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Annual Report 2016

Downer

Relationships creating success

This Annual Report includes the Downer EDI Limited Directors' Report, the Annual Financial Report and Independent Audit Report for the financial year ended 30 June 2016. The Annual Report is available on the Downer website www.downergroup.com.

Contents

The Directors of Downer EDI Limited submit the Annual Financial Report of the Company for the financial year ended 30 June 2016. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

Board of Directors

R M HARDING (67)

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 a Director of Cleanaway Waste Management Limited, a former Chairman of Roc Oil Company Limited and Clough Limited and a former Director of Santos Limited.

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

Mr Harding lives in Sydney.

G A FENN (51)

Managing Director and Chief Executive Officer since July 2010

Mr Fenn has over 20 years' experience in operational and financial management as well as strategic development. He joined Downer in October 2009 as Chief Financial Officer and was appointed Chief Executive Officer in July 2010.

Prior to joining Downer, Mr Fenn had a 14-year career at Qantas Airways Limited during which he held a number of senior roles and was a Member of the Executive Committee for 10 years. These roles included Executive General Manager of Strategy and Investments and Executive General Manager – Associated Businesses, responsible for the Airports, Freight, Flight Catering and Qantas Holidays businesses.

Mr Fenn is currently a Director of Sydney Airport Limited and he was previously Chairman of Star Track Express and a Director of Australian Air Express.

Mr Fenn holds a Bachelor of Economics from Macquarie University and is a member of the Australian Institute of Chartered Accountants. He worked at KPMG for eight years before he joined Qantas.

Mr Fenn lives in Sydney.

S A CHAPLAIN (58)

Independent Non-executive Director since July 2008

Ms Chaplain is a former investment banker with extensive experience in public and private sector debt financing. She also has considerable experience as a Director of local and state government-owned corporations involved in road, water and port infrastructure.

Ms Chaplain is Chairman of Queensland Airports Limited and a Director of Seven Group Holdings Limited and the Export Finance and Insurance Corporation. Ms Chaplain is also Chairman of Canstar Pty Ltd, a financial services research and ratings company. Ms Chaplain is a former Director of PanAust Limited, Coal & Allied Industries Limited and Keolis Downer Pty Ltd, a joint venture between Downer and Keolis SA, and a former member of the Board of Taxation.

A Fellow of the Australian Institute of Company Directors, Ms Chaplain holds a Bachelor of Arts degree majoring in Economics and Mandarin in addition to a Masters of Business Administration (MBA) from the University of Melbourne.

Ms Chaplain lives on the Gold Coast.

P S GARLING (62)

Independent Non-executive Director since November 2011

Mr Garling has over 35 years' experience in the infrastructure, construction, development and investment sectors. He was most recently 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 and Energy Queensland and a Director of Charter Hall Limited and the New South Wales electricity distributors. Mr Garling is also the 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.

E A HOWELL (70)

Independent Non-executive Director since January 2012

Ms Howell has over 40 years' experience in the oil and gas industry in a number of technical and managerial roles. She was most recently Executive Vice President for Health, Safety & Security at Woodside Energy Limited and served as Executive Vice President of North West Shelf at Woodside. Before joining Woodside she was Managing Director of Apache Energy Ltd.

Ms Howell is currently a Director of MMA Offshore Limited and Buru Energy Limited. She is a Senior Advisor of Miro Advisors Ltd and African Geopolitics.

She has previously served on a number of boards, including EMR Resources Pty Ltd where she held the position of Chairman, Tangiers Petroleum Limited where she held the position of Executive Chair, the Fremantle Port Authority, the Australian Petroleum Production & Exploration Association where she chaired the Environmental Affairs Committee and as a board member and President of the Australian Mines and Metals Association.

Ms Howell holds a Bachelor of Science (with Honours in Geology and Mathematics) from the University of London, an MBA from Edinburgh Business School and is a Graduate of the Australian Institute of Company Directors.

Ms Howell lives in Perth.

J S HUMPHREY (61)

Independent Non-executive Director since April 2001

Mr Humphrey is currently the Executive Dean of the Faculty of Law at Queensland University of Technology and a Legal Consultant to King & Wood Mallesons of which he is a former Deputy Chairman, and partner specialising in corporate, mergers and acquisitions and infrastructure project work.

Mr Humphrey is currently the Chairman of Horizon Oil Limited and Auswide Bank Limited. He was appointed to the Board of Evans Deakin Industries Limited in 2000 and, subsequently, to the Board of Downer EDI Limited. He is also a former member of the Australian Takeovers Panel.

Mr Humphrey holds a Bachelor of Laws from the University of Queensland.

Mr Humphrey lives in Brisbane.

Mr Humphrey will retire as a Non-executive Director at the conclusion of the 2016 Annual General Meeting.

C G THORNE (66)

Independent Non-executive Director since July 2010

Dr Thorne has over 36 years' experience in the mining and extraction industry, specifically in senior operational and executive roles across a broad range of product groups and functional activities in Australia and overseas. Dr Thorne has previously held a number of senior roles at Rio Tinto, including as a group executive reporting to the Chief Executive Officer, as head of its coal businesses in Indonesia and Australia, and as global head of its technology, innovation and project engineering functions. From 2006 to 2009, he was Group Executive Technology and Innovation and a member of Rio Tinto's Executive and Investment Committees.

Dr Thorne is a former Director of JK Tech and Queensland Energy Resources Limited. He is a Fellow of both the Australasian Institute of Mining and Metallurgy and the Australian Academy of Technological Science and Engineering. Dr Thorne also holds directorships with a number of private companies.

He holds Bachelor and Doctoral degrees in Metallurgy from the University of Queensland and is a Graduate of the Australian Institute of Company Directors.

Dr Thorne lives on the Sunshine Coast.

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	10,150	–	–
G A Fenn*	626,492	1,426,257	–
S A Chaplain	74,142	–	–
P S Garling	12,100	–	–
E A Howell	10,000	–	–
J S Humphrey	68,367	–	–
C G Thorne	59,230	–	–

* Performance rights granted to Mr Fenn are subject to performance and/or service period conditions over the period 2013 to 2018. Further details regarding the conditions relating to these 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 Peter Tompkins was appointed Company Secretary on 27 July 2011. He has qualifications in law and commerce from Deakin University and corporate governance from the Governance Institute of Australia and is an admitted solicitor in New South Wales. Mr Tompkins joined Downer in 2008 and was appointed General Counsel in 2010.

Mr Peter Lyons was appointed joint Company Secretary on 27 July 2011. A member of CPA Australia and the Governance Institute of Australia (formerly Chartered Secretaries 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

Principal activities

Downer EDI Limited (Downer) is a leading provider of services to customers in markets including: Transport Services; Technology and Communications Services; Utilities Services; Rail; Engineering, Construction and Maintenance (EC&M); and Mining. Downer employs about 19,000 people, mostly in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa.

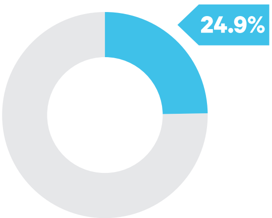
Divisional activities

Downer reports its financial results under six service lines: Transport Services; Technology and Communications Services; Utilities Services; Rail; EC&M and Mining. An outline of each service line is set out below.

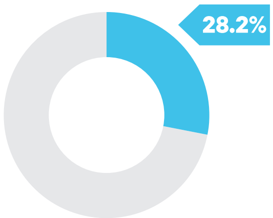
Transport Services

Transport Services comprises Downer's road, rail infrastructure, bridge, airport and port businesses. It features a broad range of transport infrastructure services including earthworks, civil construction, asset management, maintenance, surfacing and stabilisation, supply of bituminous products and logistics, open space and facilities management and rail track signalling and electrification works.

Total revenue[1] (FY16)



EBIT (FY16)



Transport Services

Road Services

Downer offers one of the largest non-government owned road infrastructure services businesses in Australia and New Zealand, maintaining more than 40,000 kilometres of road in Australia and more than 32,000 kilometres in New Zealand.

Downer delivers a wide range of tailored pavement treatments and traffic control services and also provides high-level capabilities in strategic and tactical asset management, network planning and intelligent transport systems. The Company continues to invest in state-of-the-art technology to drive innovation and performance, including asphalt plants that use more recycled products and substantially less energy.

Downer is also a leading manufacturer and supplier of bitumen based products and a provider of soil and pavement stabilisation, pressure injection stabilisation, pavement recycling, pavement profiling and asset management.

Customers include all of Australia's State road authorities, the New Zealand Transport Agency and the majority of local government councils and authorities in both countries.

Other transport infrastructure

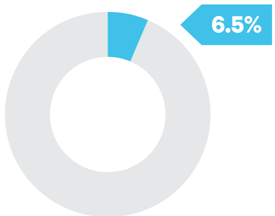
Downer provides a range of rail infrastructure services to its customers including earthworks, civil and rail track construction and signalling and electrification works.

Downer also provides integrated services to its airport and port customers including pavement construction, facilities maintenance, communications technologies, open space and asset management and turnkey electrical and communication systems. It also provides whole-of-life asset solutions for associated infrastructure such as roads, rail lines and car parks.

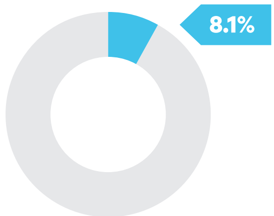
Technology and Communications Services

Downer provides an end-to-end infrastructure service offering comprising feasibility, design, civil construction, network construction, commissioning, testing, operations and maintenance across fibre, copper and radio networks in Australia and New Zealand.

Total revenue[1] (FY16)



EBIT (FY16)



Technology and Communications Services

Downer's expertise in the feasibility and design phases of the life cycle provides customers with a high level of assurance and reduces uncertainty at the beginning of the investment process.

Downer has a track record of delivering both fixed and mobile networks across Australia and New Zealand.

Downer also delivered Australia's first fully integrated, multi-modal electronic fare payment system for public transport and is a leader in intelligent transport technology systems (ITS) in both countries.

Comprehensive project and program management capabilities are supported by our world class engineering and technical capabilities. This allows Downer to deliver projects safely, cost effectively and on time.

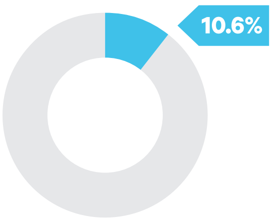
Customers include nbn™, Telstra, Chorus, Spark and Vodafone.

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. Due to rounding, divisional percentages do not add up precisely to 100%.

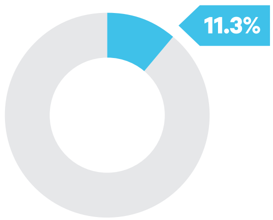
Utilities Services

The Utilities Services division provides complete lifecycle solutions to customers in the power, gas, water and renewable energy sectors.

Total revenue[1] (FY16)



EBIT (FY16)



Utilities Services

Power and Gas

Downer offers customers a wide range of services including planning, designing, constructing, operating, maintaining, managing and decommissioning power and gas network assets.

Over the past four years, Downer has erected over 1,000 steel lattice transmission towers. It has designed and built over 100 substations and every year it connects 35,000 new power and gas customers. It also maintains over 62,000 kilometres of electricity and gas networks across more than 115,000 square kilometres.

Customers include United Energy, AusNet Services, Ergon Energy, Powerco, Wellington Electricity and Powerlink.

Water

Downer provides complete water lifecycle solutions for municipal and industrial water users, with expertise including waste and waste water treatment, pumping and water transfer, desalination and water re-use, and abstraction and dewatering.

Supporting its customers across the full asset lifecycle from the conceptual development of a project through design, construction, commissioning and optimisation, Downer also operates and maintains treatment, storage, pump station and network assets.

Customers include Logan City Council, Mackay Regional Council, Melbourne Water, Queensland Urban Utilities, Tauranga City Council, Yarra Valley Water, Wagga Wagga City Council and Watercare.

Renewable energy

Downer is one of Australia's largest and most experienced providers in the renewable energy market, offering design, build and maintenance services for: wind farms and wind turbine sites; solar farms; landfill methane generation plants; sugar cane waste (Bagasse) fired cogeneration plants; and other biomass fired cogeneration plants.

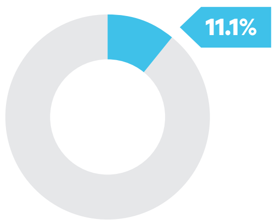
Downer offers the services required for the entire asset life-cycle including procurement, assembly, construction and commissioning.

Downer is currently working on the Ararat Wind Farm Project (Victoria) and the Sunshine Coast Solar Farm while its previous experience in wind farms includes Collgar (WA), Boco Rock and Taralga (NSW), Lake Bonney (SA) and Mt Mercer (Victoria).

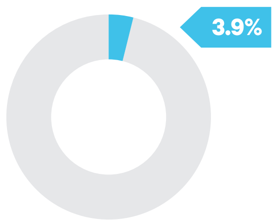
Rail

Downer provides total rail asset solutions including freight and passenger build, operations and maintenance, component overhauls and after-market parts.

Total revenue[1] (FY16)



EBIT (FY16)



Rail

Downer provides services to a range of public and private sector rail customers with capabilities spanning the provision, maintenance and overhaul of passenger and freight rolling stock, as well as importing and commissioning completed locomotive units for use in the resources sector.

Downer's Rail division has a strong national presence with approximately 1,200 workers employed across 20 facilities. Downer operates two fleet control centres, focused on monitoring and management of passenger and freight fleets on behalf of its customers, and four manufacturing plants.

Downer has formed strategic joint ventures with leading technology and knowledge providers to support its growth objectives in the passenger and freight market. These include partnerships with Keolis and Electro-Motive Diesel (owned by Caterpillar).

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. Due to rounding, divisional percentages do not add up precisely to 100%.

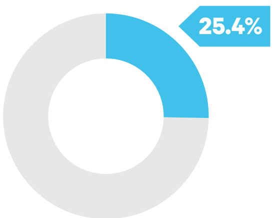
The Keolis Downer joint venture is Australia's largest private provider of multi-modal public transport solutions, with contracts to operate and maintain Yarra Trams in Melbourne and the Gold Coast light rail system in Queensland. In April 2015, Keolis Downer acquired Australian Transit Enterprises (ATE), one of Australia's largest route, school and charter bus businesses. ATE operates a fleet of over 900 buses in South Australia, Western Australia and Queensland.

Customers include Sydney Trains, Queensland Rail, Public Transport Authority (WA), Metro Trains Melbourne, Pacific National, Aurizon, BHP Billiton, Genesee & Wyoming and SCT Logistics.

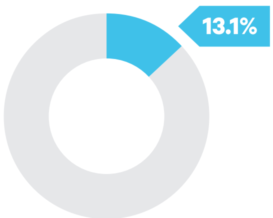
Engineering, Construction and Maintenance (EC&M)

Downer works with customers in the public and private sectors delivering services including design, engineering, construction, maintenance and ongoing management of critical assets.

Total revenue[1] (FY16)



EBIT (FY16)



EC&M

Multi-disciplined teams project manage and self-execute a wide range of services for greenfield and brownfield projects across a range of industry sectors including: oil and gas; power generation; commercial / non-residential; iron ore; coal; and industrial materials. These services are delivered on complex mining and industrial sites as well as commercial operations with critical infrastructure requirements such as data centres, airport facilities and hospitals.

Downer supports customers across all stages of the project lifecycles with services including:

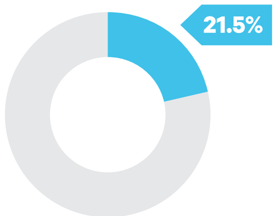
- feasibility studies;
- engineering design;
- civil works;
- structural, mechanical and piping;
- electrical and instrumentation;
- mineral process equipment design and manufacture;
- commissioning;
- operations maintenance;
- shutdowns, turnarounds and outages;
- strategic asset management; and
- decommissioning.

Customers include Alcoa, Bechtel, BHP Billiton, Chevron, Landcorp, Orica, Origin Energy, POSCO, Powerlink Queensland, Rio Tinto, Santos, Transgrid, Wesfarmers and Woodside Energy.

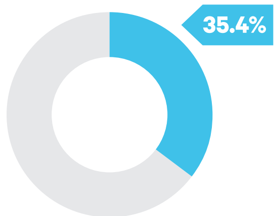
Mining

Downer is Australia's leading diversified mining contractor with around 3,500 employees working across more than 50 sites in Australia, Papua New Guinea, South America and Southern Africa.

Total revenue[1] (FY16)



EBIT (FY16)



Mining

Downer's Mining division generates its revenues primarily from open cut mining and blasting services, with contributions also from tyre management and underground mining. Downer supports its customers at all stages of the mining lifecycle including:

- asset management;
- blasting services, explosives manufacture and supply;
- civil projects (mine site infrastructure);
- crushing;
- exploration drilling;
- mine closure and mine site rehabilitation;
- mobile plant maintenance;
- open cut mining;
- training and development for ATSI employees;
- tyre management (through the subsidiary Otraco International); and
- underground mining.

Customers include BHP Mitsubishi Alliance, Glencore, Idemitsu Australia Resources, Karara Mining, Milmerran Power Partners, Newmarket Gold, Rio Tinto, Roy Hill Iron Ore, Stanwell Corporation and Yancoal Australia.

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. Due to rounding, divisional percentages do not add up precisely to 100%.

Group financial performance

For the 12 months ended 30 June 2016, Downer reported declines in total revenue, earnings before interest and tax (EBIT) and net profit after tax (NPAT).

Revenue

Total revenue for the Group decreased by $36.2 million, or 0.5%, to $7.4 billion.

Transport Services revenue fell 3.9% to $1.8 billion. This was due to reduced government expenditure in Western Australia and inclement weather in the first half of the year, particularly in New South Wales, as well as lower revenue from rail infrastructure projects and New Zealand as projects completed in the previous year were not fully replaced.

Technology and Communications Services revenue decreased 2.0% to $485.5 million as lower revenue on the Chorus contract in New Zealand was partially offset by favourable performance on the nbn™ contracts in Australia.

Utilities Services revenue increased 35.2% to $788.8 million, predominantly due to a full year contribution from Tenix (compared to eight months in the prior year) and strong contributions from power, gas and water projects in Australia and New Zealand.

Rail revenue decreased 5.4% to $826.2 million primarily due to the completion of manufacturing contracts and weaker After Market Services (AMS) sales, offset by increased revenue from the Keolis Downer joint ventures.

EC&M revenue decreased 4.7% to $1.9 billion as a result of the downturn in the resources sector in Australia, with significant projects completed in the prior year not being fully replaced. This was offset by increased activities on the Gorgon and Wheatstone projects in Western Australia and also in New Zealand.

Mining revenue remains strong at $1.6 billion which is in line with the prior year.

Expenses

Downer continues to take proactive steps to 'right-size' its business in line with market conditions. Downer's total expenses declined by 2.0%, as total revenue declined by 0.5%.

Employee benefits expenses increased by 5.9% to $2.8 billion and represent 41.9% of Downer's cost base. This increase is mainly due to 12 months of Tenix contribution compared to eight months in the prior year and restructuring costs. Excluding Tenix and restructuring costs, employee benefits related costs increased by 3.0% reflecting enterprise bargaining agreement wage increases and an increase in self-perform work on some contracts – which was offset by lower subcontractor costs.

Subcontractor costs decreased by 6.9% to $1.5 billion and represent 22.1% of Downer's cost base. This decrease accords with the reduction in total revenue and a shift to self-perform on some contracts. The continued use of subcontracting accords with the Group's strategy to retain cost base variability.

Raw materials and consumables expense decreased 8.4% to $1.2 billion and represents 17.8% of Downer's cost base. The decrease reflects the completion of contracts and lower activity compared to prior year.

Plant and equipment costs decreased by 9.5% to $580.2 million and represent 8.8% of Downer's cost base. The reduction largely reflects reduced reliance upon operating leased assets coupled with increased utilisation of owned assets, more efficient maintenance practices and scope reduction on some of Mining's contracts.

Depreciation and amortisation increased by 2.2% to $258.7 million and represents 3.9% of Downer's cost base. This increase is predominantly a result of higher utilisation of plant and equipment on projects in Mining and EC&M.

Other expenses, communication, travel, occupancy and professional fees have decreased by 4.5% to $363.3 million and represent 5.5% of Downer's cost base. Included in other expenses is $13.0 million referable to Downer's share of pre-tax bid costs in relation to Downer's unsuccessful bid for Canberra's new light rail project (Capital Metro).

Earnings

EBIT for the Group decreased 10.6% to $276.9 million, largely due to lower margins in Rail and EC&M and reduced Research & Development (R&D) incentives. Net Profit After Tax (NPAT) for the Group decreased 14.1% to $180.6 million which includes the $13.0 million write off of Capital Metro bid costs.

Transport Services EBIT increased 17.4% to $103.7 million due to improved performance from the Road Services and Infrastructure Projects businesses as well as the successful integration of the VEC acquisition.

Technology and Communications Services EBIT increased 16.3% to $29.9 million mainly as a result of strong performance on nbn™ contracts in Australia.

Utilities Services EBIT increased 22.1% to $41.5 million, driven by a full year contribution from Tenix (compared to a contribution of eight months in the prior year) with water, power and gas projects in Australia and New Zealand performing strongly.

Rail EBIT decreased $13.1 million to $14.4 million reflecting $8.2 million of restructuring costs, lower build activity, reduced orders for After Markets Services and lower performance from joint venture operations. The prior year included a $4.0 million provision release relating to the Waratah Train Project.

EC&M EBIT decreased 18.9% to $48.2 million due to reduced activity in Australia and $10.6 million of restructuring costs incurred to right-size the business. This was partially offset by ramped up activities at Gorgon and Wheatstone and stabilising the resources related consultancies (QCC Resources and Mineral Technologies).

Mining EBIT decreased 2.0% to $130.0 million due to volume and margin reductions on existing contracts, partially offset by favourable one-off benefits from contract settlements and adjustments of $21.1 million.

Corporate costs increased by $4.9 million, or 6.7%, to $77.8 million, predominantly due to restructuring costs and investment in the IT Transformation Program.

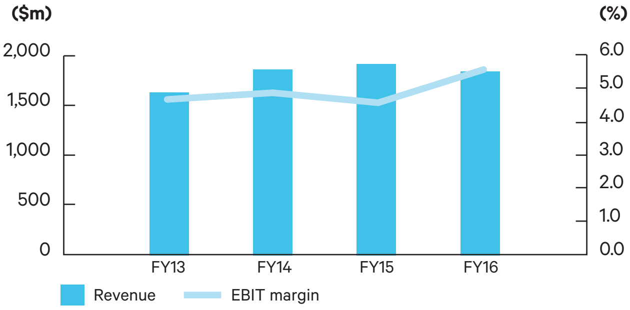
The Group recognised $10.0 million in R&D incentives compared to $25.1 million in the prior year, reflecting a change in legislation that limited eligible R&D expenditure to $100 million.

