&M revenue and EBIT growth assumptions has been normalised for contract losses incurred in 2019 as Downer has exited the resource based electrical and mechanical major construction market within the Engineering and Construction (E&C) business unit. Normalising for these losses, the business shows a stable growth assumption, reflecting the revised focus on Asset Maintenance Services long-term service agreements where ongoing growth is expected across Oil & Gas, Power Generation and Industrial sectors.

Fair value less cost of disposal calculation

In determining FVLCD for the Spotless CGU, a discounted cash flow model was used. Similarly to the other CGUs, a three-year cash flow projection, based on the EBIT as per the FY21 budget and the business plan for FY22 and FY23 was utilised. For FY24 onwards, the Group assumes a long-term growth rate of 2.25% to allow for organic growth on the existing asset base. Adjustments are made to these projections to include assumptions that a market participant would make, such as cash flows relating to restructuring and integration, following Downer obtaining 100% control of Spotless.

The Spotless CGU has been the most acutely affected part of the Group through COVID-19 with all major Hospitality event venues and other customer premises either closed or running at a fraction of capacity, as well as a reduction in Laundries volumes through the deferral of elective surgeries.

Spotless' revenue and EBIT assumptions assume an ongoing decline in the Hospitality business unit through FY21 and FY22 due to anticipated reduction in events being held at key venues such as the Melbourne Cricket Ground and Perth Convention and Entertainment Centre. The model for Hospitality assumes a return to pre-COVID-19 levels of activity by FY23. The overall Spotless projections assume an overall EBIT compound annual growth rate from FY19 (i.e. pre-COVID-19 levels) to the terminal year of 1.8%, which is consistent with economic projections that COVID-19 will have a long term sustained impact on economic growth, and particular challenges in the Hospitality sector. Consistent with assumptions a market participant would make, the forecast also includes $10 million per annum (risk adjusted) of synergies that can be realised from 100% ownership of Spotless, offset by the premium paid to acquire the remaining interest in Spotless and costs of implementation.

C7. Intangible assets – continued

(ii) Long-term growth rates

The long-term annual growth rates, applicable for the periods after which detailed forecasts have been prepared, are based on the long term expected GDP rates for the country of operation, adjusted as necessary to reflect industry specific considerations including the impact that COVID-19 may have.

(iii) Discount rates

Post-tax discount rates of between 8.2% and 10.3% reflect the Group's estimate of the time value of money and risks associated with each CGU.

In determining the appropriate discount rate for each CGU, consideration has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for country and business risks specific to that CGU. The post-tax discount rate is applied to post-tax cash flows that include an allowance for tax based on the affected respective jurisdiction's tax rate. This method is used to approximate the requirement of the accounting standards to apply a pre-tax discount rate to pre-tax cash flows.

(iv) Budgeted capital expenditure

The expected cash flows for capital expenditure are based on past experience and the amounts included in the terminal year calculation are for maintenance capital used for existing plant and replacement of plant as it is retired from service. The resulting expenditure has been compared against the annual depreciation charge to ensure that it is reasonable.

(v) Budgeted working capital

Working capital has been maintained at a level required to support the business activities of each CGU, taking into account changes in the business cycle. It has been assumed to be in line with historic trends given the level of operating activity.

Sensitivities

For all CGUs, except the Spotless CGU, management believes that any reasonable change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable value amount.

For the Spotless CGU, as the recoverable amount is now equal to the carrying amount, any adverse movement in the key assumptions noted above would lead to further impairment.

C8. Lease receivables

	2020 $'m	2019 $'m
Less than one year	**20.6**	14.2
Between one and five years	**50.9**	40.7
Greater than five years	**–**	0.2
Future minimum lease receivables	**71.5**	55.1
Less: unearned finance income	**(4.7)**	(4.0)
Present value of minimum lease receivables	**66.8**	51.1
Included in the financial statements as:		
Current	**18.5**	12.4
Non-current	**48.3**	38.7

There were no guaranteed residual values of assets leased under finance leases at reporting date (2019: nil). However, some of the leased assets serve as a guarantee against these receivables.

Recognition and measurement

Some of the Group's mining services contracts include arrangements whereby the customer will retain ownership of the assets at the end of the contract. The asset component of those contracts is recognised as lease receivables.

A lease arrangement transfers substantially all the risks and rewards of ownership of the asset to the lessee. The Group's net investment in the lease equals the net present value of the future minimum lease payments. Lease income is recognised to reflect a constant periodic rate of return on the Group's remaining net investment in respect of the lease.

C9. Other provisions

2020 $'m	Note	Decommissioning and restoration	Warranties and contract claims	Onerous contracts and other(i)	Total
Balance at 30 June 2019		28.1	23.7	139.7	191.5
Opening balance adjustment on application of AASB 16	G1	–	–	(37.1)	(37.1)
Balance at 1 July 2019		28.1	23.7	102.6	154.4
Additional provisions recognised		3.4	24.0	28.3	55.7
Unused provisions reversed		–	(0.1)	(22.3)	(22.4)
Utilisation of provisions		(2.8)	(9.9)	(61.9)	(74.6)
Business acquisition adjustments		0.5	–	1.0	1.5
Net foreign currency exchange differences		(0.1)	–	(1.0)	(1.1)
Balance at 30 June 2020		29.1	37.7	46.7	113.5
Included in the financial statements as:					
Current		8.9	31.3	33.9	74.1
Non-current		20.2	6.4	12.8	39.4

(i) Onerous lease contracts as at 1 July 2019 have been reflected as Impairment to the opening right-of-use asset cost on adoption of AASB 16.

Recognition and measurement

Provisions

Provisions are recognised when:

- The Group has a present obligation as a result of a past event
- It is probable that resources will be expended to settle the obligation
- The amount of the provision can be measured reliably.

(i) Decommissioning and restoration

Provisions for decommissioning and restoration are made for close down, restoration and environmental rehabilitation costs, including the cost of dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas.

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.

The provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(ii) Warranties and contract claims

Provisions for warranties and contract claims are made for the estimated liability on all products still under warranty at balance sheet date and known claims arising under service and construction contracts.

(iii) Onerous contracts and other

Provisions primarily include amounts recognised in relation to onerous customer contracts and supply contracts.

The onerous contract provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Key estimate and judgement: Provisions

(i) Decommissioning and restoration

Judgement is required in determining the expected expenditure required to settle rectification obligations at the reporting date, based on current legal requirements, technology and estimates of inflation.

(ii) Warranties and contract claims

The provision is estimated having regard to previous claims experience.

(iii) Onerous contracts and other

These provisions have been calculated based on management's best estimate of discounted net cash outflows required to fulfil the contracts. The status of these contracts and the adequacy of provisions are assessed at each reporting date. Any change in the assessment of provisions impacts the results of the business.

C10. Contingent liabilities

Bonding	Note	2020 $'m	2019 $'m
The Group has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for controlled entities	E2	**1,439.8**	1,323.2

The Group is called upon to give guarantees and indemnities to counterparties, relating to the performance of contractual and financial obligations (including for controlled entities and related parties). Other than as noted above, these guarantees and indemnities are indeterminable in amount.

Other contingent liabilities

i) The Group is subject to 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 financial statements.

ii) The Group is subject to product liability claims. Provision is made for the potential costs of carrying out rectification works based on known claims and previous claims history. However, as the ultimate outcome of these claims cannot be reliably determined at the date of this report, contingent liability may exist for any amounts that ultimately become payable in excess of current provisioning levels.

iii) Controlled entities have entered into various joint arrangements under which the controlled entity is jointly and severally liable for the obligations of the relevant joint arrangements.

iv) The Group carries the normal contractors' and consultants' liability in relation to services, supply and construction contracts (for example, liability relating to professional advice, design, completion, workmanship, and damage), as well as liability for personal injury/property damage during the course of a project. Potential liability may arise from claims, disputes and/or litigation/arbitration by or against Group companies and/or joint venture arrangements in which the Group has an interest. The Group is currently managing a number of claims, arbitration and litigation processes in relation to services, supply and construction contracts as well as in relation to personal injury and property damage claims arising from project delivery.

v) Several New Zealand entities in the Group have been named as co-defendants in "leaky building" claims. The leaky building claims where Group entities are co-defendants generally relate to water damage arising from historical design and construction methodologies (and certification) for residential and other buildings in New Zealand during the early-mid 2000s. The Directors are of the opinion that disclosure of any further information relating to the leaky building claims would be prejudicial to the interests of the Group.

vi) Certain recent court decisions, not involving Spotless, regarding the correct application of various employee entitlements may have a financial impact on the Group. The Group does not consider the majority of the principles relating to these Court decisions directly apply to the Group's employment arrangements. No provision has therefore been recognised in relation to these matters at 30 June 2020.

D Employee benefits

This section provides a breakdown of the various programs Downer uses to reward and recognise employees and key executives, including Key Management Personnel (KMP). Downer believes that these programs reinforce the value of ownership and incentives and drive performance both individually and collectively to deliver better returns to shareholders.

D1. Employee benefits

	2020 $'m	2019 $'m
Employee benefits expense:		
– Defined contribution plans costs	**262.3**	258.2
– Shared-based employee benefits expense	**4.8**	4.0
– Employee benefits	**3,885.8**	4,065.6
– Redundancy costs	**57.4**	12.6
– Defined benefit plan costs	**7.0**	-
Total	**4,217.3**	4,340.4
Employee benefits provision:		
– Current(i)	**377.1**	365.3
– Non-current(ii)	**55.0**	45.1
Total	**432.1**	410.4

(i) June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations.

(ii) Included in the non-current employee benefit provision is the net obligation of the defined benefit plan (Refer to Note D2).

Payroll remediation costs

During the year, Spotless commenced a review of the applicable Enterprise Agreements and Modern Awards, together with the assumptions regarding their interpretation and application in its payroll systems in order to validate the correct application of pay rates to employees as well as identify historical underpayments and overpayments.

While the review to determine the extent of the remediation continues, the Group has estimated the likely underpayments relating to the period prior to 1 July 2018 was $24.8 million before tax. The annual amounts were not material to profit either cumulatively or for any of the individual years to which they related. Nonetheless, the Group has elected to restate opening retained earnings to enhance year on year comparability.

As a result, the opening balance of the employee benefits provision has been increased by $24.8 million, with corresponding adjustments to retained earnings, deferred tax assets and to the non-controlling interest. The impact of these changes on the opening position for these balances has flowed through to the closing balances for the year ended 30 June 2019. The Consolidated Statement of Profit or Loss and Other Comprehensive Income, and the Consolidated Statement of Cash Flows comparatives for FY19 are unchanged.

In addition, the Group has recognised an expense of $16.3 million before tax in 2020 relating to remediation costs and redundancy payments for employees made redundant on cessation of specific contracts (refer to Note B3).

Critical estimates and judgements have been made in the calculations as to the impacted employees, allowance payments and assumed work patterns. Any revisions of the estimates will be recognised in the period the revisions are identified.

The following table presents the impact of the 1 July 2018 restatement on the comparative information presented in the prior year's Annual Report:

Balances as at 30 June 2019:	Note	As previously reported $'m	Adjustment $'m	As restated $'m
Employee benefits provision		(385.6)	(24.8)	(410.4)
Deferred tax asset	B5(b)	93.5	7.4	100.9
Other net assets		3,342.3	–	3,342.3
Net assets		3,050.2	(17.4)	3,032.8
Retained earnings		496.7	(15.3)	481.4
Non-controlling interest	E6	155.9	(2.1)	153.8
Other equity balances		2,397.6	–	2,397.6
Total equity		3,050.2	(17.4)	3,032.8

Recognition and measurement

The employee benefits liability represents accrued wages and salaries, leave entitlements and other incentives recognised in respect of employees' services up to the end of the reporting period. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs, such as workers compensation insurance, superannuation and payroll tax.

Key estimate and judgement:

Annual leave and long service leave

Long-term employee benefits are measured at the present value of estimated future payments for the services provided by employees up to the end of the reporting period. This calculation requires judgement in determining the following key assumptions:

- Future increase in wages and salary rates
- Future on-cost rates
- Expected settlement dates based on staff turnover history.

The liability is discounted using the Australian corporate bond rates which most closely match the terms to maturity of the entitlement.

For New Zealand employees the liability is discounted using long-term government bond rates given there is no deep corporate bond market.

Interpretation of Enterprise Agreements (EAs) and Modern Awards

Management estimates any potential expenses in relation to payroll remediation matters.

Each identified matter is currently in the process of final validation and quantification. In the case of redundancy costs arising from Ordinary and Customary Turnover of Labour rate (OCTL), the quantification and ultimate liability will also be subject to the outcome of any appeal.

The work involved in calculating the provision has been time consuming, complex and is the Group's best estimate of its liability. The estimate is based on an assessment of substantial volumes of payroll data and where employee, payroll and/or rostering data has been missing or incomplete, assumptions have been made by the reviewing team in relation to known gaps. The estimate also relies upon the correct interpretation of the applicable EAs and Modern Awards in calculating the shortfalls, and for redundancy payments whether an employee should be considered casual or permanent.

Changes to any of the variables (including the reviewing period and numbers of employees affected), assumptions (including the roles that employees were originally hired to perform in the case of redundancy payment) or inputs have the potential to result in further adjustments to the calculation of the shortfall, which would result in further provisioning being required in subsequent reporting periods.

The Group is committed to ensuring its people are paid in accordance with their legal entitlements and will keep the dedicated reviewing team in place until it is satisfied that the above matters have been addressed.

D2. Defined benefit plan

The Group participates in the Equipsuper Defined Benefit Scheme which provides participants (< 100 employees) with a lump sum benefit on retirement, death, disablement or withdrawal. The scheme operates under the Superannuation Industry legislation, and is governed by The Scheme Trustees, in compliance with Australian Prudential Regulation Authority framework. The scheme is closed to new employees.

As at 30 June 2020, the fair value of plan assets (comprising Investment Funds) was $53.0 million. The plan obligation balance was $58.4 million. The net liability of $5.4 million is included in Employee benefits provisions (Refer to Note D1). These balances were subject to an independent actuarial review as at 30 June 2020.

As part of a five-year contract with AusNet Services to provide operational and maintenance services on the electricity distribution network in Victoria, the Group recognised $51.1 million of assets and equal obligations with onboarding of new employees from a pre-existing plan, $7.0 million of service costs expensed to profit or loss, $0.7 million of actuarial gain on the obligation, and the Group contributions of $0.9 million.

Key actuarial assumptions used in determining the values were a discount rate of 2.6% and an expected salary increase rate of 3.0%. Sensitivity analysis shows a 0.5 percentage point reduction in the discount rate would increase the obligation by 5.1% and a 0.5 percentage point increase in the expected salary increase rate would increase the obligation by 4.5%.

Key estimate and judgement: Valuation of the defined benefit plan assets and obligations

There are a number of estimates and assumptions used in determining the defined benefit plan assets, obligations and expenses. These include salary increases, future earnings, and the returns on fund investments. Any difference in these assumptions or estimates will be recognised in other comprehensive income and not through the income statement. The net of the plan assets and obligations recognised in the statement of financial position will be affected by any movement in the returns on the investment or the rate of interest.

D3. Key management personnel compensation

	2020 $	2019 $
Short-term employee benefits	**7,914,786**	12,804,694
Post-employment benefits	**244,055**	1,298,516
Share-based payments	**1,878,243**	2,415,989
Total	**10,037,084**	16,519,199

Recognition and measurement

Equity-settled transactions

Equity-settled share-based transactions are measured at fair value at the date of grant. The cost of these transactions is recognised in profit or loss and credited to equity over the vesting period. At each balance sheet date, the Group revises its estimates of the number of rights that are expected to vest for service and non-market performance conditions. The expense recognised each year takes into account the most recent estimate.

The fair value at grant date is independently determined using an option pricing model and takes into account any market related performance conditions. Non-market vesting conditions are not considered when determining value; however they are included in assumptions about the number of rights that are expected to vest.

Cash-settled transactions

The amount payable to employees in respect of cash-settled share-based payments is recognised as an expense, with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to the payment. The liability is remeasured at each reporting date and at settlement date based on the fair value, with any changes in the liability being recognised in profit or loss.

D4. Employee Discount Share Plan

No shares were issued under the Employee Discount Share Plan during the years ended 30 June 2020 and 30 June 2019.

E

Capital structure and financing

This section provides information relating to the Group's capital structure and its exposure to financial risks, how they affect the Group's financial position and performance and how the risks are managed.

The capital structure of the Group consists of debt and equity. The Directors determine the appropriate capital structure of Downer, specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the current and future activities of the Group. The Directors review the Group's capital structure and dividend policy regularly and do so in the context of the Group's ability to continue as a going concern, to invest in opportunities that grow the business and enhance shareholder value.

E1. Borrowings

	2020 $'m	2019 $'m
Current		
Secured:		
– Lease liabilities(i)	–	2.8
Unsecured:		
– Bank loans	**5.4**	6.1
– USD private placement notes	–	10.0
– Deferred finance charges	**(4.0)**	(4.3)
	1.4	11.8
Total current borrowings	**1.4**	14.6
Non-current		
Secured:		
– Lease liabilities(i)	–	7.4
Unsecured:		
– Bank loans	**982.2**	833.4
– USD private placement notes	**145.7**	142.6
– AUD private placement notes	**30.0**	30.0
– AUD medium term notes	**762.8**	550.0
– JPY medium term notes	**135.3**	132.4
– Deferred finance charges	**(6.1)**	(6.9)
	2,049.9	1,681.5
Total non-current borrowings	**2,049.9**	1,688.9
Total borrowings	**2,051.3**	1,703.5
Fair value of total borrowings(ii)	**2,230.4**	1,798.4

(i) Upon adoption of AASB 16 *Leases*, the 30 June 2019 lease liabilities that were disclosed as part of borrowings in the comparative figures above have been presented as part of the lease liability balances in Note E3.

(ii) Excludes finance lease and hire purchase liabilities.

Recognition and measurement

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Fair value

The cash flows under the Group's debt instruments are discounted using current market base interest rates and adjusted for current market credit default swap spreads for industrial companies with a BBB credit rating.

E2. Financing facilities

At reporting date, the Group had the following facilities that were unutilised:

	2020 $'m	2019 $'m
Syndicated loan facilities	**960.0**	770.0
Bilateral loan facilities	**310.0**	297.0
Total unutilised loan facilities	**1,270.0**	1,067.0
Syndicated bank guarantee facilities	**102.5**	314.9
Bilateral bank guarantees and insurance bonding facilities	**492.5**	505.0
Total unutilised bonding facilities	**595.0**	819.9

E2. Financing facilities – continued

Summary of borrowing arrangements

Bank loan facilities

Bilateral loan facilities:

The Group has a total of $477.4 million in bilateral loan facilities which are unsecured, committed facilities with maturities in financial years 2021, 2022 and 2023.

Syndicated loan facilities:

The Group has $1,780.2 million of syndicated bank loan facilities which are unsecured, committed facilities and comprised of Australian Dollar and New Zealand Dollar tranches with maturities in financial year 2022, 2023 and 2024.

USD private placement notes

USD unsecured private placement notes are on issue for a total amount of US$100.0 million with a maturity date of July 2025. The USD denominated principal and interest amounts have been fully hedged against the Australian dollar through cross-currency interest rate swaps.

AUD private placement notes

AUD unsecured private placement notes are on issue for a total amount of $30.0 million with a maturity date of July 2025.

Medium Term Notes (MTNs)

The Group has the following unsecured MTNs on issue:

– $250.0 million maturing March 2022
– $500.0 million maturing April 2026
– JPY 10.0 billion maturing May 2033.

The carrying value of the AUD MTN maturing April 2026 includes a premium of $12.8 million over face value owing to the differential between the coupon rate for that instrument and the prevailing market interest rate at the date of issue.

The JPY denominated principal and interest amounts have been fully hedged against the Australian dollar through a cross-currency interest rate swap.

The above loan facilities and note issuances are supported by guarantees from certain Group subsidiaries.

The maturity profile of the Group's borrowing arrangements by financial year is represented in the below table by facility limit:

Maturing in the period ($'m)	Bilateral Loan Facilities	Syndicated Loan Facilities	USD Private Placement Notes	AUD Private Placement Notes	Medium Term Notes	Total
1 July 2020 to 30 June 2021	5.4	–	–	–	–	5.4
1 July 2021 to 30 June 2022	145.0	200.0	–	–	250.0	595.0
1 July 2022 to 30 June 2023	327.0	1,120.2	–	–	–	1,447.2
1 July 2023 to 30 June 2024	–	460.0	–	–	–	460.0
1 July 2025 to 30 June 2026	–	–	145.7	30.0	500.0	675.7
1 July 2032 to 30 June 2033	–	–	–	–	135.3	135.3
Total	477.4	1,780.2	145.7	30.0	885.3	3,318.6

Covenants on financing facilities

Downer Group's financing facilities contain undertakings to comply with financial covenants and ensure that Group guarantors of these facilities collectively meet certain minimum threshold amounts of Group EBIT and Group Total Tangible Assets (for Downer) and Group EBITDA and Group Total Assets (for Spotless).

The main financial covenants which the Group is subject to are Net Worth, Interest Service Coverage and Leverage.

Financial covenants testing is undertaken monthly and reported at the Downer and Spotless Board meetings. Reporting of financial covenants to financiers occurs semi-annually for the rolling 12-month periods to 30 June and 31 December. Both Downer Group and Spotless were in compliance with all their financial covenants as at 30 June 2020.

Bank guarantees and insurance bonds

The Group has $2,034.8 million of bank guarantee and insurance bond facilities to support its contracting activities. $1,125.5 million of these facilities are provided to the Group on a committed basis and $909.3 million on an uncommitted basis.

The Group's facilities are provided by a number of banks and insurance companies on an unsecured and revolving basis. $1,439.8 million (refer to Note C10) of these facilities were utilised as at 30 June 2020 with $595.0 million unutilised. These facilities have varying maturity dates between financial years 2021, 2022 and 2023.

The underlying risk being assumed by the relevant financier under all bank guarantees and insurance bonds is corporate credit risk rather than project specific risk.

The Group has the flexibility in respect of certain committed facility amounts (shown as part of the unutilised bilateral loan facilities) which can at the election of the Group be utilised to provide additional bank guarantees capacity.

E2. Financing facilities – continued

Refinancing requirements

The Group will negotiate with existing and, where required, with new financiers to extend the maturity date or refinance facilities maturing within the next 12 months. The Group's financial metrics and credit rating as well as conditions in financial markets and other factors may influence the outcome of these negotiations. As at 30 June 2020, the Group has no significant financings maturing within the 12 months to 30 June 2021.

Refer to Note G2(f) for liquidity risk management including the Group's response to the COVID-19 pandemic.

Credit ratings

The Group has an Investment Grade credit rating of BBB (Outlook Stable) from Fitch Ratings. Where the credit rating is lowered or placed on negative watch, customers and suppliers may be less willing to contract with the Group. Furthermore, banks and other lending institutions may demand more stringent terms (including increased pricing, reduced tenors and lower facility limits) on all financing facilities, to reflect the weaker credit risk profile.

E3. Lease liabilities

Contractual undiscounted cash flows	2020 $'m
Less than one year	**193.1**
One to five years	**402.2**
More than five years	**292.5**
Total undiscounted lease liabilities	**887.8**
Current	**168.9**
Non-current	**594.3**
Total lease liabilities	**763.2**

Included in the lease liabilities is $2.8 million of current and $7.4 million of non-current lease liabilities that had previously been disclosed as part of Secured Borrowings at 30 June 2019 (refer to Note E1).

Lease liabilities

The lease liability is initially measured at the present value of future lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if this rate cannot be readily determined the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that depend on an index or a rate
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- The amount expected to be payable under a residual value guarantee
- Payments of penalties for termination of the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments not included in the initial measurement of the lease liability are recognised directly in profit or loss.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in the amount expected to be payable under a residual value guarantee
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The expense charged to profit or loss for low value and short-term leases (excluded from lease liabilities) is analysed as:

	2020 $'m
Lease expenses	
Land and buildings	**2.4**
Plant and equipment	**36.5**
Total lease expenses	**38.9**

Where the Group is a lessor:

The accounting policies applicable to the Group as a lessor are unchanged from those under AASB 117, and as such the Group is not required to make any adjustments on transition to AASB 16 for leases in which it acts as lessor. However, the Group has applied AASB 15 *Revenue from contracts with customers* to allocate consideration in the contract to each lease and non-lease component. Revenue from lease components has been classified within Other Revenue (refer to Note B2).

E3. Lease liabilities – continued

Key estimate and judgement: Lease liabilities

(i) Extension option

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

(ii) Incremental borrowing rate

In determining the present value of the future lease payments, the Group discounts the lease payments using an incremental borrowing rate (IBR). The IBR reflects the financing characteristics and duration of the underlying lease. Once a discount rate has been set for a leased asset (or portfolio of assets with similar characteristics), this rate will remain unchanged for the term of that lease. When a lease modification occurs, and it is not accounted for as a separate lease, a new IBR will be assigned to reflect the new characteristics of the lease.

E4. Commitments

	2020 $'m	2019 $'m
Capital expenditure commitments		
Plant and equipment and other		
Within one year	**72.1**	103.5
Between one and five years	**15.5**	24.3
Greater than five years	**0.4**	1.3
Total	**88.0**	129.1
Catering rights		
Catering rights relates to exclusive secured catering rights arrangements with customers.		
Within one year	**24.3**	27.8
Between one and five years	**35.2**	55.5
Greater than five years	**3.7**	5.9
Total	**63.2**	89.2

E5. Issued capital

	Jun 2020		Jun 2019	
	No.	$'m	No.	$'m
Ordinary shares	**594,702,512**	**2,263.1**	594,702,512	2,263.1
Unvested executive incentive shares	**2,231,632**	**(12.0)**	3,385,446	(16.6)
Distributing Securities (ROADS)	**200,000,000**	**178.6**	200,000,000	178.6
Total		**2,429.7**		2,425.1

(a) Fully paid ordinary share capital

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

	2020		2019	
	m's	$'m	m's	$'m
Fully paid ordinary share capital				
Balance at the beginning of the financial year	**594.7**	**2,263.1**	594.7	2,263.1
Balance at the end of the financial year	**594.7**	**2,263.1**	594.7	2,263.1
(b) Unvested executive incentive shares				
Balance at the beginning of the financial year	**3.4**	**(16.6)**	4.2	(19.8)
Vested executive incentive share transactions[(i)]	**(1.2)**	**4.6**	(0.8)	3.2
Balance at the end of the financial year	**2.2**	**(12.0)**	3.4	(16.6)

(i) June 2020 figures relate to the 2016 LTI plan, second deferred component of the 2017 STI award and first deferred component of the 2018 STI award totalling 1,153,814 vested shares for a value of $4,608,778.
June 2019 figures relate to the 2015 LTI plan, second deferred component of the 2016 STI award and first deferred component of the 2017 STI award totalling 821,912 vested shares for a value of $3,166,042.