Net finance costs increased by $3.1 million, or 10.4%, to $33.0 million due to a higher average net debt balance during the 2016 financial year, following the refinance of Tenix, ATE and VEC acquisitions at higher long-term interest rates.

The effective tax rate of 26.0% is lower than the statutory rate of 30.0% due to non-assessable R&D incentives, non-taxable distributions from joint ventures and lower overseas tax rates.

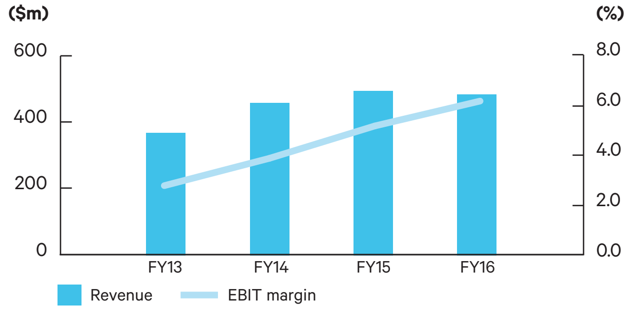
Divisional Financial Performance

Transport Services



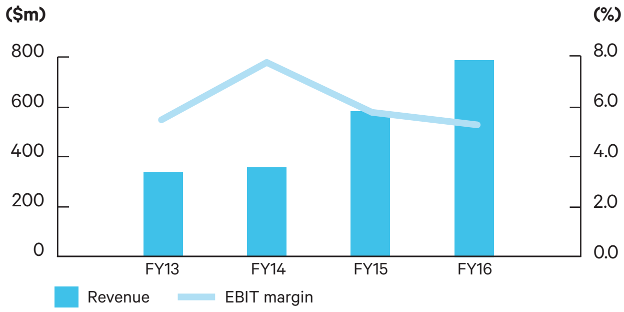
- Total revenue of $1.8 billion, down 3.9%;
- EBIT of $103.7 million, up 17.4%;
- EBIT margin of 5.6%, up 1.0 ppts;
- ROFE of 19.3%, up from 16.7%; and
- Work-in-hand of $4.7 billion.

Technology and Communications Services



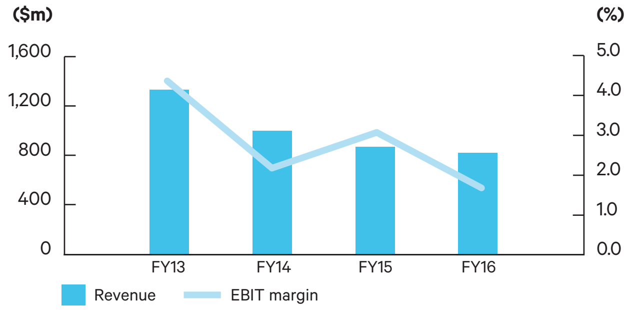
- Total revenue of $485.5 million, down 2.0%;
- EBIT of $29.9 million, up 16.3%;
- EBIT margin of 6.2%, up 1.0 ppts;
- ROFE of 83.4%, up from 44.6%; and
- Work-in-hand of $1.5 billion.

Utilities Services



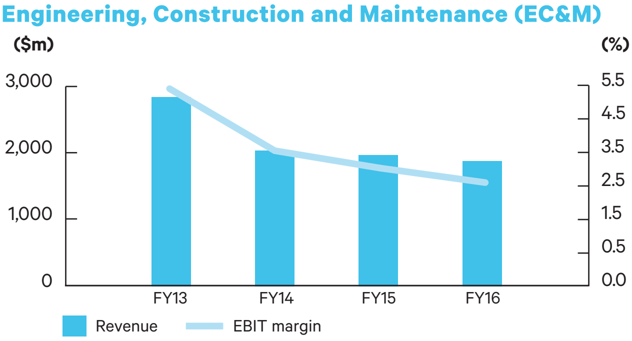
- Total revenue of $788.8 million, up 35.2%;
- EBIT of $41.5 million, up 22.1%;
- EBIT margin of 5.3%, down 0.5ppts;
- ROFE of 11.9%, down from 18.8%; and
- Work-in-hand of $3.3 billion.

Rail



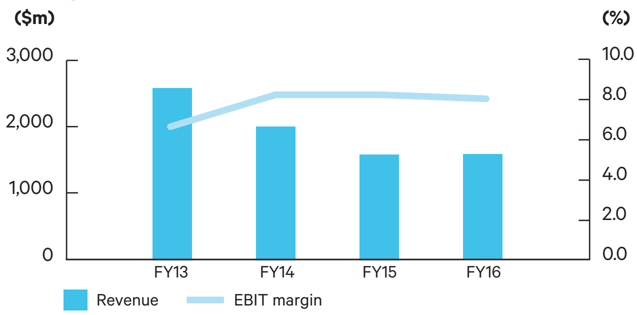
- Total revenue of $826.2 million, down 5.4%;
- EBIT of $14.4 million, down 47.6%;
- EBIT margin of 1.7%, down from 3.1%;
- ROFE of 3.4%, down from 6.5%; and
- Work-in-hand of $4.7 billion.

Engineering, Construction and Maintenance (EC&M)



- Total revenue of $1.9 billion, down 4.7%;
- EBIT of $48.2 million, down 18.9%;
- EBIT margin of 2.6%, down 0.4 ppts;
- ROFE of 22.9%, down from 24.2%; and
- Work-in-hand of $1.9 billion.

Mining



- Total revenue of $1.6 billion, up 0.3%;
- EBIT of $130.0 million, down 2.0%;
- EBIT margin of 8.1%, down 0.2ppts;
- ROFE of 19.0%, up from 17.2%; and
- Work-in-hand of $2.5 billion.

Group Financial Position

Funding, liquidity and capital are managed at Group level, with Divisions focused on working capital and operating cash flow management. The following financial position commentary relates to the Downer Group.

Operating cash flow

Operating cash flow was strong at $447.8 million, though down 8.0% on last year due to completion of the Waratah Train Project delivery phase payment milestones. Operating cash flow / EBITDA conversion remained strong at 92.8%.

Investing cash

Total investing cash flow was $205.5 million, down 58.8% or $292.7 million. The variance is predominantly due to the acquisitions of Tenix, ATE and VEC Engineering in the prior year for a combined total of $368.3 million.

Excluding acquisitions, investing cash flow increased by $75.6 million due to investment in the Rosehill Asphalt site and maintenance capital. Payments for intangible assets increased by $15.2 million, largely representing the Group's investment in IT systems.

Debt and bonding

During the year, Downer completed an issue of 10 year fixed rate US Private Placement Notes in two tranches for amounts of US$100 million and $30 million, with a maturity date of July 2025.

The Group's performance bonding facilities totalled $1,336.5 million at 30 June 2016 with $614.5 million undrawn. There is material available capacity to support the ongoing operations of the Group.

As at 30 June 2016, Downer had liquidity of $1.1 billion comprising cash balances of $569.4 million and undrawn committed debt facilities of $525.0 million.

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

Balance sheet

The net assets of Downer increased by 2.6% to $2.1 billion.

Cash and cash equivalents increased by $197.2 million or 53.0% to $569.4 million, reflecting positive cash contributions from operations.

Net debt decreased from $179.0 million at June 2015 to $87.4 million at June 2016. This reflects a strong cash position partially offset by an increase in gross debt. The strong cash and reduced net debt position resulted in 4.0% gearing (net debt to net debt plus equity) at 30 June 2016, down from 8.1% in the prior year. The present value of operating lease commitments for plant and equipment also reduced from $151.1 million at June 2015 to $128.5 million, representing off balance sheet gearing of 9.4%, down from 14.0% in the prior year.

Current trade and other receivables was largely in line with the prior year. Trade debtor days (excluding WIP) for the Group decreased by 2.1 days, from 25.7 to 23.6 days. Trade debtor days (including WIP) for the Group increased by 1.0 day, from 56.7 days at June 2015 to 57.7 days.

Inventories decreased $25.4 million to $327.2 million reflecting a reduction in tyre inventories and raw materials as a result of project completions and tight inventory management.

Current tax assets increased by $26.0 million to $46.3 million due to the timing of cash tax payments.

Interest in joint ventures and associates decreased by $1.7 million as $18.6 million of distributions received were offset by Downer's share of net profits from joint ventures and associates of $17.7 million.

The net value of Property Plant and Equipment decreased by $48.8 million principally due to depreciation exceeding capex spend in response to the change in market conditions.

Intangible assets increased by $50.9 million due to the Group's investment in IT systems and $20.5 million of goodwill following finalisation of acquisition accounting for Tenix and VEC acquisitions.

Trade and other payables decreased by $52.6 million as a result of lower business activities due to project completions. Trade creditor days increased by 2.0 days from 35.2 to 37.2. Trade and other payables represent 48.5% of Downer's total liabilities.

Total drawn borrowings of $650.0 million represent 30.8% of Downer's total liabilities and has increased by $111.4 million mainly as a result of the USPP notes issued in July 2015, partially offset by repayment of debt.

Other financial liabilities of $15.8 million decreased by $2.3 million and represent 0.7% of Downer's total liabilities. The decrease reflects the refund of advances to JVs and a lower mark to market revaluation on cross-currency and interest rate swaps.

Deferred tax liability increased by $43.8 million to $57.7 million and is primarily due to temporary differences in WIP and accruals.

Provisions of $364.2 million increased by $42.6 million and represent 17.2% of Downer's total liabilities. Employee provisions (annual leave and long service leave) made up 77.4% of this balance with the remainder covering onerous contracts provisions and return conditions obligations for leased assets and property and warranty obligations.

Shareholder equity increased by $53.2 million with the net profit after tax of $180.6 million partially offset by the $26.5 million on-market share buy-back and $113.1 million of dividend payments made during the year. Net foreign currency gains on translation of foreign jurisdictions, particularly in New Zealand, resulted in a movement in the foreign currency translation reserve by $9.4 million.

Dividends

The Downer Board resolved to pay a fully franked final dividend of 12.0 cents per share (12.0 cents per share in the prior corresponding period), payable on 15 September 2016 to shareholders on the register at 18 August 2016.

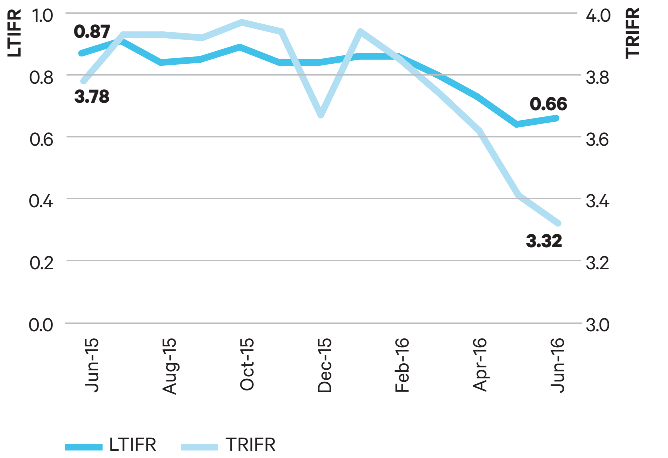
The Board also determined to continue to pay a fully imputed dividend on the ROADS security, which having been reset on 15 June 2016 has a yield of 6.29% per annum payable quarterly in arrears, with the next payment due on 15 September 2016. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 4.53% per annum for the next 12 months.

Zero Harm

During the first half of the year, tragically, an employee died while working in the Western Australian EC&M business. This fatality highlights the importance of continuing Downer's focus on controlling the critical risks that can cause death.

Downer's Lost Time Injury Frequency Rate (LTIFR) reduced from 0.87 to 0.66 and Total Recordable Injury Frequency Rate (TRIFR) reduced from 3.78 to 3.32 per million hours worked.

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



Group business strategies and prospects for future financial years

Downer strives to improve business performance through a focus on safety, enhanced customer relationships, business transformation, cost efficiencies and productivity gains in response to changing economic conditions. Downer's strategic objectives, prospects and risks that could adversely impact the achievement of these objectives are outlined in the table below:

Strategic Objective	Prospects	Risk management
Maintain focus on Zero Harm	Downer is an industry leader but seeks to continually improve its performance to achieve its goal of zero work related injuries and environmental incidents.	Downer's activities can result in harm to people and the environment. Downer has sought to mitigate this risk by assessing, understanding and mitigating the "critical risks" facing Downer and implementing Downer's Cardinal Rules which provide direction and guidance on these critical risks.
Build core markets and capabilities	Downer will continue to improve its existing business and build on its market leading positions, capabilities and Intellectual Property. Downer will pursue initiatives to achieve these objectives, including:	The achievement of these strategic objectives may be affected by macro-economic risks including global economic conditions, volatile commodity prices, reduced capital expenditure in the Australian resources sector, insourcing by key customers (e.g. rolling stock maintenance and mining services), early termination or scope reduction on existing contracts (e.g. contract mining) and increasing overseas competition. Downer will continue to manage its exposure to these risks through:
	– developing and growing Asset Management capabilities;	– forming strategic partnerships and joint ventures with leading technology and knowledge providers;
	– focusing more closely on forward revenue opportunities in public transport (network construction, operations and maintenance), electricity networks (through State Government privatisations), passenger heavy and light rail, outsourcing of road maintenance by State Governments and the nbn roll-out;	– forming strategic partnerships and joint ventures with leading technology and knowledge providers and enhancing Downer's Customer Relationship Management (CRM) program;
	– expanding into overseas markets selectively through existing customer relationships;	– identification, and rigorous review, of overseas opportunities;
	– enhancing management capability to improve operational and financial performance;	– a succession planning process for all leadership roles and a leadership development program;
	– adapting tendering model for large infrastructure projects; and	– bid governance process ensures i) there is a substantial level of risk assessment to inform Downer's decision on whether to bid, and the terms of the bid, and ii) there is a strong focus on bid costs throughout the tender process; and
	– maintaining industry and geographical diversification to achieve greater resilience through economic cycles.	– growth and development strategies to diversify revenue sources, including through joint ventures.

Strategic Objective	Prospects	Risk management
Strengthen customer relationships	Continuous improvement of the Company's engagement with customers, including working with them constructively to reduce costs and improve productivity.	Ongoing analysis of markets, customers and competitors to understand potential impacts and determine necessary action.
	Leveraging "cross-selling" opportunities.	Continuing to drive benefits from Downer's broad range of capabilities and CRM tools.
	Engaging more closely with customers to understand their needs and play a more substantial role in their success.	Downer restructured in 2015 to create better alignment with its customer base and is implementing a range of initiatives to develop a more customer-focused organisation.
Drive efficiency and productivity	Downer has two key internal business initiatives: – Fit 4 Business Program: which has achieved more than $600 million in cost benefits since its launch in FY11; and – Business Transformation Program: involves investment in core systems and the consolidation of business services. Downer has taken proactive steps to 'right-size' its business in alignment with market conditions.	Failing to take proactive steps to reduce costs in line with forward revenue projections would jeopardise the ability to drive further improvements to business performance. The focus on business improvement, technological advancements and cost management is a fundamental part of Downer's formal planning processes, day-to-day management activities and governance activities.
	Continue to improve tender, contract and project risk management processes.	Rigorous tender, contract and project risk policies and procedures consistently across the Group.
	Continue to focus on asset utilisation and the appropriateness of the carrying value and allocation of non-current assets.	Detailed review of equipment, including age and valuation. Asset specific maintenance plans and continued assessment to ensure equipment is allocated on a best fit-for-purpose basis.
Assess growth opportunities	Downer assesses merger and acquisition opportunities on an ongoing basis, including in new geographies, with a focus on the following key criteria: – strategic fit for Downer; – growth of capability; and – appropriate valuation.	Downer undertakes rigorous analysis of potential opportunities to ensure they meet the key criteria and are structured to mitigate downside risks. The company is also focused on ensuring it remains well within its financing covenant and credit rating metrics.
Capital management	Downer intends to maintain strong balance sheet and financial metrics. It also intends to maintain an investment-grade external credit rating.	In April 2016, Downer successfully completed a partial extension of the Group's $400 million Syndicated Debt Facility that split the facility into two tranches, with $200 million maturing in April 2019 and $200 million in April 2021. The Group maintains ample capacity to support its ongoing operations and continues to be rated BBB (Stable) by Fitch Ratings.

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 Services	Potential for further outsourcing as Governments seek greater efficiency and smarter solutions.	Downer is a market leader in Australia and New Zealand and is well positioned for future opportunities in both countries. Downer has a vertically integrated Road Services business with end-to-end service offering, including asphalt production.
Technology and Communications Services	Customers are developing new performance-based contracting models, based on closer collaboration between parties, which are generating longer term construction, operations and maintenance opportunities.	Downer is a market leader in both Australia and New Zealand and works closely with its customers in both countries to adapt to the changing environment and help them achieve success.
Utilities Services	The power, gas and water markets offer long-term operations and maintenance contract opportunities, with potential for growth through increased outsourcing.	Downer has market leading positions in both Australia and New Zealand and is well positioned for future opportunities, including those flowing from State Government privatisation of electricity assets.
Rail	Governments are seeking value through: – the procurement of large orders of passenger rolling stock and long-term maintenance contracts; – the franchising of operations and maintenance of heavy rail, light rail and bus transport networks; and – the development of multi-modal transport infrastructure solutions. Freight customers are seeking continual improvements to fleet performance and reliability, with a strong focus on technology and innovation.	Downer's rail asset management model has a strong focus on 'return on investment' – i.e. increasing fleet availability and reliability. Downer maintains strong strategic partnerships with leading global transport solutions providers and, through this model, is pursuing opportunities in rolling stock manufacture and maintenance and transport network operations and maintenance. The Keolis Downer joint venture is a leading Australian multi-modal transport operator, through its light rail and bus operations.
EC&M	EC&M opportunities, particularly in the resources sector, are declining due to the mining downturn. They are being replaced by opportunities at different stages of the investment/asset lifecycle and across adjacent sectors.	Downer is building on its leading, multi-discipline capability, working with customers to provide the best project management delivery mode, and developing its asset management capabilities to become a strategic solutions provider across the complete asset lifecycle. Downer is also focused on optimising its performance on existing LNG projects.
Mining	Depressed commodity prices have led to reduced volumes and lower levels of investment, increasing the industry's focus on cost reduction. However, opportunities exist for mining contractors that can work collaboratively with customers to help drive productivity improvements and reduce production costs.	Downer's Mining division continues to perform strongly by focusing on cost reduction, increased efficiencies and close collaboration with customers. The business continues to examine overseas opportunities.

Outlook

Whilst Downer faces continued pressure in its resources based businesses, the company is progressing well in repositioning to service increased investment and outsourcing in Roads and Rail, Public Transport, Utilities, Defence and Communications.

Downer anticipates that the company's diversity and strong market positions in key sectors will continue to provide reliable earnings, growth opportunities and high cash flow generation in 2017.

As each of the major Rail bids will be announced in the first half of the 2017 financial year, there remains a risk that Downer will be required to expense a proportion or all of those bid costs in the event it is unsuccessful on one or more of the bids.

Downer is targeting NPAT of around $170 million for the 2017 financial year (excluding any major Rail related bid cost write-offs).

Subsequent events

There have been no matters or circumstances other than those referred to in the financial statements or notes thereto, 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

Downer recognises its obligation to stakeholders – customers, shareholders, employees, contractors and the community – to operate in a way that advances sustainability and mitigates the Company's environmental impact. As a corporate citizen Downer respects the places and communities in which it operates. Downer's values and beliefs are the spirit that underpins everything it does and it is committed to conducting its operations in a manner that is environmentally responsible and sustainable.

The Board oversees the Company's environmental performance. It has established a sustainability charter and strategy and has allocated internal responsibilities for reducing the impact of its operations and business activities on the environment.

Downer uses the international standard ISO 14001 as a benchmark in assessing, improving and maintaining the integrity of its environmental management system. In addition, all Downer Divisions conduct regular internal environmental audits and the system is independently certified by third parties.

The Company's Divisions also adhere to environmental management requirements established by customers in addition to all applicable licence and regulatory requirements.

More information on Downer's sustainability performance can be found on pages 98 to 99.

Dividends

In respect of the financial year ended 30 June 2016, the Board:

- declared a fully franked interim dividend of 12.0 cents per share that was paid on 17 March 2016 to shareholders on the register at 18 February 2016; and
- declared a fully franked final dividend of 12.0 cents per share, payable on 15 September 2016 to shareholders on the register at 18 August 2016.

Due to the strength of Downer's balance sheet, the Company's Dividend Reinvestment Plan remains suspended.

As detailed in the Directors' Report for the 2015 financial year, the Board declared a fully franked final dividend of 12.0 cents per share, that was paid on 17 September 2015 to shareholders on the register at 20 August 2015.

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 2016 or 30 June 2015.

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 2016 financial year and the number of meetings attended by each Director (while they were a Director or Board Committee member). During the year, 13 Board meetings, six Audit and Risk Committee meetings, five Remuneration Committee meetings, four Zero Harm Committee meetings and two Nominations and Corporate Governance Committee meetings were held. In addition, 17 ad hoc meetings (attended by various Directors) were held in relation to various matters including tender reviews, treasury matters and the on-market share buy-back program.

	Board		Audit and Risk Committee		Remuneration Committee	
Director	**Held[1]**	**Attended**	**Held[1]**	**Attended**	**Held[1]**	**Attended**
R M Harding	13	12	–	–	5	5
G A Fenn	13	13	–	–	–	–
S A Chaplain	13	13	6	6	–	–
P S Garling	13	12	6	5	5	5
E A Howell	13	13	–	–	–	–
J S Humphrey[2]	13	13	6	6	5	4
C G Thorne[3]	13	13	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	4	4	2	2
P S Garling	–	–	–	–
E A Howell	4	4	–	–
J S Humphrey[2]	–	–	2	2
C G Thorne[3]	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 Humphrey is also Chairman of the Disclosure Committee, Buy-back Committee and IT Transformation Committee which meet on an unscheduled basis.
3 Dr Thorne is also Chairman of the Tender Risk Evaluation Committee which meets on an unscheduled basis.

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 (as named above), 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 2 to 4, 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 on pages 100 to 108 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 judgment, 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; and
- 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 & 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 43 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:

	June 2016 $	June 2015 $
Non-audit services		
Tax services	743,567	733,510
Sustainability assurance	107,500	106,000
Due diligence and other non-audit services	306,842	315,742
	1,157,909	1,155,252

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.

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 2016. 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. Prior equity-based remuneration plans;
11. Related party information; and
12. 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	Change in policy from 2015
Short-term incentive (STI) plan	– The Safety Critical Risk and Environmental Critical Risk measures have been further refined to ensure continual stretch and ongoing Zero Harm improvement. These measures now also require the implementation of risk controls for the most critical risks in each part of the Company and a more challenging target for Action Close Outs.