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust under the Long-Term Incentive (LTI) plan. From the 2011 LTI plan onwards, no dividends will be distributed on shares held in trust during the performance measurement and service periods. Accumulated dividends will be paid out to executives after all vesting conditions have been met. Otherwise, excess net dividends are retained in the trust to be used by the Company to acquire additional shares on the market for employee equity plans.

E5. Issued capital – continued

	2020		2019	
	m's	$'m	m's	$'m
(c) Redeemable Optionally Adjustable Distributing Securities (ROADS)				
Balance at the beginning and at the end of the financial year	**200.0**	**178.6**	200.0	178.6

ROADS are perpetual, redeemable, exchangeable preference shares. In accordance with the terms of the ROADS preference shares, the dividend rate for the one year commencing 15 June 2020 is 4.32% per annum (2019: 5.49% per annum) which is equivalent to the one-year swap rate on 15 June 2020 of 0.27% per annum plus the step-up margin of 4.05% per annum.

Share options and performance rights

During the financial year nil performance rights (Jun 2019: 1,044,363) in relation to unissued shares were granted to senior executives of the Group under the LTI plan. Further details of the Key Management Personnel (KMP) LTI plan are contained in the Remuneration Report.

Recognition and measurement

Ordinary shares

Incremental costs directly attributed to the issue of ordinary shares are accounted for as a deduction from equity, net of any tax effects.

Executive incentive shares

When executive incentive shares subsequently vest to employees under the Downer employee share plans, the carrying value of the vested shares is transferred from issued capital to the employee benefits reserve.

E6. Non-controlling interest (NCI)

The following table summarises the NCI in relation to the Group's subsidiaries:

	Jun 2020			Jun 2019		
	Spotless[ii] $'m	Other $'m	Total $'m	Spotless[i] $'m	Other $'m	Total $'m
Current assets	**563.9**	**18.4**	**582.3**	566.6	22.3	588.9
Non-current assets[i]	**2,407.3**	**0.3**	**2,407.6**	2,290.7	1.2	2,291.9
Current liabilities[i]	**(738.3)**	**(1.4)**	**(739.7)**	(627.3)	(7.0)	(634.3)
Non-current liabilities	**(1,087.4)**	**(0.1)**	**(1,087.5)**	(1,004.5)	(0.1)	(1,004.6)
Net assets	**1,145.5**	**17.2**	**1,162.7**	1,225.5	16.4	1,241.9
NCI percentage	**12.198%**	**26.0%**		12.198%	26.0%	
Net assets attributable to NCI	**139.7**	**4.5**	**144.2**	149.5	4.3	153.8

(i) June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations (Refer to Note D1).
(ii) Consistent with Group policy the goodwill impairment loss has been recognised on consolidation and does not impact the NCI.

E7. Reserves

2020 $'m	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Fair value through OCI reserve	Total attributable to the members of the Parent
Balance at 1 July 2019	**(24.0)**	**(16.7)**	**15.8**	**(2.6)**	**(27.5)**
Foreign currency translation difference	**–**	**(13.9)**	**–**	**–**	**(13.9)**
Change in fair value of cash flow hedges (net of tax)	**(5.4)**	**–**	**–**	**–**	**(5.4)**
Actuarial movement on defined benefit plan obligations	**–**	**–**	**0.7**	**–**	**0.7**
Income tax effect of actuarial movement on defined benefit plan obligations	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Total comprehensive income for the year	**(5.4)**	**(13.9)**	**0.5**	**–**	**(18.8)**
Vested executive incentive share transactions	**–**	**–**	**(4.6)**	**–**	**(4.6)**
Share-based employee benefits expense	**–**	**–**	**4.8**	**–**	**4.8**
Income tax relating to share-based transactions during the year	**–**	**–**	**(1.6)**	**–**	**(1.6)**
Balance at 30 June 2020	**(29.4)**	**(30.6)**	**14.9**	**(2.6)**	**(47.7)**

2019 $'m	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Fair value through OCI reserve	Total attributable to the members of the Parent
Balance at 1 July 2018	(13.0)	(26.8)	15.5	(2.6)	(26.9)
Foreign currency translation difference	–	10.1	–	–	10.1
Change in fair value of cash flow hedges (net of tax)	(11.0)	–	–	–	(11.0)
Total comprehensive income for the year	(11.0)	10.1	–	–	(0.9)
Vested executive incentive share transactions	–	–	(3.2)	–	(3.2)
Share-based employee benefits expense	–	–	4.0	–	4.0
Income tax relating to share-based transactions during the year	–	–	(0.5)	–	(0.5)
Balance at 30 June 2019	(24.0)	(16.7)	15.8	(2.6)	(27.5)

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to future transactions.

Foreign currency translation reserve

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of operations where their functional currency is different to the presentation currency of the Group.

Employee benefit reserve

The employee benefit reserve is used to recognise the fair value of share-based payments issued to employees over the vesting period, and to recognise the value attributable to the share-based payments during the reporting period. This reserve also includes the actuarial gains or losses arising on the defined benefit plan (Refer to Note D2).

Fair value through OCI reserve

The fair value through OCI reserve comprises the cumulative net change in the fair value of equity investments designated as FVOCI. Until the assets are derecognised or reclassified, this amount is reduced by the amount of loss allowance.

E8. Dividends

(a) Ordinary shares

	2020 Final	2020 Interim	2019 Final	2019 Interim
Dividend per share (in Australian cents)	–	**14.0**	14.0	14.0
Franking percentage	–	**0%**	50%	50%
Cost (in $'m)	–	**83.3**	83.3	83.3
Dividend record date	–	**26/2/20**	4/9/19	21/2/19
Payment date	–	**25/9/20**	2/10/19	21/3/19

Recognition and measurement

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

There will be no final dividend declared/paid for the year ended 30 June 2020. Downer has deferred the unfranked interim dividend which was originally due to be paid on 25 March 2020. This will now be paid on 25 September 2020 and has been recorded as dividend payable in Note C4.

(b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

2020	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	**0.92**	**0.95**	**0.96**	**0.92**	**3.75**
New Zealand imputation credit percentage	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'m)	**1.8**	**1.9**	**1.9**	**1.8**	**7.4**
Payment date	**16/9/19**	**16/12/19**	**16/3/20**	**15/6/20**	
2019	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**	**Total**
Dividend per ROADS (in Australian cents)	1.01	1.05	1.06	1.06	4.18
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'m)	2.0	2.1	2.1	2.1	8.3
Payment date	17/9/18	17/12/18	15/3/19	17/6/19	

(c) Franking credits

The franking account balance as at 30 June 2020 is nil (2019: nil).

F
Group structure

This section explains significant aspects of Downer's Group structure, including joint arrangements where the Group has interests in its controlled entities and how changes have affected the Group structure. It also provides information on business acquisitions and disposals made during the financial year as well as information relating to Downer's related parties, the extent of related party transactions and the impact they had on the Group's financial performance and position.

F1. Joint arrangements and associate entities

(a) Interest in joint ventures and associates

	2020 $'m	2019 $'m
Interest in joint ventures at the beginning of the financial year	**31.5**	21.2
Share of net profit	**18.2**	17.1
Share of distributions	**(17.2)**	(15.6)
Interest in joint venture acquired	**–**	8.5
Foreign currency exchange differences	**(0.4)**	0.3
Interest in joint ventures at the end of the financial year	**32.1**	31.5
Interest in associates at the beginning of the financial year	**77.3**	74.8
Share of net profit	**1.2**	13.3
Share of distributions	**–**	(6.8)
Acquisition of MHPS Plant Services Pty Ltd	**–**	(4.0)
Interest in associates at the end of the financial year	**78.5**	77.3
Interest in joint ventures and associates	**110.6**	108.8

F1. Joint arrangements and associate entities – continued

(a) Interest in joint ventures and associates – continued

The Group has interests in the following joint ventures and associates which are equity accounted:

Name of arrangement	Principal activity	Country of operation	Ownership interest 2020 %	Ownership interest 2019 %
Joint ventures				
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
Bitumen Importers Australia Joint Venture	Construction of bitumen storage facility	Australia	**50**	50
Bitumen Importers Australia Pty Ltd	Bitumen importer	Australia	**50**	50
Bama Civil Pty Ltd & Downer EDI Works Pty Ltd[(i)]	Civil Infrastructure design and/or construction activities	Australia	**50**	–
Eden Park Catering Limited	Catering for functions at Eden Park	New Zealand	**50**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco Limited	Emulsion plant	New Zealand	**50**	50
Isaac Asphalt Limited	Manufacture and supply of asphalt	New Zealand	**50**	50
Repurpose It Holdings Pty Ltd	Waste recycling	Australia	**50**	50
RTL Mining and Earthworks Pty Ltd	Contract mining; civil works and plant hire	Australia	**44**	44
Waanyi Downer JV Pty Ltd	Contract mining services	Australia	**50**	50
ZFS Functions (Pty) Ltd	Catering for functions at Federation Square	Australia	**50**	50
Associates				
Keolis Downer Pty Ltd	Operation and maintenance of Gold Coast light rail, Melbourne tram network and bus operation	Australia	**49**	49

(i) Joint venture entered into during the year ended 30 June 2020.

There are no material commitments held by joint ventures or associates. All joint ventures and associates have a statutory reporting date of 30 June.

The Group's share of aggregate financial information from joint ventures and associates is presented below.

The Group does not disclose the details of the individual joint ventures and associates on the basis these are individually immaterial.

The Group's share of the carrying amounts:	2020 $'m	2019 $'m
Current assets	**229.1**	209.2
Non-current assets	**149.0**	153.5
Current liabilities	**(144.7)**	(115.0)
Non-current liabilities	**(132.7)**	(146.9)
Net assets	**100.7**	100.8
Goodwill	**7.0**	7.0
Adjustment to align accounting policies	**2.9**	1.0
Carrying amount	**110.6**	108.8
Profit for the year	**19.4**	30.4
Total comprehensive income	**19.4**	30.4

F1. Joint arrangements and associate entities – continued

(a) Interest in joint ventures and associates – continued

Recognition and measurement

Equity accounting

(i) Investments in joint ventures

Investments in joint ventures are accounted for using the equity method of accounting.

(ii) Investments in associates

Investments in entities over which the Group has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. The investment in associates is carried at cost plus post-acquisition changes in the Group's share of the associates' net assets, less any impairment in value.

Proportionate consolidation

Joint operations

Joint operations give the Group the right to the underlying assets and obligations for liabilities and are accounted for by recognising the share of those assets and liabilities.

(b) Interest in joint operations

The Group has interests in the following joint operations which are proportionately consolidated:

			Ownership interest	
Name of joint operation	Principal activity	Country of operation	2020 %	2019 %
Ausenco Downer Joint Venture	Enabling works for Carrapateena Project	Australia	**50**	50
China Hawkins Construction JV	Building construction	New Zealand	**50**	50
City Rail JV	Enabling works for Auckland City Rail Link	New Zealand	**50**	50
Concrete Paving Recycling Pty Ltd	Road maintenance	Australia	**49**	49
Confluence Water JV(iii)	Sydney Water services	Australia	**43**	–
CPB Downer Joint Venture	Parramatta Light Rail construction	Australia	**50**	50
CRL Construction Joint Venture	Construction of the City Rail Link Alliance Project	New Zealand	**30**	30
Dampier Highway Joint Venture	Highway construction and design	Australia	**50**	50
Downer-Carey Mining JV(ii)	Management of run of mine and ore rehandling services	Australia	**46**	46
Downer Electrical GHD JV(i)	Traffic control infrastructure	Australia	**90**	90
Downer FKG JV	Major civil and roadworks	Australia	**50**	50
Downer HEB Joint Venture (Memorial Park Alliance)	Design and build of the New Zealand National War Memorial Park	New Zealand	**50**	50
Downer HEB Joint Venture (Mt Messenger Project)	Design and build of the Mt Messenger Project	New Zealand	**50**	50
Downer MCD Wynyard Edge JV (Americas Cup Project)	Design and build on Americas Cup Project	New Zealand	**50**	50
Downer Seymour Whyte JV	Road construction	Australia	**50**	50
Downer York Joint Venture	Tramline extension	Australia	**50**	50
Downtown Infrastructure Development Project JV	Downtown infrastructure development program	New Zealand	**33**	33
Gumala Downer Joint Venture	Contract mining services	Australia	**50**	50
Hatch Downer JV	Design and construction of solvent extraction plant	Australia	**50**	50
HCMT Supplier JV	Rail build supplier	Australia	**50**	50
John Holland Pty Ltd & Downer Utilities Australia Pty Ltd Partnership	Operation of water recycling plant at Mackay	Australia	**50**	50
Macdow Downer Joint Venture (Connectus)	Rail construction	New Zealand	**50**	50
Macdow Downer Joint Venture (CSM2)	Road construction	New Zealand	**50**	50
Macdow Downer Joint Venture (Russley Road)	Road construction	New Zealand	**50**	50
NEWest Alliance(iii)	Construction activities as part of Perth's METRONET program	Australia	**50**	–

F1. Joint arrangements and associate entities – continued

(b) Interest in joint operations – continued

Name of joint operation	Principal activity	Country of operation	Ownership interest 2020 %	Ownership interest 2019 %
North Canterbury Transport Infrastructure Economic Recovery Alliance "NCTIER" JV	Kaikoura earthquake works	New Zealand	**25**	25
Safety Focused Performance JV	Water and sewerage capital works	Australia	**45**	45
Thiess VEC Joint Venture	Highway construction	Australia	**50**	50
Utilita Water JV	Plant maintenance	Australia	**50**	50
VEC Shaw Joint Venture	Road construction	Australia	**50**	50
Waanyi ReGen JV	Rehab contract services	Australia	**50**	50
WDJV Unit Trust	Contract mining services	Australia	**50**	50
Wiri Train Depot Joint Venture	Construction of the Wiri train depot	New Zealand	**50**	50

(i) Contractual arrangement prevents control despite ownership of more than 50% of this joint operation.
(ii) Joint operation is currently undergoing liquidation / de-registration.
(iii) Joint operation entered into during the year ended 30 June 2020.

F2. Acquisition of businesses

Cash outflow in relation to acquisitions

	2020 $'m	2019 $'m
Gross purchase consideration	–	100.7
Deferred consideration paid(i)	**29.8**	15.6
Less: Net cash acquired	–	(35.9)
Less: Deferred and contingent consideration	–	(17.4)
Total cash consideration	**29.8**	63.0

(i) The deferred consideration paid relates to acquisitions made prior to 1 July 2019.

2020 acquisitions

There were no new acquisitions during the year.

2019 acquisitions

MHPS Plant Services

On 30 August 2018, the Group acquired the remaining 73.33% of MHPS Plant Services Pty Ltd ("MHPS") for consideration of $5.6 million.

The acquisition was provisionally accounted for as at 30 June 2019 and has now been finalised in the current year, with no material changes.

Rock N Road

On 3 October 2018, the Group acquired 100% of the shares of Rock N Road Bitumen Pty Ltd ("RNR") for total consideration of $17.9 million. RNR is a road surfacing business based in Mackay and operates in the central and northern regions of Queensland.

The acquisition was provisionally accounted for as at 30 June 2019 and has now been finalised in the current year, with no material changes.

F2. Acquisition of businesses – continued

2019 acquisitions – continued

KHSA Limited

On 21 December 2018, the Group executed a Share Sale Deed to acquire 100% of the shares in the DM Roads Joint Venture partner KHSA Limited ("KHSA") for consideration of $43.7 million, including cash of $19.5 million.

As KHSA Limited has a 50% interest in the Downer Mouchel Roads Joint Venture (alongside Downer's existing 50% interest), Downer Mouchel Roads Joint Venture became 100% controlled. On acquisition of the remaining 50% interest, the initial investment was re-measured to fair value in accordance with Australian Accounting Standards and compared to the existing carrying value. As a result, $17.0 million fair value gain on re-measurement was reported as other income in the statement of profit or loss in the year ended 30 June 2019.

The acquisition was provisionally accounted for as at 30 June 2019 and has now been finalised in the current year.

Boleh Consulting

On 7 December 2018, the Group acquired the net assets of Boleh Consulting ("Boleh") for total consideration of $1.4 million. The business provides a range of engineering services to the railway industry that include design of train control and signalling systems, systems engineering, systems assurance and project management.

The acquisition was provisionally accounted for as at 30 June 2019 and has now been finalised in the current year, with no material changes.

Envar Group

On 28 February 2019, The Group acquired 100% of the shares of Envar Group ("Envar") through Spotless for a total consideration of $24.9 million. The primary purpose of this acquisition is to continue to build a market leading integrated mechanical and electrical business.

The acquisition accounting for Envar has been finalised with an additional $3.0 million of goodwill being recognised.

The Roading Company Limited

On 1 May 2019, the Group acquired the net assets of The Roading Company Limited for a total consideration of $5.4 million. The Roading Company is a roading and civil construction business based in New Zealand.

The acquisition was provisionally accounted for as at 30 June 2019 and has now been finalised in the current year, with no material changes.

FH Lismore

On 22 March 2019, the Group acquired the net assets of Fulton Hogan's surfacing business in Lismore, New South Wales for a total consideration of $1.8 million. The assets provide Downer access to the surfacing market in and around Lismore to enhance the road maintenance capabilities in the area.

The acquisition was provisionally accounted for as at 30 June 2019 and has now been finalised in the current year, with no material changes.

F2. Acquisition of businesses – continued

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets / liabilities acquired were as follows:

Asset / liability acquired	Valuation technique
Trade receivables and contract assets	Cost technique – considers the expected economic benefits receivable when due.
Property, plant and equipment	Market comparison technique and cost technique – the valuation model considers quoted market prices for similar items when available and depreciated replacement cost when appropriate.
Intangible assets	Multi-period excess earnings method – considers the present value of net cash flows expected to be generated by the customer contracts and relationships, intellectual property and brand names, excluding any cash flows related to contributory assets. For the valuation of certain brand names, discounted cash flow under the relief from royalty valuation methodology has been utilised.
Trade payables and contract liabilities	Cost technique – considers the expected economic outflow of resources when due.
Borrowings	Cost technique – considers the expected economic outflow of resources when due.
Provisions	Cost technique – considers the probable economic outflow of resources when the obligation arises.

Goodwill from acquisitions

The goodwill resulting from the above acquisitions represents future market development, expected revenue growth opportunities, technical talent and expertise, and the benefits of expected synergies. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Recognition and measurement

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value. Acquisition-related costs are expensed as incurred in profit or loss.

(i) Acquisition achieved in stages

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of or control of the acquiree obtained.

(ii) Contingent consideration

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

(iii) Non-controlling interest

The Group can elect, on an acquisition by acquisition basis, to recognise non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's share of the acquired entity's net identifiable assets/(liabilities).

Key estimate and judgement: Accounting for acquisition of businesses

Accounting for acquisition of businesses requires judgement and estimates in determining the fair value of acquired assets and liabilities. The relevant accounting standard allows the fair value of assets acquired to be refined in a window of a year after the acquisition date and judgement is required to ensure that the adjustments made reflect new information obtained about facts and circumstances that existed as of the acquisition date. The adjustments made to the fair value of assets are retrospective in nature and have an impact on goodwill recognised on acquisition.

F3. Controlled entities

The controlled entities of the Group listed below were wholly owned during the current and prior year, unless otherwise stated:

Australia

AGIS Group Pty Ltd
ASPIC Infrastructure Pty Ltd
Dean Adams Consulting Pty Ltd(iv)
DMH Plant Services Pty Ltd
DMH Maintenance and Technology Services Pty Ltd
DMH Electrical Services Pty Ltd
DM Road Services Pty Ltd
Downer Australia Pty Ltd
Downer EDI Associated Investments Pty Ltd
Downer EDI Engineering Company Pty Limited
Downer EDI Engineering CWH Pty Limited
Downer EDI Engineering Electrical Pty Ltd
Downer EDI Engineering Group Pty Limited
Downer EDI Engineering Holdings Pty Ltd
Downer EDI Engineering Power Pty Ltd
Downer EDI Engineering Pty Limited
Downer EDI Limited Tax Deferred Employee Share Plan
Downer EDI Mining Pty Ltd
Downer EDI Mining Blasting Services Pty Ltd
Downer EDI Mining Minerals Exploration Pty Ltd
Downer EDI Rail Pty Ltd
Downer EDI Services Pty Ltd
Downer EDI Works Pty Ltd
Downer Energy Systems Pty Limited
Downer Group Finance Pty Limited
Downer Holdings Pty Limited
Downer Investments Holdings Pty Ltd
Downer Mining Regional NSW Pty Ltd
Downer PipeTech Pty Limited
Downer PPP Investments Pty Ltd
Downer Utilities Australia Pty Ltd
Downer Utilities Holdings Australia Pty Ltd
Downer Utilities Networks Pty Ltd(iv)
Downer Utilities New Zealand Pty Limited
Downer Utilities Projects Pty Ltd(iv)
Downer Utilities SDR Australia Pty Ltd(iii)
Downer Utilities SDR Pty Ltd
Downer Victoria PPP Maintenance Pty Ltd
EDI Rail PPP Maintenance Pty Ltd
EDICO Pty Ltd
Emoleum Partnership
Emoleum Road Services Pty Ltd
Emoleum Roads Group Pty Ltd
Emoleum Services Pty Limited(iv)
Envista Pty Limited
Evans Deakin Industries Pty Ltd
LNK Group Pty Ltd
Lowan (Management) Pty. Ltd.
Maclab Services Pty Ltd
Mineral Technologies Pty Ltd
Mineral Technologies (Holdings) Pty Ltd
New South Wales Spray Seal Pty Ltd
Otraco International Pty Ltd
Otracom Pty Ltd
Primary Producers Improvers Pty Ltd
QCC Resources Pty Ltd

Australia (continued)

Rail Services Victoria Pty Ltd
REJV Services Pty Ltd(iii)
Roche Bros. Superannuation Pty. Ltd.
Roche Services Pty Ltd
Rock N Road Bitumen Pty Ltd
RPC Roads Pty Ltd
RPQ Asphalt Pty Ltd
RPQ North Coast Pty Ltd
RPQ Pty Ltd
RPQ Services Pty Ltd
RPQ Spray Seal Pty Ltd
SACH Infrastructure Pty Ltd(iv)
Smarter Contracting Pty Ltd
Snowden Holdings Pty Ltd
Snowden Mining Industry Consultants Pty Ltd
Snowden Technologies Pty Ltd
Southern Asphalters Pty Ltd
Trico Asphalt Pty Ltd
VEC Civil Engineering Pty Ltd
VEC Plant & Equipment Pty Ltd

New Zealand and Pacific

AF Downer Memorial Scholarship Trust
DGL Investments Limited
Downer Construction (Fiji) Limited
Downer Construction (New Zealand) Limited
Downer EDI Engineering Power Limited
Downer EDI Engineering PNG Limited
Downer EDI Works Vanuatu Limited
Downer New Zealand Limited
Downer New Zealand Projects 1 Ltd
Downer New Zealand Projects 2 Ltd
Downer Utilities Alliance New Zealand Limited
Downer Utilities New Zealand Limited
Downer Utilities PNG Limited(iii)
Green Vision Recycling Limited
Hawkins 2017 Limited
Hawkins Project 1 Limited
ITS Pipetech Pacific (Fiji) Limited
Richter Drilling (PNG) Limited
Techtel Training & Development Limited
The Roading Company Limited
Underground Locators Limited
Waste Solutions Limited
Works Finance (NZ) Limited

Africa

Downer EDI Mining Ghana Ltd
Downer Mining South Africa Proprietary Limited
MD Mineral Technologies SA (Pty) Ltd.
MD Mining and Mineral Services (Pty) Ltd(i)
Otraco Botswana (Proprietary) Limited
Otraco Southern Africa (Pty) Ltd(ii)
Otraco Tyre Management Namibia (Proprietary) Limited
Snowden Mining Industry Consultants (Proprietary) Ltd

Asia

Chang Chun Ao Hua Technical Consulting Co Ltd
Downer EDI Engineering (S) Pte Ltd
Downer EDI Engineering Holdings (Thailand) Limited
Downer EDI Engineering Thailand Ltd
Downer EDI Group Insurance Pte Ltd
Downer EDI Rail (Hong Kong) Limited
Downer EDI Works (Hong Kong) Limited
Downer Pte Ltd
Downer Singapore Pte Ltd
MD Mineral Technologies Private Limited
PT Duffill Watts Indonesia
PT Otraco Indonesia

Americas

DBS Chile SpA
Mineral Technologies Comercio de Equipamentos para Processamento de Minerais LTD
Mineral Technologies, Inc.
Otraco Brasil Gerenciamento de Pneus Ltda
Otraco Chile SA
Snowden Consultoria do Brasil Limitada(iv)

United Kingdom

KHSA Limited
Sillars (B. & C.E.) Limited
Sillars (TMWD) Limited
Sillars Holdings Limited
Sillars Road Construction Limited
Works Infrastructure (Holdings) Limited
Works Infrastructure Limited

Spotless(v)

AE Smith & Son (NQ) Pty Ltd
AE Smith & Son (SEQ) Pty Ltd
AE Smith & Son Proprietary Ltd
AE Smith Building Technologies Pty Ltd
AE Smith Service (SEQ) Pty Ltd
AE Smith Service Holdings Pty Ltd
AE Smith Service Pty Ltd
Airparts Holdings Pty Ltd
Airparts Fabrication Pty Ltd
Airparts Fabrications Units Trust
Aladdin Group Services Pty Limited(vi)
Aladdins Holdings Pty Limited(vi)
Aladdin Laundry Pty Limited(vi)
Aladdin Linen Supply Pty Limited(vi)
Asset Services (Aust) Pty Ltd(vi)
Berkeley Challenge (Management) Pty Limited(vi)
Berkeley Challenge Pty Limited(vi)
Berkeley Railcar Services Pty Ltd(vi)
Berkeleys Franchise Services Pty Ltd(vi)
Bonnyrigg Management Pty Limited(vi)
Cleandomain Proprietary Limited(vi)
Cleanevent Australia Pty Ltd(vi)
Cleanevent Holdings Pty Limited(vi)
Cleanevent International Pty Limited(vi)
Cleanevent Middle East FZ LLC(iii)

Spotless(v) (continued)

Cleanevent Technology Pty Ltd(vi)
Emerald ESP Pty Ltd
Envar Installation Pty Ltd
Envar Service Pty Ltd
Envar Holdings Pty Ltd
Envar Engineers & Contractors Pty Ltd
Ensign Services (Aust) Pty Ltd(vi)
Errolon Pty Ltd(vi)
Fieldforce Services Pty Ltd(vi)
Infrastructure Constructions Pty Ltd(vi)
International Linen Service Pty Ltd(vi)
Monteon Pty Ltd(vi)
National Community Enterprises(iii)
Nationwide Venue Management Pty Ltd(vi)
NG-Serv Pty Ltd(vi)
Nuvogroup (Australia) Pty Ltd(vi)
Pacific Industrial Services BidCo Pty Limited(vi)
Pacific Industrial Services FinCo Pty Limited(vi)
Riley Shelley Services Pty Ltd(vi)
Skilltech Consulting Services Pty Ltd(vi)
Skilltech Metering Solutions Pty Ltd(vi)
Sports Venue Services Pty Ltd(vi)
Spotless Defence Services Pty Ltd(vi)
Spotless Facility Services (NZ) Limited
Spotless Facility Services Pty Ltd(vi)
Spotless Financing Pty Limited(vi)
Spotless Group Limited(vi)
Spotless Group Holdings Limited(vi)
Spotless Holdings (NZ) Limited
Spotless Investment Holdings Pty Ltd(vi)
Spotless Management Services Pty Ltd(vi)
Spotless Property Cleaning Services Pty Ltd(vi)
Spotless Securities Plan Pty Ltd(vi)
Spotless Services Australia Limited(vi)
Spotless Services International Pty Ltd(vi)
Spotless Services Limited(vi)
Spotless Treasury Pty Limited(vi)
SSL Asset Services (Management) Pty Ltd(vi)
SSL Facilities Management Real Estate Services Pty Ltd(vi)
SSL Security Services Pty Ltd(vi)
Taylors Laundries Limited
Taylors Two Seven Pty Ltd(vi)
Trenchless Group Pty Ltd(vi)
UAM Pty Ltd(vi)
Utility Services Group Holdings Pty Ltd(vi)
Utility Services Group Limited(vi)

(i) 70% ownership interest.
(ii) 74% ownership interest.
(iii) Entity is currently undergoing liquidation/dissolution.
(iv) Entity dissolved/de-registered/liquidated during the financial year ended 30 June 2020.
(v) The ownership interest in Spotless is 87.8% as at 30 June 2020.
(vi) These Spotless controlled entities all form part of the tax consolidated group of which Spotless Group Holdings Limited is the head entity.

F4. Related party information

(a) Transactions with controlled entities

Aggregate amounts receivable from and payable to controlled entities by the parent entity are included within total assets and liabilities balances as disclosed in Note F5.

Other transactions which occurred during the financial year between the parent entity and controlled entities, as well as between entities in the Group, were on normal arm's length commercial terms.

(b) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note F3.

Equity interests in joint arrangements and associate entities

Details of interests in joint arrangements and associate entities are disclosed in Note F1. The business activities of a number of these entities are conducted under joint venture arrangements. Associated entities conduct business transactions with various controlled entities. Such transactions include purchases and sales, dividends and interest. All such transactions are conducted on the basis of normal arm's length commercial terms.

(c) Controlling entity

The parent entity of the Group is Downer EDI Limited.

F5. Parent entity disclosures

	Company	
(a) Financial position	**2020 $'m**	**2019 $'m**
Assets		
Current assets	**46.5**	58.3
Non-current assets	**2,343.9**	2,427.8
Total assets	**2,390.4**	2,486.1
Liabilities		
Current liabilities	**111.8**	40.2
Non-current liabilities	**4.1**	61.2
Total liabilities	**115.9**	101.4
Net assets	**2,274.5**	2,384.7
Equity		
Issued capital	**2,251.1**	2,246.5
Retained earnings	**9.0**	122.4
Reserves		
Employee benefits reserve	**14.4**	15.8
Total equity	**2,274.5**	2,384.7
(b) Financial performance		
Profit for the year	**53.2**	131.8
Total comprehensive income	**53.2**	131.8

(c) Guarantees entered into by the parent entity in relation to debts of its subsidiaries

The parent entity has, in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year.

(d) Contingent liabilities of the parent entity

The parent entity has no contingent liabilities as at 30 June 2020 (2019: nil) other than those disclosed in Note C10.

The parent entity does not have any commitments for acquisition of property, plant and equipment as at 30 June 2020 (2019: nil).

G Other

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements including the Group's capital and financial risk management disclosure. This disclosure provides information around the Group's risk management policies and how Downer uses derivatives to hedge the underlying exposure to changes in interest rates and to foreign exchange rate fluctuations.

G1. New accounting standards

(a) New and amended accounting standards adopted by the Group

During the year, the Group has applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2019, as follows:

- AASB 16 *Leases*
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty Over Income Tax Treatments*
- AASB 2017-6 *Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long Term Interest in Associates and Joint Ventures*
- AASB 2018-1 *Annual Improvements 2015-2017 Cycle*
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement*
- Interpretation 23 *Uncertainty Over Income Tax Treatments*

Changes in significant accounting policies

The impact of the adoption of AASB 16 *Leases* (AASB16) which resulted in a change in accounting policies is discussed in detail below. The other amendments listed above did not have an impact on the amounts recognised in the current or prior periods and are not expected to significantly impact future periods.

AASB 16 – *Leases*

The Group has adopted AASB 16 using the "modified retrospective approach" from 1 July 2019 and therefore the comparative information has not been restated as permitted under the specific transition provisions in the standard.

Upon transition to AASB 16, the Group recognised right-of-use assets of $570.6 million and lease liabilities of $727.8 million as at 1 July 2019. The subsequent movements in the right-of-use assets as reflected in Note C6 includes $151.8 million depreciation charges for the year. The resulting lease liabilities (Refer to Note E3) gave rise to finance costs of $26.4 million for the year.

For the impact of AASB 16 on segment assets and segment liabilities refer to Note B1.

G1. New accounting standards – continued

(a) New and amended accounting standards adopted by the Group – continued

The table below presents the impact of the adoption on the balance sheet as at 1 July 2019:

	Restated 30 June 2019[i] $'m	AASB 16 Transition Adjustments $'m	Opening Balance 1 July 2019 $'m
Property, plant and equipment	1,373.3	**(9.0)**	**1,364.3**
Right-of-use assets	–	**570.6**	**570.6**
Borrowings	(1,703.5)	**10.2**	**(1,693.3)**
Lease liabilities (current and non-current)	–	**(727.8)**	**(727.8)**
Other provisions	(191.5)	**37.1**	**(154.4)**
Trade payables and contract liabilities	(2,456.8)	**24.0**	**(2,432.8)**
Deferred tax balances	(36.7)	**28.9**	**(7.8)**
Non-controlling interest	(153.8)	**3.2**	**(150.6)**
Retained earnings	(481.4)	**62.8**	**(418.6)**

(i) June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations (Refer to Note D1).

The total adjustment to equity upon transition to AASB 16 was $66.0 million including non-controlling interests.

AASB 16 replaces previous lease accounting guidance and contains significant changes to the accounting treatment applied to leases. It requires a single accounting model to be applied to all types of leases, with the primary change being a requirement for lessees to recognise assets and liabilities for all leases, with the exception of short-term leases (with a duration of less than 12 months) and leases of low-value assets.

At transition, for leases previously classified as operating leases under the superseded standard (AASB 117), lease liabilities were measured and recognised at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments of whether leases are onerous as an alternative to performing an impairment review
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The reconciliation between the operating lease commitments presented in the 30 June 2019 financial statements and the lease liability recognised as at 1 July 2019 is as follows:

	1 July 2019 $'m
Disclosed operating lease commitments at 30 June 2019	**795.6**
Lease commitments for which lease liability arises after 1 July 2019	**(42.1)**
Recognition exemption for:	
Short-term leases	**(11.1)**
Low value leases	**(5.5)**
Recognition of leases embedded in customer contracts	**0.7**
Extension options reasonably certain to be exercised	**119.0**
Discounting using the incremental borrowing rate at 1 July 2019	**(139.0)**
Lease liabilities already recognised at 30 June 2019	**10.2**
Lease liabilities recognised at 1 July 2019	**727.8**

G1. New accounting standards – continued

(a) New and amended accounting standards adopted by the Group – continued

On adoption of AASB 16, the Group:

- Recognised Lease liabilities measured at the present value of future minimum lease payments, discounted using the incremental borrowing rate. The weighted average rate was 3.5%
- Recognised the associated right-of-use assets at the carrying amounts as if AASB 16 had always been applied, discounted using the incremental borrowing rates at the date of initial application
- Ensured that payments made before the commencement date and incentives received from the lessor are included in the carrying amount of the right-of-use asset
- Recognised depreciation on right-of-use assets and interest on lease liabilities in the Consolidated Statement of Profit or Loss and Other Comprehensive Income
- Recognised the principal portion of the lease payment as a financing cash flow and the interest portion of the lease payment as an operating cash flow in the Consolidated Statement of Cash Flows.

Impact of new definition of a lease

The Group assesses whether a contract is or contains a lease, at the inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application of AASB 16. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement Contains a Lease.*

(b) Other new accounting standards that were adopted

During the year, the Group has also chosen to adopt AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions.* The main impact of this amendment is that it exempts lessees from the need to account for COVID-19 related rent concessions as a lease modification. As such, lease concessions are treated as a remeasurement to the lease liability, with a corresponding adjustment to the right-of-use assets provided other terms of the lease agreement are materially unchanged.

(c) New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this Financial Report.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of Business (Amendments to AASB 3)*
- *Definition of Material (Amendments to AASB 101 and AASB 8).*

G2. Capital and financial risk management

(a) Capital risk management

The capital structure of the Group consists of debt and equity. The Group may vary its capital structure by adjusting the amount of dividends, returning capital to shareholders, issuing new shares or increasing or reducing debt.

The Group's objectives when managing capital are to safeguard its ability to operate as a going concern so that it can meet all its financial obligations when they fall due, provide adequate returns to shareholders, maintain an appropriate capital structure to optimise its cost of capital and maintain an investment grade credit rating to ensure ongoing access to funding.

(b) Financial risk management objectives

The Group's Treasury function manages the funding, liquidity and financial risks of the Group. These risks include foreign exchange, interest rate, commodity and financial counterparty credit risk.

The Group enters into a variety of derivative financial instruments to manage its exposures including:

- Forward foreign exchange contracts to hedge the exchange rate risk arising from cross-border trade flows, foreign income and debt service obligations
- Cross-currency interest rate swaps to manage the interest rate and currency risk associated with foreign currency denominated borrowings
- Interest rate swaps to manage interest rate risk
- Commodity forward contracts to manage commodity price movements in contracts.

The Group does not enter into or trade derivative financial instruments for speculative purposes.

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. No material amounts with a right to offset were identified in the Consolidated Statement of Financial Position.

(c) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. As a result, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts and cross-currency swaps.

The carrying amounts of the Group's unhedged foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

	Financial assets(i)		Financial liabilities(i)	
	2020 $'m	2019 $'m	2020 $'m	2019 $'m
US dollar (USD)	**2.7**	10.1	**1.2**	5.5

(i) The above table shows foreign currency financial assets and liabilities in Australian dollar equivalent.

G2. Capital and financial risk management – continued

(c) Foreign currency risk management – continued

Foreign currency forward contracts

The following table summarises, by currency pairs, the Australian dollar value (unless otherwise stated) of forward exchange contracts outstanding as at the reporting date:

	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	**2020**	**2019**	**2020 FC'm**	**2019 FC'm**	**2020 $'m**	**2019 $'m**	**2020 $'m**	**2019 $'m**
Buy USD / Sell AUD								
Less than 3 months	**0.6552**	0.6955	**52.3**	5.2	**79.9**	7.5	**(3.7)**	(0.1)
3 to 6 months	**0.6670**	0.7142	**29.2**	1.3	**43.9**	1.8	**(1.3)**	–
Later than 6 months	**0.6403**	0.7101	**10.5**	0.9	**16.4**	1.3	**(1.1)**	–
			92.0	7.4	**140.2**	10.6	**(6.1)**	(0.1)
Sell USD / Buy AUD								
Less than 3 months	**0.6949**	0.6985	**33.9**	12.1	**48.8**	17.3	**(0.5)**	0.1
3 to 6 months	**0.6846**	0.7073	**34.1**	0.8	**50.0**	1.1	**0.3**	–
Later than 6 months	**0.6814**	0.7194	**4.8**	37.1	**7.0**	51.6	**–**	(0.9)
			72.8	50.0	**105.8**	70.0	**(0.2)**	(0.8)
Buy EUR / Sell AUD								
Less than 3 months	**0.5960**	0.6210	**3.7**	0.3	**6.2**	0.5	**(0.1)**	–
3 to 6 months	**0.6060**	0.6147	**7.1**	3.0	**11.6**	4.9	**–**	–
Later than 6 months	**0.5902**	0.6188	**5.2**	3.4	**8.8**	5.5	**(0.2)**	0.1
			16.0	6.7	**26.6**	10.9	**(0.3)**	0.1
Sell EUR / Buy AUD								
Less than 3 months	**0.5987**	–	**0.2**	–	**0.4**	–	**–**	–
3 to 6 months	**0.5973**	–	**0.6**	–	**1.1**	–	**–**	–
Later than 6 months	**0.6081**	–	**1.6**	–	**2.6**	–	**–**	–
			2.4	–	**4.1**	–	**–**	–
Buy JPY / Sell AUD								
Less than 3 months	**73.46**	77.68	**770.8**	1,648.3	**10.5**	21.2	**–**	0.6
3 to 6 months	**73.75**	77.88	**46.9**	255.9	**0.6**	3.3	**–**	0.1
Later than 6 months	**68.92**	76.95	**64.5**	215.2	**0.9**	2.8	**(0.1)**	0.1
			882.2	2,119.4	**12.0**	27.3	**(0.1)**	0.8
Sell JPY / Buy AUD								
Less than 3 months	**70.96**	76.40	**31.9**	289.5	**0.4**	3.8	**–**	–
Later than 6 months	**73.32**	–	**98.8**	–	**1.3**	–	**–**	–
		76.40	**130.7**	289.5	**1.7**	3.8	**–**	–
Buy NZD / Sell AUD								
Less than 3 months	**1.0659**	1.0493	**112.0**	18.0	**105.1**	17.2	**(0.4)**	0.1
Buy GBP / Sell AUD								
Less than 3 months	**0.4812**	0.5532	**0.2**	1.2	**0.4**	2.2	**(0.1)**	–
3 to 6 months	**0.5367**	–	**0.5**	–	**0.9**	–	**–**	–
Later than 6 months	**0.5511**	–	**0.4**	–	**0.7**	–	**–**	–
			1.1	1.2	**2.0**	2.2	**(0.1)**	–
Buy CAD / Sell AUD								
Less than 3 months	**0.9182**	–	**3.7**	–	**4.0**	–	**(0.1)**	–
Sell CAD / Buy AUD								
Less than 3 months	**0.9052**	–	**5.1**	–	**5.7**	–	**0.2**	–
3 to 6 months	**0.9093**	–	**5.1**	–	**5.6**	–	**0.2**	–
	–		**10.2**	–	**11.3**	–	**0.4**	–
Buy EUR / Sell NZD								
Less than 3 months	**0.5717**	–	**0.5**	–	**0.9**	–	**–**	–
Buy ZAR / Sell AUD								
Less than 3 months	**11.83**	–	**24.3**	–	**2.1**	–	**–**	–
Buy CNY / Sell AUD								
Less than 3 months	**–**	4.9383	**–**	6.0	**–**	1.2	**–**	–
Total							**(6.9)**	0.1

G2. Capital and financial risk management – continued

(c) Foreign currency risk management – continued

Cross-currency interest rate swaps

Under cross-currency interest rate swaps, the Group is committed to exchange certain foreign currency loan principal and interest amounts at agreed future dates at fixed foreign exchange and interest rates. Such contracts enable the Group to eliminate the risk of adverse movements in foreign exchange and interest rates related to foreign currency denominated borrowings.

The following table details the Australian dollar equivalent of cross-currency interest rate swaps outstanding as at the reporting date:

	Weighted average AUD equivalent interest rate (including credit margin)		Weighted average exchange rate		Contract value		Fair value	
Outstanding contracts	**2020 %**	**2019 %**	**2020**	**2019**	**2020 $'m**	**2019 $'m**	**2020 $'m**	**2019 $'m**
Buy USD / Sell AUD								
Less than 1 year	**–**	7.8	**–**	0.7168	**–**	9.8	**–**	0.2
1 to 5 years	**–**	–	**–**	–	**–**	–	**–**	–
5 years or more	**5.9**	5.9	**0.7739**	0.7739	**129.2**	129.2	**13.2**	2.5
					129.2	139.0	**13.2**	2.7
Buy JPY / Sell AUD								
5 years or more	**5.2**	5.2	**83.12**	83.12	**120.3**	120.3	**(12.4)**	(6.3)

The above cross-currency interest rate swaps are designated as effective cash flow hedges.

Foreign currency sensitivity analysis

The Group is mainly exposed to the movement in United States dollar (USD), Euro (EUR), Japanese Yen (JPY), New Zealand dollar (NZD) and Canadian dollar (CAD).

The following table details the Group's sensitivity to movements in the Australian dollar against relevant foreign currencies. The percentages disclosed below represent the Group's assessment of the possible changes in spot foreign exchange rates (i.e. forward exchange points and discount factors have been kept constant). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a given percentage change in foreign exchange rates.

G2. Capital and financial risk management – continued

(c) Foreign currency risk management – continued

Foreign currency sensitivity analysis – continued

A positive number indicates a before-tax increase in profit and equity and a negative number indicates a before-tax decrease in profit and equity.

	Profit / (loss)[i]		Equity[ii]	
	2020 $'m	2019 $'m	2020 $'m	2019 $'m
USD impact				
– 15% rate change	**0.3**	0.8	**6.0**	(10.4)
+ 15% rate change	**(0.2)**	(0.6)	**(4.5)**	7.7
EUR impact				
– 15% rate change	**–**	–	**4.4**	(1.6)
+ 15% rate change	**–**	–	**(3.3)**	1.6
JPY impact				
– 15% rate change	**–**	–	**1.9**	4.3
+ 15% rate change	**–**	–	**(1.4)**	(3.2)
NZD impact				
– 15% rate change	**–**	–	**18.5**	3.0
+ 15% rate change	**–**	–	**(13.7)**	(2.2)
CAD impact				
– 15% rate change	**–**	–	**(1.2)**	–
+ 15% rate change	**–**	–	**0.9**	–

(i) This is mainly as a result of the changes in the value of unhedged foreign currency denominated financial asset and liabilities.
(ii) This is as a result of the changes in the value of forward foreign exchange contracts designated as cash flow hedges.

G2. Capital and financial risk management – continued

(d) Interest rate risk management

The Group is exposed to interest rate risk as entities borrow funds at floating interest rates. Management of this risk is governed by a Board approved Treasury Policy and is managed by maintaining an appropriate mix between fixed and floating rate borrowings and hedging is undertaken through cross-currency interest rate swaps, interest rate swap contracts and the issue of long-term fixed rate debt securities.

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the table below:

	Weighted average AUD equivalent interest rate (including credit margin)		Liability / (asset)	
	2020 %	2019 %	2020 $'m	2019 $'m
Floating interest rates – cash flow exposure				
Bank loans	**1.3**	2.8	**333.7**	288.0
Cash and cash equivalents	**0.8**	1.1	**(588.5)**	(710.7)
Total cash flow exposure			**(254.8)**	(422.7)
Fixed interest rates – fair value exposure				
Bank loans(i)	**2.6**	3.6	**662.3**	556.4
USD private placement notes(i)	**5.9**	6.0	**132.5**	149.9
AUD private placement notes	**5.8**	5.8	**30.0**	30.0
Medium term notes(i)	**3.9**	4.3	**910.4**	688.7
Finance lease and hire purchase	**–**	5.5	**–**	10.2
Total fair value exposure			**1,735.2**	1,435.2

(i) The values of the interest rate and cross-currency swaps have been included in the debt amounts.

All interest rates in the above table reflect rates in the currency of the relevant loan other than USD private placement notes and JPY medium term notes, where the AUD rates under the relevant cross-currency swaps are used.

The table above relates to amounts that are drawn. The Group has a number of undrawn facilities, which if utilised would be on a floating rate basis.

Interest rate swap contracts

The Group uses cross-currency interest rate swaps and interest rate swap contracts to manage interest rate exposures. Under these contracts, the Group commits to exchange the difference between fixed and floating rate interest amounts calculated on notional principal amounts. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date.

The following table details the interest rate swap contracts and related notional principal amounts as at the reporting date:

	Weighted average interest rate		Notional principal amount		Fair value	
Outstanding floating to fixed swap contracts	2020 %	2019 %	2020 $'m	2019 $'m	2020 $'m	2019 $'m
AUD interest rate swaps						
Less than 1 year	**1.2**	2.1	**150.0**	450.0	**(0.2)**	(2.4)
1 to 2 years	**1.2**	1.2	**270.0**	150.0	**(3.7)**	(0.2)
2 to 3 years	**1.3**	1.2	**135.0**	270.0	**(2.9)**	(0.9)
3 years or more	**–**	1.3	**–**	135.0	**–**	(0.7)
			555.0	1,005.0	**(6.8)**	(4.2)
NZD interest rate swaps						
Less than 1 year	**–**	2.2	**–**	100.0	**–**	(0.3)
1 to 2 years	**1.5**	–	**100.0**	–	**(1.7)**	–
2 to 3 years	**–**	1.5	**–**	100.0	**–**	(0.3)
			100.0	200.0	**(1.7)**	(0.6)

G2. Capital and financial risk management – continued

(d) Interest rate risk management – continued

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and assuming that the rate change occurs at the beginning of the financial year and is then held constant throughout the reporting period.

Sensitivities have been based on a movement in interest rates of 100 basis points across the yield curve of the relevant currencies. The selected basis point increase or decrease represents the Group's assessment of the possible change in interest rates on variable rate instruments, cross-currency interest rate swaps and interest rate swaps. An increase in interest rates of 100 basis points on the unhedged position (mostly cash and cash equivalents) will generate a profit of $2.5 million (2019: $4.6 million profit) to the profit or loss; a similar decrease in interest rates will generate a loss of $2.5 million (2019: $4.6 million loss) to the profit or loss.

For hedged positions designated as cash flow hedges, an increase and decrease in interest rates of 100 basis points will generate an increase and decrease in equity of $6.9 million (2019: $10.7 million) and $6.6 million (2019: $10.4 million) respectively.

(e) Credit risk management

Credit risk refers to the risk that a financial counterparty will default on its contractual obligations in respect of a financial instrument, resulting in a potential loss to the Group.

Trade receivables and contract assets arise from a large number of customers, spread across diverse industries and geographical areas. A credit evaluation is performed at the onset of material contracts to assess the financial condition of the counterparty and a credit evaluation is maintained over the life of the contract to take account of any changes in the risk profile of the counterparty. Where possible, a bank guarantee or performance bond, or parent guarantee from creditworthy counterparty is sought to secure a counterparty's contractual payment obligations. Refer to Note C2 for details on credit risk arising from trade receivables and contract assets.

Financial counterparty credit limits and the related credit acceptability of financial counterparties are set by a Board approved Treasury Policy that is subject to annual review to ensure it remains relevant to the external environment and reflects the Group's risk appetite at all times. The Treasury Policy sets clear parameters for determining acceptable financial counterparties and limits the exposure the Group may have at any one time to any individual financial counterparties to mitigate financial loss due to a default by a counterparty. No material exposure is considered to exist by virtue of the non-performance of any financial counterparty.

Credit risk on derivative financial instruments and cash balances held with financial counterparties is managed by Group Treasury with transactions only made with approved counterparties that have a minimum investment grade rating from Standard & Poor's of A- (or equivalent from Moody's or Fitch rating agencies). In limited circumstances, surplus cash may be held in foreign jurisdictions with financial counterparties that do not meet the minimum rating threshold where there is no other alternative.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

(f) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its financial obligations as and when they fall due. The Group's liquidity risk is managed under a Board approved Treasury Policy that sets clear parameters governing the Group's continued access to liquidity.

The Group manages liquidity risk by ensuring a minimum level of liquidity is available to meet the Group's financial obligations in the form of available liquid cash balances and access to committed undrawn debt facilities and other forms of capital, monitoring forecast and actual cashflows and matching the maturity profile of financial assets and liabilities.

The Group seeks to mitigate its exposure to liquidity risk by ensuring that debt facilities are provided by strong and investment grade rated financial counterparties and by the early refinancing of debt facilities to ensure continued access to capital over the medium term.

During the year ended 30 June 2020, the Group was successful in renegotiating the maturity dates of a significant portion of its debt facilities and establishing $787.8 million of new committed debt facilities, $500 million of which was established in direct response to the global COVID-19 pandemic to ensure the Group's liquidity strength was maintained during a period of heightened global uncertainty and volatility. In addition, the Group deferred payment of the 2019 interim dividend of $83.3 million to further augment its strong liquidity position.