1.2 Key issues raised regarding the 2015 Remuneration Report

The Board has considered feedback from shareholders. Set out below is a summary of the Board's responses to the key issues raised by some shareholders in relation to the 2015 Remuneration Report.

Feedback	Response
One-off payment The retention arrangement for the CEO Mining does not provide value to shareholders	A retention arrangement was put in place for the CEO Mining in August 2014. This retention ensured the continued service of the CEO Mining for at least another three years at a time when he was contemplating retirement in the near term. Notwithstanding a number of internal successors being identified at the time, the Board formed the view that the skills and experience of Mr Overall meant that he was best placed to lead the Mining division through a period of difficult transition in the mining sector. As part of the 2014 contract, subject to legislative requirements Mr Overall will be entitled to a lump sum cash payment equivalent to 12 months' fixed remuneration ('Cash Payment') provided he remains employed by the Downer Group on 21 May 2017. Mr Overall will be entitled to a pro-rata Cash Payment if his employment is terminated by Downer prior to 21 May 2017 (other than for gross misconduct) or if he ceases to be employed by reason of death. Further, in implementing this arrangement, the CEO Mining's total potential remuneration remained at a similar level due to: – No change to fixed remuneration (which has remained unchanged since July 2012); and – His participation level in the LTI plan reducing from 75% to 37.5%. The Board remains of the view that this arrangement was in the best interests of the shareholders and has delivered considerable value to the Company. No new retention arrangements have been made for, or are in place for, any member of the KMP.
Managing Director's Remuneration The Managing Director's fixed remuneration is high	The Managing Director was appointed in June 2010. The total remuneration package at the time of appointment was 23% lower than the remuneration paid to his predecessor. A benchmarking review of the Managing Director's total remuneration package against a sector peer group was undertaken by the Board's external adviser in 2012. This review showed that the current total remuneration package was appropriate at that time. The Managing Director's total remuneration package has been unchanged since that time. No KMP's fixed remuneration package has been increased in the past three years.
Short-term incentive (STI) plan There could be more detail disclosed in relation to the STI measures for individual KMP	While acknowledging that disclosure in relation to the STI plan is comprehensive, it was noted by some shareholders that specific financial and commercial targets at Divisional and Corporate levels were not disclosed due to commercial sensitivity. The Board considers that this approach continues to be in the best interest of shareholders.
Individual Performance Modifiers (IPMs) are not disclosed	In response to feedback, the range of IPMs awarded to key management personnel has been disclosed at section 7.3.

Feedback	Response
Long-term incentive (LTI) plan Scorecard hurdles are not disclosed retrospectively	While acknowledging that disclosure in relation to the LTI plan is comprehensive, it was noted by some shareholders that specific financial targets (Net Profit After Tax and Free Cash Flow) were not disclosed in relation to the Scorecard measure due to commercial sensitivity. The Board considers that this approach continues to be in the best interest of shareholders.
The TSR comparator group is too wide	A comment regarding the appropriate comparator group for the LTI plan was raised. Downer uses the broader ASX100 (excluding financial institutions) rather than a small peer group as its comparator group to measure performance. The Board is firmly of the view that this is the most appropriate measure of relative performance because: – The Company competes against ASX100 companies for capital and therefore believes that driving Management performance to exceed the performance of ASX100 companies is appropriate; – Limiting the comparator group to a small number of direct competitors could result in very volatile outcomes from period to period; and – In any event, the Company's peer group is continually changing and difficult to define as a result of consolidation, divestments and new market entrants from overseas.
Post-employment Termination benefits potentially payable to the Managing Director are excessive	One party noted that payments to the Group CEO on termination could potentially exceed 12 months' remuneration. As disclosed in previous remuneration reports, the Managing Director's employment contract contains a provision regarding the *Corporations Act 2001* (Cth) limitations on termination benefits, such that shareholder approval would be required prior to any payment being made in excess of those limitations.

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
P S Garling	Independent Non-executive Director
E A Howell	Independent Non-executive Director
J S Humphrey	Independent Non-executive Director
C G Thorne	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
C W Bruyn	Chief Executive Officer – New Zealand
S Cinerari	Chief Executive Officer – Infrastructure Services
M J Ferguson	Acting Chief Financial Officer, from 11 April 2016
K J Fletcher	Chief Financial Officer, to 10 April 2016
M J Miller	Acting Chief Executive Officer – Rail
L Nucifora	Chief Executive Officer – Engineering, Construction & Maintenance, to 17 November 2015
D J Overall	Chief Executive Officer – Mining
B C Petersen	Chief Executive Officer – Engineering, Construction & Maintenance, from 1 February 2016

In 2015, Downer Infrastructure was restructured into three Divisions. Following completion of this restructure, the KMP for 2016 are the Group CEO, Group CFO and the CEOs of Downer's five Divisions. With Mr Cattell ceasing in his role as CEO Downer Infrastructure, he is not a KMP for 2016.

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; and – 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; and – 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; and – 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; – Maintain a guideline minimum shareholding requirement for the Managing Director; – Encourage holding of shares after vesting via a trading restriction for all executives and payment of LTI components in shares; and – 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 environmental incidents;
- Driving growth in core markets through focusing on serving existing customers better across multiple products and service offerings, growing capabilities and expanding into overseas markets with current customers of the Company;
- Reducing risk and enhancing the Company's capability to withstand threats and take advantage of opportunities;
- Obtaining better utilisation of assets and improved margins through simplifying and driving efficiency;
- Identifying opportunities to manage the Downer portfolio that deliver long-term shareholder value; and
- 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 to encourage cross-divisional collaboration;
- Incorporating performance metrics that focus on cash flow to reduce working capital and debt exposure;
- Setting NPAT and EBIT STI performance and gateway requirements based on effective application of funds employed to run the business for better capital efficiency;
- Employing Free Cash Flow (FFO) as the cash measure for the STI to provide more emphasis on control of capital expenditure;
- 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; and
- Encouraging 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 challenging financial and non-financial measures to assess performance; and
- Ensuring that these measures focus management on strategic business objectives that create shareholder value.

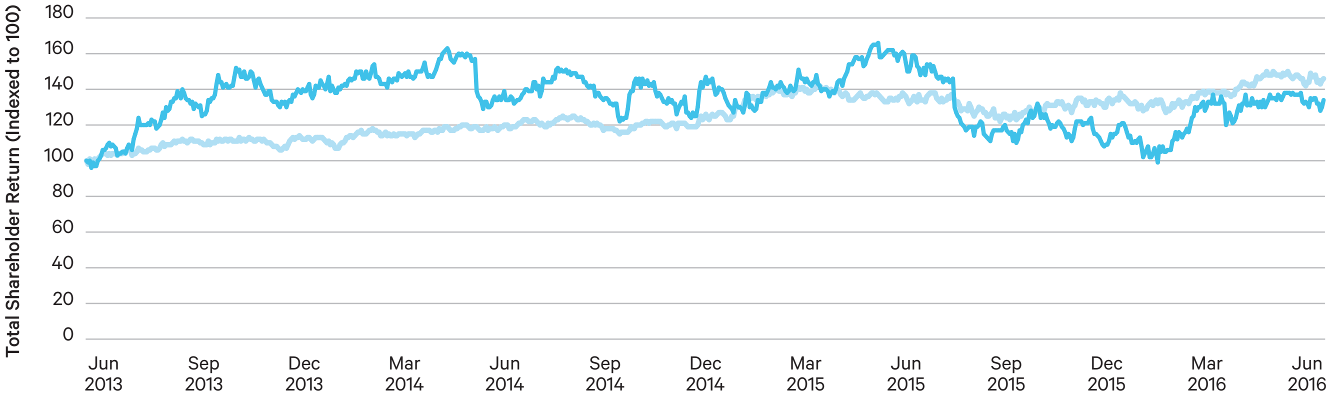
Downer measures performance on the following key corporate measures:

- Earnings per share (EPS) growth;
- Total shareholder return (TSR) relative to other ASX100 companies (excluding ASX "Financials" sector companies);
- Group NPAT;
- Divisional EBIT;
- FFO;
- Development of Downer's people; and
- "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 ASX100 over the three year period to 30 June 2016.

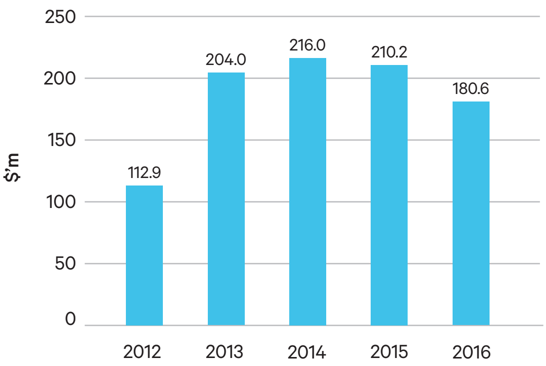
Downner EDI TSR compared to S&P/ASX 100 median*



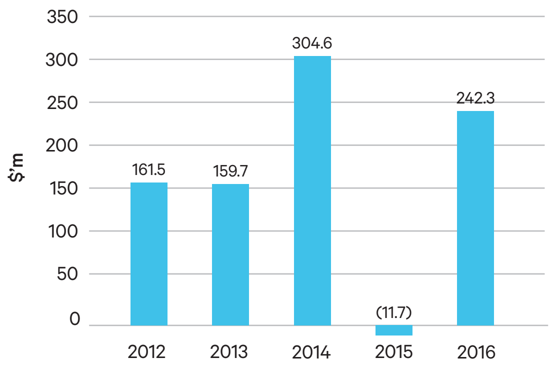
* S&P/ASX100 companies as at 30/06/2013

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

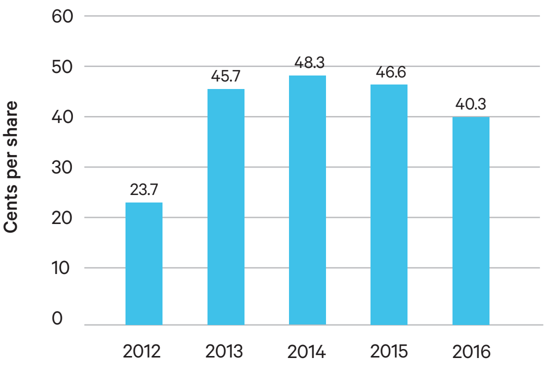
Net profit after tax



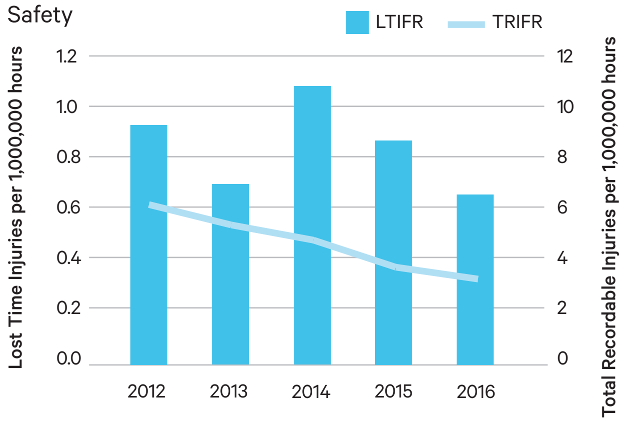
Free cash flow



Basic earnings per share



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; and
- 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 advisers without seeking approval of the Board or management. During the reporting period, the Remuneration Committee retained Guerdon Associates Pty Ltd as its adviser. Guerdon Associates Pty Ltd does not provide services to management and is considered to be independent.

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 better 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; and
- 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.

No KMP received an adjustment to fixed remuneration in the 2016 financial year. No KMP received an adjustment to fixed remuneration in the past three years.

6.3 Short-term incentive

6.3.1 STI tabular summary

The following table outlines the major features of the 2016 LTI plan.

Purpose of STI plan	– Focus performance on drivers of shareholder value over 12-month period; – Improve "Zero Harm" and people related results; and – 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 NPAT for corporate executives and Division EBIT for divisional heads.
Maximum STI that can be earned	– KMP appointed pre 2011: up to 100% of fixed remuneration; and – 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; and – 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 2015 to 30 June 2016.
Performance assessed	August 2016, 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	August 2016 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 NPAT and divisional EBIT, 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 STIP performance measures were tested were incorrect in a material respect or have been reversed or restated; and – 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 2016.

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 NPAT for corporate executives and EBIT 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.

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 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 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.

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 percent x scorecard result x IPM.

6.3.4 STI performance requirements

Overall performance is assessed on NPAT, EBIT, FFO, Zero Harm and a measure of people development.

NPAT and EBIT include joint ventures and associates and include, inter alia, changes in accounting policy, material asset sales, acquisitions or divestments.

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.

For 2016, the Board made the Action Close Outs safety measure more challenging and further developed the Safety Critical Risk and Environmental Critical Risk measures to ensure Downer continues to focus on effective risk controls.

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

Measure	Target
Safety	
TRIFR (total recordable injury frequency rate) LTIFR (lost time injury frequency rate)	Achieve a set reduction in the TRIFR at level of responsibility. TRIFR is calculated as the number of recordable injuries x 1,000,000/the hours worked in 12 months. In addition LTIFR must be retained below a threshold level for area of responsibility. LTIFR is calculated as the number of lost time injuries x 1,000,000/the hours worked in 12 months.
Critical risks	Critical risk Action Close Outs and the development and implementation of risk controls and assurance programs.
Environmental	
Critical risk	Implement risk mitigation plans for the area of control.
Sustainable development	Achieve energy efficiency targets for the area of control.

Should a workplace fatality or serious environmental incident occur, the relevant safety or environmental portion of the STI is foregone. People measures include targets for the completion of development and career reviews and succession plans.

Weightings applied to the 2016 STI scorecard measures for all executives, including the Managing Director, are set out in the table below.

Executive	Group NPAT	Divisional EBIT	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%

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 requirements 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 2016 LTI plan, which will apply for the transition grant that is designed to facilitate the move to a financial year basis for future grants.

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; and – 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; and – KMP appointed from 2011: 50% of fixed remuneration.
Performance periods	1 July 2015 to 30 June 2018.
Performance assessed	September 2018.
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 2018.
Performance rights vest	1 July 2019.
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 ASX100 index, excluding financial services companies, at the start of the performance period, measured over the three years to 30 June 2018.

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 2018.

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 NPAT and FFO for each of the three years to 30 June 2018.

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.

If the rights vest, executives can exercise them to receive shares that are normally acquired on-market.

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 comply 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. For prior years' plans (2013 and earlier), for which payment is in the form of restricted shares held in trust until vesting, dividends on shares are held in trust and distributed to executives after all vesting conditions have been met, net of applicable taxes.

The 2016 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; and
- The maximum reward is capped at a "stretch" performance level that is considered attainable without excessive risk taking.

Performance for the 2016 LTI grants will be measured over the three-year period to 30 June 2018.

The proportion of performance rights that can vest will be calculated in September 2018, but executives will be required to remain in service until 30 June 2019 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 2016 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 2016 LTI grants will be the companies, excluding financial services companies, in the ASX100 index as at the start of the performance period on 1 July 2015. 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; and
- Management's strong focus on improving the Company's ranking among ASX100 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 2018. 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% annual 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 2018.

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; and
- 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 NPAT and Group FFO.

The performance of each component will be measured over the three year period to 30 June 2018.

NPAT 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 2016 the components are equally weighted.
At the beginning of each financial year	NPAT and FFO target performance levels are set.
At the end of each financial year	– Calculate actual performance; and – 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; and – Calculate award based on performance against the vesting range.
At the end of three 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 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.

7. Details of Director and executive remuneration

7.1 Remuneration received in relation to the 2016 financial year

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

The table below lists the remuneration actually received in relation to the 2016 financial year, comprising fixed remuneration, cash STIs relating to 2016, deferred STIs payable in 2016 in respect of prior years and the value of LTI grants that vested during the 2016 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 2016 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 $	Deferred Bonus paid or payable in respect of prior years $	Total payments $	Equity that vested during 2016[4] $	Total remuneration received $
G A Fenn[2,5]	2,013,400	644,700	799,702	3,457,802	696,316	4,154,118
C W Bruyn[2,6]	826,172	–	151,232	977,404	175,789	1,153,193
S Cinerari[2,6]	1,056,607	476,000	187,500	1,720,107	232,105	1,952,212
M J Ferguson[3,8]	113,095	35,670	–	148,765	–	148,765
K J Fletcher[7]	988,806	631,806	587,855	2,208,467	232,105	2,440,572
M J Miller[3]	570,000	–	–	570,000	–	570,000
L A Nucifora	418,736	–	–	418,736	–	418,736
D J Overall[2,5]	1,324,955	595,213	589,401	2,509,569	348,157	2,857,726
B C Petersen[2]	354,167	63,194	–	417,361	–	417,361
	7,665,938	**2,446,583**	**2,315,690**	**12,428,211**	**1,684,472**	**14,112,683**

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 2016 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 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2016 financial year. These comprise 100% of the award as the executive is currently serving in an 'Acting' capacity and accordingly STI deferral does not apply.

4 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 price of Downer shares on the vesting date.

5 Deferred Bonus represents the deferred cash bonus amount to be paid in August 2016, being the second deferred component of the 2014 award and the first deferred component of the 2015 award, being 25% of each award.

6 Deferred Bonus represents the deferred cash bonus amount to be paid in August 2016, being the first deferred component of the 2015 award (being 25% of the total 2015 award).

7 Mr K J Fletcher passed away on 10 April 2016. Fixed Remuneration includes $140,015 in accrued leave benefits paid in relation to cessation of employment. The Board determined that Mr Fletcher's full 2016 STI award and unvested deferred STI entitlements (being the second deferred component of the 2014 award and the first and second deferred components of the 2015 award) be paid to his estate.

8 Mr M J Ferguson's current annual fixed remuneration is $500,000. Amounts represent the portion of his remuneration earned as a member of the KMP in his role as Acting Chief Financial Officer.

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

2016	Short-term employee benefits				Post-employment benefits				
	Salary and fees $	Cash Bonus paid or payable in respect of current year $	Deferred Bonus paid or payable in respect of prior years $	Non-monetary $	Superannuation $	Other benefits $	Subtotal $	Share-based payment transactions[5] $	Total $
G A Fenn[2,4]	1,817,359	644,700	735,192	176,733	19,308	–	3,393,292	803,143	4,196,435
C W Bruyn[2,4]	794,942	–	126,027	31,230	–	–	952,199	252,173	1,204,372
S Cinerari[2,4]	1,006,980	476,000	354,583	23,046	26,581	–	1,887,190	252,990	2,140,180
M J Ferguson[1,3,8]	108,728	35,670	–	–	4,367	–	148,765	–	148,765
K J Fletcher[4,7]	870,784	631,806	261,285	86,492	31,530	–	1,881,897	775,973	2,657,870
M J Miller[3]	536,446	–	–	14,246	19,308	–	570,000	–	570,000
L A Nucifora[1]	402,019	–	–	9,143	7,574	–	418,736	–	418,736
D J Overall[2,4,6]	1,305,647	595,213	594,700	–	19,308	445,627	2,960,495	375,871	3,336,366
B C Petersen[1,2]	339,406	63,194	26,331	6,716	8,045	–	443,692	–	443,692
	7,182,311	**2,446,583**	**2,098,118**	**347,606**	**136,021**	**445,627**	**12,656,266**	**2,460,150**	**15,116,416**

1 Amounts represent the payments 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 2016 financial year. These comprise the 50% cash component of the award.
3 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2016 financial year. These comprise 100% of the award as the executive is currently serving in an 'Acting' capacity and accordingly STI deferral does not apply.
4 Deferred Bonus represents the value of deferred components attributable to the 2016 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.
5 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 sections 8.2 and 8.3. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in section 6.4.
6 D J Overall: Other benefits represents the accrual of the cash retention benefit payable on 21 May 2017 ($445,627), being 12 months' fixed remuneration.
7 Mr K J Fletcher passed away on 10 April 2016. Salary and fees includes $140,015 in accrued leave benefits paid in relation to cessation of employment. The Board determined that Mr Flecher's full 2016 STI award and unvested deferred STI entitlements (being the second deferred component of the 2014 award and the first and second deferred components of the 2015 award) be paid to his estate. All unvested STI and LTI entitlements were expensed in the 2016 financial year.
8 Mr M J Ferguson's current annual fixed remuneration is $500,000. Amounts represent the portion of his remuneration earned as a member of the KMP in his role as Acting Chief Financial Officer.

2015	Short-term employee benefits				Post-employment benefits				
	Salary and fees $	Cash Bonus paid or payable in respect of current year $	Deferred Bonus paid or payable in respect of prior years[4] $	Non-monetary $	Superannuation $	Other benefits $	Subtotal $	Share-based payment transactions[5] $	Total $
G A Fenn[2]	1,876,216	800,000	399,702	146,350	18,783	–	3,241,051	454,161	3,695,212
C W Bruyn[1,3]	334,909	234,486	–	12,803	–	–	582,198	50,168	632,366
D A Cattell[2,8]	1,525,000	–	–	47,563	35,000	762,589	2,370,152	–	2,370,152
S Cinerari[1,3]	383,333	312,500	–	2,899	10,553	–	709,285	54,408	763,693
K J Fletcher[2]	925,969	392,000	195,855	76,521	35,000	–	1,625,345	165,210	1,790,555
L A Nucifora[1,3]	281,296	196,595	–	10,763	7,826	–	496,480	–	496,480
D J Overall[2,7]	1,229,217	600,912	288,945	13,960	18,783	406,665	2,558,482	208,347	2,766,829
R A Spicer[2,6]	778,086	210,000	105,000	152,941	18,783	–	1,264,810	–	1,264,810
	7,334,026	**2,746,493**	**989,502**	**463,800**	**144,728**	**1,169,254**	**12,847,803**	**932,294**	**13,780,097**

1 Amounts represent the payments 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 2015 financial year. These comprise the 50% cash component of the award.
3 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2015 financial year. These comprise the 50% cash component of the award and the 50% transitional payment. The remaining 50% of the total award is deferred. The short-term incentive plan is described in section 6.3.
4 Amounts represent the first deferred component of the bonus awards in relation to the 2014 financial year, being 25% of the total 2014 award. The remaining 25% is subject to meeting the employment condition as described in section 6.3.
5 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 sections 8.2 and 8.3. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in section 6.4.
6 Due to the nature of the Downer business, non-monetary benefits include living away from home expenses.
7 D J Overall: Other benefits represents the accrual of the cash retention benefit payable on 21 May 2017 ($406,665), being 12 months' fixed remuneration.
8 D A Cattell: Other benefits represents the accrual of the cash retention benefit paid on 1 July 2015 ($762,589) being nine months' fixed remuneration.