On 21 July 2020, the Group announced the launch of a $400 million equity raising to support the acquisition of the remaining shares in Spotless and provide flexibility for continued investment in Downer's core business.

The Group now has no material debt facilities maturing in the 12 months to 30 June 2021 and a strong liquidity position which will assist in mitigating any further market volatility. The Group's debt facility maturities will continue to be monitored and refinanced in advance subject to credit market conditions and the support of its financial counterparties. Included in Note E2 is a summary of committed undrawn bank loan facilities.

Liquidity risk tables

The following tables detail the contractual maturity of the Group's financial liabilities. The tables are based on the undiscounted cash flows of financial liabilities and include both interest and principal cash flows.

2020 $'m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Trade payables	**697.7**	–	–	–	–	–
Dividend payable	**83.3**	–	–	–	–	–
Shareholder class action payable	**34.0**	–	–	–	–	–
Lease liabilities	**193.1**	**139.9**	**105.8**	**86.4**	**70.1**	**292.5**
Bank loans	**10.9**	**153.1**	**532.3**	**300.0**	–	–
USD notes	**6.7**	**6.7**	**6.7**	**6.7**	**6.7**	**149.1**
AUD notes	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**30.9**
Medium term notes	**31.3**	**281.3**	**20.0**	**20.0**	**20.0**	**665.8**
Total borrowings including interest	**50.6**	**442.8**	**560.7**	**328.4**	**28.4**	**845.8**
Cross-currency interest rate swaps	**5.7**	**5.7**	**5.7**	**5.7**	**5.7**	**6.9**
Interest rate swaps	**5.8**	**3.7**	**0.3**	–	–	–
Foreign currency forward contracts	**7.1**	–	–	–	–	–
Total derivative instruments(i)	**18.6**	**9.4**	**6.0**	**5.7**	**5.7**	**6.9**
Total	**1,077.3**	**592.1**	**672.5**	**420.5**	**104.2**	**1,145.2**
2019						
Trade payables	810.6	–	–	–	–	–
Finance lease and hire purchase liabilities	3.2	6.9	0.4	0.1	–	–
Bank loans	18.4	540.1	315.4	–	–	–
USD notes	16.8	6.5	6.5	6.5	6.5	152.3
AUD notes	1.7	1.7	1.7	1.7	1.7	32.6
Medium term notes	23.8	23.8	273.8	12.6	12.6	467.6
Total borrowings including interest	60.7	572.1	597.4	20.8	20.8	652.5
Cross currency interest rate swaps	5.7	5.9	5.9	5.9	5.9	19.4
Interest rate swaps	3.5	1.4	0.4	–	–	–
Foreign currency forward contracts	(0.6)	0.5	–	–	–	–
Total derivative instruments(i)	8.6	7.8	6.3	5.9	5.9	19.4
Total	883.1	586.8	604.1	26.8	26.7	671.9

(i) Includes assets and liabilities.

G2. Capital and financial risk management – continued

Recognition and measurement

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Any gains or losses arising from changes in fair value of derivatives, except those that qualify as effective hedges, are immediately recognised in profit or loss.

Hedge accounting

AASB 9 aligns the accounting for hedging instruments more closely with the Group's risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Group has elected to adopt the general hedge accounting model in AASB 9. AASB 9 introduced new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

Fair value hedges

Fair value hedges are used to hedge the exposure to changes in the fair value of a recognised asset, liability or firm commitment. For fair value hedges, changes in the fair value of the derivative, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk, are immediately recorded in profit or loss. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Cash flow hedges

Cash flow hedges are used to hedge risks associated with contracted and highly probable forecast transactions. For cash flow hedges, the effective portion of changes in the fair value of the derivative is deferred in equity and the gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are transferred to profit or loss in the same period the hedged item is recognised in profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred to form part of the initial measurement of the cost of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss. If the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting, any gain or loss deferred in equity remains in equity until the forecast transaction occurs.

G3. Other financial assets and liabilities

2020 $'m	Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current
At amortised cost:				
Other financial assets	**19.0**	**5.7**	**–**	**–**
Advances to/from joint ventures and associates	**4.5**	**–**	**15.6**	**–**
Deferred consideration	**–**	**–**	**14.4**	**0.2**
	23.5	**5.7**	**30.0**	**0.2**
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	**1.7**	**–**	**8.6**	**–**
Commodity forward contracts – Fair value through profit or loss	**1.0**	**–**	**–**	**–**
Cross-currency and interest rate swaps – Cash flow hedge	**–**	**13.7**	**7.2**	**14.2**
	2.7	**13.7**	**15.8**	**14.2**
Level 3				
Unquoted equity investments – Fair value through OCI	**–**	**2.0**	**–**	**–**
	–	**2.0**	**–**	**–**
Total	**26.2**	**21.4**	**45.8**	**14.4**

2019 $'m	Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current
At amortised cost:				
Other financial assets	23.7	–	–	–
Advances to/from joint ventures and associates	9.8	–	13.1	–
Deferred consideration	–	–	22.1	15.3
	33.5	–	35.2	15.3
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	1.3	–	1.0	0.2
Cross-currency and interest rate swaps – Cash flow hedge	0.2	3.2	8.0	3.8
	1.5	3.2	9.0	4.0
Level 3				
Unquoted equity investments – Fair value through OCI	–	2.0	–	–
Contingent consideration	–	–	3.2	0.7
	–	2.0	3.2	0.7
Total	35.0	5.2	47.4	20.0

Reconciliation of Level 3 fair value measurements of financial assets

Level 3 investments remained unchanged from prior year (2019: no change).

G3. Other financial assets and liabilities – continued

Recognition and measurement

Fair value measurement

When a derivative is designated as the cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Valuation of financial instruments

For financial instruments measured and carried at fair value, the Group uses the following to categorise the methods used:

- Level 1: fair value is calculated using quoted prices in active markets for identical assets or liabilities
- Level 2: fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: fair value is estimated using inputs for the asset or liability that are not based on observable market data.

During the year there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

The following table shows the valuation technique used in measuring Level 2 and 3 fair values, as well as significant unobservable inputs used:

Type	Valuation technique	Significant unobservable input
Cross-currency and interest rate swaps	Calculated using the present value of the estimated future cash flows based on observable yield curves.	Not applicable.
Foreign currency forward contracts	Calculated using forward exchange rates prevailing at the balance sheet date.	Not applicable.
Unquoted equity investments	Calculated based on the Group's interest in the net assets of the unquoted entities.	Assumptions are made with regard to future expected revenues and discount rates. Changing the inputs to the valuations to reasonably possible alternative assumptions would not significantly change the amounts recognised in profit or loss, total assets or total liabilities, or total equity.
Contingent consideration	Calculated on the amounts expected to be paid based on the probability of contingent events and targets being achieved, determined by reference to forecasts of future performance of the acquired businesses discounted using the market rates prevailing at financial year end.	Assumptions are made with regard to future expected earnings and discount rates on certain of the contingent arrangements.

Directors' Declaration

for the year ended 30 June 2020

In the opinion of the Directors of Downer EDI Limited:

(a) The financial statements and notes set out on pages 60 to 124 are in accordance with the Australian *Corporations Act 2001* (Cth), including:

(i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) The financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;

(b) There are reasonable grounds to believe that Downer EDI Limited will be able to pay its debts as and when they become due and payable;

(c) The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* (Cth); and

(d) The attached financial statements are in compliance with International Financial Reporting Standards, as noted in Note A to the financial statements.

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the *Corporations Act 2001* (Cth).

On behalf of the Directors

R.M. Harding

R M Harding
Chairman

Sydney, 12 August 2020

Downer's sustainability approach

To Downer, sustainability is delivering financial growth and value to its customers through its supply chain, looking after the wellbeing of its people, having a diverse and inclusive workforce, minimising its impact on the environment and enhancing the liveability of the communities in which it operates. Downer recognises that sustainability is vital for securing long-term environmental, economic and social viability and understands its role in contributing to a sustainable future for communities to prosper.

Sustainability is intrinsically linked to Downer's business strategy because the sustainability of Downer's activities is fundamental to the Company's future success. Downer's sustainability strategy is shaped by its four Pillars: Safety; Delivery; Relationships and Thought Leadership. Downer's commitment to sustainability is outlined on the Downer website and within the Sustainability Report located at **www.downergroup.com/sustainability**

Downer makes a positive contribution in industry sectors such as utilities, renewables, public transport, infrastructure, facility management, mining services and production of road pavement products. Downer's strategy focuses on improving efficiencies in existing operations, investing in growth, and adapting as industry and customer needs and preferences change. Downer's business diversity allows it to leverage emerging opportunities such as increasing and ageing populations, infrastructure renewal requirements and the increased need for inter-connected smart cities and regional city hubs.

As an integrated service provider, Downer's contribution to sustainability is achieved by providing its customers with industry-leading solutions that drive and provide efficiency and reduce their impact on the environment.

Downer works closely with the local communities in which it operates to achieve better social inclusion outcomes, implementing a range of strategies focusing on social responsibility, local and indigenous employment, cultural heritage management and stakeholder engagement.

Downer's success is a direct result of the experience, capability and engagement of Downer's people. Downer aims to employ the best people and bring thought leadership to support its customers to plan, create and sustain. Downer achieves this by embracing diversity and inclusiveness in the workplace. Downer continues to strengthen its focus on recruiting strategically to increase workforce participation across a range of demographics.

Downer's ESG reporting approach

Downer prepares its Sustainability Report with reference to the Global Reporting Initiative's (GRI) Standards to provide investors with comparable information relating to environmental, social and governance (ESG) performance. Specifically, Downer's approach takes into consideration the GRI's principles for informing report content: materiality, completeness, and sustainability context and stakeholder inclusiveness. A key focus is to demonstrate how Downer delivers sustainable returns while managing risk and being responsible in how it operates.

Downer seeks to identify the issues that have the greatest potential to impact its future success and returns to shareholders. Last year Downer revisited its materiality assessment in line with the GRI Standards via a rigorous independent lead process to formally engage internal and external stakeholders to understand what they believe are the material sustainability issues for Downer and inform the identification of its material issues by economic, social, environmental and governance.

The materiality assessment provided key sustainability insights for Downer's strategy and frames the content for this year's Sustainability Report. The results were positive with strong alignment between internal and external stakeholder views. The material issues ranked in order of business impact for Downer consisted of:

1. Health, safety and wellbeing
2. Governance and ethics
3. Contractor management
4. Operational performance
5. Financial performance
6. Attraction and retention of skilled people
7. Partnerships and stakeholder engagement
8. Customer expectations and adding value
9. Business resilience
10. Climate change
11. Diverse and inclusive workforce

Further information including the process undertaken is available on Downer's website and within the 2019 Sustainability Report located at **www.downergroup.com/sustainability**

Governance and risk management

The Downer Board, through its oversight functions has verified that Downer appropriately considers Environmental Social and Governance (ESG) risks including those related to climate change. In fulfilling this function, the Downer Board also receives oversight from Downer's Audit and Risk Committee, Zero Harm Committee, Zero Harm Board Committee, Tender Risk Evaluation Committee and Disclosure Committee. ESG related risks and opportunities are incorporated into Downer's broader corporate strategy, planning and risk management.

The Downer Board recognises that an integrated approach to managing ESG risks and opportunities is essential. This has been reflected in the strengthening of Downer's governance structure and increased focus on this risk in both Board and executive forums throughout the financial year ended 2020.

ESG risks and opportunities are governed as part of Downer's Group Risk and Opportunity Management Framework and

Project Risk Management Framework. Downer identifies, manages and discloses material climate-related risks as part of Downer's standard business practices, and, in accordance with the Group and Divisional strategies, which apply to everyone at Downer.

Downer's Zero Harm Management System Framework sets the Company's Zero Harm and sustainability governance requirements. Downer has been certified (as a minimum) to the following standards: AS/NZS 4801 or OHSAS 18001 (for occupational health and safety management systems); ISO 14001 environmental management systems; and ISO 9001 quality management systems. During the 2021 financial year, Downer will transition to certification to ISO45001 for health and safety.

The Board's Zero Harm Committee oversees the strategy and monitors the development and implementation of Downer's Zero Harm management systems, improvement and performance reporting systems, and monitors Downer's Zero Harm performance. Effective monitoring occurs through extensive internal and third-party audit programs, with oversight by both the Board Zero Harm and Board Audit and Risk Committees. Other aspects of Downer's approach to sustainability are overseen by the Group Diversity Committee and other relevant corporate governance forums.

The method for measuring the Company's performance is clearly set out in its governance framework. Short-term remuneration incentives are offered to senior managers in relation to the Company's performance against environmental sustainability targets. These targets include the management of critical environmental risks and GHG emissions reduction.

Downer's Zero Harm performance during 2020 is summarised below. More comprehensive information is provided in Downer's 2020 Sustainability Report which will be available on the Downer website.

Health and safety

Downer's business is founded on a deeply held value of Zero Harm. Health and safety is Downer's highest priority, its top material issue and the first of its strategic pillars. Zero Harm is embedded in Downer's culture and is fundamental to future success. Downer's managers, supervisors and employees bring this core principle to fruition and actively live it every day, vigilantly protecting the health and safety of themselves and others in and around its workplaces.

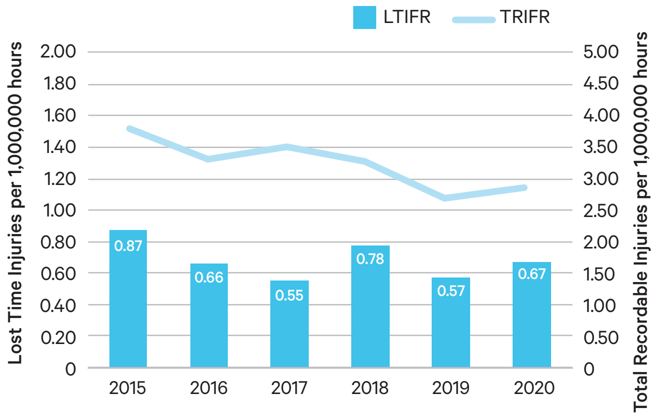
Downer's approach to health and safety is built on leading, innovating, managing risk, rethinking processes, applying lessons learnt, and adopting and adapting practices that aim to achieve zero work-related injuries. Downer's integrated lifecycle approach is a market differentiator, and enables its people to work safely in industry sectors that may be inherently hazardous. In everything it does, the health and safety of its people and communities that it works within is always its top priority.

Downer's commitment is enhanced by strong leadership from senior leaders within the business, who actively engage, enable and empower its people to work safely, and maintain safe working environments for themselves and the community. Downer has a mature safety culture, it is proud of its people's support and commitment to its Zero Harm principles and practices.

Downer's strategic program for health and safety has focused on:

- Critical risk management including the evaluation and assurance of critical controls by multiple layers of management and frontline leaders. The goal is to eliminate all preventable significant harm and establish Downer as a leader in critical risk management
- Streamlining and harmonising critical risk controls and embedding them into management systems and continuing to further frontline leadership capability. The goal is to have an aligned approach to managing Zero Harm
- Technology and innovation. The goal is to collect better data to better anticipate future risks and opportunities and innovate via use of technology
- Business resilience, including mental health. The goal is to proactively respond to emerging strategic Zero Harm issues that impact the sectors it operates in and reinforce the positioning of Downer as a thought leader.

Downer



Environmental Sustainability

Downer's environmental sustainability performance is measured against the key areas of risk management, compliance, minimising environmental impact and maximising resource efficiency opportunities in its own and its customers' businesses. Downer's key focus areas during the year were:

- Continuing to focus on the resilience and assurance of environmental risk controls
- Incorporating sustainability rating tools and initiatives into major projects
- Improving environmental workforce capability
- Engaging with customers regarding Downer's environmental capability
- Preparing the business as markets transition to a low carbon economy.

Downer achieved its Group-wide target of zero Level 5[1] or Level 6[2] environmental incidents. There were no significant environmental incidents[3] (≥ Level 4) during financial year 2020.

In FY20, Downer incurred three penalty infringement notices for environmental breaches. These consisted of two fines totalling AUD $5,338 relating to the same event in its Australian Operations. The breaches consisted of connecting to water infrastructure without written consent and withdrawal of water from an un-approved source without approval. The other fine occurred in New Zealand, for the amount of NZD $750. This fine was issued for exceeding turbidity limits specified within a Resources Consent whilst carrying out work activities within a creek.

At the time of writing this report the Downer Seymour Whyte Joint Venture was in the process of finalising an Enforceable Undertaking with the New South Wales Environment Protection Authority for three consecutive pollute waters licence breaches that occurred from August to September 2019 on the Berry to Bomaderry Princes Highway upgrade project.

Noteworthy achievements for FY20 include:

- Recognised by the Australasian Reporting Awards with a Bronze Award for Downer's 2019 Annual Report and Sustainability Report
- Improved Carbon Disclosure Project (CDP) score to a B which puts Downer higher than the Oceania regional and industrial support services sector average of C.
- Awarded an "Excellent" Infrastructure Sustainability (IS) "As Built" rating by the Infrastructure Sustainability Council of Australia (ISCA) for the Newcastle Light Rail Project.
- Achieved the first Infrastructure Sustainability (IS) Operations rating for a road maintenance contract for the Northwest Tasmanian Road Maintenance contract which achieved a "Commended Operations" rating by ISCA.
- In an Australian-first, Downer's road surfacing material, Reconophalt, which incorporates recycled soft plastics, has been approved for use by the NSW Environment Protection Authority (EPA) under a resource recovery order and exemption.

Climate change and Downer's TCFD Response

Climate change presents a challenge to sustaining the modern environment, enhancing livability, the natural environment and Downer's business. While Downer's business portfolio is diverse, it has limited exposure to the effects of climate change through fixed, long lived capital assets. Downer's diverse portfolio allows it to be flexible and agile to redeploy its assets to high growth areas as markets change. This diversity of portfolio strongly positions Downer to mitigate and manage its exposure to climate risks and to maximise the business opportunities it presents.

Downer accepts the Intergovernmental Panel on Climate Change (IPCC) assessment of the science related to climate change and supports the Paris Agreement in transitioning to net-zero emissions by 2050. Downer considers climate change to be one if its material issues – refer to the materiality assessment.

In FY19, Downer implemented the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) in assessing the financial implications of climate change on Downer. In its implementation of the TCFD recommendations, Downer used climate scenario analysis as a key step to understand the resilience of the business under different climatic futures.

Global scenarios were used to inform a top-down assessment of how the physical climate might change, the hazards that its workforce might be exposed to, and how the services provided to key sectors and markets may change. This was particularly important to Downer as its purpose is to create and sustain the modern environment by building trusted relationships with customers. The scenario analysis informed strategic planning processes by looking longer-term to critically assess the products and services provided by the business in changing markets.

The scenario analysis was fed directly into Board strategy sessions and to Executive forums, where it remains a permanent consideration of the Board strategy. Further to the scenario analysis outcomes, broader sustainability issues are discussed at Board level. From a tactical perspective, Downer undertakes an annual exercise to test its strategic position on the back of the scenario analysis.

1 A Level 5 environmental incident is defined as any incident that causes significant impact or serious harm on the environment, where material harm has occurred and if costs in aggregate exceed $50,000.
2 A Level 6 environmental incident is defined as an incident that results in catastrophic widespread impact on the environment, resulting in irreversible damage.
3 A significant environmental incident or significant environmental spill (≥ Level 4) is any environmental incident or spill where there is significant impact on or material harm to the environment; or a notifiable incident where there is a spill that results in significant impact or material harm; or there is long-term community irritation leading to disruptive actions and requiring continual management attention.

The outcomes of the scenario analysis contributed to the change in the overall strategy of the business. In February 2020, Downer announced it would shift investment in high-capital intensive activities to lower-intensive and lower-carbon activities. Climate change and sustainability was also elevated to retain market share and to secure new customers. This strategic shift will support Downer's decarbonisation pathway and market position in a low-carbon economy.

GHG emission reduction target

Downer acknowledges that climate change mitigation is a shared responsibility and to support the transition to a low-carbon economy in an equitable manner, Downer recognises the need to develop emissions reduction targets that align with the 2015 Paris Agreement goals to "pursue efforts to limit the temperature increase to 1.5°C" by the end of this century.

To demonstrate Downer's commitment, in 2019 Downer set an ambitious science-based target (aligned to a 1.5°C pathway) and committed to the decarbonisation of its absolute Scope 1 and 2 GHG emissions by 45-50 percent by 2035 from a FY18 base year and being net zero in the second half of this century.

Downer will track its progress towards its emissions reduction target and review its emission reduction approach in line with Intergovernmental Panel on climate change (IPCC) updated scientific reports, whilst considering other developments in low-emissions technology, to ensure a practical and affordable transition towards this commitment.

Downer recognises the uncertainties, challenges and opportunities that climate change presents and despite the recent impacts of COVID-19, Downer remains committed to partnering with its customers and supply chain to achieve its long-term GHG emission reduction target.

Refer to Downer's Sustainability Report located at **www.downergroup.com/sustainability** for further disclosures on Downer's response to climate change and how it has specifically addressed the TCFD recommendations.

Overview

Downer's corporate governance framework provides the platform from which:

- The Board is accountable to shareholders for the operations, performance and growth of the Company
- Downer management is accountable to the Board
- The risks to Downer's business are identified and managed
- Downer effectively communicates with its shareholders and the investment community.

Downer continues to enhance its policies and processes to promote leading corporate governance practices.

The Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles).

Principle 1: Lay solid foundations for management and oversight

The Downer Board Charter sets out the functions and responsibilities of the Board and is available on the Downer website at **www.downergroup.com**.

The Board Charter states that the role of the Board is to provide strategic guidance and to effectively oversee management of the Company. Among other things, the Board is responsible for:

- Overseeing the Company, including its control and accountability systems
- Appointing and removing the Group CEO and senior executives
- Monitoring performance of the Group CEO and senior executives
- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Before appointing a Director or senior executive, the Board undertakes appropriate checks.

The Board provides shareholders with all material information which is relevant to the decision to elect or re-elect a Director.

Directors receive formal letters of engagement setting out the key terms, conditions and expectations of their engagement.

The Board Charter also describes the functions delegated to management, led by the Group CEO.

The primary goal set for management by the Board is to focus on enhancing shareholder value, which includes responsibility for Downer's economic, environmental and social performance.

The Group CEO is responsible for the day-to-day management of Downer and his authority is delegated and authorised by the Board.

Downer has written employment agreements with each of its senior executives and the performance of those senior executives is regularly reviewed against appropriate measures, including performance targets linked to the business plan and overall corporate objectives. In 2020, Downer's senior executives participated in periodic performance evaluations where they received feedback on progress against these targets.

The Company Secretary is responsible for supporting the effectiveness of the Board and is directly accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Details of Downer's Directors and the Executive Leadership Team are available on the Downer website at **www.downergroup.com**.

Diversity at Downer

Downer is committed to ensuring that it has a diverse and inclusive workforce, which fulfils the expectations of its employees, customers and shareholders while building a sustainable future for its business. This is formalised through the Downer Diversity and Inclusion (D&I) Policy which outlines the Company's commitment to developing a diverse and inclusive workforce.

In 2016, Downer launched a revised Diversity Framework. The purpose of this framework is to support the D&I Policy and implementation of Divisional D&I strategies.

The Diversity and Inclusion Policy is available on the Downer website at **www.downergroup.com**.

ASX diversity recommendations – diversity statement

This diversity statement outlines Downer's performance throughout 2020 with respect to its broader diversity program, but with a particular focus on gender, and specifically includes:

- Details of Downer's key gender representation metrics
- An overview of the gender diversity initiatives undertaken by Downer throughout 2020
- An outline of Downer's measurable gender diversity objectives for 2021.

Gender representation metrics

As at 30 June 2020, Downer's female gender representation metrics were as follows:

- Board 29%
- Senior Executive[1] 22%
- Management[2] 23%
- Workforce 35%

1 For present purposes, "Senior Executive" refers to CEO, KMP and Other Executives/General Managers as defined in the Workplace Gender Equality Agency Reference Guide to the workplace profile and reporting questionnaire (WGEA Reference Guide).

2 For present purposes, "Management" refers to CEO, KMP, Other Executives/General Managers, Senior Managers and Other Managers as defined in the WGEA Reference Guide.

Looking back: 2020 measurable objectives

Focus Area	Objective	Targets	Outcome
Flexibility, Diversity and Inclusion	To continue developing Downer's commitment to representing the businesses and communities in which we serve through a focus on D&I.	Report quarterly to the Executive Committee on progress towards targets and objectives.	Achieved: – Partnership with Work180 as an endorsed employer continues, with utilisation of job boards for targeted roles. In FY20 there were 133 female applicants. Progressing: – An induction review project is underway with the Welcome to Downer module having been refreshed. Suspended: – Divisional Diversity Committees were disbanded following an organisational restructure during 2020. Governance resides with the Executive General Managers and General Managers of People and Culture of the new organisation. Steering Committees and Tactical Plans are being established under their leadership with Group Divisional Steering Committee oversight and governance.
Gender Diversity	To improve opportunities for women to reach their potential through an inclusive work environment while positioning Downer Group as a preferred employer for women in our industry.	37% women in the workforce by 2020. 23% women in management by 2020. 22% women in executive positions by 2020. 30% women on Board.	Achieved: – A Flexible Working Arrangements pilot program where all employees, except for field staff, in a business unit worked from home was conducted. Results included no loss in productivity along with positive anecdotal results. This case study is shared with all participants of the Lead a Remote Team training program – Various manager guides have been created, including Lead a Remote Team and Inclusive Language guides. Progressing: – A manager toolkit for supporting primary carers on parental leave before, during and as part of return to work was developed and will be launched in 2021 – On-track to meet Downer's WGEA Pay Equity Ambassador commitments. Aspects of this involved face to face events scheduled for March which were delayed due to COVID-19. These are planned to be completed in 2021 – The development of an unconscious bias online learning module will be prioritised in 2021 Suspended: – A second intake of the Downer mentoring program was planned for late 2020. Due to COVID-19 disruptions, this program was put on hold. – The development and launch of a Female Network also did not commence but will be progressed in 2021.

Focus Area	Objective	Targets	Outcome
Cultural Diversity	To build on Downer Group's commitment to closing the gap by increasing Indigenous workforce participation and developing strategic partnerships with Indigenous organisations and community groups.	3% Aboriginal and Torres Strait Islander employees by 2020.	Achieved: – Progress on Downer's Innovate Reconciliation Action Plan (RAP) endorsed by Reconciliation Australia, which outlines Downer's reconciliation vision, strategy and targeted initiatives, continues with completion due in 2021 – Spotless is currently consulting with Reconciliation Australia on its Stretch RAP – Downer has exceeded RAP commitments by establishing relationships with labour hire companies, employment agencies and other Indigenous organisations. 2020 spend in this regard increased by 40% compared with 2019 – An Indigenous Cultural Awareness Training module for Australian employees was developed and rolled-out – Evolved the Maori Leadership program, Te Ara Whanake, into a program specifically designed for non-Maori leaders, with 63 leaders from across Downer NZ completing Te Ara Maramatanga, a cultural competence program which includes an overnight on a Marae. Progressing: – Downer's Indigenous Cultural Awareness Training program continues to be progressively rolled-out and allocated to Supervisors and above, with 77% of this cohort in Downer Australia having completed the training – Partnerships have been developed and continue with market specialists for placing migrant workers in employment along with Job Active agencies.
Generational Diversity	To establish Downer Group as a sought-after employer for all age-groups and as an organisation that builds a talent pipeline of thought leaders and continues to value experience.	Maintain or increase the number of graduate employees year-on-year until 2021.	Achieved: – Downer continues to build its pipeline of talent by investing in youth through the Downer Graduate program, which is now well embedded with a robust and unified attraction, selection, development and management framework. Progressing: – Full implementation of a governance structure and framework for the Downer Apprentice and Trainee program is planned for 2021 – Partnerships have been developed with market specialists to explore opportunities for ex-Veteran employment along with Job Active agencies.

Looking ahead: 2021 measurable objectives

Focus Area	Objective	Targets	Initiatives
Flexibility, Diversity and Inclusion	To continue developing Downer's commitment to representing the businesses and communities in which we serve through a focus on D&I.	Report quarterly to the Executive Committee on progress towards targets and objectives.	– Governance structure embedded through Group Diversity Steering Committee and business Steering Committees and Tactical Plans. Reporting via Quarterly Business Report to the Executive Committee – Launch the Own Different campaign across the business to celebrate our commitment to Inclusion – Report on Flexible Working Arrangements trial and further operational pilots. Share learnings broadly – Maintain endorsed referral programs (i.e. refer a female friend and refer an Indigenous friend) – Establish strategic partnerships with human resource organisations to enable attraction of diverse, disadvantaged and/or minority groups – Establish strategic supplier relationships with social enterprises to participate in contracted works.
Gender Diversity	To improve opportunities for women to reach their potential through an inclusive work environment while positioning Downer Group as a preferred employer for women in our industry.	40% women in the workforce by 2023. 25% women in management positions by 2023. 25% women in executive positions by 2023. 30% women on the Board.	– Extend the talent management and succession planning framework cohort from CEO-2 to CEO-3 for females – Investigate partnership opportunities with organisations that support women into trades-based employment in skilled trades that are male-dominated, with a view to a formal partnership and pilot – Build the unconscious bias capability of operational managers and recruitment specialists via an online learning module – Develop and launch a Female Network to highlight opportunities and networking – Women in Leadership programs (Australia and New Zealand).
Cultural Diversity	To build on Downer's commitment to Aboriginal and Torres Strait Islander peoples and the Maori people, through the development of strategic partnerships with Indigenous organisations and community and increased workforce participation.	3% Aboriginal and Torres Strait Islander employees.	– Close out actions and report on Downer's Innovate RAP and consult to develop and obtain endorsement for Downer's Stretch RAP. – Share learnings and coordinate where practicable from Downer and Spotless RAPs – Review, consult and enhance the current Aboriginal and Torres Strait Islander Employment and Retention Strategy through identifying barriers and implementing recommendations for improvement – Work with Indigenous NGO networks to further develop opportunities for Aboriginal and Torres Strait Islander employees, apprentices and trainees.
Generational Diversity	To establish Downer Group as a sought-after employer for all age-groups and as an organisation that builds a talent pipeline of thought leaders and continues to value experience.	Maintain or increase the number of graduate employees year-on-year.	Continue to build a talent pipeline by investing in entry level programs that align to our generational diversity focus and priority areas, including: – The Downer Graduate development program. – Cadets and further undergraduate programs. – Harmonisation of processes across Australia for Apprentices and Trainees that supports strategic attraction, selection, development, management and retention.

Principle 2: Structure the Board to be effective and add value

Throughout the 2020 financial year, the Board was comprised of a majority of independent Directors.

The Board is currently comprised of the Chairman (Mike Harding, an independent, Non-executive Director), four other independent, Non-executive Directors and an Executive Director (the Group CEO, Grant Fenn). Details of the members of the Board, including their skills, experience, status and their term of office are set out in the Directors' Report on pages 4 to 50 and are also available on the Downer website at **www.downergroup.com**.

The composition of the Board is reviewed and assessed by the Nominations and Corporate Governance Committee to ensure the Board is of a composition, size and commitment to effectively discharge its responsibilities and duties.

Directors are required to bring their independent judgement to bear on all Board decisions. To facilitate this, it is Downer's policy to provide Directors with access to independent professional advice at the Company's expense in appropriate circumstances.

Downer's Non-executive Directors recognise the benefit of conferring regularly without management present, and they do so at various times throughout the year.

The Board considers that an independent Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could (or could reasonably be perceived to) materially interfere with the independent exercise of their judgement. The Board regularly assesses the independence of each Director to ensure that each Director has the capacity to bring independent judgement to bear on issues before the Board and to act in the best interests of Downer as a whole.

Downer's governance framework requires each Director to promptly disclose actual and possible conflicts of interest, any interests in contracts, other directorships or offices held, related party transactions and any dealing in the Company's securities.

At least one Director must retire from office at each Annual General Meeting (AGM). No Non-executive Director can serve more than three years without offering themselves for re-election.

The Chairman of the Board is an independent, Non-executive Director. He is responsible for the leadership of the Board and for the efficient organisation and functioning of the Board. The Chairman is appointed by the Board to ensure that a high standard of values, governance and constructive interaction is maintained.

The Chairman facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and the Board and management. He also represents the views of the Board to Downer's shareholders and conducts the AGM.

The roles of Chairman and Group CEO are not exercised by the same person and the division of responsibilities between the Chairman and the Group CEO have been agreed by the Board and are set out in the Board Charter and Downer's Delegations Policy.

The Board has established a number of committees to assist the Board to effectively and efficiently execute its responsibilities. A list of the main Board Committees and their current membership is set out in the table below.

Board Committee	Chairman	Members
Audit and Risk	N M Hollows	T G Handicott P L Watson
Zero Harm	P L Watson	G A Fenn P S Garling
Nominations and Corporate Governance	R M Harding	T G Handicott N M Hollows
Remuneration	T G Handicott	P S Garling R M Harding
Disclosure	T G Handicott	G A Fenn R M Harding
Rail Projects	P S Garling	G A Fenn T G Handicott R M Harding
Tender Risk Evaluation	P L Watson	G A Fenn R M Harding N M Hollows

The names of members of each committee, the number of meetings and the attendances by each of the members of the various committees to which they are appointed is set out in the Directors' Report on page 20.

The Tender Risk Evaluation Committee's primary purpose is to oversee tenders and contracts that exceed the delegation of the Group CEO. The Tender Risk Evaluation Committee is chaired by an independent Director and comprises four members, including the Group CEO. Meetings of the Tender Risk Evaluation Committee are convened as required to review tender opportunities.

The Board has established the Nominations and Corporate Governance Committee to oversee the practices for selection and appointment of Directors of the Company.

The Nominations and Corporate Governance Committee's primary purpose is to support and advise the Board on fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and leading governance practice.

The Nominations and Corporate Governance Committee has a charter which sets out its roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. The Nominations and Corporate Governance Committee Charter gives the Nominations and Corporate Governance Committee access to internal and external resources, including advice from external consultants and specialists. The Nominations and Corporate Governance Committee Charter is available on the Downer website at **www.downergroup.com**.

The Nominations and Corporate Governance Committee, all members of which are independent Directors, is chaired by an independent Director and has a minimum of three members.

The Committee's responsibilities include:

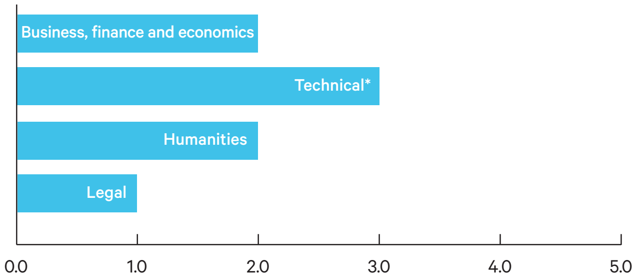
- Assessing the skills and competencies required on the Board
- Assessing the extent to which the required skills are represented on the Board
- Establishing processes for the review of the performance of individual Directors, Board Committees and the Board as a whole
- Establishing processes for identifying suitable candidates for appointment to the Board (including undertaking a formal due diligence screening process)
- Recommending the engagement of nominated persons as Directors.

When appointing Directors, the Nominations and Corporate Governance Committee aims to ensure that an appropriate balance of skills, experience, expertise and diversity is represented on the Board. This may result in a Non-executive Director with a longer tenure remaining in office to bring that experience and depth of understanding to matters brought before the Board.

Given the breadth of Downer's service offerings across a range of markets, the Board seeks to ensure that it maintains an appropriate range of technical skills and executive experience across engineering, construction and scientific disciplines as well as services activities and professional services when considering the appointment of a new Director.

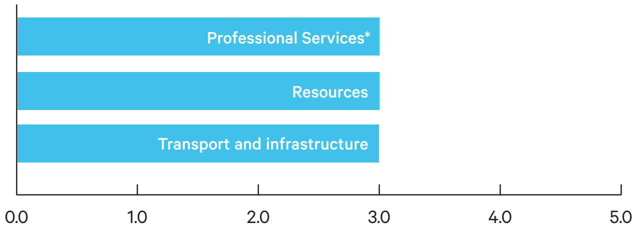
The chart below illustrates the balance achieved with the current Board composition. The Company recognises the value of diversity which has been a component of the appointment process over the past few years.

Professional qualifications



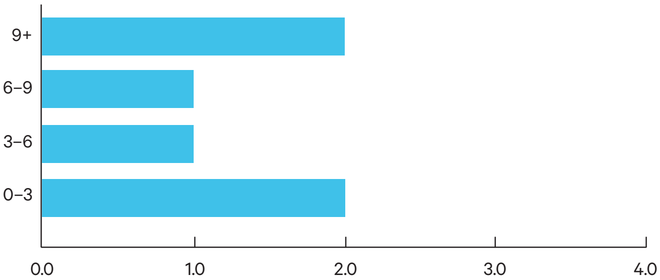
*Comprises construction, engineering, metallurgy and science.

Industry experience

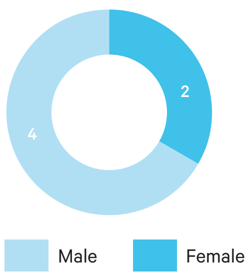


*Includes banking, finance and legal.

Tenure



Gender diversity



From time to time, Downer engages external specialists to assist with the selection process as necessary, and the Chairman, Board and Group CEO meet with candidates as part of the appointment process.

Nominations for re-election of Directors are reviewed by the Nominations and Corporate Governance Committee and Directors are re-elected in accordance with the Downer Constitution and the ASX Listing Rules.

As part of its commitment to leading corporate governance practice, the Board undertakes improvement programs, including externally facilitated periodic reviews of its performance and that of its Committees and Directors. The last review was completed during FY16 and Downer intends to undertake a review in 2021, which will include consideration of the skills and knowledge of Directors.

The Company has formal induction procedures for both Directors and senior executives. These induction procedures have been developed to enable new Directors and senior executives to gain an understanding of:

- Downer's financial position, strategies, operations and risk management policies
- The respective rights, duties and responsibilities and roles of the Board and senior executives
- Downer's culture and values.

Directors are given an induction briefing by the Company Secretary and an induction pack containing information about Downer and its business, Board and Committee charters and Downer Group policies. New Directors also meet with key senior executives to gain an insight into the Company's business operations and the Downer Group structure.

Directors are encouraged to continually build on their exposure to the Company's business and a formal program of Director site visits has been in place since 2009. Directors are also encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge and the Company Secretary regularly organises governance and other continuing education sessions for the Board.

The Board is provided with the information it needs to discharge its responsibilities effectively. The Directors also have access to the Company Secretary for all Board and governance-related issues and the appointment and removal of the Company Secretary is determined by the Board. The Company Secretary is accountable to the Board, through the Chair, on all governance matters.

Principle 3: Instil a culture of acting lawfully, ethically and responsibly

Downer's Purpose is to create and sustain the modern environment by building trusted relationships with our customers. Its Promise is to work closely with our customers to help them succeed, using world-leading insights and solutions. Downer's Purpose and Promise are founded on the Pillars of Zero Harm, Delivery, Relationships and Thought Leadership and define the way it manages its business and are the foundations that support Downer's culture. An overview of the Purpose, Promise and Pillars can be found on the Downer website at **www.downergroup.com**.

Downer strives to attain the highest standards of behaviour and business ethics when engaging in corporate activity. The Downer Standards of Business Conduct sets the ethical tone and standards of the Company and deals with matters such as:

- Compliance with the letter and the spirit of the law
- Workplace behaviour
- Prohibition against bribery and corruption
- Protection of confidential information
- Engaging with stakeholders
- Workplace safety
- Diversity and inclusiveness
- Sustainability
- Conflicts of interest.

Downer has a formal whistleblower policy and procedures for reporting and investigating breaches of the Standards of Business Conduct. This includes the Our Voice service, an external and independent reporting service which enables employees to anonymously report potential breaches of the Standards of Business Conduct, including misconduct or other unethical behaviour. Reports received through Our Voice are investigated where appropriate, with the Company Secretary overseeing the completion of any remedial action. The Board is informed of material breaches of the Standards of Business Conduct through reporting of incidents under the whistleblower policy, investigations of allegations of fraud and breaches of Downer's Zero Harm Cardinal Rules.

The Standards of Business Conduct applies to all officers and employees and is available on the Downer website at **www.downergroup.com**.

Downer endorses leading governance practices and has in place policies setting out the Company's approach to various matters, including:

- Securities trading (stipulating "closed periods" for designated employees and a formal process which employees must adhere to when dealing in securities)
- The Company's disclosure obligations (including continuous disclosure)
- Communicating with shareholders and the general investment community
- Privacy.

Downer has an Anti-Bribery and Corruption Policy which expands upon the prohibition against bribery and corruption currently contained in the Standards of Business Conduct, and which addresses key issues such as working with government, political donations, human rights, conducting business internationally and gifts and benefits. The Board is informed of material breaches of the Anti-Bribery and Corruption Policy.

As Downer has operations in foreign jurisdictions, Downer employees are confronted by the challenges of doing business in environments where bribery and corruption are real risks. However, regardless of the country or culture within which its people work, Downer is committed to compliance with the law, as well as maintaining its reputation for ethical practice.

These policies are available on the Downer website at **www.downergroup.com**.

Principle 4: Safeguard the integrity of corporate reports

The Company has in place a structure of review and authorisation which independently verifies and safeguards the integrity of its financial reporting.

An external limited assurance engagement is performed on selected sustainability information in Downer's annual Sustainability Report. Downer also follows a comprehensive internal verification process to ensure the integrity of the Sustainability Report and other periodic corporate reports which are not audited or reviewed by the external auditor, including the Directors' Report, Corporate Governance Statement, and Information for Investors. This process involves review of reporting by relevant subject matter experts across the organisation to ensure it is materially accurate, balanced and provides investors with appropriate information.

The Audit and Risk Committee assists the Board to fulfil its responsibilities relating to:

- The quality and integrity of the accounting, auditing and reporting practices of the Company with a particular focus on the qualitative aspects of financial reporting to shareholders
- The Company's risk profile and risk policies
- The effectiveness of the Company's system of internal control and framework for risk management.

The Audit and Risk Committee is structured so that it:

- Consists of only Non-executive Directors
- Consists of a majority of independent Directors
- Is chaired by an independent Chairman (who is not the Chairman of the Board)
- Has at least three members.

The Audit and Risk Committee comprises only independent Directors, includes members who are financially literate and has at least one member who has relevant qualifications and experience.

The Audit and Risk Committee Charter sets out the Audit and Risk Committee's role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Board receives assurances from the Group CEO and the Group CFO that the declarations provided to it in relation to the annual and half-year financial statements, in accordance with sections 295A and 303(4) of the *Corporations Act 2001* (Cth) are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Downer's external auditor attends the Company's AGMs and is available to answer any questions which shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

Information regarding the number of times the Audit and Risk Committee convened in FY20, together with the individual attendances of members at the meetings, is set out in the Directors' Report on page 20.

The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

Principle 5: Make timely and balanced disclosure

The Company's Disclosure Policy sets out processes which assist the Company to ensure that all investors have equal and timely access to material information about the Company and that Company announcements are factual and presented in a clear and balanced way. It includes that new and substantive investor or analyst presentations are released on the ASX Market Announcements Platform ahead of the presentation. A copy of the Disclosure Policy is available on the Downer website at **www.downergroup.com**.

The Disclosure Policy also sets out the procedures for identifying and disclosing material and market-sensitive information in accordance with the *Corporations Act 2001* (Cth) and the ASX Listing Rules. The Board receives copies of all material market announcements promptly after they have been made.

Downer's Disclosure Committee consists of two independent, Non-executive Directors (one of which is the Chairman of the Board) and the Group CEO. The Disclosure Committee oversees disclosure of information by the Company to the market and the general investment community.

Principle 6: Respect the rights of security holders

Downer empowers its shareholders by:

- Communicating effectively, openly and honestly with shareholders
- Giving shareholders ready access to balanced and understandable information about the Company and its governance
- Making it easy for shareholders to participate in general meetings
- Giving shareholders the option to receive communications from, and send communications to, the Company and its security registry electronically.

The Downer Communication Policy sets out the Company's approach to communicating with shareholders and is available on the Downer website at **www.downergroup.com**.

The Company publishes corporate information on its website (**www.downergroup.com**), including Annual and Half Year Reports, ASX announcements, investor updates and media releases.

Downer encourages shareholder participation at members meetings through its use of electronic communication, including by making notices of meetings available on its website and audio casting of general meetings and significant Group presentations. All substantive resolutions at meetings of shareholders are conducted by poll.

The Directors and key members of management attend the Company's AGMs and are available to answer questions.

Principle 7: Recognise and manage risk

To mitigate the risks that arise through its activities, Downer has various risk management policies and procedures in place that cover (among other matters) interest rate management, foreign exchange risk management, credit risk management, tendering and contracting risk and project management.

Downer has controls at the Board, executive and business unit levels that are designed to safeguard Downer's interests and ensure the integrity of reporting (including accounting, financial reporting, environment and workplace health and safety policies and procedures). These controls are designed to ensure that Downer complies with legal and regulatory requirements, as well as community standards.

Downer has a Risk Management Framework in place to enable business risks to be identified, evaluated and managed. The Board ratifies Downer's approach to managing risk and oversees Downer's Risk Management Framework, including the Group risk profile and the effectiveness of the systems being implemented to manage risk. The last review of the Risk Management Framework was completed in 2020. The Board reviews the Group risk profile twice each year and considers other risk matters, such as business resilience, tender review processes, risk appetite, and specific risk areas, on a regular basis, as well as regular reports from senior management, the internal audit team, and the external auditor.

Downer's annual Sustainability Report provides a detailed overview of Downer's approach to managing its environmental and social risks. The 2019 Sustainability Report is available on the Downer website at **www.downergroup.com/sustainability**.

The Company's internal audit function objectively evaluates and reports on the existence, design and operating effectiveness of internal controls. Downer's internal audit team is independent of the external auditor and reports to the Audit and Risk Committee.

Downer's Audit and Risk Committee assists the Board in its oversight of Downer's risk profile and risk policies, the effectiveness of the systems of internal control and Risk Management Framework and Downer's compliance with applicable legal and regulatory obligations. The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

Management reports regularly to the Audit and Risk Committee on the effectiveness of Downer's management of its material business risks and on the progress of mitigation treatments.

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee and has adopted the Remuneration Committee Charter which sets out its role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board about:

- Executive remuneration and incentive policies
- The remuneration, recruitment, retention, performance measurement and termination policies and procedures for all senior executives reporting directly to the Group CEO
- Executive and equity-based incentive plans
- Superannuation arrangements and retirement payments.

Remuneration of the Group CEO, executive directors and Non-executive Directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Downer's remuneration policy is designed to motivate senior executives to pursue the long-term growth and success of the Company and prescribes a relationship between the performance and remuneration of senior executives.

The Remuneration Committee is structured so that it:

- Consists of a majority of independent Directors
- Is chaired by an independent Director
- Has at least three members.

The Executive Director is not a member of the Remuneration Committee.

The maximum aggregate fee approved by shareholders that can be paid to Non-executive Directors is $2.0 million per annum. This cap was approved by shareholders on 30 October 2008. Further details about remuneration paid to Non-executive Directors are set out in the Remuneration Report on page 24.

Retirement benefits are not paid to Non-executive Directors.

Non-executive Directors do not participate in any equity incentive schemes.

The remuneration structure for Executive Directors and senior executives is designed to achieve a balance between fixed and variable remuneration taking into account the performance of the individual and the performance of the Company. Executive Directors receive payment of equity-based remuneration as short and long-term incentives.

Executive Directors and senior executives are prohibited from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any of the Company's equity-based remuneration schemes, as set out in the Securities Trading Policy. A copy of the Securities Trading Policy is available on the Downer website at **www.downergroup.com**.

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report on page 24 and details of Downer shares beneficially owned by Directors are provided in the Directors' Report on page 6.

Information for Investors
for the year ended 30 June 2020

Downner shareholders

Downer had 25,023 ordinary shareholders as at 30 June 2020, of which 23,113 shareholders had a registered address in Australia.

The largest shareholder, HSBC Custody Nominees (Australia) Limited, held 31.23% of the 594,702,512 fully paid ordinary shares issued at that date.

Securities exchange listing

Downer is listed on the Australian Securities Exchange (ASX) under the "Downer EDI" market call code 3965, with ASX code DOW, and is a foreign exempt issuer on the New Zealand Exchange with the ticker code DOW NZ.

Company information

The Company's website **www.downergroup.com** offers comprehensive information about Downer and its services. The site also contains news releases and announcements to the ASX and NZX, financial presentations, Annual Reports, Half Year Reports and company newsletters. Downer printed communications for shareholders include the Annual Report which is available on request.

Dividends

Dividends are determined by the Board having regard to a range of circumstances within the business operations of Downer including operating profit and capital requirements. The level of franking on dividends is dependent on the level of taxes paid to the Australian Taxation Office by Downer and its incorporated joint ventures.

Dividends are paid in Australian dollars, other than for shareholders with a registered address in New Zealand, who receive dividends in New Zealand dollars unless an election is made to receive payment in Australian dollars by providing Australian bank account details.

International shareholders can use Computershare's Global Payments System to receive dividend payments in the currency of their choice at a nominal cost to the shareholder.

Dividend reinvestment plan

Downer's Dividend Reinvestment Plan (DRP) is a mechanism to allow shareholders to increase their shareholding in the Company without the usual costs associated with share acquisitions, such as brokerage. Details of the DRP are available from the Company's website or the Easy Update website at **www.computershare.com.au/easyupdate/dow**.

Share registry

Shareholders and investors seeking information about Downer shareholdings or dividends should contact the Company's share registry, Computershare Investor Services Pty Ltd (Computershare):

Level 3
60 Carrington Street
Sydney NSW 2000

GPO Box 2975
Melbourne VIC 3001

Tel: 1300 556 161 (within Australia)
+61 3 9415 4000 (outside Australia)

Fax: 1300 534 987 (within Australia)
+61 3 9473 2408 (outside Australia)

www.computershare.com

Shareholders must give their holder number (SRN/HIN) when making inquiries. This number is recorded on issuer sponsored and CHESS statements.

Updating your shareholder details

Shareholders can update their details (including bank accounts, DRP elections, tax file numbers and email addresses) online at **www.computershare.com.au/easyupdate/dow**.

Shareholders will require their holder number (SRN/HIN) and postcode to access this site.

Tax file number information

Providing your tax file number to Downer is not compulsory. However, for shareholders who have not supplied their tax file number, Downer is required to deduct tax at the top marginal rate plus Medicare levy from unfranked dividends paid to investors residing in Australia. For more information please contact Computershare.

Lost issuer sponsored statement

You are advised to contact Computershare immediately, in writing, if your issuer sponsored statement has been lost or stolen.

Annual Report mailing list

Shareholders must elect to receive a Downer Annual Report by writing to Computershare Investor Services Pty Ltd at the address provided. Alternatively, shareholders may choose to receive this publication electronically.

Change of address

So that we can keep you informed, and protect your interests in Downer, it is important that you inform Computershare of any change of your registered address.

Registered office and principal administration office

Downer EDI Limited
Level 2, Triniti III
Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

Tel: +61 2 9468 9700
Fax: +61 2 9813 8915

Auditor

KPMG
International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000

Australian securities exchange information as at 30 June 2020

Number of holders of equity securities:

Ordinary share capital

594,702,512 fully paid listed ordinary shares were held by 25,023 shareholders. All issued ordinary shares carry one vote per share.

Substantial shareholders

The following shareholders have notified that they are substantial shareholders of Downer as at 30 June 2020

Shareholders	Ordinary shares held	% of issued shares
FIL Limited	38,754,631	6.52
Sumitomo Mitsui Trust Holdings	37,739,692	6.35
L1 Capital Pty Ltd	32,003,849	5.38
T Rowe Price	29,770,913	5.00
The Vanguard Group	29,745,101	5.00

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 30 June 2020 is as follows.