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 2016 that are performance and non-performance related and the proportion of STIs that were earned during the year ended 30 June 2016 due to the achievement of the relevant performance targets.

	Proportion of 2016 remuneration		2016 Short-term incentive	
	Performance Related %	Non-performance Related %	Paid %	Forfeited %
G A Fenn[1]	52	48	64	36
C W Bruyn[1]	31	69	–	100
S Cinerari[1]	41	59	48	52
M J Ferguson	24	76	64	36
K J Fletcher	63	37	64	36
M J Miller	–	100	–	100
D J Overall[1]	54	46	95	5
B C Petersen	15	85	48	52

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

7.3.2 STI performance outcomes

Specific STI financial and commercial targets at division and corporate levels remain commercially sensitive and so have not been reported.

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 NPAT. For divisional executives, the hurdle is 90% of the division budgeted profit target. Profit for this purpose is defined as EBIT.

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

		Group NPAT	Divisional EBIT	Group FFO	Divisional FFO	Zero Harm	People
Weighting of scorecard element	Corporate	30.0		30.0		30.0	10.0
	Division[2]	7.5	22.5	7.5	22.5	30.0	10.0
Percentage of the element achieved[1]	Corporate	52.4		100.0		29.2	100.0
	Division	52.4	44.2	100.0	59.6	71.8	100.0

1 Performance includes the results for each element, even if the NPAT or EBIT gateway was not achieved.
2 The weighting for the Engineering, Construction and Maintenance Division (B C Petersen) was 15.0 for each of Group NPAT, Divisional EBIT, Group FFO and Divisional FFO.

For 2016, the IPM applied to each member of the KMP remained at 1.

7.3.3 LTI performance outcomes

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

Relevant executives	Relevant LTI measure	Performance outcome	% LTI tranche that vested
G A Fenn, C W Bruyn, S Cinerari, K J Fletcher, D J Overall	2013 plan		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a three-year period.	Actual performance ranked at the 43rd percentile.	0% became provisionally qualified. The shares were forfeited
	EPS tranche – compound annual earnings per share growth against absolute targets over a three-year period.	Actual performance was –5.15%	0% became provisionally qualified. The shares were forfeited

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 2015	Net change	Balance at 30 June 2016	Balance at 1 July 2015	Net change	Balance at 30 June 2016
	No.	No.	No.	No.	No.	No.
G A Fenn	355,665	270,827	626,492	1,200,505	225,752	1,426,257
C W Bruyn	33,387	54,763	88,150	361,389	98,167	459,556
S Cinerari	3,401	72,307	75,708	378,159	111,398	489,557
M J Ferguson	–	–	–	–	–	–
K J Fletcher	23,201	71,221	94,422	441,185	(163,788)	277,397
M J Miller	–	–	–	–	–	–
D J Overall	3,602	104,858	108,460	561,836	(51,463)	510,373
B C Petersen	–	–	–	–	59,450	59,450

8.2 Options and rights

No performance options were granted or exercised during the 2016 financial year.

As outlined in section 6.4.1, the LTI plan for the 2016 financial year is in the form of performance rights. Relief from certain regulatory requirements was applied for and has been received from the Australian Securities and Investments Commission. During the year, grants of performance rights were made to KMP in respect of the 2016 financial year.

The following table shows the number of performance rights granted 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.

	2013 Plan			2014 Plan			2015 Plan			2016 Plan		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %	Number of performance rights[3]	Vested %	Forfeited %	Number of performance rights[4]	Vested %	Forfeited %
G A Fenn	445,682	–	100	243,576	–	–	511,247	–	–	671,434	–	–
C W Bruyn	119,373	–	100	74,242	–	–	167,774	–	–	217,540	–	–
S Cinerari	140,390	–	100	76,726	–	–	161,043	–	–	251,788	–	–
M J Ferguson	–	–	–	–	–	–	–	–	–	–	–	–
K J Fletcher	163,788	–	100	89,514	–	–	187,883	–	–	–	–	–
M J Miller	–	–	–	–	–	–	–	–	–	–	–	–
L A Nucifora	–	–	–	–	–	–	–	–	–	–	–	–
D J Overall	208,579	–	100	113,993	–	–	239,264	–	–	157,116	–	–
B C Petersen	–	–	–	–	–	–	–	–	–	59,450	–	–

1 Grant date 15 October 2013. The fair value of shares granted was $3.81 per share for the EPS tranche and $2.26 per share for the TSR tranche.
2 Grant date 2 June 2015. The fair value of shares granted was $4.45 per share for the EPS tranche and $1.77 per share for the TSR tranche.
3 Grant date 2 June 2015. The fair value of shares granted was $4.23 per share for the EPS and Scorecard tranches and $1.70 per share for the TSR tranche.
4 Grant date 30 June 2016. 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.

The maximum number of performance 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		
	2018	2019	2020
G A Fenn	243,576	511,247	671,434
C W Bruyn	74,242	167,774	217,540
S Cinerari	76,726	161,043	251,788
M J Ferguson	–	–	–
K J Fletcher	89,514	187,883	–
M J Miller	–	–	–
L A Nucifora	–	–	–
D J Overall	113,993	239,264	157,116
B C Petersen	–	–	59,450

The maximum value of performance 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.

	2017	2018	2019
G A Fenn	1,694,308	1,118,841	555,687
C W Bruyn	532,466	364,847	180,038
S Cinerari	536,060	354,788	270,360
M J Ferguson	–	–	–
K J Fletcher	418,443	206,959	–
M J Miller	–	–	–
L A Nucifora	–	–	–
D J Overall	662,906	393,588	130,031
B C Petersen	49,201	49,201	49,202

8.3 Restricted shares

The table below shows the number of restricted shares granted and percentage of restricted shares that vested or were forfeited during the year for each grant that affects compensation in this or future reporting periods.

	2012 Plan		
	Number of shares[1]	Vested %	Forfeited %
G A Fenn	464,996	47	–
C W Bruyn	117,392	47	–
S Cinerari	154,999	47	–
M J Ferguson	–	–	–
K J Fletcher	154,999	47	–
M J Miller	–	–	–
L A Nucifora	–	–	–
D J Overall	232,498	47	–
B C Petersen	–	–	–

1 Grant date 22 June 2012. The fair value of shares granted was $3.10 per share for the EPS tranche and $1.85 per share for the TSR tranche.

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.

There was one variation from policy during this financial year:

- On 10 April 2016, Downer's Chief Financial Officer, K J Fletcher, passed away. At the time of Mr Fletcher's passing, he was participating in a number of STI and LTI plans (relating to the current and prior years). Having regard to Mr Fletcher's significant contribution to Downer over many years and his role in helping to achieve the FY16 outcomes, the Board made the following determinations in relation to the finalisation of his employment entitlements:
  - Mr Fletcher's unvested deferred STI amounts in respect of his 2014 and 2015 awards vest and will be paid to his estate in cash (rather than in shares on a deferred basis);
  - Mr Fletcher is eligible to receive a 2016 STI award and the full amount awarded under the plan will be paid to his estate in cash (rather than 50% in shares being on a deferred basis);
  - Grants made under the 2014 and 2015 LTI plans will remain on foot and will be tested in accordance with the plan rules (with any future vesting being paid to Mr Fletcher's estate).

  Mr Fletcher did not receive a grant of performance rights under the 2016 LTI plan.

  In making the above determinations, the treatment of Mr Fletcher's incentive entitlements is fully in accordance with the discretions available to the Board under Downer's remuneration policies (i.e. the outcomes are the same as if Mr Fletcher was determined to be an 'Eligible Leaver' under the plan rules), other than Mr Fletcher's 2016 STI award being on a full-year rather than pro-rata (nine months) basis.

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: c) Immediately for misconduct or other circumstances justifying summary dismissal; or d) 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. Prior equity-based remuneration plans

Details of LTI plans from prior years in which executives retained an interest during the reporting period are set out in the table below.

Plan name	2012 Executive Share Plan
Type of award	Grant of restricted shares delivered in two equal tranches
Performance requirements	Tranche One: Percentile ranking of Downer's TSR relative to the constituents of the ASX100 (excluding the financial sector) as at the beginning of the performance test period. Tranche Two: EPS annual compound growth to be within 6% to 12%. The performance period for both tranches is three years.
Re-test	There is no re-test.
Service requirements	The service condition requires that the executive remains employed at all times for a period of 12 months from 31 December in the final year of the performance period for which the performance condition is satisfied.
Vesting schedule	Tranche One: The measure ensures that awards vest only when Downer's growth in shareholder value has exceeded the 50th percentile of its TSR peer group, the ASX100. Shares vest pro-rata between the median and 75th percentile. That is, 4% of the shares vest at the 51st percentile, 8% at the 52nd percentile and so on until 100% vest at the 75th percentile. Tranche Two: Pro-rata from 6% to 12% EPS growth such that 16.67% of the restricted shares in the tranche vest for every 1% increase in EPS growth between 6% and 12%.

11. Related party information

11.1 Transactions with other related parties

Transactions with other related parties are made on normal commercial terms and conditions. The following transactions with other related parties occurred during the financial year ended 30 June 2016.

		Transaction type		
KMP	**Entity**	**Sponsorship $'000**	**Sales of goods and services $'000**	**Purchase of goods and services $'000**
G A Fenn	Australian Constructors Association Ltd	–	–	69
S A Chaplain	KDR Gold Coast Pty Ltd	–	–	1
	KDR Victoria Pty Ltd	–	2,767	–
	Keolis Downer Pty Ltd	–	1,631	90
P S Garling	Ausgrid	–	3,066	97
	Endeavour Energy	–	97	40
	Ergon	–	–	5
	Essential Energy	–	48	5
R M Harding	Cleanaway Waste Management Limited	–	250	278
J S Humphrey	King Wood Mallesons	–	–	7
	Queensland University of Technology	–	–	373
M J Miller	EDI Rail Bombardier Transportation (Maintenance) Pty Ltd	–	–	735
	EDI Rail Bombardier Transportation Pty Ltd	–	42,443	5
D J Overall	Minerals Council of Australia	18	–	268

12. Description of Non-executive Director remuneration

12.1 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 judgment to steward the Company.

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 2017 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 and Tender Risk Evaluation Committee.

Under his original terms of appointment in 2001, John Humphrey is eligible for certain retirement benefits. Consistent with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the right to these retirement benefits has been frozen and has been fully provided for in the financial statements. Other 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.

12.2 Non-executive Directors' remuneration

The table below sets out the remuneration paid to Non-executive Directors for the 2016 and 2015 financial years.

		Short-term benefits			Post-employment benefits	
	Year	Board fee $	Chair fee $	Total fees $	Superannuation $	Total $
R M Harding	2016	375,000	–	375,000	35,000	410,000
	2015	375,000	–	375,000	35,625	410,625
S A Chaplain	2016	150,000	35,000	185,000	17,575	202,575
	2015	150,000	35,000	185,000	17,575	202,575
P S Garling	2016	150,000	15,000	165,000	15,675	180,675
	2015	150,000	15,000	165,000	15,675	180,675
E A Howell	2016	150,000	15,000	165,000	15,675	180,675
	2015	150,000	15,000	165,000	15,675	180,675
J S Humphrey	2016	150,000	–	150,000	14,250	164,250
	2015	150,000	–	150,000	14,250	164,250
C G Thorne	2016	150,000	15,000	165,000	15,675	180,675
	2015	150,000	15,000	165,000	15,675	180,675

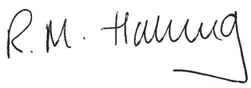
12.3 Equity held by Non-executive Directors

The table below sets out the equity in Downer held by Non-executive Directors for the 2016 and 2015 financial years.

	2016			2015		
	Balance at 1 July 2015	Net change	Balance at 30 June 2016	Balance at 1 July 2014	Net change	Balance at 30 June 2015
R M Harding	10,150	–	10,150	10,150	–	10,150
S A Chaplain	64,142	10,000	74,142	64,142	–	64,142
P S Garling	12,100	–	12,100	12,100	–	12,100
E A Howell	10,000	–	10,000	–	10,000	10,000
J S Humphrey	68,367	–	68,367	68,367	–	68,367
C G Thorne	59,230	–	59,230	59,230	–	59,230

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
Chairman

Sydney, 4 August 2016

Auditor's Independence Declaration

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 for the financial year ended 30 June 2016 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

John Teer

Partner

Sydney

4 August 2016

INDEPENDENT AUDITOR'S REPORT

To the Members of Downer EDI Limited

REPORT ON THE FINANCIAL REPORT

Opinion

We have audited the accompanying financial report of Downer EDI Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, Notes A to G, comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion:

(a) the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

  i. giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note A.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibility* 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 also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter

Recognition of revenue

Refer to Note B2 'Revenue and other income'. ($6,850.0m).

A substantial amount of the Group's revenue relates to revenue from the rendering of services, mining services and construction contracts. Where these services and/or contracts have a long-term duration, revenue and margin are recognised based on the stage of completion of individual contracts. This is calculated on the proportion of total costs incurred at the reporting date compared to management's estimation of total costs of the contract. We focussed on these types of contracts due to the high level of management estimation involved, in particular relating to:

- Forecasting total cost to complete at initiation of the contract, including the estimation of cost contingencies for contracting risks;
- Revisions to total forecast costs for certain events or conditions that occur during the performance of the contract, or are expected to occur to complete the contract; and
- The recognition of variations and claims, based on an assessment by the Group as to whether it is

Our procedures included, amongst others:

- We evaluated management's process regarding accounting for the Group's contract revenues. We tested controls such as:
  - the authorisation of monthly project valuations, which involves management reviewing key contract KPIs including cashflows;
  - management's review and assessment of significant changes in work in progress balances;
  - management's review and assessment of project unapproved variations and claims, and responses to project risk ratings;
  - the 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 any potential legal implications by the Group risk and legal team, as prescribed in the Group's risk management process;

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probable that the amount will be approved by the customer and therefore recovered. We focused on this area as a key audit matter due to the number and type of estimation events that may occur over the course of the contract life, leading to complex and judgemental revenue recognition from contracts.	• We undertook a sample of site visits (to both contract sites and commercial offices) across the Group's major divisions and geographies to obtain a detailed understanding of the Group's contract processes, their consistent application, and to understand the variety of risk elements of the contracts; • 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, and factors which indicated to us that a greater level of judgement was required by management when assessing the revenue recognition based on the estimates developed for current and forecast contract performance. For the sample selected: - we read the contract terms and conditions to evaluate whether the individual characteristics of each contract were reflected in management's estimate; - we assessed the estimation of costs to complete by agreeing key forecast cost assumptions to underlying evidence such as Enterprise Bargaining Agreements for wage rates, previous purchase invoices for parts, historical costs for maintenance events 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 tested the variations and claims both within contract revenue and contract costs to underlying documentation, such as timesheets, correspondence with customers and independent time and cost claim experts (where applicable) for consistency and appropriateness with contract terms; - we evaluated the Group's legal and external experts' reports received on contentious matters to identify conditions that may indicate the 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; - For contracts that had significant variation and claim elements, we used our KPMG major project specialists to evaluate the claim elements for risk of non-recovery. Our major projects specialists are project management experts; and - we evaluated significant exposures to liquidated damages for late delivery of contract works by assessing the variation registers, which track the nature, quantum and status of current exposures.

Value of goodwill

Refer to C7 'Intangible assets - Goodwill' ($805.3m).

The Group's Cash Generating Units (CGUs) are subject to the cyclical nature of service and infrastructure spend in the sectors in which those CGUs operate. These sectors have experienced the impacts of reductions in capital expenditure, constrained government spending, cost reduction mandates, project cancellations and deferrals, along with volatile commodity prices. Changes in those sectors impact the business activity for the Group's CGUs and the resulting forecast cash flows used in the Group's value	Our procedures included, amongst others: • We evaluated management's goodwill impairment assessment process and tested controls such as the review of forecasts by management; • We assessed management's determination of the Group's CGUs based on our understanding of the nature of the Group's business units. We compared this to the internal reporting of the Group to assess how earnings are monitored and reported;

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in use models. Given these changes, the value of goodwill was a key audit matter.

Other conditions giving rise to our focus on this area included the significant level of judgement in respect of factors such as:

- The determination of CGUs;
- Budgeted future revenue and costs;
- Discount rates;
- Terminal growth rate; and
- The outcome of tenders.

Management have identified the Rail CGU as having sensitivity to impairment due the fact that a reasonably possible change in projected cash flows could result in the carrying value of the CGU exceeding its recoverable amount.

Management have also identified the Mining CGU as having sensitivity to impairment due to the macroeconomic challenges facing the sector.

- We obtained the Group's value in use models and agreed amounts to a combination of the FY17 budget and the FY18-FY20 business plan.
- Key inputs to the value in use models included forecast revenue, costs, capital expenditure, discount rates and terminal growth rates. We challenged these inputs by corroborating the key market based assumptions to external analyst reports, published industry growth rates and industry reports. For non-market based assumptions we corroborated those assumptions by comparing forecasts to historical costs incurred or margins on similar projects. We also assessed the inclusion of key ongoing revenue contracts by comparing the margins in the impairment model to historical contract margins and for current tenders we assessed the probability weighting and margins based on our understanding of the business;
- We assessed the accuracy of previous Group forecasting to inform our evaluation of forecasts included in the value in use model. 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 involved our valuation specialists, for those CGUs with a higher risk of impairment, to recalculate management's discount rates based on the Group and its industry. Valuation specialists were also involved in assessing the value in use model for valuation methodology, including the treatment of assumptions for capital expenditure, working capital, terminal value and the net present value calculation;
- We performed sensitivity analysis on all CGUs in two main areas being the discount rate and terminal growth rate assumptions. For the CGUs with a higher risk of impairment we performed a range of sensitivity analyses including the discount rate and terminal growth rate assumptions, revenue growth and cost savings targets set by management, as well as probability adjusting the outcomes of key tenders;
- We assessed the allocation of corporate overheads and assets to CGUs by comparing the allocation methodology to our understanding of the business and industry;
- 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 of the matter.

Directors' responsibility for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note A, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are 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 and 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 this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 19 to 42 of the Directors' Report for the year ended 30 June 2016. 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 responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion on the Remuneration Report

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

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John Teer	Cameron Slapp
Partner	*Partner*
Sydney	Sydney
4 August 2016	4 August 2016

Financial Statements

Notes to the consolidated financial statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2016

	Note	2016 $'m	2015 $'m
Revenue from ordinary activities	B2(a)	**6,846.2**	7,014.9
Other income	B2(a)	**3.8**	5.0
Total revenue and other income		**6,850.0**	7,019.9
Employee benefits expense	D1	**(2,758.6)**	(2,605.3)
Subcontractor costs		**(1,455.2)**	(1,562.3)
Raw materials and consumables used		**(1,174.8)**	(1,282.7)
Plant and equipment costs		**(580.2)**	(641.1)
Depreciation and amortisation	C6,C7	**(258.7)**	(253.1)
Other expenses from ordinary activities		**(363.3)**	(380.4)
Total expenses		**(6,590.8)**	(6,724.9)
Share of net profit of joint ventures and associates	F1(a)	**17.7**	14.7
Earnings before interest and tax		**276.9**	309.7
Finance income		**7.2**	6.4
Finance costs		**(40.2)**	(36.3)
Net finance costs		**(33.0)**	(29.9)
Profit before income tax		**243.9**	279.8
Income tax expense	B4(a)	**(63.3)**	(69.6)
Profit after income tax		**180.6**	210.2
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
– Exchange differences arising on translation of foreign operations		**9.4**	(11.7)
– Net (loss) / gain on foreign currency forward contracts taken to equity		**(2.5)**	2.2
– Net loss on cross currency and interest rate swaps taken to equity		**(0.8)**	(0.3)
– Income tax relating to components of other comprehensive income		**1.0**	(0.5)
Other comprehensive income for the year (net of tax)		**7.1**	(10.3)
Total comprehensive income for the year		**187.7**	199.9
Earnings per share (cents)			
– Basic earnings per share	B3	**40.3**	46.6
– Diluted earnings per share	B3	**37.8**	44.9

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 53 to 96.

Consolidated Statement of Financial Position

as at 30 June 2016

	Note	30 June 2016 $'m	30 June 2015 $'m
ASSETS			
Current assets			
Cash and cash equivalents		**569.4**	372.2
Trade and other receivables	C2	**1,124.3**	1,123.4
Other financial assets	G3	**10.1**	11.5
Inventories	C4	**327.2**	352.6
Current tax assets		**46.3**	20.3
Prepayments and other assets		**38.2**	41.9
Total current assets		**2,115.5**	1,921.9
Non-current assets			
Trade and other receivables		**17.3**	15.9
Interest in joint ventures and associates	F1(a)	**81.6**	83.3
Property, plant and equipment	C6	**988.3**	1,037.1
Intangible assets	C7	**969.9**	919.0
Other financial assets	G3	**22.1**	19.6
Deferred tax assets	B4(b)	**–**	0.7
Prepayments and other assets		**5.6**	6.9
Total non-current assets		**2,084.8**	2,082.5
Total assets		**4,200.3**	4,004.4
LIABILITIES			
Current liabilities			
Trade and other payables	C5	**1,010.9**	1,066.5
Borrowings	E1	**45.5**	62.2
Other financial liabilities	G3	**15.1**	15.9
Employee benefits provision	D1	**254.2**	228.1
Provisions	C8	**51.6**	50.1
Current tax liabilities		**0.5**	0.7
Total current liabilities		**1,377.8**	1,423.5
Non-current liabilities			
Trade and other payables		**12.7**	9.7
Borrowings	E1	**604.5**	476.4
Other financial liabilities	G3	**0.7**	2.2
Employee benefits provision	D1	**27.6**	29.5
Provisions	C8	**30.8**	13.9
Deferred tax liabilities	B4(b)	**57.7**	13.9
Total non-current liabilities		**734.0**	545.6
Total liabilities		**2,111.8**	1,969.1
Net assets		**2,088.5**	2,035.3
EQUITY			
Issued capital	E4	**1,427.8**	1,449.1
Reserves		**(8.8)**	(15.8)
Retained earnings		**669.5**	602.0
Total equity		**2,088.5**	2,035.3

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 53 to 96.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2016

2016 $'m	Issued capital	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Total
Balance at 1 July 2015	1,449.1	(0.3)	(27.8)	12.3	602.0	2,035.3
Profit after income tax	–	–	–	–	180.6	180.6
Other comprehensive income for the year (net of tax)	–	(2.3)	9.4	–	–	7.1
Total comprehensive income for the year	–	(2.3)	9.4	–	180.6	187.7
Group on-market share buy-back	(26.5)	–	–	–	–	(26.5)
Vested executive incentive share transactions	5.2	–	–	(5.2)	–	–
Share-based employee benefits expense	–	–	–	4.9	–	4.9
Income tax relating to share-based transactions during the year	–	–	–	0.2	–	0.2
Payment of dividends(i)	–	–	–	–	(113.1)	(113.1)
Balance at 30 June 2016	1,427.8	(2.6)	(18.4)	12.2	669.5	2,088.5

(i) Payment of dividends relates to 2015 final dividend, 2016 interim dividend and ROADS dividends paid during the financial year.

2015 $'m	Issued capital	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Retained earnings	Total
Balance at 1 July 2014	1,457.9	(1.7)	(16.1)	15.3	506.6	**1,962.0**
Profit after income tax	–	–	–	–	210.2	**210.2**
Other comprehensive income for the year (net of tax)	–	1.4	(11.7)	–	–	**(10.3)**
Total comprehensive income for the year	–	1.4	(11.7)	–	210.2	**199.9**
Group on-market share buy-back	(11.7)	–	–	–	–	**(11.7)**
Vested executive incentive share transactions	2.9	–	–	(2.9)	–	**–**
Share-based employee benefits expense	–	–	–	1.5	–	**1.5**
Income tax relating to share-based transactions during the year	–	–	–	(1.6)	–	**(1.6)**
Payment of dividends(i)	–	–	–	–	(114.8)	**(114.8)**
Balance at 30 June 2015	1,449.1	(0.3)	(27.8)	12.3	602.0	**2,035.3**

(i) Payment of dividends relates to 2014 final dividend, 2015 interim dividend and 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 53 to 96.

Consolidated Statement of Cash Flows

for the year ended 30 June 2016

	Note	2016 $'m	2015 $'m
Cash flows from operating activities			
Receipts from customers		**7,615.0**	7,916.4
Distributions from equity accounted investees	F1(a)	**18.6**	8.0
Payments to suppliers and employees		**(7,123.4)**	(7,363.7)
Interest received		**6.8**	6.7
Interest and other costs of finance paid		**(33.3)**	(31.9)
Income tax paid		**(35.9)**	(49.0)
Net cash inflow from operating activities	C1	**447.8**	486.5
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**20.4**	79.3
Payments for property, plant and equipment		**(185.7)**	(177.6)
Payments for intangible assets		**(45.4)**	(30.2)
Receipts from / (payments for) investments		**0.6**	(50.1)
Advances to joint ventures		**(1.5)**	(3.0)
Proceeds from sale of businesses		**7.2**	1.9
Payments for businesses acquired		**(1.1)**	(318.5)
Net cash used in investing activities		**(205.5)**	(498.2)
Cash flows from financing activities			
Group on-market share buy-back	E4	**(26.5)**	(11.7)
Proceeds from borrowings		**173.8**	1,247.0
Repayments of borrowings		**(80.0)**	(1,167.3)
Dividends paid		**(113.1)**	(114.8)
Net cash used in financing activities		**(45.8)**	(46.8)
Net increase / (decrease) in cash and cash equivalents		**196.5**	(58.5)
Cash and cash equivalents at the beginning of the year		**372.2**	431.8
Effect of exchange rate changes		**0.7**	(1.1)
Cash and cash equivalents at the end of the year		**569.4**	372.2

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 53 to 96.

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 general purpose financial statements 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 4 August 2016.

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 an historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation 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 2015, except in relation to the relevant amendments and their effects on the current period or prior periods as described in Note G1.

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 used in applying the accounting policies can be found in the following notes:

Accounting estimates and judgements	Note	Page
Revenue recognition	B2	58
Recovery of deferred tax assets	B4	61
Income taxes	B4	61
Capitalisation of tender / bid costs	C2	64
Impairment of assets	C7	68
Provisions	C8	70
Annual leave and long service leave	D1	72

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 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.

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

A. About this report – continued

(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 liability	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
Reserves	Reporting 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, cost 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 finance lease charges.

(iv) Available-for-sale financial assets

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

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.

The reportable segments identified within the Group are outlined below:

Service line	Segment description
Transport Services	Comprises Downer's road, rail infrastructure, bridge, airport and port businesses and provides a broad range of transport infrastructure services including: earthworks; civil construction; asset management; maintenance; surfacing and stabilisation; supply of bituminous products and logistics; open space and facilities management; and rail track signalling and electrification works.
Technology and Communications Services	Provides an end-to-end infrastructure service offering comprising feasibility, design, civil construction, network construction, commissioning, testing, operations and maintenance across fibre, copper and radio networks as well as data centre services, automated ticketing and intelligent transport technology systems.
Utilities Services	Provides complete lifecycle solutions to customers in the power, gas, water and renewable energy sectors including: planning, designing, constructing, operating, maintaining, managing and decommissioning power and gas network assets; providing complete water lifecycle solutions for municipal and industrial water users; and design, build and maintenance services for wind farms and wind turbine sites, solar farms, landfill methane generation plants, sugar cane waste fired cogeneration plants, and other biomass fired cogeneration plants.
Rail	Provides total rail asset solutions including passenger and freight build, operations and maintenance, component overhauls and after-market services.
Engineering, Construction and Maintenance (EC&M)	Provides design, engineering, construction and maintenance services for greenfield and brownfield projects across a range of sectors and all stages of the project lifecycle including: feasibility studies; engineering design; civil works; structural, mechanical and piping; electrical and instrumentation; mineral process equipment design and manufacture; commissioning; operations maintenance; shutdowns, turnarounds and outages; strategic asset management; and decommissioning.
Mining	Provides services across all stages of the mining lifecycle including: asset management; blasting services, explosive supply; civil projects; crushing; exploration drilling; mine closure and mine site rehabilitation; mobile plant maintenance; open cut mining; training and development for ATSI employees; tyre management; and underground mining.

B1. Segment information – continued

2016 $'m	Transport Services	Tech & Comms Services	Utilities Services	Rail	EC&M	Mining	Un-allocated	Total
Revenue	1,786.7	485.5	788.8	421.8	1,856.7	1,548.9	4.5	6,892.9
Inter-segment sales	–	–	–	–	–	–	(42.9)	(42.9)
Total segment revenue	1,786.7	485.5	788.8	421.8	1,856.7	1,548.9	(38.4)	6,850.0
Share of sales revenue from joint ventures and associates(i)	62.8	–	–	404.4	30.4	46.3	–	543.9
Total revenue including joint ventures and other income(i)	1,849.5	485.5	788.8	826.2	1,887.1	1,595.2	(38.4)	7,393.9
Share of net profit of joint ventures and associates	6.8	–	–	6.3	0.5	4.1	–	17.7
Research and development incentives	3.0	0.8	0.7	0.5	0.2	4.8	–	10.0
Depreciation and amortisation	39.7	5.5	13.8	10.8	18.2	153.6	17.1	258.7
Total reported segment results (EBIT)	103.7	29.9	41.5	14.4	48.2	130.0	(90.8)	276.9
Net finance costs								(33.0)
Total profit before tax								243.9
Acquisition of segment assets	42.2	5.6	20.2	8.6	20.5	116.3	54.3	267.7
Segment assets	957.2	163.0	478.6	604.1	596.8	872.3	528.3	4,200.3
Segment liabilities	328.9	122.8	135.0	132.1	326.0	318.2	748.8	2,111.8
Carrying value of equity accounted investees	7.6	–	–	58.7	5.9	9.4	–	81.6

2015 $'m	Transport Services	Tech & Comms Services	Utilities Services	Rail	EC&M	Mining	Un-allocated	Total
Revenue	1,863.6 (ii)	495.5	583.5	611.6	1,948.8 (ii)	1,532.4	14.3	7,049.7
Inter-segment sales	–	–	–	–	–	–	(29.8)	(29.8)
Total segment revenue	1,863.6 (ii)	495.5	583.5	611.6	1,948.8 (ii)	1,532.4	(15.5)	7,019.9
Share of sales revenue from joint ventures and associates(i)	60.6	–	–	261.9	30.4	57.3	–	410.2
Total revenue including joint ventures and other income(i)	1,924.2 (ii)	495.5	583.5	873.5	1,979.2 (ii)	1,589.7	(15.5)	7,430.1
Share of net profit of joint ventures and associates	0.6	–	–	8.8	1.8	3.5	–	14.7
Research and development incentives	2.5	1.1	1.2	0.7	0.5	4.0	15.1	25.1
Depreciation and amortisation	43.3	4.6	9.5	10.3	14.0	155.8	15.6	253.1
Total reported segment results (EBIT)	88.3 (ii)	25.7	34.0	27.5	59.4 (ii)	132.6	(57.8)	309.7
Net finance costs								(29.9)
Total profit before tax								279.8
Acquisition of segment assets	46.5	4.6	292.2	60.9	52.7	117.2	33.4	607.5
Segment assets	986.0	165.6	442.2	589.7	597.3	960.1	263.5	4,004.4
Segment liabilities	343.5	58.8	163.3	154.0	347.2	353.3	549.0	1,969.1
Carrying value of equity accounted investees	4.0	–	–	59.7	10.7	8.9	–	83.3

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

(ii) The 2015 revenue and EBIT have been reclassified by $89.9 million and $7.9 million respectively to better reflect the current segment structure and appropriate contribution by service line. There has been no impact on total revenue and EBIT as a result of these changes.

B1. Segment information – continued

Reconciliation of segment net operating profit to net profit after tax:

	Note	Segment results 2016 $'m	Segment results 2015 $'m
Segment net operating profit		**367.7**	367.5
Unallocated:			
Research and development incentives		**–**	15.1
Bid costs referable to Canberra light rail project(i)		**(13.0)**	–
Corporate costs		**(77.8)**	(72.9)
Total unallocated		**(90.8)**	(57.8)
Earnings before interest and tax		**276.9**	309.7
Net finance costs		**(33.0)**	(29.9)
Profit before income tax		**243.9**	279.8
Income tax expense	B4(a)	**(63.3)**	(69.6)
Profit after income tax		**180.6**	210.2

(i) Downer was a member of the ACTivate consortium. On 1 February 2016, the consortium was advised that it had not been successful in its bid to build, operate and maintain Canberra's new light rail project ("Capital Metro"). Accordingly, an amount of $13.0 million, referable to Downer's share of pre-tax bid costs has been expensed.

	Total revenue(i)		Segment assets		Acquisition of segment assets	
	2016 $'m	2015 $'m	2016 $'m	2015 $'m	2016 $'m	2015 $'m
By geographic location(ii)						
Australia	**5,502.7**	5,691.0	**3,607.3**	3,450.7	**238.2**	573.6
New Zealand and Pacific	**1,303.3**	1,270.5	**546.0**	507.6	**20.5**	32.8
Asia	**1.3**	2.9	**6.7**	8.3	**–**	–
Africa	**25.4**	34.7	**21.3**	17.9	**4.9**	0.5
South America	**14.3**	15.5	**16.5**	15.2	**4.1**	0.5
Other	**3.0**	5.3	**2.5**	4.7	**–**	0.1
Total	**6,850.0**	7,019.9	**4,200.3**	4,004.4	**267.7**	607.5

(i) Total revenue includes other income and inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods.
(ii) Revenue and assets are allocated based on geographical location of the legal entity.

B2. Profit from ordinary activities

a) Revenue and other income

	2016 $'m	2015 $'m
Sales revenue		
Rendering of services	**4,387.6**	4,469.6
Mining services	**1,507.7**	1,479.4
Construction contracts	**713.8**	789.4
Sale of goods	**205.3**	232.7
Other revenue	**31.8**	43.8
Total revenue from ordinary activities	**6,846.2**	7,014.9
Other income	**3.8**	5.0
Total revenue and other income	**6,850.0**	7,019.9
Share of sales revenue from joint ventures and associates[i]	**543.9**	410.2
Total revenue including joint ventures and associates and other income[i]	**7,393.9**	7,430.1

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

Recognition and measurement

Revenue

Revenue is measured at the fair value of the consideration received or receivable. 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; and
- Facilities management.

These services are provided either under a fixed price service contract or a time and materials contract. Time and materials contract revenue is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Other short-term service contracts are recognised when the services are completed in accordance with the terms of the contract. Service contracts that have a long-term duration are recognised in proportion to the stage of completion at balance sheet date.

(ii) Construction contracts

Construction contracts are contracts specifically negotiated for the construction of an asset or combination of assets (including rail and infrastructure assets). Revenue is recognised in proportion to the stage of completion of the contract at balance sheet date.

(iii) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

(iv) Other revenue

Other revenue primarily includes rental income and government grants relating to research and development incentives received by the Group. The Group elects to present the net amount in "Other revenue" as allowed under AASB120 *Accounting for Government grants and disclosure of Government assistance.*

Key estimate and judgement: Revenue recognition

Determining the stage of completion requires an estimate of expenses incurred to date as a percentage of total estimated costs. Where variations and claims are made to the contract, assumptions are made regarding the probability that the customer will approve the variations and claims and the amount of revenue that will arise. Changes in these estimation methods could have a material impact on the financial statements of Downer.

b) Individually significant item

The following material item is relevant to an understanding of the Group's financial performance:

	2016 $'m	2015 $'m
Bid costs referable to Canberra light rail project	**13.0**	–

Downer was a member of the ACTivate consortium. On 1 February 2016, the consortium was advised that it had not been successful in its bid to build, operate and maintain Canberra's new light rail project ("Capital Metro"). Accordingly an amount of $13.0 million, referable to Downer's share of pre-tax bid costs has been expensed.

B3. Earnings per share

Basic earnings per share

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

	2016	2015
Profit attributable to members of the parent entity ($'m)	**180.6**	210.2
Adjustment to reflect ROADS dividends paid ($'m)	**(9.6)**	(10.7)
Profit attributable to members of the parent entity used in calculating EPS ($'m)	**171.0**	199.5
Weighted average number of ordinary shares (WANOS) on issue (m's)[(i)]	**424.7**	428.1
Basic earnings per share (cents per share)	**40.3**	46.6

Diluted earnings per share

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

	2016	2015
Profit attributable to members of the parent entity ($'m)	**180.6**	210.2
Weighted average number of ordinary shares – diluted		
Weighted average number of ordinary shares (WANOS) on issue (m's)[(i)(ii)]	**424.7**	428.2
WANOS adjustment to reflect potential dilution for ROADS (m's)[(iii)]	**53.3**	39.8
WANOS used in the calculation of diluted EPS (m's)	**478.0**	468.0
Diluted earnings per share (cents per share)	**37.8**	44.9

(i) The WANOS on issue has been adjusted by the weighted average effect of on-market share buy-back and 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 $190.7 million (2015: $177.2 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2015 to 30 June 2016 discounted by 2.5% according to the ROADS contract terms, which was $3.58 (2015: $4.45).

B4. Taxation

a) Reconciliation of income tax expense

The prima facie income tax expense on profit before income tax reconciles to the income tax expense in the financial statements as follows:

	2016 $'m	2015 $'m
Profit before income tax	**243.9**	279.8
Tax using the Company's statutory tax rate	**73.2**	83.9
Effect of tax rates in foreign jurisdictions	**(1.2)**	(1.2)
Non-deductible expenses	**0.8**	2.3
Profits and franked distributions from joint ventures and associates	**(5.6)**	(6.9)
Non-taxable government grant	**(3.0)**	(7.5)
Other items	**(0.7)**	0.1
(Over) / under provision of income tax in previous year	**(0.2)**	(1.1)
Total income tax expense	**63.3**	69.6
Current tax expense	**24.9**	59.2
Deferred tax expense	**38.4**	10.4

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.

B4. Taxation – continued

b) Movement in deferred tax balances

2016 $'m	Net balance at 1 July	Charged to income statement	Charged to compre-hensive income and equity	Net foreign currency exchange differences	Acquisition and disposal	Net balance at 30 June	Deferred tax assets	Deferred tax liabilities
Trade and other receivables	**(85.3)**	**(34.3)**	**–**	**(1.4)**	**–**	**(121.0)**	**–**	**(121.0)**
Inventories	**(3.0)**	**(0.7)**	**–**	**–**	**–**	**(3.7)**	**–**	**(3.7)**
Joint ventures and associates	**(2.8)**	**1.5**	**–**	**–**	**–**	**(1.3)**	**–**	**(1.3)**
Property, plant and equipment	**(12.0)**	**(9.6)**	**–**	**(0.1)**	**–**	**(21.7)**	**–**	**(21.7)**
Intangible assets	**(20.4)**	**2.2**	**–**	**–**	**–**	**(18.2)**	**–**	**(18.2)**
Trade and other payables	**25.5**	**(17.2)**	**–**	**(0.1)**	**0.2**	**8.4**	**8.4**	**–**
Provisions	**87.9**	**17.4**	**–**	**0.5**	**(6.2)**	**99.6**	**99.6**	**–**
Other	**(3.1)**	**2.3**	**1.2**	**(0.2)**	**–**	**0.2**	**0.2**	**–**
Tax assets / (liabilities) before set-off	**(13.2)**	**(38.4)**	**1.2**	**(1.3)**	**(6.0)**	**(57.7)**	**108.2**	**(165.9)**
Set-off of DTA against DTL						**–**	**(108.2)**	**108.2**
Net tax assets / (liabilities)						**(57.7)**	**–**	**(57.7)**

2015 $'m	Net balance at 1 July	Charged to income statement	Charged to compre-hensive income and equity	Net foreign currency exchange differences	Acquisition and disposal	Net balance at 30 June	Deferred tax assets	Deferred tax liabilities
Trade and other receivables	(94.5)	5.1	–	0.8	3.3	(85.3)	–	(85.3)
Inventories	(1.9)	(0.8)	–	(0.3)	–	(3.0)	–	(3.0)
Joint ventures and associates	(5.3)	2.5	–	–	–	(2.8)	–	(2.8)
Property, plant and equipment	(5.7)	(6.7)	–	0.3	0.1	(12.0)	–	(12.0)
Intangible assets	(7.6)	2.2	–	–	(15.0)	(20.4)	–	(20.4)
Trade and other payables	15.6	9.8	–	–	0.1	25.5	25.5	–
Provisions	88.3	(21.9)	–	(0.2)	21.7	87.9	87.9	–
Other	(0.1)	(0.6)	(2.1)	(0.3)	–	(3.1)	–	(3.1)
Tax assets / (liabilities) before set-off	(11.2)	(10.4)	(2.1)	0.3	10.2	(13.2)	113.4	(126.6)
Set-off of DTA against DTL						–	(112.7)	112.7
Net tax assets / (liabilities)						(13.2)	0.7	(13.9)

B4. Taxation – 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. It 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 future taxable profits will be available to utilise them.

However, deferred tax assets and liabilities are not recognised for:

- taxable 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;
- taxable 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; and
- taxable 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 directly 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 / Group intends to settle its current tax assets and liabilities on a net basis.

Tax consolidation

Downer EDI Limited and its wholly owned Australian controlled entities are part of a tax-consolidated group under Australian taxation law. Downer EDI Limited is the head entity in the tax-consolidated group. Entities within the tax-consolidated group have entered into a tax funding 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 only recognised for deductible temporary differences 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.

Key estimate and judgement: Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Judgement is required in determining the worldwide provision for income taxes and in assessing 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. Remuneration of auditors

	2016 $	2015 $
Audit or review of financial reports:		
Auditor of the Group		
– Australia	**2,505,000**	2,596,000
– Overseas	**524,000**	490,000
	3,029,000	3,086,000
Non-audit services:		
Tax services	**743,567**	733,510
Sustainability assurance	**107,500**	106,000
Due diligence and other non-audit services	**306,842**	315,742
	1,157,909	1,155,252

The auditor of the Group is KPMG.

B6. Subsequent events

At the date of this report there is no matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect:

a) The Group's operations in future financial years;

b) The results of those operations in future financial years; or

c) The Group's state of affairs in future 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 flow from operating activities

	Note	2016 $'m	2015 $'m
Profit after tax for the year		**180.6**	210.2
Adjustments for:			
Share of joint ventures and associates' profits net of distributions		**0.9**	(6.7)
Depreciation and amortisation of non-current assets	C6,C7	**258.7**	253.1
Amortisation of deferred costs		**2.6**	2.7
Net gain on sale of property, plant and equipment		**(3.0)**	(5.0)
Loss on disposal of businesses		**2.3**	–
Bid costs referable to Canberra light rail project	B2(b)	**13.0**	–
Research and development incentives		**(10.0)**	(25.1)
Foreign exchange (gain) / loss		**(0.3)**	1.5
Movement in current tax balances		**(11.0)**	10.1
Movement in deferred tax balances		**38.4**	10.4
Share-based employee benefits expense	D1	**4.9**	1.5
Other		**1.2**	1.9
		297.7	244.4
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase) / decrease in assets:			
Current trade and other receivables		**(23.4)**	121.3
Current inventories		**18.5**	40.2
Other current assets		**4.2**	(1.6)
Non-current trade and other receivables		**(1.1)**	(0.2)
Other non-current assets		**1.2**	0.7
Increase / (decrease) in liabilities:			
Current trade and other payables		**(71.9)**	(61.6)
Current provisions		**25.2**	(62.3)
Non-current trade and other payables		**2.0**	4.6
Non-current provisions		**14.8**	(9.2)
		(30.5)	31.9
Net cash generated by operating activities		**447.8**	486.5

C2. Trade and other receivables

	Note	2016 $'m	2015 $'m
Current			
Trade receivables		**441.4**	491.4
Allowance for doubtful debts		**(3.7)**	(4.4)
		437.7	487.0
Amounts due from customers under contracts and rendering of services	C3	**635.9**	591.1
Other receivables		**50.7**	45.3
		1,124.3	1,123.4
Ageing profile of trade receivables			
Neither past due nor impaired		**360.3**	402.5
Past due but not impaired		**77.4**	84.5
Impaired		**3.7**	4.4
		441.4	491.4

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.

Fair value

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

Impairment of trade receivables

The Group has considered the collectability and recoverability of trade receivables. An allowance for doubtful debts has been made for the estimated irrecoverable trade receivable amounts arising from services provided, determined by reference to past default experience.

Capitalisation of tender / bid costs

When it is probable that a contract will be awarded, the expenditure incurred in relation to tender / bid costs is capitalised. Capitalised costs are expensed in accordance with contract accounting principles once the contract is awarded. Where a tender / bid is subsequently unsuccessful, the previously capitalised costs are immediately expensed. Tender / bid costs that have been expensed cannot be recapitalised in the subsequent financial year.

Key estimate and judgement: Capitalisation of tender / bid costs

Judgement is exercised in determining whether it is probable that the contract will be awarded. An error in judgement may result in capitalised tender / bid costs being recognised as an expense in the following financial year.