Range of holdings	Number of shareholders	Shareholders %	Ordinary shares held	Shares %
1 – 1,000	14,246	56.93	6,214,042	1.04
1,001 – 5,000	8,394	33.55	19,231,319	3.23
5,001 – 10,000	1,444	5.77	10,413,910	1.75
10,001 – 100,000	888	3.55	19,296,143	3.24
100,001 and over	51	0.20	539,547,098	90.73
Total	25,023		594,702,512	100.00
Holding less than a marketable parcel of shares				

Twenty largest shareholders

Downer's 20 largest shareholders of ordinary fully paid shares as at 30 June 2020 are as follows.

Shareholders	Shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	185,717,949	31.23
Chase Manhattan Nominees Limited	146,284,045	24.60
Citicorp Nominees Pty Limited	81,954,474	13.78
National Nominees Limited	62,359,874	10.49
BNP Paribas Noms Pty Ltd <DRP>	20,792,447	3.50
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	10,611,149	1.78
Argo Investments Ltd	6,159,538	1.04
HSBC Custody Nominees (Australia) Limited <NT- Commonwealth Super Corp A/C>	5,626,345	0.95
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	3,895,289	0.65
CPU Share Plans Pty Limited	2,561,695	0.43
Sandhurst Trustees Ltd <Harper Bernays Ltd A/C>	2,266,995	0.38
Netwealth Investments Limited <Wrap Services A/C>	1,716,354	0.29
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	1,158,794	0.19
Mr Grant Fenn	961,478	0.16
Mr Barry Sydney Patterson + Mrs Glenice Margaret Patterson	891,642	0.15
CPU Share Plans Pty Ltd <PRV Control A/C>	773,889	0.13
AMP Life Ltd	395,728	0.07
BNP Paribus Noms (NZ) Ltd <DRP>	353,490	0.06
BNP Paribus Nominees Pty Ltd <HUB24 Cust Serv Ltd DRP>	318,956	0.05
Navigator Australia Limited <Redpoint Industrials SMA A/C>	311,618	0.05
Total for top 20 shareholders	535,111,749	89.98

This page has been intentionally left blank.

This page has been intentionally left blank.

MIX
Paper from responsible sources
FSC® C018183
FSC
www.fsc.org

Sovereign A2 Silk is proudly made FSC® certified by Hankuk paper which also carries the ISO 14001 EMS accreditation and it's manufactured with elemental chlorine-free pulps.

www.downergroup.com

Downner
Relationships creating success

Downer EDI Limited
ABN 97 003 872 848

Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

1800 DOWNER
www.downergroup.com

Media/ASX and NZX Release

12 August 2020

DOWNER REPORTS UNDERLYING NPATA OF $215.1 MILLION

Downer EDI Limited (Downer) today announced its financial results for the 12 months to 30 June 2020. The main features of the results are:

- Total revenue of $13.4 billion, down 0.2% from the prior corresponding period (pcp)
- Underlying EBITA (earnings before interest, tax and amortisation) of $416.0 million, down 25.8%
- Underlying NPATA (net profit after tax and before amortisation of acquired intangible assets) of $215.1 million, down 36.8%
- Statutory NPAT (net profit after tax) loss of $155.7 million
- Improved cash performance in the second half of the financial year, with operating cash conversion at 74% of Underlying EBITDA, taking full year cash conversion to 39.5% of Underlying EBITDA
- Work-in-hand of $42.2 billion

All the figures above include 100% contribution from Spotless, before minority interests.

Announcement of 21 July 2020

On 21 July 2020, Downer announced a package of initiatives to reshape the Downer Group in line with its Urban Services strategy and create a stronger platform for long-term, sustainable growth. These initiatives are:

- achieving 100% ownership of Spotless;
- exiting non-core businesses; and
- right-sizing the cost base and operating model to align with the Urban Services strategy.

Downer also announced a $400 million equity raising on 21 July 2020 to fund the acquisition of the remaining shares in Spotless, provide flexibility for continued investment in Downer's core businesses and strengthen its balance sheet. The raising was supported strongly by institutional investors, who took up 97% of their entitlements.

Downer will make an unconditional offer to acquire the issued share capital of Spotless not already owned by Downer. Downer has entered into a call option deed with Coltrane Master Fund, L.P. (which currently has a relevant interest in approximately 11.8% of the Spotless shares on issue) under which it has a call option over 2.99% of Spotless shares. On exercise, this will increase Downer's ownership above the 90% threshold to proceed to compulsory acquisition. It is expected the outcome of this offer will be known by the end of the 2020 calendar year.

In relation to non-core businesses, Downer is exploring the potential sale of its Mining portfolio (in parts or as a whole) and reviewing the prospects of its Hospitality business to determine which parts will continue and which will be sold or closed. The process for the sale of the Laundries business has been paused and will resume when investment market conditions improve.

Financial performance in the 2020 financial year

The Chief Executive Officer of Downer, Grant Fenn, said Downer's performance in the 2020 financial year supported its strategy to focus on its core Urban Services businesses. These businesses have:

- demonstrated strength and resilience;
- leading market positions and attractive medium and long-term growth opportunities;
- a high proportion of government and government-related contracts; and
- a capital light, services-based business model generating lower risk, more predictable revenues and cash flows.

"Demand for our services remained strong throughout the year, particularly in the road, rail, power, gas, water, defence, health, education and government sectors," Mr Fenn said.

"Group revenue was down only 0.2% to $13.4 billion and underlying EBITA for our core Urban Services businesses was only slightly down on the previous year.

"Our New Zealand business was materially affected by the Level 4 restrictions introduced there, but activity has returned almost to normal levels and the business is performing well."

Mr Fenn said Spotless' Hospitality business had been severely affected by COVID-19 restrictions and, as previously announced, the business has been placed in hibernation.

Full details of Downer's financial performance are included in the Investor Presentation and Annual Report lodged with the Australian Securities Exchange and available on Downer's website.

Dividends

As announced previously:

- Downer's deferred unfranked interim dividend of 14 cents per share will be paid on 25 September 2020 to shareholders on the register at 26 February 2020; and
- no final dividend will be paid for the year ended 30 June 2020 due to the current environment and Downer's recent equity raising.

Dividends are expected to resume in the 2021 financial year, depending on business performance.

The unfranked interim dividend will be paid out of Conduit Foreign Income. The company's Dividend Reinvestment Plan (DRP) remains suspended and will not operate for this dividend.

Safety

Downer has complied with all Government regulations and advice in relation to COVID-19, in both Australia and New Zealand, and has robust Business Continuity Plans in place. Downer has implemented a range of control measures across its sites to minimise the risks of COVID-19 transmission and has also put in place strategies to minimise the impact of the virus on its people and the communities in which it operates.

Downer's Lost Time Injury Frequency Rate (LTIFR) increased to 0.67 from 0.57 and its Total Recordable Injury Frequency Rate (TRIFR) increased to 2.88 from 2.70 per million hours worked.

Outlook

In the current environment, Downer is not providing earnings guidance for the 2021 financial year.

The acquisition of the remaining shares in Spotless will allow Downer to get the full benefits of the acquisition. Spotless is an important part of Downer's Urban Services strategy - driving consistent earnings and reliable cash flow from long term customers in critical sectors.

Downer's diversification across critical services in road, rail, power, gas, water, defence, health, education and government has delivered resilience in earnings and cash flows and there continues to be strong demand for these services.

For further information please contact:

Michael Sharp, Group Head of Corporate Affairs and Investor Relations +61 439 470 145

About Downer

Downer is the leading provider of integrated services in Australia and New Zealand and customers are at the heart of everything it does. It exists to create and sustain the modern environment and its promise is to work closely with its customers to help them succeed, using world-leading insights and solutions to design, build and sustain assets, infrastructure and facilities. For more information visit www.downergroup.com

Downer

Relationships creating success

Downer Full Year Results
Investor Presentation

12 August 2020

Urban Services - continue to deliver

- Downer's strategy to focus on its core Urban Services businesses is delivering:
  - Demonstrated strength and resilience
  - Underlying EBITA[1,2] FY20 $511m (FY19 $525m) despite COVID-19
  - Leading market positions
  - High proportion of Government and Government-related contracts
  - Capital light, lower risk, more predictable revenues, earnings and cash flows
- Initiatives announced on 21 July 2020 will create a stronger Downer:
  - 100% ownership of Spotless
  - Exiting non-core businesses
  - Right-sizing the cost base and operating model
- Successful equity raising has funded the remaining shares in Spotless, provided flexibility for continued investment in Downer's core businesses and strengthened the balance sheet

[1] Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense. Group FY20: $71.3m (FY19: $70.4m).

[2] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

Reshaped Urban Services portfolio

Downer Group

Core

Transport
- *Road Services*
- *Rollingstock Services*
- *Transport Projects*

Revenue[1]	$4.7bn
EBITA[2]	$235.6m
WIH	$16.9bn

Utilities
- *Telecommunications*
- *Water*
- *Power & Gas*

Revenue[1]	$2.7bn
EBITA[2]	$114.6m
WIH	$5.2bn

Facilities
- *Government*
- *Health & Education*
- *Defence*
- *Building*

Revenue[1]	$2.3bn
EBITA[2,3]	$133.9m
WIH	$12.6bn

Asset Services
- *Oil & Gas*
- *Power Generation*
- *Industrial*

Revenue[1]	$0.7bn
EBITA[2]	$27.1m
WIH	$1.6bn

Non-core

Wind down / re-scope
- *Infrastructure & Construction (Facilities)*
- *Engineering & Construction (EC&M)*

Under review
- *Mining*
- *Laundries (Facilities)*
- *Hospitality (Facilities)*

	Wind down	Under review
Revenue[1]	$0.8bn	$2.2bn
EBITA[2,3]	$(78.2)m	$68.4m
WIH	$1.0bn	$4.9bn

The above Revenue and EBITA figures refer to FY20, and work-in-hand (WIH) is as at 30 June 2020.

[1] Total revenue is a non-statutory disclosure and includes revenue from joint ventures, other alliances and other income.

[2] Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense. Group FY20: $71.3m. (FY19: $70.4m)

[3] The underlying EBITA is calculated on a consistent basis with EBITA in the segment reporting in Downer's financial statements with the exception that the underlying EBITA excludes $18.8 million of historical contract claims adjustments ($9.9 million relating to the Facilities segment and $8.9 million relating to the EC&M segment) in FY20.

FY20 performance overview

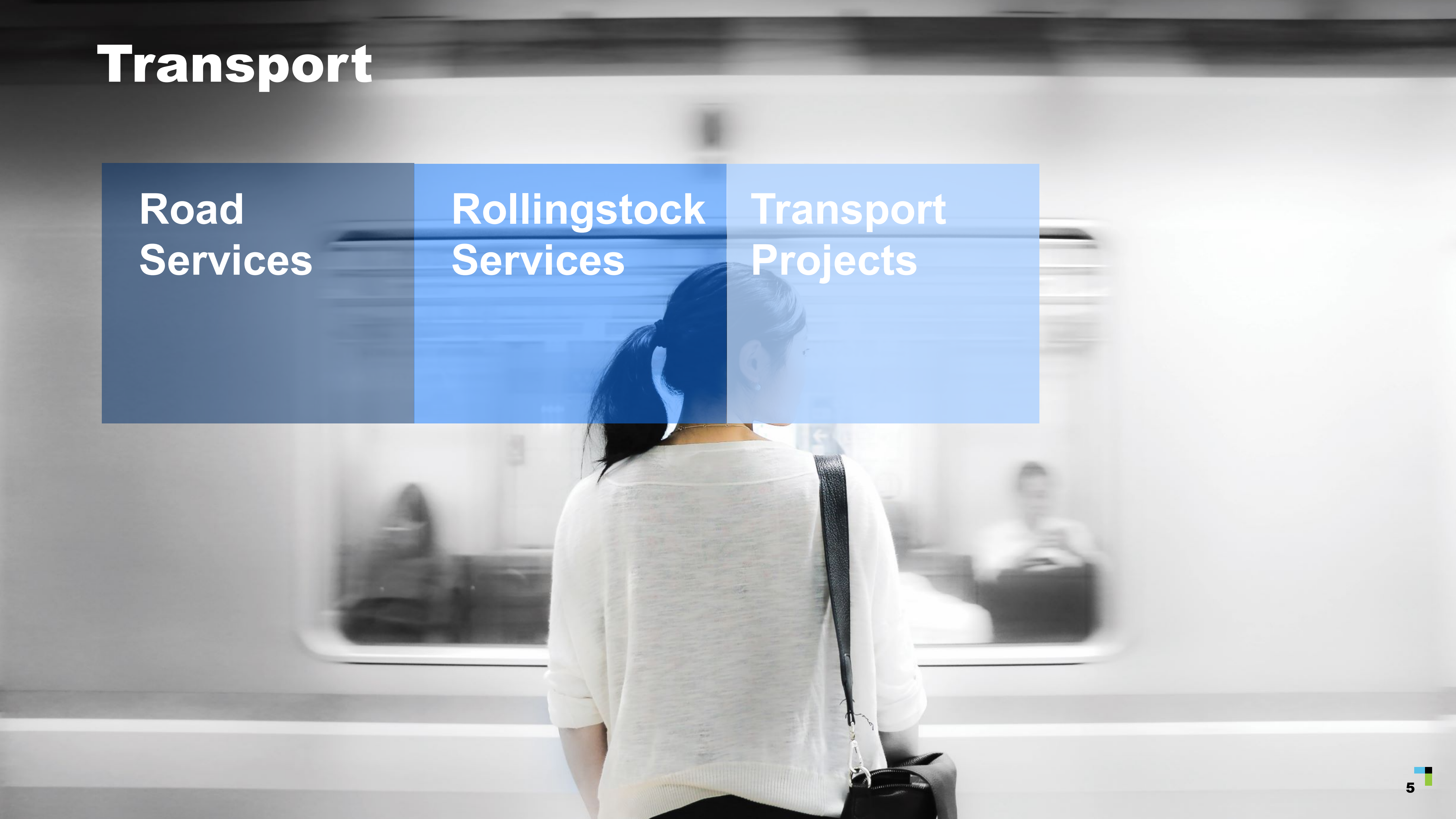
- Core Urban Services businesses continue to perform, showing resilience of earnings despite the COVID-19 challenges
- Total revenue of $13.4bn flat on prior year
- Strong operating cash conversion of 74.2% in the second half, taking full year operating cash conversion to 39.5%
- Underlying EBITA[1] for core Urban Services in FY20 in line with FY19

$m	FY19	FY20	Change %
Transport	242.4	235.6	(2.8)
Utilities	136.1	114.6	(15.8)
Facilities	133.6	133.9	0.2
Asset Services (EC&M)	13.4	27.1	>100
Core Urban Services Businesses	**525.5**	**511.2**	**(2.7)**
Infrastructure & Construction (Facilities)	(3.1)	(9.0)	>(100)
Engineering & Construction (EC&M)	19.9	(69.2)	>(100)
Businesses in wind down	**16.8**	**(78.2)**	**>(100)**
Mining	76.7	79.0	3.0
Laundries (Facilities)	17.5	9.1	(48.0)
Hospitality (Facilities)	22.5	(19.7)	>(100)
Businesses under review or to be sold	**116.7**	**68.4**	**(41.4)**
Corporate	(98.4)	(85.4)	13.2
Underlying EBITA[1,2]	**560.6**	**416.0**	**(25.8)**
Items outside of underlying EBITA	(28.0)	(386.0)	>(100)
Statutory EBITA[1]	**532.6**	**30.0**	**(94.4)**
Underlying NPATA[1,2]	**340.1**	**215.1**	**(36.8)**
Statutory NPAT	**276.3**	**(155.7)**	**>(100)**

[1] Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group FY20: $71.3m, $49.9m after-tax. (FY19: $70.4m, $49.3m after-tax)

[2] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

Transport



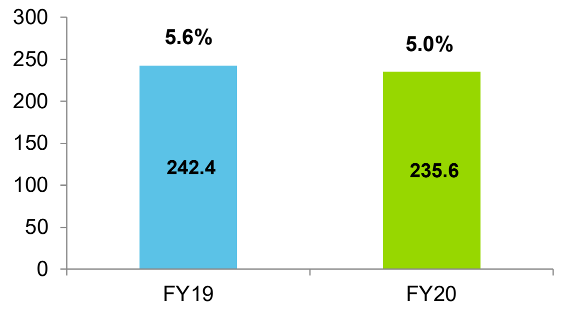
Road Services

Rollingstock Services

Transport Projects

Transport

EBITA[1] and margin %



Work-in-hand

- Total of $16.9bn, in line with FY19
- Comprises 97% Government or Government-backed contracts
- Long term profile, led by Rollingstock Services

COVID-19 impact

- No material impact on demand in Australia
- Impact on Yarra Trams fare box partially offset by Vic Government
- Impact in NZ from Level 4 restrictions partially offset by Govt wage subsidy

Road Services

- Vertically integrated position: importation and supply of bitumen; manufacture and supply of bituminous products; surfacing and maintenance; road network mgt
- Manage and maintain 58,000km of roads across Australia and NZ
- Customers include all Australia's State road authorities, NZ Transport Agency, local councils and authorities in both countries

Rollingstock Services

- Long term maintenance of 1,741 passenger rail cars: Waratah and SGT fleets until 2044, Millennium until 2027, HCMT until 2053
- Modifying Queensland's New Generation Rollingstock until 2024
- Project management services for HCMT delivery
- Australia's leading private provider of multi-modal public transport solutions (Keolis Downer)

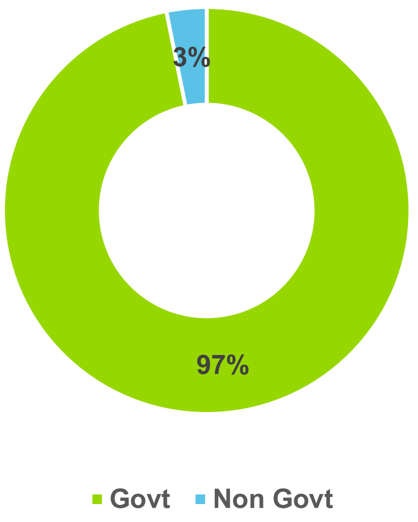
Transport Projects

- Multi-disciplined solutions across road, rail and power systems
- Opportunities matched to capability and competitive strength, rigorous risk management
- Alliance-style contracts e.g. Perth's METRONET and Auckland's City Rail Link
- Parramatta Light Rail and Warrnambool Line Upgrade progressing well

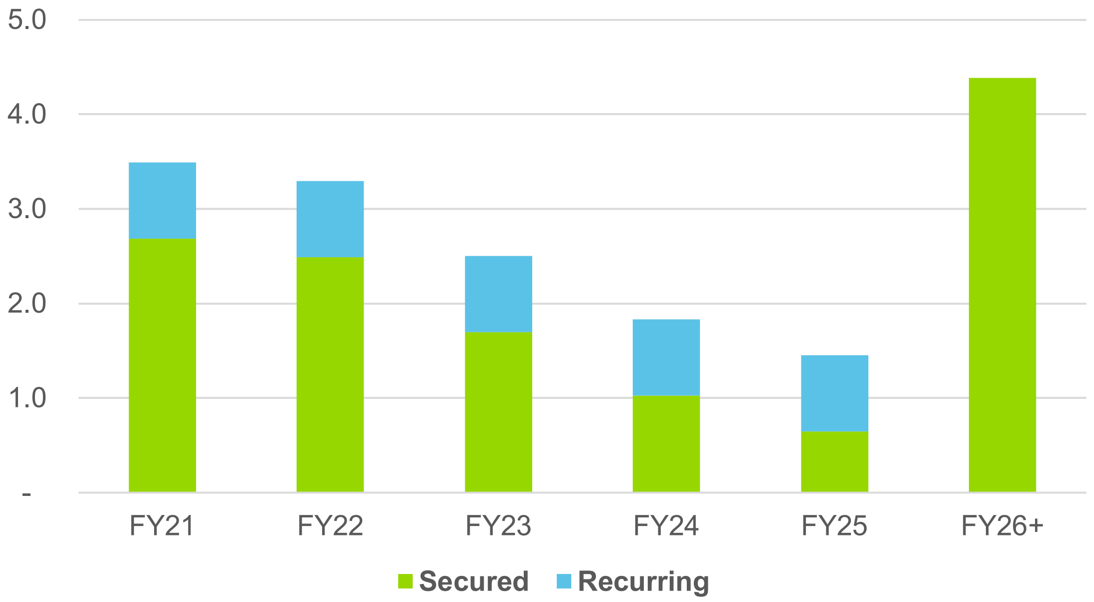
[1] Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense.

Transport – $16.9bn work in hand

WIH Government v Non-Government



WIH profile ($bn)



Top 5 Contracts Remaining
1. Maintaining Waratah trains until 2044
2. Operating Yarra Trams until 2024 (Keolis Downer)
3. Maintaining HCMT trains until 2053
4. Maintaining Sydney Growth Trains until 2044
5. METRONET (JV with CPB), alliance style contract

Top 5 Contract Wins in FY20
1. METRONET (JV with CPB), alliance-style contract
2. South Australian road maintenance contracts
3. City Rail Link (Auckland), alliance style contract
4. Warrnambool Line Upgrade
5. North Eastern Maintenance Alliance (Road Services)

Utilities

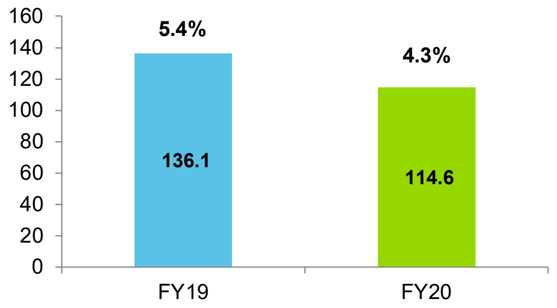
Power and Gas

Water

Telco

Utilities

EBITA[1] and margin %



Work-in-hand

- Total of $5.2bn, in line with FY19
- Proven history of extensions and renewals

COVID-19 impact

- No material impact on demand in Australia
- Impact in NZ from Level 4 restrictions partially offset by Government wage subsidy

Power and Gas

- Maintenance of critical regulated power and gas networks
- During FY20 Downer extended its long relationship with AusNet Services with two significant contracts for operational and maintenance services:
  - power distribution network in Victoria (5 years, ~$600m)
  - gas distribution network (5 years, ~$350m)

Water

- Complete water lifecycle solutions for municipal and industrial users
- During FY20 Downer won two significant long-term contracts:
  - Confluence Water (Downer, Jacobs, Broadspectrum JV) delivering services for Sydney Water (10 years, ~$2 billion)
  - Downer delivering services for Logan City Council (5 years, $520m)

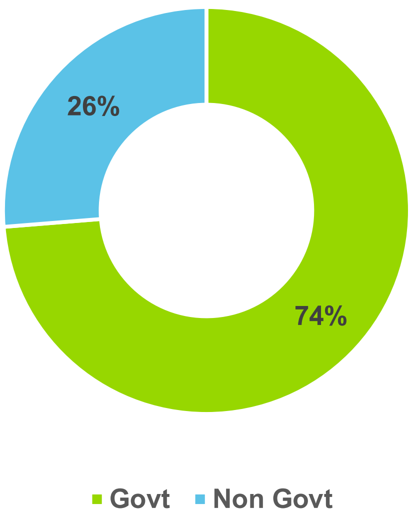
Telecommunications

- End-to-end technology and communications service solutions
- Key provider of 5G rollout and Mobile Black Spot services to Telstra
- NBN construction rolling off; transition to NBN maintenance
- Leading provider of services in NZ for all Tier 1 companies with focus on national rollout of 5G

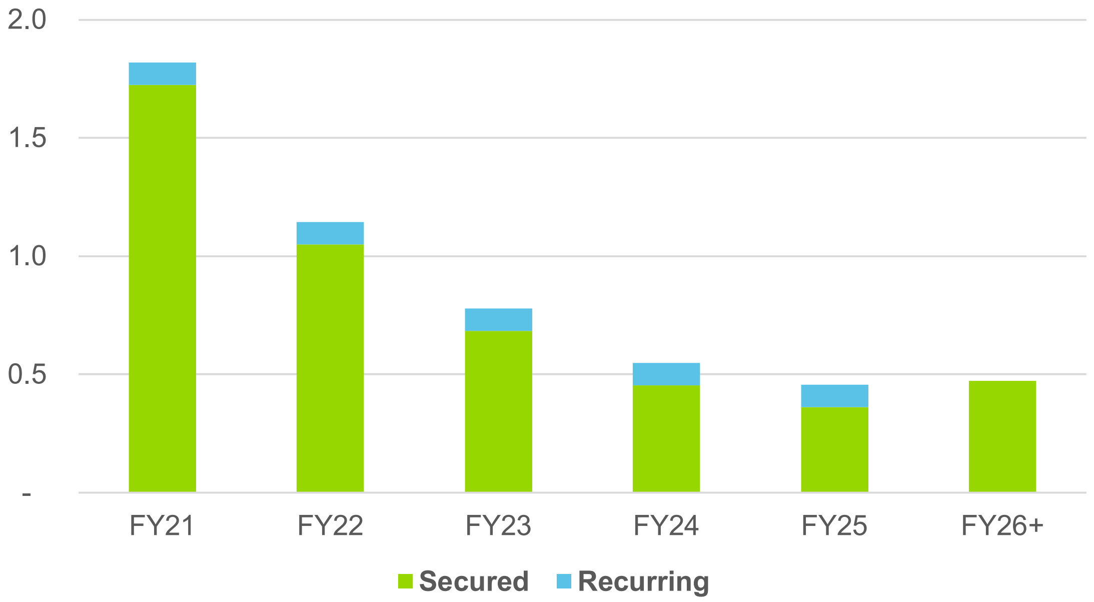
[1] Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense.