C3. Rendering of services and construction contracts

	Note	2016 $'m	2015 $'m
Cumulative contracts in progress as at reporting date:			
Cumulative costs incurred plus recognised profits less recognised losses to date		**7,121.0**	10,987.1
Less: progress billings		**(6,648.4)**	(10,548.0)
Net amount		**472.6**	439.1
Recognised and included in the financial statements as amounts due:			
From customers under contracts	C2	**635.9**	591.1
To customers under contracts	C5	**(163.3)**	(152.0)
Net amount		**472.6**	439.1

Recognition and measurement

Services and construction contracts are reported in trade receivables and trade payables, as gross amounts due from / to customers.

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

C4. Inventories

	2016 $'m	2015 $'m
Current		
Raw materials	**208.0**	246.7
Work in progress	**0.5**	0.9
Finished goods	**88.7**	73.7
Components and spare parts	**30.0**	31.3
	327.2	352.6

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.

C5. Trade and other payables

	Note	2016 $'m	2015 $'m
Current			
Trade payables		**358.9**	369.8
Amounts due to customers under contracts and rendering of services	C3	**163.3**	152.0
Accruals		**414.8**	458.1
Other		**73.9**	86.6
		1,010.9	1,066.5

Recognition and measurement

Trade and other payables

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

Fair value

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

C6. Property, plant and equipment

2016 $'m	Freehold Land and Buildings	Plant and Equipment	Equipment under Finance Lease	Total
Carrying amount as at 1 July 2015	**59.1**	**895.1**	**82.9**	**1,037.1**
Additions	**13.6**	**168.8**	**14.0**	**196.4**
Disposals at net book value	**–**	**(16.8)**	**(0.5)**	**(17.3)**
Acquisition of business	**–**	**1.7**	**–**	**1.7**
Disposal of business at net book value	**–**	**(0.6)**	**–**	**(0.6)**
Depreciation expense	**(4.7)**	**(217.7)**	**(12.1)**	**(234.5)**
Reclassifications at net book value	**–**	**24.4**	**(24.4)**	**–**
Reclassified as intangible assets(i)	**–**	**(1.2)**	**–**	**(1.2)**
Net foreign currency exchange differences at net book value	**0.5**	**6.2**	**–**	**6.7**
Closing net book value as at 30 June 2016	**68.5**	**859.9**	**59.9**	**988.3**
Cost	**95.5**	**2,143.3**	**109.8**	**2,348.6**
Accumulated depreciation	**(27.0)**	**(1,283.4)**	**(49.9)**	**(1,360.3)**
2015				
Carrying amount as at 1 July 2014	53.0	1,010.4	83.5	1,146.9
Additions	13.5	163.1	8.2	184.8
Disposals at net book value	(2.4)	(72.2)	(0.7)	(75.3)
Acquisition of business	0.2	18.7	0.4	19.3
Depreciation expense	(5.5)	(213.9)	(9.2)	(228.6)
Reclassifications at net book value	0.7	(1.1)	0.4	–
Reclassified as intangible assets(i)	–	(3.0)	–	(3.0)
Net foreign currency exchange differences at net book value	(0.4)	(6.9)	0.3	(7.0)
Closing net book value as at 30 June 2015	59.1	895.1	82.9	1,037.1
Cost	80.9	2,060.9	138.3	2,280.1
Accumulated depreciation	(21.8)	(1,165.8)	(55.4)	(1,243.0)

(i) Refers to the reclassification of software from Capital Work in Progress to Intangible Assets.

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	20-30 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	3-25 years	Straight-line
Equipment under finance lease	5-15 years	Straight-line – lease term

C7. Intangible assets

2016 $'m	Goodwill	Customer contracts and relationships	Intellectual property, software and system development	Total
Carrying amount as at 1 July 2015	**781.7**	**43.5**	**93.8**	**919.0**
Additions	**–**	**–**	**49.1**	**49.1**
Acquisition of business	**20.5**	**–**	**–**	**20.5**
Reclassifications at net book value[i]	**–**	**–**	**1.2**	**1.2**
Amortisation expense	**–**	**(6.4)**	**(17.8)**	**(24.2)**
Net foreign currency exchange differences at net book value	**3.1**	**–**	**1.2**	**4.3**
Closing net book value as at 30 June 2016	**805.3**	**37.1**	**127.5**	**969.9**
Cost	**881.3**	**50.1**	**255.3**	**1,186.7**
Accumulated amortisation and impairment	**(76.0)**	**(13.0)**	**(127.8)**	**(216.8)**
2015				
Carrying amount as at 1 July 2014	521.6	–	67.9	589.5
Additions	–	–	32.2	32.2
Acquisition of business	261.9	50.1	9.2	321.2
Reclassifications at net book value[i]	–	–	3.0	3.0
Amortisation expense	–	(6.6)	(17.9)	(24.5)
Net foreign currency exchange differences at net book value	(1.8)	–	(0.6)	(2.4)
Closing net book value as at 30 June 2015	781.7	43.5	93.8	919.0
Cost	857.7	50.1	200.4	1,108.2
Accumulated amortisation and impairment	(76.0)	(6.6)	(106.6)	(189.2)

(i) Refers to the reclassification of software from Capital Work in Progress to Intangible Assets.

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

Customer contracts and relationships acquired in a business combination are carried at cost 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.

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
Customer contracts and relationships	5-10 years
Software and system development	5-15 years
Other intangible assets (other than indefinite useful life intangible assets)	20 years

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

C7. Intangible assets – continued

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 that are significant individually or in aggregate, taking into consideration the nature of service, resource allocation, how operations are monitored and where independent cash inflows are identifiable. Six independent CGUs (by service line) have been identified across the Group against which impairment testing has been undertaken. Goodwill has been allocated to these CGUs as follows:

	Carrying value of consolidated goodwill	
	2016 $'m	**2015 $'m**
Transport Services	**215.7**	212.5
Technology and Communications Services	**46.1**	45.1
Utilities Services	**243.2**	226.8
Rail	**69.5**	69.5
EC&M	**154.4**	151.4
Mining	**76.4**	76.4
	805.3	781.7

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. The Group uses the "value in use" method to determine the recoverable amount. Key assumptions requiring judgement include projected cash flows, growth rate estimates, discount rates, working capital and capital expenditure.

Recoverable amount testing –key assumptions

The table below shows the key assumptions utilised in the "value in use" calculations.

	Budgeted EBITDA(i)	Long-term growth rate	Discount rate
Transport Services	9.5%	2.5%	10.9%
Technology and Communications Services	(3.5%)	2.5%	10.8%
Utilities Services	12.3%	2.5%	10.9%
Rail	10.6%	2.5%	11.0%
EC&M	0.3%	2.5%	11.0%
Mining	2.8%	2.5%	11.5%

(i) Budgeted EBITDA used for impairment testing is expressed as the compound annual growth rates from FY17 to terminal year based on the business plans.

(i) Projected cash flows

The Group determines the recoverable amount based on a "value in use" calculation, using four years cash flow projections based on the FY17 budget for the year ending 30 June 2017 and the business plan for the subsequent financial years ending 30 June 2018, 2019 and 2020 (as discussed with the Board). For FY21 onwards, the Group assumes a long-term growth rate to allow for organic growth on the existing asset base.

Cash flow projections are determined utilising the budgeted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) 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.

Budgeted EBITDA 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:

- Transport Services and Utilities Services are expected to benefit from an expected increase in activity across the transport infrastructure, electricity, water and renewables sectors;
- Rail is expected to benefit from growth in its maintenance, after-market parts sales activities and other growth opportunities. In addition, closer integration with strategic partners is expected to continue to contribute to revenue and EBITDA growth;
- Mining and EC&M's revenue and EBITDA include assumptions that take into account the cyclical nature of the resources industry and various growth opportunities; and
- Technology and Communications Services is expected to be impacted by the potential reduction in revenue from existing significant contracts.

C7. Intangible assets – continued

(ii) Long-term growth rate

The future annual growth rates for FY21 onwards to perpetuity are based on the historical nominal GDP rates for the country of operation.

(iii) Discount rates

Post-tax discount rates of between 10.8% and 11.5% reflect the Group's estimate of the time value of money and risks specific to 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, including benchmarking against relevant peer group companies. The post-tax discount rate is applied to post-tax cash flows that include an allowance for tax based on the 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 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 utilisation and operating activity.

Sensitivities

Other than as disclosed below, the Group believes that for all other CGUs, any reasonably possible change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.

For the Mining CGU, the Group has considered the current macro-economic challenges facing the resources sector. A number of scenarios, including further contract losses have been analysed. Based on the modelling and analysis performed, the recoverable amount is expected to be greater than the carrying value.

For the Rail CGU, the recoverable amount currently exceeds its carrying value. A reasonably possible change in the projected cash flows could result in the carrying value of the CGU exceeding its recoverable amount. Discussed below is the sensitivity analysis performed to determine what changes in the key assumptions used, if any, would lead to an impairment loss being recognised.

The valuation of the Rail CGU assumes increased efficiencies in its operations and improvement in the financial performance of its business. The timing of the cash flows arising from these improvements may be affected by macro-economic risks, including volatile commodity prices which may result in further reduction in capital expenditure in the Australian resources sector and insourcing by key customers for rolling stock maintenance. In the event that these risks ultimately eventuate and cannot be mitigated, the Rail CGU carrying value may exceed its recoverable amount.

In addition, Downer is currently participating in three major bids which, if successful, will result in significant long-term contracts. The financial impact of these bids has not been included in the calculation of the recoverable amount. In the event that Downer is successful in at least one of these bids, the resulting increase in the recoverable amount will be greater than the impact of the downside sensitivity analysis set out above.

C8. Provisions

2016 $'m	Decomm-issioning	Warranties and contract claims	Other	Total
At 1 July 2015	12.6	26.0	25.4	64.0
Additional provisions recognised	2.9	19.5	47.9	70.3
Unused provision reversed	(0.6)	(6.0)	(3.3)	(9.9)
Utilisation of provision	(0.5)	(17.3)	(24.3)	(42.1)
Net foreign currency exchange differences	–	–	0.1	0.1
At 30 June 2016	14.4	22.2	45.8	82.4
Current	4.5	21.7	25.4	51.6
Non-current	9.9	0.5	20.4	30.8

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; and
– 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) Other provisions

Other provisions primarily include amounts recognised in relation to onerous supply contracts and return conditions provisions for leased assets. The Group has leases that require the leased asset to be returned to the lessor in a certain condition.

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 and technology.

(ii) Warranties and contract claims

The provision is estimated having regard to previous claims experience.

(iii) Other provisions

The return condition provision is estimated based on the costs associated with returning leased assets to the lessor in certain condition.

C9. Contingent liabilities

Bonding	Note	2016 $'m	2015 $'m
The Group has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for wholly-owned controlled entities	E2	**722.0**	808.4

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, a contingent liability may exist for any amounts that ultimately becomes 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 contractor's and consultant's 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 six "leaky building" claims. The leaky building claims where Group entities are co-defendants generally relate to water damage arisen 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) Ground subsidence at the Waratah Train Maintenance Centre located on Manchester Road, Auburn ("AMC") has been identified. The design and construction of the AMC formed part of the Waratah Train Project, with Reliance Rail contracting Downer to design and build the AMC. In turn, Downer subcontracted this work to John Holland Pty Ltd. The design and construction of the areas in which subsidence has been observed formed part of the subcontractor's design and construct obligations. Investigations into the causes of the subsidence continue, with an estimated remediation cost in the order of $30 million. The Directors are of the opinion that, there is no material exposure to either Downer EDI Rail Pty Limited or Downer EDI PPP Maintenance Pty Limited arising from the subsidence, based on the fact that there are a range of recovery options being pursued.

vii) The Group is defending a claim brought by Port Waratah Coal Services Limited and a cross claim by another defendant, Menard Bachy Pty Ltd in respect of alleged non-conforming excavation and civil work performed at Kooragang Island Coal Terminal by Downer and its joint venture partner, Daracon Contractors Pty Ltd. The value of the claim against Downer and Daracon is $39 million. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

viii) On 16 September 2015, the Group announced that it had terminated a contract with Tecnicas Reunidas S.A. ("TR") following TR's failure to remedy a substantial breach of the contract and that the Group is pursuing a claim against TR in the order of $65 million. Downer has since demobilised from the site and has formally commenced an arbitration process, with a hearing expected to take place in calendar year 2017. TR has initiated a counter-claim as part of the arbitration although no particulars of the counter-claim have been provided yet. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

ix) Under the terms of the agreement reached between the New South Wales Government and Reliance Rail, the Group has a contingent commitment to pay Reliance Rail $12.5 million in 2018 should it be required to refinance Reliance Rail's senior debt.

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

	2016 $'m	2015 $'m
Employee benefits provision:		
– Current	**254.2**	228.1
– Non-current	**27.6**	29.5
Total	**281.8**	257.6

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; and
- 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.

	2016 $'m	2015 $'m
Employee benefits expense:		
– Defined contribution plans	**148.4**	140.6
– Shared-based employee benefits expense	**4.9**	1.5
– Employee benefits	**2,580.8**	2,441.6
– Redundancy costs	**24.5**	21.6
Total	**2,758.6**	2,605.3

D2. Key management personnel compensation

	2016 $	2015(i) $
Short-term employee benefits	13,279,618	12,776,321
Post-employment benefits	695,498	1,432,020
Share-based payments	2,460,150	932,294
Total	16,435,266	15,140,635

(i) 2015 figures reflect compensation paid to KMP as reported in the 2015 Annual Report.

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 are recognised in the 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 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.

D3. Employee discount share plan

No shares were issued under the Employee Discount Share Plan during the years ended 30 June 2016 and 30 June 2015.

E
Capital structure and financing

This section provides information relating to the Group's capital structure and its exposure to financial risk, 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

	Note	2016 $'m	2015 $'m
Current			
Secured:			
– Finance lease liabilities	E3(c)	**13.1**	22.5
– Hire purchase liabilities	E3(d)	**0.5**	6.0
– Supplier finance		**5.8**	–
		19.4	28.5
Unsecured:			
– Bank loans		**15.1**	16.6
– AUD medium term notes (2009-1)		**13.3**	13.3
– AUD medium term notes (2010-1)		**–**	6.3
– Deferred finance charges		**(2.3)**	(2.5)
		26.1	33.7
Total current borrowings		**45.5**	62.2

E1. Borrowings – continued

	Note	2016 $'m	2015 $'m
Non-current			
Secured:			
– Finance lease liabilities	E3(c)	**13.9**	18.3
– Hire purchase liabilities	E3(d)	**0.6**	1.1
		14.5	19.4
Unsecured:			
– Bank loans		**8.6**	28.3
– USD notes		**144.1**	9.1
– AUD notes		**30.0**	–
– AUD medium term notes (2009-1)		**13.3**	26.6
– AUD medium term notes (2013-1)		**150.0**	150.0
– AUD medium term notes (2015-1)		**250.0**	250.0
– Deferred finance charges		**(6.0)**	(7.0)
		590.0	457.0
Total non-current borrowings		**604.5**	476.4
Total borrowings		**650.0**	538.6

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.

	2016 $'m	2015 $'m
Total borrowings [(i)]	**616.1**	490.7
Fair value of total borrowings [(i)]	**687.4**	544.8

(i) Exclude finance lease liabilities, hire purchase liabilities and supplier finance.

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 30 June 2016, the Group had the following facilities that were not utilised at balance date:

	2016 $'m	2015 $'m
Syndicated bank loan facility	**400.0**	400.0
Bilateral bank loan facilities	**125.0**	210.0
Total unutilised bank loan facilities	**525.0**	610.0
Bilateral bank and insurance bonding facilities	**614.5**	524.9
Total unutilised bonding facilities	**614.5**	524.9

Bank loans

Syndicated loan facility

The syndicated loan facility, totalling $400.0 million, is unsecured and is split into two tranches:

- $200.0 million maturing in April 2019; and
- $200.0 million maturing in April 2021.

Bilateral bank loans and overdrafts

These facilities are unsecured and due for renewal in multiple tranches in calendar years 2017 and 2018 excluding $23.7 million of loans which are supported by Export Credit Agency guarantees and which amortise through even, semi-annual instalments with final maturity dates of October 2017 and July 2018.

USD notes

USD unsecured private placement notes are on issue for a total amount of US$107.0 million. US$7.0 million notes mature in September 2019 and US$100.0 million in July 2025. The USD denominated principal and interest amounts have been fully hedged against the Australian dollar.

AUD notes

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

AUD Medium Term Notes (MTNs)

The Group has the following unsecured MTNs on issue:

- Series 2009-1 amortises through even semi-annual instalments, until the final maturity date of April 2018 and has a balance of $26.6 million;
- Series 2013-1 for $150.0 million, which matures in November 2018; and
- Series 2015-1 for $250.0 million, which matures in March 2022.

The above facilities and notes are subject to certain Group guarantees.

Finance lease / Hire purchase / Supplier finance facilities

The Group has certain secured facilities of these types which are for an aggregate amount of $33.9 million and which amortise over different periods of up to four years.

Covenants on financing facilities

Certain of the Group's financing facilities contain undertakings to comply at all times with financial covenants. This requires the Group to operate within certain financial ratios as well as ensuring that subsidiaries that contribute certain minimum threshold amounts of Group EBIT and Group Total Tangible Assets are guarantors under various facilities.

The main financial covenants which the Group is subject to are Net Worth, Interest Service Coverage (calculated as rolling 12 month EBIT to Net Interest Expense) and Leverage (calculated as Net Debt to Total Capitalisation).

Financial covenants testing is undertaken and reported to the Board on a monthly basis. Reporting of financial covenants to financiers occurs semi-annually for the rolling 12 month periods to 30 June and 31 December. The Group was in compliance with all its financial covenants as at 30 June 2016.

Bonding

The Group has $1,336.5 million of bank guarantee and insurance bond facilities to support its contracting activities. $510.5 million of these facilities are provided to the Group on a committed basis and $826.0 million on an uncommitted basis.

The Group's facilities are provided by a number of banks and insurance companies on an unsecured basis and are subject to certain Group guarantees. $722.0 million (refer to Note C9) of these facilities were utilised as at 30 June 2016 with $614.5 million unutilised. These facilities have varying maturity dates between calendar years 2016 and 2018.

The underlying risk being assumed by the relevant financier under all bonds is Downer 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 bank loan facilities) which can, at the election of the Group, be utilised for bonding purposes.

Refinancing requirements

Where existing facilities approach maturity, the Group will negotiate with existing and new financiers to extend the maturity date of these facilities. 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.

Credit ratings

The Group has an Investment Grade credit rating of BBB (Outlook Stable) from Fitch Ratings. Where the credit rating is reduced 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 debt and bonding facilities, to reflect the deteriorating credit risk profile.

E3. Commitments

a) Capital expenditure commitments

	Note	2016 $'m	2015 $'m
Plant and equipment			
Within one year		**18.2**	24.9
		18.2	24.9

b) Operating lease commitments

Non-cancellable operating leases relate to premises with lease terms of between one to 20 years.

	Note	2016 $'m	2015 $'m
Within one year		**56.0**	50.7
Between one and five years		**155.3**	144.1
Greater than five years		**138.0**	157.4
		349.3	352.2

Non-cancellable operating leases relate to plant and equipment with lease terms of between one to seven years.

	Note	2016 $'m	2015 $'m
Within one year		**58.9**	66.2
Between one and five years		**76.8**	83.9
Greater than five years		**6.9**	7.7
		142.6	157.8

c) Finance lease commitments

Finance leases relate to plant and equipment with lease terms of between one to five years.

	Note	2016 $'m	2015 $'m
Within one year		**14.1**	24.4
Between one and five years		**14.3**	19.2
Minimum finance lease payments		**28.4**	43.6
Future finance charges		**(1.4)**	(2.8)
Finance lease liabilities		**27.0**	40.8
Included in the financial statements as:			
Current borrowings	E1	**13.1**	22.5
Non-current borrowings	E1	**13.9**	18.3
		27.0	40.8

d) Hire purchase liabilities

	Note	2016 $'m	2015 $'m
Within one year		**0.6**	6.1
Between one and five years		**0.6**	1.2
Minimum hire purchase payments		**1.2**	7.3
Future finance charges		**(0.1)**	(0.2)
Hire purchase liabilities		**1.1**	7.1
Included in the financial statements as:			
Current borrowings	E1	**0.5**	6.0
Non-current borrowings	E1	**0.6**	1.1
		1.1	7.1

E3. Commitments – continued

e) Operating lease expenses

	2016 $'m	2015 $'m
Operating lease expenses relating to land and building	**66.8**	68.3
Operating lease expenses relating to plant and equipment	**105.6**	123.3
Total operating lease expenses	**172.4**	191.6

Recognition and measurement

Leases

When the terms of a lease transfer substantially all the risks and rewards of ownership to the Group, the lease is classified as a finance lease. All other leases are classified as operating leases.

(i) Operating leases

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

(ii) Finance leases

Assets held under finance leases are initially recognised at an amount equal to the lower of their fair value or the present value of the minimum lease payments. Subsequently the assets are depreciated on a straight-line basis over the lesser of the estimated useful life or the lease term.

Finance lease payments are apportioned between the finance expense and the reduction of outstanding liability. The finance expense is allocated to each period during the lease term so as to achieve a constant rate of interest on the remaining balance of the liability.

E4. Issued capital

	2016 $'m	2015 $'m
Ordinary shares		
424,785,204 ordinary shares (2015: 432,683,214)	**1,270.2**	1,296.7
Unvested executive incentive shares		
4,453,456 ordinary shares (2015: 5,295,993)	**(21.0)**	(26.2)
200,000,000 Redeemable Optionally Adjustable		
Distributing Securities (ROADS) (2015: 200,000,000)	**178.6**	178.6
	1,427.8	1,449.1

a) Fully paid ordinary share capital

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

	2016 m's	2016 $'m	2015 m's	2015 $'m
Fully paid ordinary share capital				
Balance at the beginning of the financial year	**432.7**	**1,296.7**	435.4	1,308.4
Group on-market share buy-back	**(7.9)**	**(26.5)**	(2.7)	(11.7)
Balance at the end of the financial year	**424.8**	**1,270.2**	432.7	1,296.7
b) Unvested executive incentive shares				
Balance at the beginning of the financial year	**5.3**	**(26.2)**	6.0	(29.1)
Vested executive incentive share transactions[(i)]	**(0.8)**	**5.2**	(0.7)	2.9
Balance at the end of the financial year	**4.5**	**(21.0)**	5.3	(26.2)

(i) Represents 842,537 vested shares for a value of $5,155,989 referable to the first deferred component of the 2014 STI award and to the 2012 LTI plan. June 2015 figures referable to vested shares under the LTI plan totalling 742,705 shares for a value of $2,920,601.

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.

E4. Issued capital – continued

c) Redeemable Optionally Adjustable Distributing Securities (ROADS)	2016		2015	
	m's	$'m	m's	$'m
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 2016 is 6.29% per annum (2015: 7.21% per annum) which is equivalent to the one year swap rate on 15 June 2016 plus the Step-up margin of 4.05% per annum.

Share options and performance rights

During the financial year 2,130,318 performance rights (2015: 2,184,741) 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.

E5. Dividends

a) Ordinary shares

	2016 Final	2016 Interim	2015 Final	2015 Interim
Dividend per share (in Australian cents)	**12.0**	**12.0**	12.0	12.0
Franking percentage	**100%**	**100%**	100%	100%
Cost (in $'m)	**51.0**	**51.7**	51.9	51.9
Payment date	**15/09/2016**	**17/03/2016**	17/09/2015	19/03/2015
Dividend record date	**18/08/2016**	**18/02/2016**	20/08/2015	19/02/2015

Recognition and measurement

Provision is made 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.

The final 2016 dividend has not been declared at the reporting date and therefore is not reflected in the consolidated financial statements.

b) Redeemable Optionally Adjustable Distributing Securities (ROADS)

2016	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	**1.18**	**1.22**	**1.17**	**1.24**	**4.81**
New Zealand imputation credit percentage	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'m)	**2.4**	**2.4**	**2.3**	**2.5**	**9.6**
Payment date	**15/09/2015**	**15/12/2015**	**15/03/2016**	**15/06/2016**	

2015	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	1.28	1.37	1.40	1.27	5.32
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'m)	2.6	2.7	2.8	2.6	10.7
Payment date	15/09/2014	15/12/2014	16/03/2015	15/06/2015	

c) Franking credits

The franking account balance as at 30 June 2016 is nil (2015: nil).

F
Group structure

This section explains significant aspects of Downer's group structure, including joint arrangements where the Group has interest 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

	2016 $'m	2015 $'m
Interest in joint ventures at the beginning of the financial year	**13.3**	13.6
Share of net profit	**14.4**	7.8
Share of distributions	**(9.6)**	(8.0)
Additional interest in joint ventures	**–**	0.1
Acquisition of controlling interest	**(1.1)**	–
Foreign currency exchange differences	**0.3**	(0.2)
Interest in joint ventures at the end of the financial year	**17.3**	13.3
Interest in associates at the beginning of the financial year	**70.0**	26.5
Share of net profit	**3.3**	6.9
Share of distributions	**(9.0)**	–
Additional interest in associates	**–**	36.6
Interest in associates at the end of the financial year	**64.3**	70.0
Interest in joint ventures and associates	**81.6**	83.3

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 2016 %	Ownership interest 2015 %
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
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco Limited	Emulsion plant	New Zealand	**50**	50
Green Vision Recycling Limited (i)	Recycling	New Zealand	**–**	33
Isaac Asphalt Limited	Manufacture and supply of asphalt	New Zealand	**50**	50
RTL Mining and Earthworks Pty Ltd	Contract mining, civil works and plant hire	Australia	**44**	44
Associates				
MHPS Plant Services Pty Ltd	Refurbishment, construction and maintenance of boilers	Australia	**27**	27
Keolis Downer Pty Ltd	Operation and maintenance of Gold Coast light rail, Melbourne tram network and bus operation	Australia	**49**	49
Reliance Rail Pty Ltd (ii)	Rail manufacturing and maintenance	Australia	**49**	49

(i) Downer acquired the remaining ownership interest on 18 December 2015 (refer to Note F2).

(ii) Downer previously wrote down its investment in Reliance Rail Pty Ltd to nil. The New South Wales Government has the right in February 2018 to acquire Downer's ownership of Reliance Rail Pty Ltd for nil consideration. As a consequence, Downer does not include Reliance Rail Pty Ltd in its equity accounted disclosure.

There are no material commitments held by joint ventures or associates.

All joint ventures and associates have a statutory reporting date of 30 June, with the exception of MHPS Plant Services Pty Ltd which has a statutory reporting date of 31 March.

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 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.

F1. Joint arrangements and associate entities – continued

b) Interest in joint operations

The Group has interests in the following joint operations which are proportionately consolidated:

Name of joint operation	Principal activity	Country of operation	Ownership interest 2016 %	Ownership interest 2015 %
BPL Downer Joint Venture	Building construction	Singapore	**50**	50
CDJV Construction Pty Ltd	Employment of labour force deployed in Clough Downer	Australia	**50**	50
Clough Downer Joint Venture	Gas compression facilities and pipelines	Australia	**50**	50
CMC and Downer Joint Venture	Road construction	Australia	**50**	50
Dampier Highway Joint Venture	Highway construction and design	Australia	**50**	50
Downer-Carey Mining JV	Management of run of mine and ore rehandling services	Australia	**46**	46
Downer Clough Joint Venture	Ammonium nitrate production	Australia	**50**	50
Downer CSS Joint Venture (i) (iv)	Telecommunications	Thailand	**–**	60
Downer Daracon Joint Venture	Construction	Australia	**50**	50
Downer EDI Works Pty Ltd & Leighton Contractors Pty Ltd	Design and construction of rail works	Australia	**50**	50
Downer Electrical GHD JV (i)	Traffic control infrastructure	Australia	**90**	90
Downer HEB Joint Venture	Design and build of the New Zealand National War Memorial Park	New Zealand	**50**	50
DownerMouchel (ii)	Road maintenance	Australia	**60**	60
DownerMouchel Services Pty Ltd	Employment of labour force deployed in DownerMouchel in New South Wales	Australia	**50**	50
Downer New Zealand Projects 1 Limited & Soletanche Bachy International (NZ) Limited	Enabling works for Auckland City Rail Link	New Zealand	**50**	50
John Holland EDI Joint Venture	Research reactor	Australia	**40**	40
John Holland Pty Ltd & Downer Utilities Australia Pty Ltd Partnership	Operation of water recycling plant at Mackay	Australia	**50**	50
Karlayura ReGen Joint Venture	Road construction	Australia	**50**	50
Landloch ReGen Joint Venture	Rehabilitation works, earthworks and plant monitoring and maintenance	Australia	**(iii)**	(iii)
LD&C Joint Venture	Design and construction of pipes and structures	Australia	**37.5**	37.5
Leighton Works Joint Venture	Road construction	New Zealand	**50**	50
Macdow Downer Joint Venture	Road construction	New Zealand	**50**	50
Organic Water Joint Venture	Design, construction and operation of water recycling plant	Australia	**50**	50
Synergy Joint Venture	Road and pavement construction	Australia	**33**	33
Thiess Downer EDI Works	Construction of coast to coast railway	Australia	**25**	25
Thiess VEC Joint Venture	Highway construction	Australia	**50**	50
Total Spaces Joint Venture (iv)	Roading, landscaping and earthworks	New Zealand	**–**	50
Utilita Water Solutions	Plant maintenance	Australia	**50**	–
VEC Shaw Joint Venture	Road construction	Australia	**50**	–
Wiri Train Depot Joint Venture	Construction of the Wiri train depot	New Zealand	**50**	50
York Civil Pty Ltd and Downer EDI Engineering Pty Ltd Joint Venture	Construction of water pump station	Australia	**50**	50

(i) Contractual arrangement prevents control despite ownership of more than 50% of these joint ventures.
(ii) The joint arrangement specifies 50% interest, except where an Integrated Service Arrangement (ISA) obligation is in place, whereby Downer EDI Limited has a 60% interest.
(iii) Joint control is effected through unanimous vote by joint venture partners to direct the joint arrangement's relevant activities however the Group's interest may vary based on discrete phases of works performed.
(iv) Downer's interest in the joint operation was disposed of during the financial year ended 30 June 2016 following completion of the contract.

F2. Acquisition of businesses

2016

Green Vision Recycling Limited

On 18 December 2015, the Group acquired the remaining 67% of Green Vision Recycling Limited for $0.9 million. Green Vision is a New Zealand company specialised in recycling horizontal infrastructure (roads, footpath, kerbs and soil).

2015

Tenix

On 31 October 2014, the Group acquired 100% of Tenix Holdings Australia Pty Ltd and its subsidiaries ("Tenix") for $300 million on a cash and debt free basis. Adjusting for acquired cash, net working capital and other minor adjustments, the gross purchase consideration was $333 million. The principal activity of Tenix is to provide design, construction, fabrication and installation, operation and maintenance services in the water, power and gas industries. Tenix is a leader in the electricity, gas and water sectors in Australia and New Zealand and the acquisition of Tenix is a strategic growth initiative for the Group.

a) Identifiable assets acquired and liabilities assumed

There have been no changes to the valuation techniques used for measuring the fair value of material assets acquired since last reported in the 2015 Annual Report.

The final accounting and tax values for the acquisition of Tenix have been determined at the end of the measurement period, resulting in total identifiable net assets acquired of $60.5 million (inclusive of $29.3 million cash balance acquired). As a result, $19.1 million of additional goodwill was recognised.

b) Goodwill

Goodwill arising from Tenix's acquisition has been recognised as follows:

	Note	$'m
Gross purchase consideration		333.0
Fair value of identifiable net assets acquired	F2(a)	(60.5)
Goodwill arising from acquisition		**272.5**

The goodwill represents revenue growth opportunities, the skills and technical talent of Tenix's workforce and expected synergies to be achieved from integrating the company into the Group's existing business. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

c) Purchase consideration – cash outflow

	Note	$'m
Gross purchase consideration		333.0
Less: Cash balances acquired	F2(a)	(29.3)
		303.7
Acquisition related costs		5.2
Outflow of cash – investing activities		**308.9**

VEC

On 31 October 2014, the Group acquired 100% of VEC Civil Engineering Pty Ltd and VEC Plant & Equipment Pty Ltd (collectively known as "VEC") for $11.5 million. The principal activity of VEC is to design and construct concrete structures. VEC is a leader in its field and provides new capability for the Group. The total cash outflow for this acquisition was $9.4 million which comprises consideration of $11.5 million, net of $1.4 million cash balances acquired and $0.7 million deferred consideration. At the date of acquisition, the net asset value of VEC was $1.6 million resulting in $9.9 million of goodwill being recognised.

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.

F3. Disposal of subsidiary

2016

On 31 August 2015, the Group sold the Rimtec business to Rimex Wheel Pty Ltd for a total consideration of $7.2 million. The Group has incurred a $2.3 million loss as a result of this transaction.

2015

The Group did not dispose any businesses during the financial year ended 30 June 2015.

F4. Controlled entities

The controlled entities of the Group listed below were wholly owned during the current and prior year, unless otherwise stated:

Australia

Advanced Separation Engineering Australia Pty Ltd (iv)
Dean Adams Consulting 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 Engineering Transmission Pty Ltd (ii)
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 Mining Regional NSW Pty Ltd
Downer PPP Investments Pty Ltd
Downer Utilities Australia Pty Ltd
Downer Utilities Holdings Australia Pty Ltd
Downer Utilities Networks Pty Ltd
Downer Utilities New Zealand Pty Ltd
Downer Utilities Projects Pty Ltd
Downer Utilities SDR Australia Pty Ltd
Downer Utilities SDR 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
Evans Deakin Industries Pty Ltd
Faxgroove Pty. Limited (ii)
Locomotive Demand Power Pty Ltd
Lowan (Management) Pty. Ltd.
Mineral Technologies (Holdings) Pty Ltd
Mineral Technologies Pty Ltd
Otraco International Pty Ltd
Otracom Pty Ltd
Primary Producers Improvers Pty. Ltd.
QCC Resources Pty Ltd
Quality Coal Consulting Pty Ltd (ii)
Rail Services Victoria Pty Ltd
REJV Services Pty Ltd
Reussi Pty Ltd (ii)
Rimtec Pty Ltd (v)

Australia (continued)

Roche Bros. Superannuation Pty. Ltd.
Roche Services Pty Ltd
RPC Roads Pty Ltd
SACH Infrastructure Pty Ltd
Snowden Holdings Pty Ltd
Snowden Mining Industry Consultants Pty Ltd
Snowden Technologies Pty Ltd
Southern Asphalters Pty Ltd
VEC Civil Engineering Pty Ltd
VEC Plant and Equipment Pty Ltd

New Zealand and Pacific

A F Downer Memorial Scholarship Trust
DGL Investments Limited
Downer Construction (Fiji) Limited
Downer Construction (New Zealand) Limited
Downer Construction PNG Limited
Downer EDI Engineering Power Limited
Downer EDI Mining NZ Limited
Downer EDI Works Vanuatu Limited
Downer New Zealand Limited
Downer New Zealand Projects 1 Limited
Downer New Zealand Projects 2 Limited
Downer Professional Services Limited
Downer Utilities Alliance New Zealand Limited
Downer Utilities New Zealand Limited
Downer Utilities PNG Limited
Green Vision Recycling Limited (iii)
Richter Drilling (PNG) Limited
Roche Mining (PNG) Limited (ii)
Techtel Training & Development Limited
Underground Locators Limited
Waste Solutions Limited
Works Finance (NZ) Limited

Africa

Downer EDI Mining – Ghana Ltd
MD Mineral Technologies SA (Pty) Ltd.
MD Mining and Mineral Services (Pty) Ltd (i)
Otraco Botswana (Proprietary) Limited
Otraco Southern Africa (Pty) Ltd
Otraco Tyre Management Namibia (Proprietary) Limited
Snowden Mining Industry Consultants (Proprietary) Ltd
Snowden Training (Pty) Ltd

F4. Controlled entities – continued

Asia

Chan Lian Construction Pte Ltd
Chang Chun Ao Da Technical Consulting Co Ltd
Downer EDI Engineering Holdings (Thailand) Limited
Downer EDI Engineering Thailand Ltd
Downer EDI Engineering (S) Pte 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
Duffill Watts Pte Ltd
Duffill Watts Vietnam Ltd (ii)
MD Mineral Technologies Private Limited
PT Duffill Watts Indonesia
PT Otraco Indonesia
Roche Bros. (Hong Kong) Limited (iv)

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
Snowden Mining Industry Consultants Inc.

United Kingdom

Sillars (B. & C.E.) Limited
Sillars (TMWD) Limited
Sillars Holdings Limited
Sillars Road Construction Limited
Snowden Mining Industry Consultants Limited
Works Infrastructure (Holdings) Limited
Works Infrastructure Limited

(i) 70% ownership interest.
(ii) Entity currently undergoing liquidation.
(iii) Entity acquired during the financial year ended 30 June 2016.
(iv) Entity liquidated during the financial year ended 30 June 2016.
(v) Entity disposed of during the financial year ended 30 June 2016.

F5. Related party information

a) Transactions within the wholly-owned Group

Aggregate amounts receivable from and payable to wholly-owned subsidiaries are included within total assets and liabilities balances as disclosed in Note F6. Amounts contributed to the defined contribution plan are disclosed in Note D1.

Other transactions occurred during the financial year between the parent entity and wholly-owned subsidiaries, as well as between entities in the wholly-owned Group, are 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 F4.

Equity interests in joint arrangements and associate entities

Details of interests in joint arrangements and associate entities are disclosed in Note F1.

c) Controlling entity

The parent entity of the Group is Downer EDI Limited.

F6. Parent entity disclosures

a) Financial Position

	Company	
	2016 $'m	2015 $'m
Assets		
Current assets	**505.9**	466.9
Non-current assets	**894.7**	890.0
Total assets	**1,400.6**	1,356.9
Liabilities		
Current liabilities	**30.6**	32.8
Non-current liabilities	**3.8**	5.3
Total liabilities	**34.4**	38.1
Net assets	**1,366.2**	1,318.8
Equity		
Issued capital	**1,249.2**	1,270.5
Retained earnings	**104.8**	36.0
Reserves		
Employee benefits reserve	**12.2**	12.3
Total equity	**1,366.2**	1,318.8

b) Financial performance

	2016 $'m	2015 $'m
Profit for the year	**172.2**	67.6
Total comprehensive income	**172.2**	67.6

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 2016 (2015: nil) other than those disclosed in Note C9 to the financial statements.

e) Commitments for the acquisition of property, plant and equipment by the parent entity

The parent entity does not have any commitments for acquisition of property, plant and equipment as at 30 June 2016 (2015: 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

In the current 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 2015.

The new and revised standard adopted by the Group for its annual reporting period beginning on 1 July 2015 is AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*, which completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that standard to effectively be withdrawn. The adoption of this standard has not resulted in any impact to the financial reporting of the Group.

b) 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.

- AASB 9 *Financial Instruments*, becomes mandatory for the Group's 2019 Financial Report and includes changes to the classification and measurement of financial assets including a new expected credit loss model for calculating impairment. It also includes the new hedge accounting model to simplify hedge accounting requirements and more closely align hedge accounting with risk management activities.
- AASB 15 *Revenue from Contracts with Customers*, becomes mandatory for the Group's 2019 Financial Report and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 *Construction Contracts*, AASB 118 *Revenue*, Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for Construction of Real Estate*, Interpretation 18 *Transfer of Assets from Customers* and Interpretation 131 *Revenue-Barter Transactions involving Advertising Services*. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
- AASB 16 *Leases*, becomes mandatory for the Group's 2020 Financial Report and removes the classification of leases between finance and operating leases effectively treating all leases as finance leases for the lessee. The purpose is to provide greater transparency of a lessee's financial leverage and capital employed.

The Group has not yet determined the potential effect of these standards on the Group's future Financial Reports.

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 and maintain an appropriate capital structure to optimise its cost of capital and 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 counterparty credit risk.

The Group may enter into a variety of derivative financial instruments to manage its exposures including:

i) Forward foreign exchange contracts to hedge the exchange rate risk arising from cross-border trade flows, foreign income and debt service obligations;
ii) Cross-currency interest rate swaps to manage the interest rate and currency risk associated with foreign currency denominated borrowings; and
iii) Interest rate swaps to manage interest rate risk.

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 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 material unhedged foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

	Financial assets(i)		Financial liabilities(i)	
	2016 $'m	2015 $'m	2016 $'m	2015 $'m
US dollar (USD)	**4.8**	25.2	**11.7**	21.0
New Zealand dollar (NZD)	**1.2**	0.2	**–**	0.1
Euro (EUR)	**0.7**	0.8	**–**	0.7
	6.7	26.2	**11.7**	21.8

(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, the Australian dollar (AUD) value (unless otherwise stated) of forward exchange contracts outstanding as at the reporting date:

Outstanding contracts	Weighted average exchange rate 2016	Weighted average exchange rate 2015	Foreign currency 2016 FC'm	Foreign currency 2015 FC'm	Contract value 2016 $'m	Contract value 2015 $'m	Fair value 2016 $'m	Fair value 2015 $'m
Buy USD / Sell AUD								
Less than 3 months	**0.7165**	0.7854	**7.2**	14.5	**10.0**	18.4	**(0.4)**	0.6
3 to 6 months	**0.7328**	0.7991	**10.5**	8.6	**14.3**	10.8	**(0.2)**	0.6
Later than 6 months	**0.7304**	0.7659	**0.3**	7.9	**0.5**	10.4	**–**	0.2
			18.0	31.0	**24.8**	39.6	**(0.6)**	1.4
Buy AUD / Sell USD								
Less than 3 months	**0.7109**	0.8039	**0.8**	4.7	**1.2**	5.9	**0.1**	(0.2)
3 to 6 months	**–**	0.7630	**–**	0.5	**–**	0.7	**–**	–
Later than 6 months	**–**	0.7678	**–**	0.8	**–**	1.0	**–**	–
			0.8	6.0	**1.2**	7.6	**0.1**	(0.2)
Buy EUR / Sell AUD								
Less than 3 months	**0.6325**	0.6736	**6.4**	3.0	**10.1**	4.5	**(0.7)**	(0.1)
3 to 6 months	**0.6191**	0.6640	**2.1**	1.7	**3.3**	2.5	**(0.2)**	(0.1)
Later than 6 months	**–**	0.6416	**–**	3.2	**–**	5.0	**–**	(0.2)
			8.5	7.9	**13.4**	12.0	**(0.9)**	(0.4)
Buy AUD / Sell EUR								
Less than 3 months	**0.6629**	–	**2.0**	–	**3.0**	–	**–**	–
			2.0	–	**3.0**	–	**–**	–

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 interest rate (including credit margin)		Weighted average exchange rate		Contract value		Fair value	
Outstanding contracts	2016 %	2015 %	2016	2015	2016 $'m	2015 $'m	2016 $'m	2015 $'m
Buy USD / Sell AUD								
1 to 5 years	**7.8**	6.8	**0.7168**	0.7220	**9.8**	9.7	**(0.5)**	(0.3)
5 years or more	**5.9**	5.9	**0.7739**	0.7739	**129.2**	129.2	**2.8**	(0.8)
					139.0	138.9	**2.3**	(1.1)

The above cross-currency interest rate swap contracts are designated as effective cash flow hedges.

Foreign currency sensitivity analysis

The Group is mainly exposed to United States dollar (USD) and Euro (EUR).

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.

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)	
	2016 $'m	2015 $'m	2016 $'m	2015 $'m
USD impact				
– 15% rate change	**(1.2)**	0.7	**4.1**	5.7
+ 15% rate change	**0.9**	(0.5)	**(3.0)**	(4.2)
EUR impact				
– 15% rate change	**0.1**	–	**1.4**	1.7
+ 15% rate change	**(0.1)**	–	**(1.4)**	(1.7)

(i) This is mainly as a result of the changes in the value of forward foreign exchange contracts not designated in a hedge relationship, foreign currency investments, receivables and payables at year end.

(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. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and hedging is undertaken through 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 interest rate (including credit margin)		Liability / (asset)	
	2016 %	2015 %	2016 $'m	2015 $'m
Floating interest rates – cash flow exposure				
Bank loans	**3.8**	3.9	**23.7**	35.7
AUD medium term notes (2010-1)	**–**	5.1	**–**	6.3
Cash and cash equivalents	**2.1**	2.3	**(569.4)**	(372.2)
Total cash flow exposure			**(545.7)**	(330.2)
Fixed interest rates – fair value exposure				
Bank loans(i)	**–**	5.6	**–**	9.4
USD notes(iii)	**6.0**	6.8	**141.7**	10.3
AUD notes	**5.8**	–	**30.0**	–
AUD medium term notes (2009-1)(i) (iii)	**7.2**	7.2	**27.5**	41.6
AUD medium term notes (2013-1)(ii)	**6.0**	6.0	**150.0**	150.0
AUD medium term notes (2015-1)(ii)	**4.7**	4.7	**250.0**	250.0
Supplier finance	**4.9**	–	**5.8**	–
Finance lease and hire purchase	**5.2**	5.3	**28.1**	47.9
Total fair value exposure			**633.1**	509.2

(i) These underlying loans and notes were issued on a floating rate basis and fixed through interest rate swaps.
(ii) Weighted average interest rate is shown on a yield-to maturity basis.
(iii) The value of the interest rate and cross-currency swaps have been included in the debt numbers.

All interest rates in the above table reflect rates in the currency of the relevant loan other than USD notes, where the AUD rates under the cross-currency swaps are used.