Utilities – $5.2bn work in hand

WIH Government v Non-Government



WIH profile ($bn)



Top 5 Contracts Remaining
1. Sydney Water until 2030 (Confluence Water JV)
2. AusNet (power) until 2024 (plus extensions for 6 years)
3. Logan City Council until 2025 (plus 2x2yrs extensions)
4. AusNet (gas) until 2026
5. Chorus Field Services Agreement (NZ)

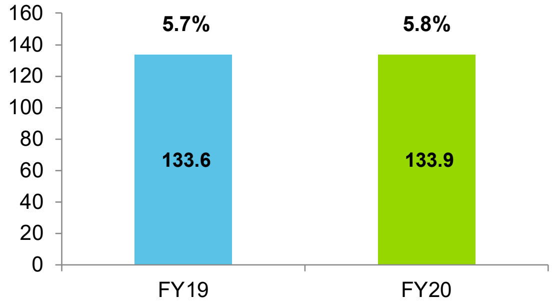
Top 5 Contract Wins in FY20
1. AusNet (power) for 5 years (plus extensions for 6 years)
2. Sydney Water for 10 years (Confluence Water JV)
3. Logan City Council for 5 years (plus 2x2yrs extensions)
4. AusNet (gas) (extension for 5 years)
5. Urban Utilities contracts (Queensland)

Facilities (Core)

Defence	Health and Education; Government	Building

Facilities[1] (Core)

EBITA[2,3] and margin %



Work-in-hand

- Total of $12.6bn, in line with FY19
- Comprises 94% Government or Government-backed contracts
- Long term profile, led by various PPPs

COVID-19 impact

- No material impact on demand in Australia or New Zealand

Defence

- Longstanding relationships with Australian Department of Defence and NZ Defence Force
- Major contracts include:
  - Department of Defence Estate Maintenance and Operations (EMOS), Qld and Southern NSW
  - HQ Joint Operations Command (ACT)
  - Manawatu and Southern region (New Zealand)

Health & Education; Government

- Services for Federal, State and municipal government departments, agencies, authorities
- Health, education, social housing, justice
- ~4m hours of support services to over 200 healthcare facilities in Australia and NZ
- Maintain >24,000 properties for NSW Land and Housing Corp

Non-residential building

- Hawkins (NZ) focuses on government sectors including education, health, airports; also selected commercial projects
- Relationships lead to long term maintenance contracts

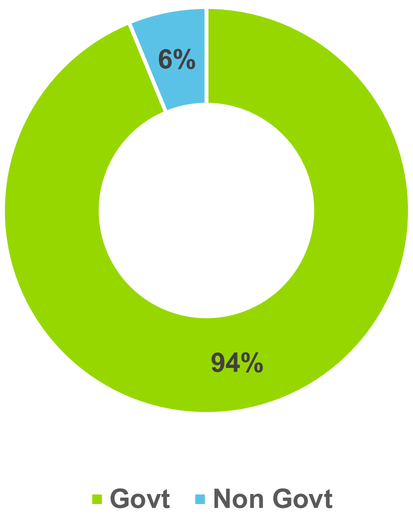
[1] Core Facilities excludes Hospitality, Laundries and Infrastructure & Construction.

[2] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

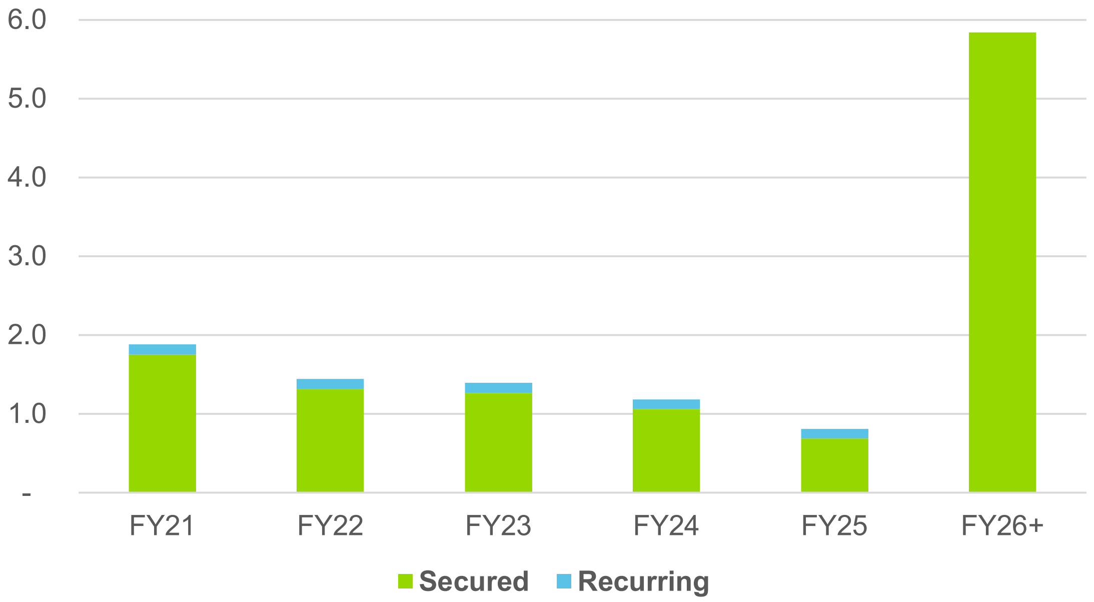
[3] Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense.

Facilities[1] (Core) – $12.6bn work in hand

WIH Government v Non-Government



WIH profile ($bn)



Top 5 Contracts Remaining
1. New Royal Adelaide Hospital PPP until 2046
2. Dept of Defence Estate Maintenance and Operations
3. NSW Whole of Government (cross agency FM)
4. Bendigo Hospital PPP until 2042
5. Sunshine Coast University Hospital PPP until 2041

Top 5 Contract Wins in FY20
1. Dept of Defence EMOS (2 year extension)
2. City Rail Link FM (NZ)
3. Farmers Development Tauranga (NZ)
4. WA Housing FM (2 year extension)
5. Real Pet Food Company, integrated FM

[1] Core Facilities excludes Hospitality, Laundries and Infrastructure & Construction.

Asset Services

Oil and Gas

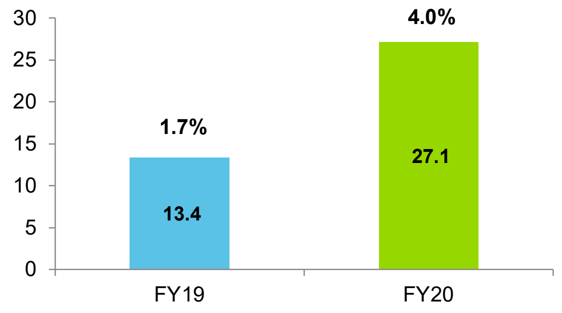
Power Generation

Industrial

Image courtesy of BHP

Asset Services

EBITA[1] and margin %



Work-in-hand

- Total of $1.6bn
- Government and blue-chip private customers

COVID-19 impact

- Delays to non-essential maintenance and capital works

Oil and Gas

- Optimising the reliability, efficiency and whole-of-life costs of customers' assets through innovative maintenance, shutdown, turnaround and project services
- July 2020 announced three year agreement with Santos and one year extension to maintenance of Darwin LNG facility

Power Generation

- Leading provider of maintenance services to Australia's power stations
- Downer's customers supply approximately 60% of the National Energy Market (NEM); Downer directly maintains more than 18GW of generation for the NEM, including 5.2GW through OEM products
- Multi-year contract wins during FY20 include services to CS Energy, Delta Electricity and Stanwell Corporation

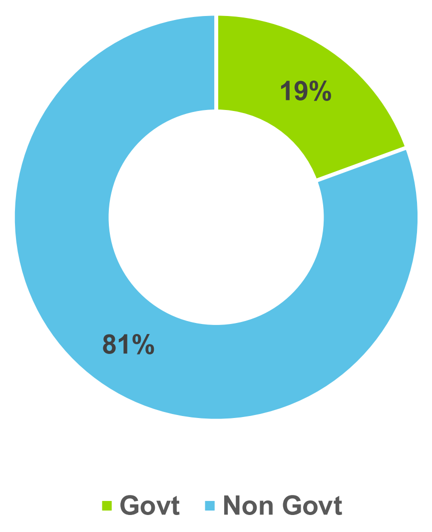
Industrial

- Leading provider of maintenance, turnaround and shutdown services
- July 2020 announced: two year contract with BHP for services across its WA iron ore sites; and services contract with Wesfarmers for maintenance and shutdowns in WA and NT

[1] Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense.

Asset Services – $1.6bn work in hand

WIH Government v Non-Government



WIH profile ($bn)

Top 5 Contracts Remaining
1. CS Energy until 2024
2. BHP Port Headland until 2023
3. Chevron Gorgon FM until 2023
4. Santos National Master Services Agreement until 2023
5. Origin Energy Eraring Power Station until 2022

Top 5 Contract Wins in FY20
1. CS Energy for 5 years
2. Santos National Master Services Agreement for 3 years
3. Delta Energy Vales Point for 5 years
4. Chevron Wheatstone Contract Extension
5. Orica Yarwun Maintenance Services

Construction businesses in wind down

Infrastructure and Construction (Facilities)

Engineering and Construction (EC&M)

Construction businesses

Infrastructure & Construction (Facilities)

- AE Smith and Nuvo: services include mechanical, electrical, HVAC (heating, ventilation, air conditioning, refrigeration), energy, hydraulics
- Construction losses in FY19 and FY20
- Wind down from major construction underway and will complete as existing projects finish
- Now focusing on maintenance and related minor capex (<$5m)

Engineering & Construction (EC&M) excluding Asset Services

- Significant construction losses in FY20 result
- Bidding scope restricted to Power Systems
  - HV power and substations
- Merged into Transport Projects to create Infrastructure Projects (change in FY21 reporting Segments)
- Existing out of scope projects in wind down
  - <$100m in WIH

Businesses under review or to be sold

Mining	Laundries (Facilities)	Hospitality (Facilities)

Businesses under review or to be sold

Mining

- Contract wins and extensions during the year:
  - Goonyella (2 years, ~$200m with provision to extend for 3 years)
  - Meandu (5 years, ~$600m)
  - Eliwana (5 years, ~$450m)
- FY20 cost of exiting offshore sites including Palabora in South Africa
- Downer continues to explore the potential sale of the Mining portfolio (in parts or as a whole) with recent enquiries from a number of parties

Laundries

- Private hospital volumes hit by restrictions on elective surgery
- Volumes returning, business performing well
- Sale process paused and will resume when investment market conditions improve

Hospitality

- Worst COVID-19 affected part of Downer Group
- Virtually no Hospitality revenue in fourth quarter
- >6,000 people stood down
- Business placed in hibernation
- Review underway to determine which parts will continue, be sold or closed

Group financials

Overview of results

	FY19	FY20
Total revenue[1]	$13.4 billion	$13.4 billion
Underlying EBITA[2,3]	$560.6 million	$416.0 million
Statutory EBITA[2]	$532.6 million	$30.0 million
Underlying NPATA[2,3]	$340.1 million	$215.1 million
Statutory NPATA[2]	$325.6 million	$(105.8) million
Operating cash flow	$630.2 million	$178.8 million
Cash conversion	89.0%	39.5%
Work-in-hand	$44.3 billion	$42.2 billion

[1] Total revenue is a non-statutory disclosure and includes revenue from joint ventures, other alliances and other income.

[2] Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group FY20: $71.3m, $49.9m after-tax. (FY19: $70.4m, $49.3m after-tax)

[3] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

Underlying financial performance

- FY20 includes adoption of AASB16 – no material impact on NPATA
- Revenue flat, with growth in Transport and Utilities offsetting declines in Facilities and EC&M
- Group EBITA margin 3.1%, down 1.1pp:
  - loss making construction contracts in EC&M
  - completion of Murra Warra and Renewables contracts
- No final dividend (deferred interim dividend of 14cps to be paid in September)

$m	FY19[3]	FY20[3]	AASB16 impact	Pro forma Pre AASB16[3]	Change (%)
Total revenue[1]	13,448.3	13,417.9	-	13,417.9	(0.2)
EBITDA	850.2	862.0	(175.8)	686.2	(19.3)
Depreciation and amortisation	(289.6)	(446.0)	151.8	(294.2)	(1.6)
EBITA[2]	560.6	416.0	(24.0)	392.0	(30.1)
Amortisation of acquired intangibles	(70.4)	(71.3)	-	(71.3)	(1.3)
EBIT	490.2	344.7	(24.0)	320.7	(34.6)
Net interest expense	(82.4)	(112.0)	26.4	(85.6)	(3.9)
Profit before tax	407.8	232.7	2.4	235.1	(42.3)
Tax expense	(117.0)	(67.5)	(0.7)	(68.2)	41.7
Net profit after tax	290.8	165.2	1.7	166.9	(42.6)
NPATA[2]	**340.1**	**215.1**	**1.7**	**216.8**	**(36.3)**
EBITA margin	4.2%	3.1%			(1.1)pp
Effective tax rate	28.7%	29.0%			(0.3)pp
ROFE[4]	13.7%	10.2%			(3.5)pp
Dividend declared (cps)	28.0	14.0			(50.0)

[1] Total revenue is a non-statutory disclosure and includes revenue from joint ventures, other alliances and other income.
[2] Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group FY20: $71.3m, $49.9m after-tax. (FY19: $70.4m, $49.3m after-tax)
[3] The underlying result and underlying pro-forma pre-AASB16 result are non-IFRS measures that are used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.
[4] ROFE = 12 month rolling underlying EBITA divided by average funds employed (AFE); AFE = Average Opening and Closing Net Debt (excludes lease liability) + Equity.

Summary of earnings

$m	EBITA[1]	Net interest expense	Tax expense[2]	NPATA	Deduct: Amortisation of acquired intangibles (post-tax)	NPAT
Underlying[3] result	**416.0**	**(112.0)**	**(88.9)**	**215.1**	**(49.9)**	**165.2**
Spotless goodwill impairment	(165.0)	-	-	(165.0)	-	**(165.0)**
Historical contract claims adjustments	(18.8)	-	5.5	(13.3)	-	**(13.3)**
Portfolio restructure and exit costs	(142.4)	-	42.2	(100.2)	-	**(100.2)**
Payroll remediation costs	(16.3)	-	4.5	(11.8)	-	**(11.8)**
Spotless shareholder class action	(34.0)	-	10.2	(23.8)	-	**(23.8)**
Legal settlement	(9.5)	-	2.7	(6.8)	-	**(6.8)**
Total items outside underlying result	**(386.0)**	**-**	**65.1**	**(320.9)**	**-**	**(320.9)**
Statutory result	**30.0**	**(112.0)**	**(23.8)**	**(105.8)**	**(49.9)**	**(155.7)**

[1] Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense. Group FY20: $71.3m (FY19: $70.4m)
[2] Tax of $88.9m is calculated by adjusting underlying tax of $67.5m with $21.4m tax on amortisation of acquired intangible assets.
[3] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

Operating cash flow

- Substantial improvement in 2H20 EBITDA conversion to 74.2%
- Operating cash flow, particularly 1H20, was impacted by Murra Warra wind farm, NBN winding down and the Waratah bogie overhaul
- Items outside of underlying earnings also negatively impacted operating cash flow ($34.3m), primarily payroll remediation costs and portfolio restructure and exit costs
- Cash flow conversion for Downer's core Urban Services businesses remained strong
- Spotless cash flow conversion ~80% for FY20
- Factoring at 30 June 2020 was $102.2m ($113.7m at 31 December 2019)
- No reverse factoring of payables
- FY20 includes benefit of $152.9m arising from lease payment reclassification

$m	FY19	1H20	2H20	FY20[2]	Change (%)
Underlying[1] EBIT	490.2	180.4	164.3	344.7	(29.7)
Add: depreciation and amortisation[3]	360.0	248.9	268.4	517.3	43.7
Underlying[1] EBITDA	**850.2**	**429.3**	**432.7**	**862.0**	**1.4**
Operating cash flow	**630.2**	**(4.5)**	**183.3**	**178.8**	**(71.6)**
Add: Net interest paid[4]	70.9	51.0	52.7	103.7	46.3
Add: Tax paid	55.9	(27.0)	84.9	57.9	3.6
Adjusted operating cash flow	**757.0**	**19.5**	**320.9**	**340.4**	**(55.0)**
EBITDA conversion	**89.0%**	**4.5%**	**74.2%**	**39.5%**	**(49.5)pp**

[1] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.
[2] Cash conversion for FY20 has been calculated following the adoption of AASB16 from 1 July 2019 (comparatives have not been restated).
[3] Includes $151.8m depreciation of Right-of-use-assets (ROUA) following the adoption of AASB 16.
[4] Interest, including AASB 16 finance leases of $26.4m and other costs of finance paid less interest received.

Cash flow

- Net capital expenditure reduction of 23.4%
- Mining and Laundries represent 65.2% of total capital expenditure
- Other acquisitions represent deferred purchase consideration
- Continued technology investment in data centres and network infrastructure

$m	FY19	FY20	Change (%)
Total operating	**630.2**	**178.8**	(71.6)
Net capital expenditure[1]	(395.1)	(302.8)	23.4
Business acquisitions	(71.5)	(29.8)	58.3
IT systems upgrade	(32.4)	(61.7)	(90.4)
Advances to JVs and other	(10.7)	(3.6)	66.4
Total investing	**(509.7)**	**(397.9)**	**21.9**
Net proceeds of borrowings	155.1	348.7	>100
Dividends paid	(174.9)	(90.7)	48.1
Payment of principal lease liabilities	-	(152.9)	(100.0)
Total financing	**(19.8)**	**105.1**	**>100**
Net increase / (decrease) in cash	100.7	(114.0)	>(100)
Cash at 30 June	**710.7**	**588.5**	**(17.2)**
Total liquidity	**1,777.7**	**1,858.5**	**4.5**

[1] Includes purchase of assets as a lessor $34.0m (FY19: $52.6m).

Balance sheet and capital management

- Gearing increase due to lower operating cash flow
- Reduction in net assets a result of adoption of AASB 16 *Leases* and items outside of FY20 underlying result
- Focus on debt reduction and reduced gearing
- FY20 reported gearing of 35.5% (pro-forma gearing of 29.5%, adjusted for the equity raising and Spotless minorities acquisition)

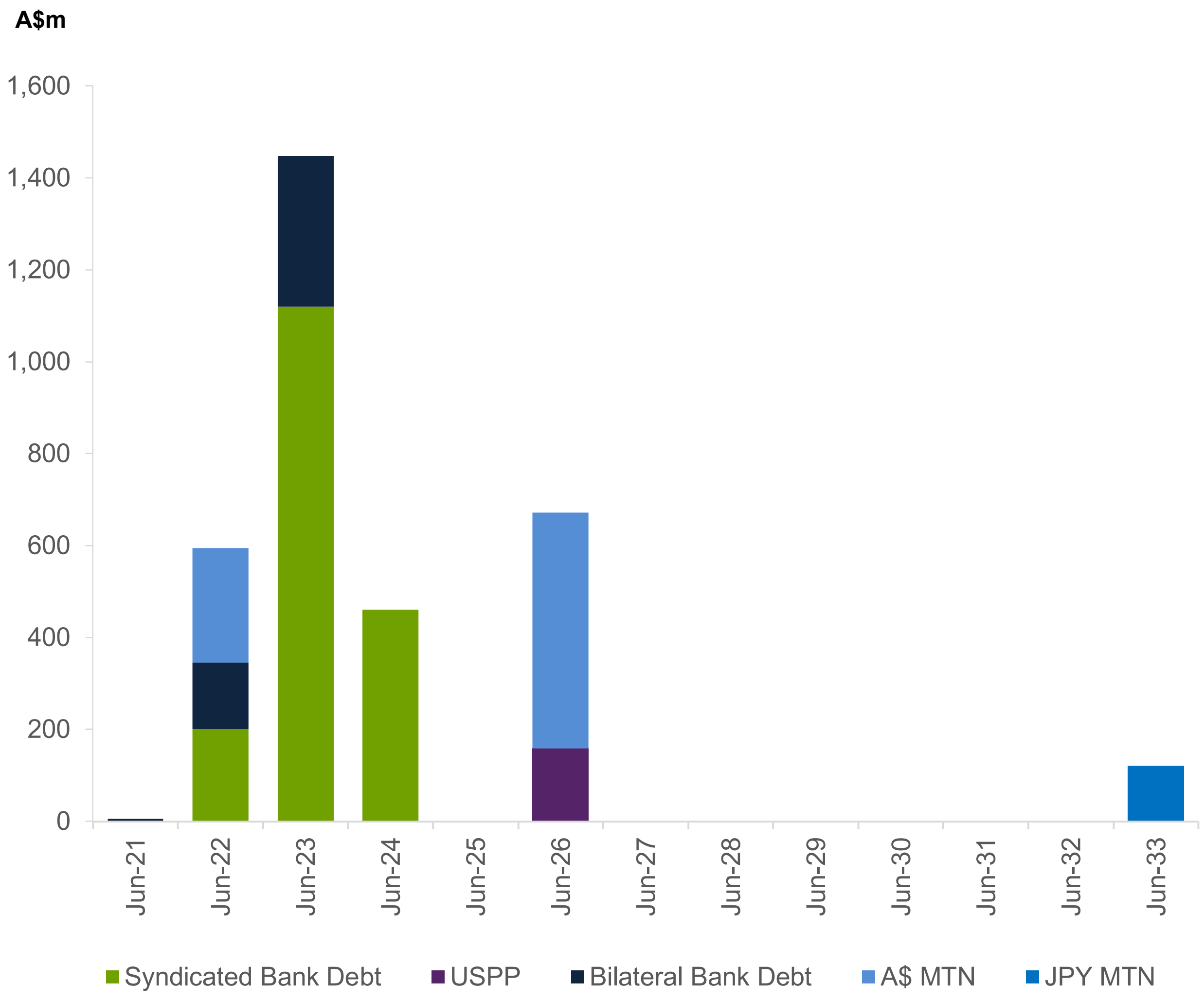
$m	Jun-19[3]	Jun-20
Current assets	**3,164.7**	**3,404.7**
Non-current assets	**4,850.7**	**5,267.8**
- Goodwill	2,454.5	2,281.3
- Acquired intangible assets	418.3	349.4
- PP&E, Software and other	1,977.9	2,044.5
- Right-of-use assets	-	592.6
Total Liabilities	**(4,982.6)**	**(6,052.0)**
- Lease liabilities	-	(763.2)
- Other liabilities	(4,982.6)	(5,288.8)
Net Assets	**3,032.8**	**2,620.5**
Net Debt[1]	**(1,012.6)**	**(1,480.5)**
Gearing: net debt / net debt plus equity[2,3]	25.0%	35.5%
Net debt / EBITDA	1.2	1.7

[1] Adjusted for the marked-to-market derivatives and deferred finance charges and excludes the lease liabilities of $763.2m at 30 June 2020.
[2] Equity adjusted to exclude the impact of AASB 16 of $66.0m.
[3] Restated following review of Group's compliance with Employee Agreements and Modern Award Obligations.

Group debt profile

- Weighted average debt duration of 3.4 years[1] (3.6 years at 30 June 19)
- Downer intends to review and replace Spotless' financing upon increasing its ownership to 100% of Spotless
- The combined debt platform will be more efficient and allow the Group to focus on extending debt duration and increased diversity of funding sources

Debt facilities $m	DOW	SPO	Group
Total limit [2]	2,304.8	1,034.2	**3,339.0**
Drawn [2]	1,289.8	779.2	**2,069.0**
Available	**1,015.0**	**255.0**	**1,270.0**
Cash	465.6	122.9	588.5
Total liquidity	**1,480.6**	**377.9**	**1,858.5**
Net debt [2]	**824.2**	**656.3**	**1,480.5**



[1] Based on the weighted average life of debt facilities (by A$m limit).
[2] Exclude lease liabilities.

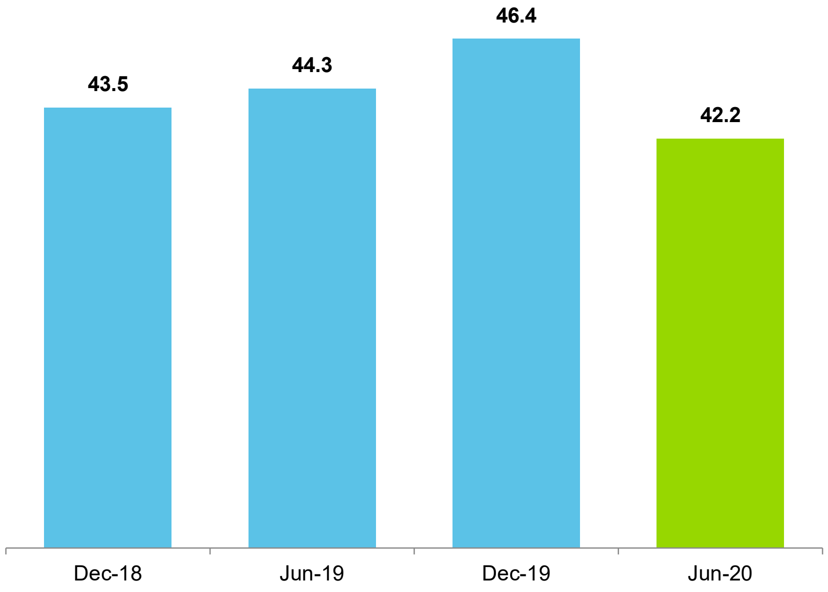
Grant Fenn

Supplementary information

Work-in-hand overview

- Total Group work-in-hand (WIH) of $42.2bn (compared to $44.3bn at Jun-19)
- Core urban services WIH remains strong

Work-in-hand $bn



A$bn	FY19	FY20
Transport	17.7	16.9
Utilities	4.7	5.2
Facilities (core)[1]	12.6	12.6
Asset Services (EC&M)	2.1	1.6
Core Urban Services Businesses	**37.1**	**36.3**
Mining	2.9	3.2
Laundries	0.6	0.6
Other non-core businesses[2]	3.7	2.1
Total work-in-hand	**44.3**	**42.2**

[1] Facilities (core) excludes Hospitality, Laundries and Infrastructure & Construction.

[2] Includes work-in-hand of Hospitality (Facilities segment), Engineering & Construction (EC&M segment) and Infrastructure & Construction (Facilities segment).

Reconciliation to segment financials

Underlying EBITA[1,2] ($m)	FY19	FY20
Asset Services (EC&M)	13.4	27.1
Engineering & Construction (EC&M)	19.9	(69.2)
EC&M Segment EBITA	**33.3**	**(42.1)**
Facilities (core)	133.6	133.9
Infrastructure & Construction (Facilities)	(3.1)	(9.0)
Laundries (Facilities)	17.5	9.1
Hospitality (Facilities)	22.5	(19.7)
Facilities Segment EBITA	**170.5**	**114.3**

[1] Downer calculates EBITA by adjusting EBIT to add back acquired intangible assets amortisation expense. Group FY20: $71.3m. (FY19: $70.4m)

[2] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

Reconciliation of Facilities to Spotless result

	Facilities segment	Less: Hawkins Building	Add: Spotless Utilities	Spotless FY20	Spotless FY19
Total Revenue	3,315.7	(413.6)	158.1	3,060.2	3,025.1
Underlying EBITA[1,2]	114.3	(5.5)	12.2	121.0	170.0
EBITA margin	*3.4%*	*1.3%*	*7.7%*	*4.0%*	*5.6%*
Amortisation of acquired intangibles	(9.8)	0.7	-	(9.1)	(11.0)
Underlying EBIT[1]	104.5	(4.8)	12.2	111.9	159.0
Items outside of underlying EBIT[3]				(151.0)	-
Statutory EBIT				(39.1)	159.0
Net Interest Expense				(36.4)	(39.2)
Tax Expense				22.4	(35.8)
NPAT				(53.1)	84.0
NPATA[2]				(46.7)	91.7

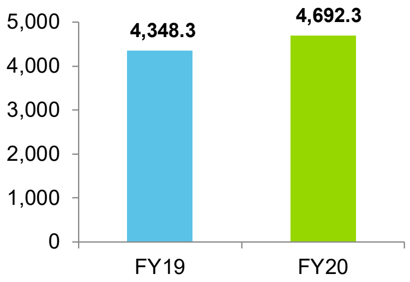
[1] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

[2] Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Spotless FY20 $9.1m, $6.4m after-tax (FY19 $11.0m, $7.7m after-tax).

[3] Comprise of $9.9m historical contract claims adjustment and $141.1m individually significant items.

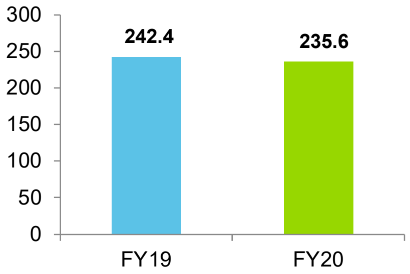
Transport

Revenue $m



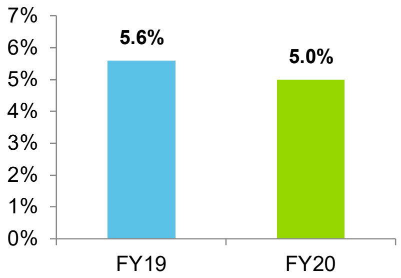
+7.9% v FY19

EBITA $m



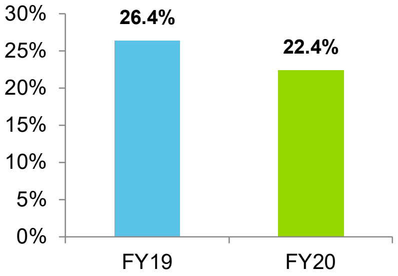
(2.8)% v FY19

EBITA margin



(0.6)pp v FY19

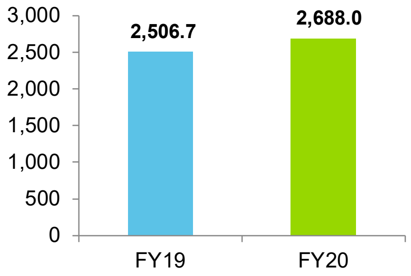
ROFE



(4.0)pp v FY19

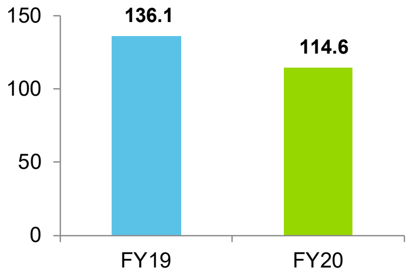
Utilities

Revenue $m



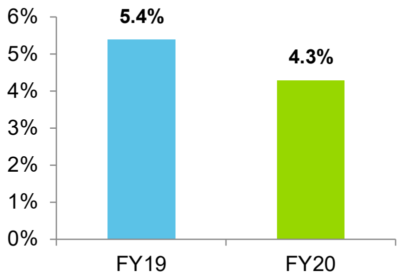
+7.2% v FY19

EBITA $m



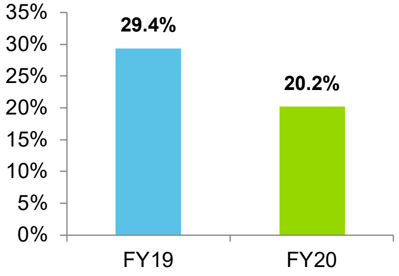
(15.8)% v FY19

EBITA margin



(1.1)pp v FY19

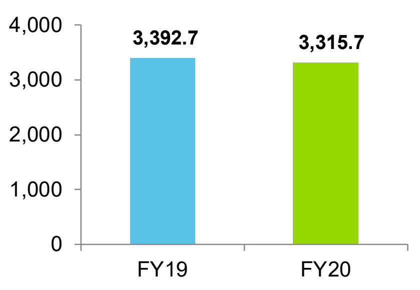
ROFE



(9.2)pp v FY19

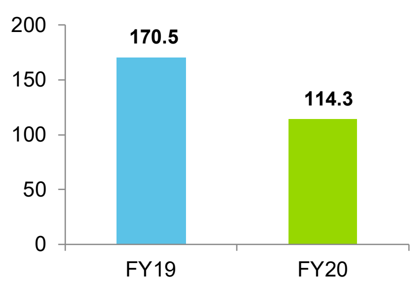
Facilities

Revenue $m



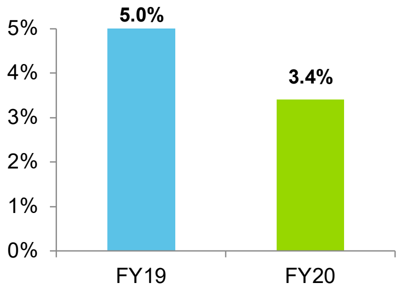
(2.3)% v FY19

EBITA[1] $m



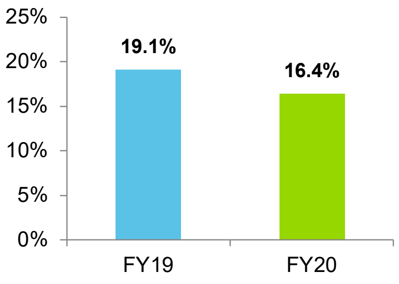
(33.0)% v FY19

EBITA[1] margin



(1.6)pp v FY19

ROFE[2]

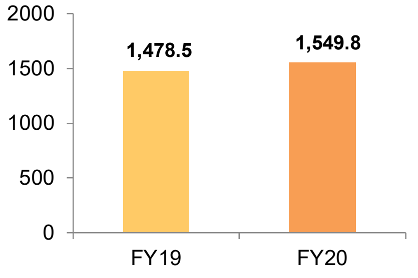


(2.7)pp v FY19

[1] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.
[2] Restated following review of Group's compliance with Enterprise Agreements and Modern Award Obligations.

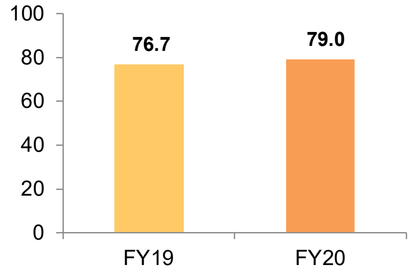
Mining

Revenue $m



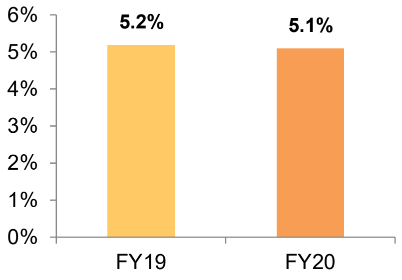
+4.8% v FY19

EBITA $m



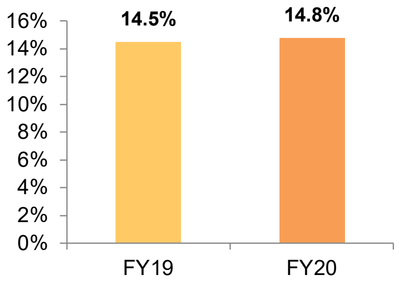
+3.0% v FY19

EBITA margin



(0.1)pp v FY19

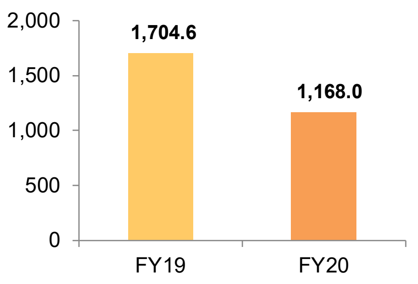
ROFE



+0.3pp v FY19

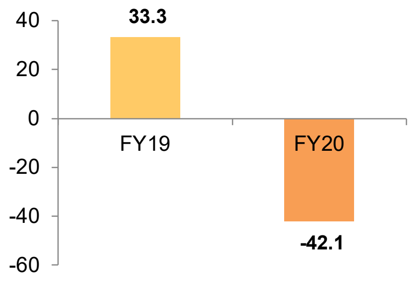
EC&M

Revenue $m



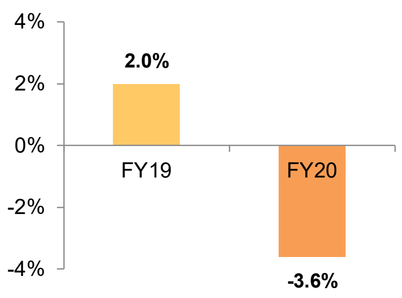
(31.5)% v FY19

EBITA[1] $m



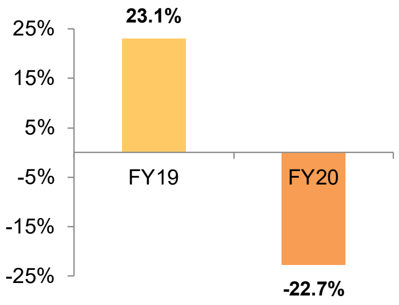
>(100)% v FY19

EBITA[1] margin



(5.6)pp v FY19

ROFE



(45.8)pp v FY19

[1] The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

Appendix 4G

Key to Disclosures
Corporate Governance Council Principles and Recommendations

Name of entity

Downer EDI Limited

ABN/ARBN	Financial year ended:
97 003 872 848	30 June 2020

Our corporate governance statement[1] for the period above can be found at:[2]

☒	These pages of our annual report:	Pages
☐	This URL on our website:	

The Corporate Governance Statement is accurate and up to date as at 30 June 2020 and has been approved by the board.

The annexure includes a key to where our corporate governance disclosures can be located.[3]

Date:	12 August 2020
Name of authorised officer authorising lodgement:	Robert John Regan

---

[1] "Corporate governance statement" is defined in Listing Rule 19.12 to mean the statement referred to in Listing Rule 4.10.3 which discloses the extent to which an entity has followed the recommendations set by the ASX Corporate Governance Council during a particular reporting period.

Listing Rule 4.10.3 requires an entity that is included in the official list as an ASX Listing to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL of the page on its website where such a statement is located. The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement on its website rather than in its annual report, it must lodge a copy of the corporate governance statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current as at the effective date specified in that statement for the purposes of Listing Rule 4.10.3.

Under Listing Rule 4.7.3, an entity must also lodge with ASX a completed Appendix 4G at the same time as it lodges its annual report with ASX. The Appendix 4G serves a dual purpose. It acts as a key designed to assist readers to locate the governance disclosures made by a listed entity under Listing Rule 4.10.3 and under the ASX Corporate Governance Council's recommendations. It also acts as a verification tool for listed entities to confirm that they have met the disclosure requirements of Listing Rule 4.10.3.

The Appendix 4G is not a substitute for, and is not to be confused with, the entity's corporate governance statement. They serve different purposes and an entity must produce each of them separately.

[2] Tick whichever option is correct and then complete the page number(s) of the annual report, or the URL of the web page, where your corporate governance statement can be found. You can, if you wish, delete the option which is not applicable.

[3] Throughout this form, where you are given two or more options to select, you can, if you wish, delete any option which is not applicable and just retain the option that is applicable. If you select an option that includes "OR" at the end of the selection and you delete the other options, you can also, if you wish, delete the "OR" at the end of the selection.

See notes 4 and 5 below for further instructions on how to complete this form.

ANNEXURE – KEY TO CORPORATE GOVERNANCE DISCLOSURES

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation in full for the whole of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT			
1.1	A listed entity should have and disclose a board charter setting out: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	☒and we have disclosed a copy of our board charter at: https://www.downergroup.com/Content/cms/Documents/Board-Charter.pdf	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.2	A listed entity should: (a) undertake appropriate checks before appointing a director or senior executive or putting someone forward for election as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	☒	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	☒	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	☒	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

[4] Tick the box in this column only if you have followed the relevant recommendation in full for the whole of the period above. Where the recommendation has a disclosure obligation attached, you must insert the location where that disclosure has been made, where indicated by the line with "*insert location*" underneath. If the disclosure in question has been made in your corporate governance statement, you need only insert "our corporate governance statement". If the disclosure has been made in your annual report, you should insert the page number(s) of your annual report (eg "pages 10-12 of our annual report"). If the disclosure has been made on your website, you should insert the URL of the web page where the disclosure has been made or can be accessed (eg "www.entityname.com.au/corporate governance/charters/").

[5] If you have followed all of the Council's recommendations in full for the whole of the period above, you can, if you wish, delete this column from the form and re-format it.

<table>
<tr><th colspan="2">Corporate Governance Council recommendation</th><th>Where a box below is ticked,[4] we have followed the recommendation <u>in full</u> for the <u>whole</u> of the period above. We have disclosed this in our Corporate Governance Statement:</th><th>Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]</th></tr>
<tr><td>1.5</td><td>A listed entity should:
(a) have and disclose a diversity policy;
(b) through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and
(c) disclose in relation to each reporting period:
(1) the measurable objectives set for that period to achieve gender diversity;
(2) the entity's progress towards achieving those objectives; and
(3) either:
(A) the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or
(B) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.
If the entity was in the S&P / ASX 300 Index at the commencement of the reporting period, the measurable objective for achieving gender diversity in the composition of its board should be to have not less than 30% of its directors of each gender within a specified period.</td><td>☒ and we have disclosed a copy of our diversity policy at:
https://www.downergroup.com/Content/cms/media/2019/Documents/Policies/Diversity_and_Inclusion_Policy_and_Standard.pdf
and we have disclosed the information referred to in paragraph (c) at:
our Corporate Governance Statement

and if we were included in the S&P / ASX 300 Index at the commencement of the reporting period our measurable objective for achieving gender diversity in the composition of its board of not less than 30% of its directors of each gender within a specified period.</td><td>☐ set out in our Corporate Governance Statement <u>OR</u>
☐ we are an externally managed entity and this recommendation is therefore not applicable</td></tr>
<tr><td>1.6</td><td>A listed entity should:
(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
(b) disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.</td><td>☒and we have disclosed the evaluation process referred to in paragraph (a) at:
our Corporate Governance Statement
and whether a performance evaluation was undertaken for the reporting period in accordance with that process at:
our Corporate Governance Statement</td><td>☐ set out in our Corporate Governance Statement <u>OR</u>
☐ we are an externally managed entity and this recommendation is therefore not applicable</td></tr>
</table>

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation in full for the whole of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
1.7	A listed entity should: (a) have and disclose a process for evaluating the performance of its senior executives at least once every reporting period; and (b) disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.	☒and we have disclosed the evaluation process referred to in paragraph (a) at: our Corporate Governance Statement and whether a performance evaluation was undertaken for the reporting period in accordance with that process at: our Corporate Governance Statement	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

<table>
<tr><th colspan="2">Corporate Governance Council recommendation</th><th>Where a box below is ticked,[4] we have followed the recommendation <u>in full</u> for the <u>whole</u> of the period above. We have disclosed this in our Corporate Governance Statement:</th><th>Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]</th></tr>
<tr><td colspan="4">PRINCIPLE 2 - STRUCTURE THE BOARD TO BE EFFECTIVE AND ADD VALUE</td></tr>
<tr><td>2.1</td><td>The board of a listed entity should:
(a) have a nomination committee which:
(1) has at least three members, a majority of whom are independent directors; and
(2) is chaired by an independent director,
and disclose:
(3) the charter of the committee;
(4) the members of the committee; and
(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</td><td>☒ ☐
and we have disclosed a copy of the charter of the committee at:
https://www.downergroup.com/Content/cms/pdf/Nomination-and-Corporate-Governance-Committee-Charter.pdf
and the information referred to in paragraphs (4) and (5) at:
our Corporate Governance Statement
page 20 of our 2020 Annual Report – Directors' Report</td><td>☐ set out in our Corporate Governance Statement <u>OR</u>
☐ we are an externally managed entity and this recommendation is therefore not applicable</td></tr>
<tr><td>2.2</td><td>A listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership.</td><td>☒and we have disclosed our board skills matrix at:
our Corporate Governance Statement</td><td>☐ set out in our Corporate Governance Statement <u>OR</u>
☐ we are an externally managed entity and this recommendation is therefore not applicable</td></tr>
<tr><td>2.3</td><td>A listed entity should disclose:
(a) the names of the directors considered by the board to be independent directors;
(b) if a director has an interest, position, affiliation or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position or relationship in question and an explanation of why the board is of that opinion; and
(c) the length of service of each director.</td><td>☒and we have disclosed the names of the directors considered by the board to be independent directors at:
pages 4-5 of our 2020 Annual Report – Directors' Report
and, where applicable, the information referred to in paragraph (b) at:
Not applicable
and the length of service of each director at:
pages 4-5 of our 2020 Annual Report – Directors' Report</td><td>☐ set out in our Corporate Governance Statement</td></tr>
</table>

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation in full for the whole of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
2.4	A majority of the board of a listed entity should be independent directors.	☒	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	☒	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
2.6	A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to maintain the skills and knowledge needed to perform their role as directors effectively.	☒	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
PRINCIPLE 3 – INSTIL A CULTURE OF ACTING LAWFULLY, ETHICALLY AND RESPONSIBLY			
3.1	A listed entity should articulate and disclose its values.	☒and we have disclosed our values at: our Corporate Governance Statement https://www.downergroup.com/about-us	☐ set out in our Corporate Governance Statement
3.2	A listed entity should: (a) have and disclose a code of conduct for its directors, senior executives and employees; and (b) ensure that the board or a committee of the board is informed of any material breaches of that code.	☒and we have disclosed our code of conduct at: https://www.downergroup.com/Content/cms/media/2019/Documents/Policies/DOW_Standards_of_Business_Conduct_interactive.pdf	☐ set out in our Corporate Governance Statement
3.3	A listed entity should: (a) have and disclose a whistleblower policy; and (b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.	☒and we have disclosed our whistleblower policy at: https://www.downergroup.com/Content/cms/media/2019/Documents/Policies/Business_Integrity_Policy__Final_.pdf	☐ set out in our Corporate Governance Statement
3.4	A listed entity should: (a) have and disclose an anti-bribery and corruption policy; and (b) ensure that the board or committee of the board is informed of any material breaches of that policy.	☒and we have disclosed our anti-bribery and corruption policy at: https://www.downergroup.com/Content/cms/media/2019/Documents/Policies/Anti-Bribery_and_Corruption_Gifts_and_Benefits_Policy__Final_-_External_.pdf	☐ set out in our Corporate Governance Statement

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation in full for the whole of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
PRINCIPLE 4 – SAFEGUARD THE INTEGRITY OF CORPORATE REPORTS			
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	☒ ☐ and we have disclosed a copy of the charter of the committee at: https://www.downergroup.com/Content/cms/media/2018/PDF/Board/2018_06_20_Audit_and_Risk_Committee_Charter_website_version.pdf and the information referred to in paragraphs (4) and (5) at: our Corporate Governance Statement page 20 of our 2020 Annual Report – Directors' Report	☐ set out in our Corporate Governance Statement
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	☒	☐ set out in our Corporate Governance Statement
4.3	A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.	☒	☐ set out in our Corporate Governance Statement

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation in full for the whole of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE			
5.1	A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1.	☒and we have disclosed our continuous disclosure compliance policy at: https://www.downergroup.com/Content/cms/Documents/Board_Policies/Disclosure-Policy.pdf	☐ set out in our Corporate Governance Statement
5.2	A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	☒	☐ set out in our Corporate Governance Statement
5.3	A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.	☒	☐ set out in our Corporate Governance Statement
PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	☒and we have disclosed information about us and our governance on our website at: https://www.downergroup.com/corporate-governance	☐ set out in our Corporate Governance Statement
6.2	A listed entity should have an investor relations program that facilitates effective two-way communication with investors.	☒	☐ set out in our Corporate Governance Statement
6.3	A listed entity should disclose how it facilitates and encourages participation at meetings of security holders.	☒and we have disclosed how we facilitate and encourage participation at meetings of security holders at: our Corporate Governance Statement	☐ set out in our Corporate Governance Statement
6.4	A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.	☒	☐ set out in our Corporate Governance Statement
6.5	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	☒	☐ set out in our Corporate Governance Statement

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation in full for the whole of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK			
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	☒ and we have disclosed a copy of the charter of the committee at: https://www.downergroup.com/Content/cms/media/2018/PDF/Board/2018_06_20_Audit_and_Risk_Committee_Charter_website_version.pdf and the information referred to in paragraphs (4) and (5) at: our Corporate Governance Statement page 20 of our 2020 Annual Report – Directors' Report	☐ set out in our Corporate Governance Statement
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the board; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	☒and we have disclosed whether a review of the entity's risk management framework was undertaken during the reporting period at: our Corporate Governance Statement	☐ set out in our Corporate Governance Statement
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes.	☒ and we have disclosed how our internal audit function is structured and what role it performs at: our Corporate Governance Statement	☐ set out in our Corporate Governance Statement

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation in full for the whole of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
7.4	A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.	☒and we have disclosed whether we have any material exposure to environmental and social risks at: our Corporate Governance Statement and, if we do, how we manage or intend to manage those risks at: our Corporate Governance Statement	☐ set out in our Corporate Governance Statement

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation <u>in full</u> for the <u>whole</u> of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY			
8.1	The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	☒ and we have disclosed a copy of the charter of the committee at: https://www.downergroup.com/Content/cms/pdf/Remuneration-Committee-Charter.pdf and the information referred to in paragraphs (4) and (5) at: our Corporate Governance Statement page 20 of our 2020 Annual Report – Directors' Report	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	☒and we have disclosed separately our remuneration policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives at: our Corporate Governance Statement pages 22-52 of our 2020 Annual Report – Remuneration Report	☐ set out in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	☒and we have disclosed our policy on this issue or a summary of it at: https://www.downergroup.com/Content/cms/media/2019/Documents/Policies/Securities_Trading_Policy__Final_-_external_.pdf our Corporate Governance Statement	☐ set out in our Corporate Governance Statement **OR** ☐ we do not have an equity-based remuneration scheme and this recommendation is therefore not applicable **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation <u>in full</u> for the <u>whole</u> of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
ADDITIONAL RECOMMENDATIONS THAT APPLY ONLY IN CERTAIN CASES			
9.1	A listed entity with a director who does not speak the language in which board or security holder meetings are held or key corporate documents are written should disclose the processes it has in place to ensure the director understands and can contribute to the discussions at those meetings and understands and can discharge their obligations in relation to those documents.	☐ and we have disclosed information about the processes in place at: …………………………………………………………… [*insert location*]	☐ set out in our Corporate Governance Statement **<u>OR</u>** ☒ we do not have a director in this position and this recommendation is therefore not applicable **<u>OR</u>** ☐ we are an externally managed entity and this recommendation is therefore not applicable
9.2	A listed entity established outside Australia should ensure that meetings of security holders are held at a reasonable place and time.	☐	☐ set out in our Corporate Governance Statement **<u>OR</u>** ☒ we are established in Australia and this recommendation is therefore not applicable **<u>OR</u>** ☐ we are an externally managed entity and this recommendation is therefore not applicable
9.3	A listed entity established outside Australia, and an externally managed listed entity that has an AGM, should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	☐	☐ set out in our Corporate Governance Statement **<u>OR</u>** ☒ we are established in Australia and not an externally managed listed entity and this recommendation is therefore not applicable ☐ we are an externally managed entity that does not hold an AGM and this recommendation is therefore not applicable
ADDITIONAL DISCLOSURES APPLICABLE TO EXTERNALLY MANAGED LISTED ENTITIES			
-	*Alternative to Recommendation 1.1 for externally managed listed entities:* The responsible entity of an externally managed listed entity should disclose: (a) the arrangements between the responsible entity and the listed entity for managing the affairs of the listed entity; and (b) the role and responsibility of the board of the responsible entity for overseeing those arrangements.	☐ and we have disclosed the information referred to in paragraphs (a) and (b) at: …………………………………………………………… [*insert location*]	☐ set out in our Corporate Governance Statement

Corporate Governance Council recommendation		Where a box below is ticked,[4] we have followed the recommendation <u>in full</u> for the <u>whole</u> of the period above. We have disclosed this in our Corporate Governance Statement:	Where a box below is ticked, we have NOT followed the recommendation in full for the whole of the period above. Our reasons for not doing so are:[5]
-	*Alternative to Recommendations 8.1, 8.2 and 8.3 for externally managed listed entities:* An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager.	☐ and we have disclosed the terms governing our remuneration as manager of the entity at: …………………………………………………………………………. [*insert location*]	☐ set out in our Corporate Governance Statement