In addition, the Group has $400.0 million syndicated bank loan facility and $125.0 million bilateral bank loan facilities that, if drawn, will be on a floating interest rate basis (refer to Note E2).

G2. Capital and financial risk management – continued

d) Interest rate risk management – continued

Interest rate swap contracts

The Group uses 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	2016 %	2015 %	2016 $'m	2015 $'m	2016 $'m	2015 $'m
AUD interest rate swaps						
1 to 5 years	**5.2**	5.2	**26.6**	49.0	**(0.8)**	(2.0)

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 rate by 50 and 75 basis points on profit and equity respectively across the yield curve of the relevant currencies (2015: 75 basis points). The selected basis points 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. Based on the sensitivity analysis performed, the change in interest rates at reporting date does not have a material impact on either profit or equity.

e) Credit risk management

Credit risk refers to the risk that a financial counterparty will default on its contractual obligations, resulting in a loss to the Group. The Group's exposure and the credit ratings of its counterparties are regularly monitored and transactions are diversified among approved counterparties.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivable counterparties. Refer to Note C2 for details on credit risk arising from trade and other receivables.

The preferred credit risk on derivative financial instruments is to counterparties that have minimum long-term credit ratings from Standard & Poor's of no less than AA- (or equivalent from other rating agencies). Due to the general downward migration of the credit ratings of bank counterparties over recent years, the Group has exposure to banks at the A+ and A rating levels.

Credit risk arising from cash balances held with banks is managed by Group Treasury. Investments of surplus funds are generally only made with counterparties that have a minimum AA- credit rating. Investments for limited amounts and relatively short tenors are made from time to time with A+ and A rated counterparties. In a few circumstances, restricted amounts of surplus funds are held in foreign jurisdictions where there are no financial institutions that meet the above minimum rating thresholds.

Counterparty credit limits, and the related credit acceptability of counterparties, are reviewed by the Board from time to time. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty default. No material exposure is considered to exist by virtue of the non-performance of any financial counterparty.

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 arises from the possibility that the Group is unable to settle a financial transaction on the due date. Liquidity risk management is ultimately a Board's responsibility, which has been built an appropriate risk management framework for the Group's funding and liquidity management.

The Group manages liquidity risk by maintaining adequate cash reserves and committed undrawn debt facilities, by monitoring forecast and actual cash flows and where possible by matching the maturity profiles of financial assets and liabilities. Included in Note E2 is a summary of committed undrawn bank loan facilities.

G2. Capital and financial risk management – continued

f) Liquidity risk management – continued

Liquidity risk tables

The following tables detail the Group's contractual maturity of its financial liabilities. The tables are based on the undiscounted cash flows of financial liabilities. The tables include both interest and principal cash flows.

$'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
2016						
Trade payables	**358.9**	**–**	**–**	**–**	**–**	**–**
Finance lease, hire purchase and supplier finance liabilities	**20.6**	**13.2**	**1.6**	**0.1**	**–**	**–**
Bank loans	**15.8**	**6.7**	**2.1**	**–**	**–**	**–**
USD notes	**6.7**	**6.7**	**6.7**	**15.8**	**6.1**	**161.8**
AUD notes	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**37.9**
AUD medium term notes (2009-1)	**14.3**	**13.7**	**–**	**–**	**–**	**–**
AUD medium term notes (2013-1)	**8.6**	**8.6**	**154.3**	**–**	**–**	**–**
AUD medium term notes (2015-1)	**11.3**	**11.3**	**11.3**	**11.3**	**11.3**	**261.3**
Total borrowings including interest	**58.4**	**48.7**	**176.1**	**28.8**	**19.1**	**461.0**
Cross-currency interest rate swaps (i)						
– Receive leg	**(6.8)**	**(6.8)**	**(6.8)**	**(15.9)**	**(6.2)**	**(162.4)**
– Pay leg	**8.4**	**8.4**	**8.4**	**17.8**	**7.6**	**163.5**
Interest rate swaps	**0.7**	**0.3**	**–**	**–**	**–**	**–**
Foreign currency forward contracts	**1.3**	**–**	**–**	**–**	**–**	**–**
Total derivative instruments (iii)	**3.6**	**1.9**	**1.6**	**1.9**	**1.4**	**1.1**
Total	**441.5**	**63.8**	**179.3**	**30.8**	**20.5**	**462.1**
2015						
Trade payables	369.8	–	–	–	–	–
Finance lease, hire purchase and supplier finance liabilities	30.5	10.1	10.0	0.3	–	–
Bank loans	18.0	14.4	7.0	5.8	2.8	–
USD notes	0.6	0.6	0.6	0.6	9.4	–
AUD medium term notes (2009-1)	14.8	14.3	13.8	–	–	–
AUD medium term notes (2010-1)	6.5	–	–	–	–	–
AUD medium term notes (2013-1)	8.6	8.6	8.6	154.3	–	–
AUD medium term notes (2015-1)	11.3	11.3	11.3	11.3	11.3	272.5
Total borrowings including interest	59.8	49.2	41.3	172.0	23.5	272.5
Cross-currency interest rate swaps (i)						
– Receive leg (ii)	126.6	(6.5)	(6.5)	(6.5)	(15.4)	(162.8)
– Pay leg (ii)	(124.7)	8.3	8.3	8.3	17.6	171.1
Interest rate swaps	1.3	0.8	0.3	–	–	–
Foreign currency forward contracts	–	0.8	0.1	–	–	–
Total derivative instruments (iii)	3.2	3.4	2.2	1.8	2.2	8.3
Total	463.3	62.7	53.5	174.1	25.7	280.8

(i) Bond basis.
(ii) Amount in less than 1 year includes the front end principal cash flows under the cross-currency interest rate swaps where Downer receives AUD and pays USD.
(iii) 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

When the Group designates certain derivatives to be part of a hedging relationship, and they meet the criteria for hedge accounting, the hedges are classified as either fair value or cash flow hedges.

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 remain in equity until the forecast transaction occurs.

G3. Other financial assets and liabilities

2016 $'m	Financial Assets Current	Financial Assets Non-current	Financial Liabilities Current	Financial Liabilities Non-current
At amortised cost:				
Other financial assets	**9.8**	**13.4**	**–**	**–**
Advances from joint ventures and associates	**–**	**–**	**12.0**	**–**
	9.8	**13.4**	**12.0**	**–**
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	**0.3**	**–**	**1.7**	**–**
Cross-currency and interest rate swaps – Cash flow hedge	**–**	**3.6**	**1.4**	**0.7**
	0.3	**3.6**	**3.1**	**0.7**
Level 3				
Unquoted equity investments – Available for sale	**–**	**5.1**	**–**	**–**
Total	**10.1**	**22.1**	**15.1**	**0.7**

2015 $'m	Financial Assets Current	Financial Assets Non-current	Financial Liabilities Current	Financial Liabilities Non-current
At amortised cost:				
Deferred consideration receivable	–	–	0.7	–
Other financial assets	9.8	13.4	–	–
Advances from joint ventures and associates	–	–	13.5	–
	9.8	13.4	14.2	–
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	1.6	–	0.7	0.1
Foreign currency forward contracts – Fair value through profit or loss	0.1	–	–	–
Cross-currency and interest rate swaps – Cash flow hedge	–	–	1.0	2.1
	1.7	–	1.7	2.2
Level 3				
Unquoted equity investments – Available for sale	–	6.2	–	–
Total	11.5	19.6	15.9	2.2

Reconciliation of Level 3 fair value measurements of financial assets

Level 3 investments decreased by $1.1 million from prior year (2015: $1.1 million increase) mostly due to revaluation and return on investment.

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); and
- 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.

Directors' Declaration

for the year ended 30 June 2016

In the opinion of the Directors of Downer EDI Limited:

(a) The financial statements and notes set out on pages 49 to 96 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, 4 August 2016

Sustainability Performance Summary 2016

Downer's ability to understand and manage the sustainability of its activities is fundamental to its long-term success as a business. Consequently, Downer's approach to sustainable development is intrinsically linked to its business objectives, and seeks to maintain an acceptable balance between the longer-term impacts of the Company's operations and the need for short-term results by:

- Always putting health and safety first, continually reducing the potential for people to be harmed;
- Reducing Downer's ecological footprint by minimising environmental impact and maximising resource efficiency;
- Promoting diversity, inclusiveness and employee growth;
- Benefiting host communities through economic participation and community investment;
- Assisting customers to improve the sustainability of their businesses; and
- Optimising Downer's portfolio and performance.

Sustainability risks are identified, evaluated and managed through Downer's Group-wide Risk Management Framework and divisional integrated management systems, with the latter certified (as a minimum) to the following standards: AS/NZS 4801 occupational health and safety management systems; ISO 14001 environmental management systems; and IS0 9001 quality management systems. The Board Zero Harm Committee oversees the development and implementation of Downer's occupational health and safety and environmental management systems, the effectiveness of which is monitored through extensive internal and third-party audit programs, with oversight by both the Board Zero Harm and Audit and Risk Committees.

During FY16 the Group Zero Harm Framework was revised, and divisional policies were consolidated into Group-wide policies for health and safety and environment.

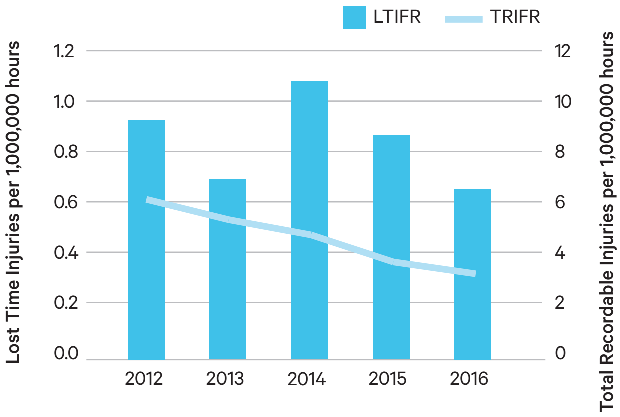
The following is a brief summary of Downer's Zero Harm performance during FY16. Downer's 2016 Sustainability Report provides more comprehensive information regarding the Company's non-financial, sustainability-related performance for the year ended June 2016.

Health and safety

The health and safety of all who work with Downer is the Company's top priority. Downer believes that any injury is unacceptable and preventable, and is committed to the relentless pursuit of the goal of Zero Harm. However, despite the Company's mature safety culture and sustained efforts to keep its people safe, a Downer employee died in November 2015 while undertaking scaffolding work in Western Australia.

This tragic loss confirms the appropriateness of Downer's continued focus on understanding and managing the low-likelihood, high-consequence risks – the 'critical risks' – that have the potential to cause serious injury to its people. The continuation of the development of Downer's frontline team leaders, revision of its Zero Harm management systems and enhancement of its Critical Risk Management Program during FY16 contributed to further improvement against the health and safety indicators of Lost Time Injury Frequency Rate (LTIFR)[1] and Total Recordable Injury Frequency Rate (TRIFR)[2]. LTIFR decreased from 0.87[3] in FY15 to 0.66, and TRIFR from 3.78 to 3.32. This represents a 24% decrease in injuries that resulted in time lost and a 12% reduction in the number of recordable injuries.

Downer received no fines or prosecutions in FY16 as a result of breaches of occupational health and safety legislation.



1 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.

2 TRIFR is the number of LTIs + medically treated injuries (MTIs) for employees and contractors per million hours worked.

3 This result has been adjusted from the LTIFR result of 0.86 published in the 2015 Annual Report. This variance was due to the escalation of some first aid cases to MTIs or LTIs after the end of FY15.

Environment

Downer's environmental sustainability performance is measured against the key areas of risk management, compliance, minimising environmental impact, and maximising resource efficiency opportunities in both its own and its customers' businesses. Downer's primary focus during the year was on managing its top critical environmental risks by embedding critical risk controls into divisional management systems, and conducting verification that the controls were in place and effective.

During FY16 Downer met its Group-wide target of zero Level 5[4] or Level 6[5] environmental incidents. However, despite having robust systems and processes in place, Downer had one significant environmental incident (Level 4), where hydrated lime dust was released to the air. Downer received one fine for this and two further environmental fines totalling $19,538 (see the performance data summary in the 2016 Sustainability Report for details).

As a contract service provider operating within carbon-intensive industries, a key challenge for Downer is the effective management of its carbon-related activities. Downer's ability to develop processes and technology to reduce its greenhouse gas (GHG) emissions and overall energy consumption across a wide range of business activities, such as mining and asphalt manufacturing, enables the Company to assist its customers to manage their environmental sustainability challenges.

As part of Downer's continued efforts to reduce its GHG emissions and improve its energy efficiency, 40 key projects were implemented in FY16 that have the capacity to deliver 215 terajoules of annualised energy savings, equivalent to the abatement of 35 kilotonnes of CO_2e emissions per year across scopes 1, 2 and 3[6].

Downer's emissions profile reflects the geographical location of its operations, with 75% of the total Scope 1 and Scope 2 GHG emissions generated by activities in Australia and 24% by activities in New Zealand.

4 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.

5 A Level 6 environmental incident is defined as an incident that results in catastrophic widespread impact on the environment, resulting in irreversible damage.

6 Scope 1 emissions are those produced directly by Downer Group activities.
Scope 2 emissions are indirect emissions, such as electricity consumption.
Scope 3 emissions are those that occur from sources not owned or controlled by Downer.

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; and
- 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; and
- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Before appointing a Director, the Board undertakes appropriate checks and 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 2016, 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 has been formalised in the Downer Diversity and Inclusiveness (D&I) Policy which outlines the company's commitment to developing a diverse and inclusive workforce. In 2016, Downer implemented a Group D&I Plan. The purpose of this Plan is to provide a strategy to support the commitments made in the Downer D&I Policy.

The Diversity and Inclusiveness Policy is available on the Downer website at **www.downergroup.com**.

ASX diversity recommendations – diversity statement

This diversity statement outlines Downer's performance throughout 2016 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 diversity initiatives undertaken by Downer throughout 2016; and
- An outline of Downer's measurable diversity objectives for 2017.

Gender representation metrics

As at 30 June 2016, the gender representation metrics were as follows:

- Two of the six Non-executive Directors on the Downer Board are women (with a third female Non-executive Director appointed and due to commence in September 2016);
- Women currently make up 10% of Senior Executive[1] roles;
- 13.2% of Manager[2] roles are held by women; and
- Women constitute approximately 12% of Downer's workforce.

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, "Manager" refers to CEO, KMP, Other Executives/General Managers, Senior Managers and Other Managers as defined in the WGEA Reference Guide.

Looking back: 2016 measurable objectives

Objective	Outcome
Undertake a structural diversity review to ensure there is a complete and accurate understanding of Downer's diversity footprint.	Downer reports annually to the Workplace Gender Equality Agency (WGEA). In June 2016, key data from the FY15/16 WGEA report was prepared at a divisional and consolidated group level for the Executive Committee to better understand the diversity which currently exists within Downer. In FY17, this data will be promulgated to members of the Divisional Diversity Steering Committee (DDSC) to inform divisional D&I Plans and facilitate continuous improvement in WGEA responses.
To continue to increase the number of female employees and female managers within Downer by ensuring that a female is shortlisted for every management role. The target for FY16 was 14% of employees to be female and 9% of managers to be female.	Shortlisting requirements for management roles and other role categories have been implemented across the Recruitment function. To further support an increase in the female talent pool, Downer redesigned its advertising templates and its careers page to incorporate inclusive language, diverse imagery and gender focused case studies. The implementation of D&I Plans (refer to section "Looking ahead") are aimed at supporting a material increase in the number of female employees over the medium term.
To ensure every salaried female within Downer receives a performance and development review to enable the organisation to identify female talent and offer appropriate leadership development programs and/or input into succession planning.	Downer redesigned its performance and development framework to ensure a more effective approach to retaining and developing key talent. This framework provides a more simplified approach towards performance management with output used to focus on the development, acceleration and retention of high potential female employees.
Completion of the job grading structure across Downer to enable a comprehensive gender pay review in the future.	The gender remuneration gap analysis commenced in the last 12 months and is currently well advanced (with the analysis for roles up to $200,000 being completed and analysed by the Executive Committee and the Board). The review will occur every six months.
Increase the number of Indigenous employees across the Group by participation in the government's Employment Parity Initiative.	Downer has engaged in a number of activities which support Aboriginal and Torres Strait Islander employees and communities. This includes Jawun and The Wall of Hands Appeal. This year, Downer provided a first draft of its 'Reflect' Reconciliation Action Plan (RAP) to Reconciliation Australia. This plan will provide the foundation for Downer's Reconciliation journey over the next 12 months.
Continue the association with Jawun in Australia and Māori based leadership programs in New Zealand.	In FY16, eight employees completed secondments at Cape York, the West Kimberley and Inner Sydney as part of the Jawun program. By assisting Aboriginal leaders, organisations and communities to achieve their own development goals, Downer's people have a unique and rewarding experience while delivering lasting benefits to their host communities. During March 2015, the inaugural Māori Leadership program was launched in New Zealand as a means of developing and empowering Māori leaders.
Continue to focus on the ageing workforce by optimising and retaining the aged workforce by providing flexibility and retirement planning options.	Downer has conducted an assessment of its ageing workforce and identified suitable options for optimising and retaining this employee segment (which includes flexibility). Flexibility is considered a key enabler for diversity across all employee groups and as such, will continue to be a focus for FY17.

Looking ahead: 2017 measurable objectives

- To ensure a coordinated and integrated approach to D&I through the restructuring of the Group and Divisional Diversity Steering Committees to ensure the effective implementation of the D&I Plans.
- To launch Downer's Performance Development framework and use output to identify, grow and retain high potential female employees in order to support the following Group targets:
  - 20% female workforce by 30 June 2020; and
  - 12% female Senior Executives by 30 June 2020.
- To launch the Divisional D&I Plans and embed them in the operations of the business units.
- To promote and communicate flexible work options (a key enabler of Diversity) through the creation of a business case for sign-off by the Executive Committee.
- To implement recommendations identified from the gender pay review.
- To continue laying the foundation for Downer's reconciliation journey by receiving endorsement of Downer's 'Reflect' RAP from Reconciliation Australia.
- To continue the association with Jawun in Australia and Māori based leadership programs in New Zealand.

Principle 2: Structure the Board to add value

Throughout the 2016 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), five 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 2 to 3 and are also available on the Downer website at **www.downergroup.com**.

The composition of the Board is 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 an 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 an 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 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 membership is set out in the table below.

Board Committee	Chairman	Members
Audit and Risk Committee	S A Chaplain	P S Garling J S Humphrey C G Thorne
Zero Harm Committee	E A Howell	S A Chaplain G A Fenn C G Thorne
Nominations and Corporate Governance Committee	R M Harding	S A Chaplain J S Humphrey
Remuneration Committee	P S Garling	R M Harding J S Humphrey
Disclosure Committee	J S Humphrey	G A Fenn R M Harding
IT Transformation Committee	J S Humphrey	S A Chaplain G A Fenn C G Thorne
Tender Risk Evaluation Committee	C G Thorne	P S Garling R M Harding E A Howell

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 17.

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 five 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:

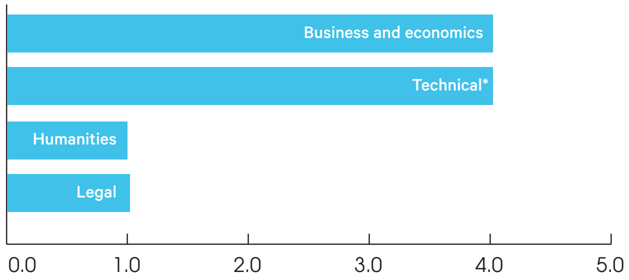
- Assessing the skills and competencies required on the Board;
- Assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual Directors and the Board as a whole;
- Establishing processes for identifying suitable candidates for appointment to the Board (including undertaking a formal due diligence screening process); and
- 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 so as 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 across engineering, geology, construction and scientific disciplines when considering the appointment of a new Director. The Board has also identified that the review of major tender bids and the successful delivery of major projects also requires Directors with strong commercial and legal acumen. It is for this reason that in undertaking the selection process for a new director in FY16, the Board selected a candidate with over 30 years' experience in the legal profession.

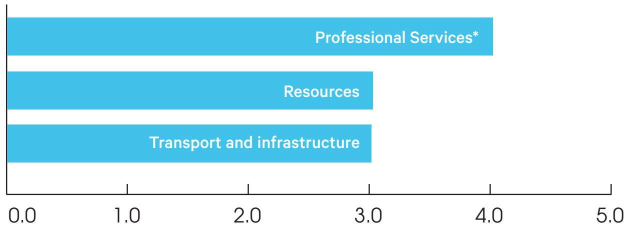
The charts below illustrate the balance achieved with the current Board composition. The Company recognises the value of diversity which has been a component of the appointment process over the past few years.

Professional qualifications



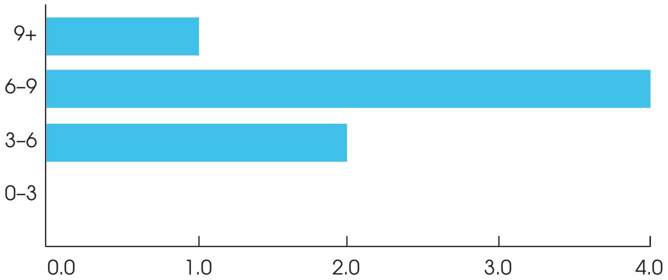
*Comprises construction, engineering, metallurgy and science.

Industry experience

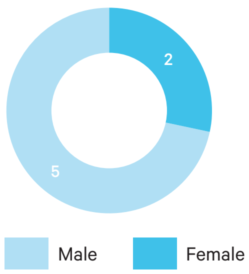


*Includes banking, finance and legal.

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 nominees 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.

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; and
- 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: Promote ethical and responsible decision-making

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; and
- 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 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; and
- 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. 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 integrity in financial reporting

The Company has in place a structure of review and authorisation which independently verifies and safeguards the integrity of its financial reporting.

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; and
- 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); and
- Has at least three members.

The Audit and Risk Committee currently 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 FY16, together with the individual attendances of members at the meetings, is set out in the Directors' Report on page 17.

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. 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.

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 shareholders

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; and
- Making it easy for shareholders to participate in general meetings.

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 AGMs 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.

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 comprehensive review of the Risk Management Framework was completed in 2016. However, the Board reviews the Group risk profile twice each year, undertakes a facilitated risk workshop annually, 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 sustainability and social sustainability risks. The 2015 Sustainability Report is available on the Downer website at **www.downergroup.com**.

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; and
- 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; and
- Has at least three members.

Currently no Executive Director is 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 at page 19.

The Company's previous Constitution allowed for retiring Non-executive Directors to receive a retiring allowance, subject to the limitations set out in the *Corporations Act 2001* (Cth). Consistent with the ASX Principles, the right to retirement benefits was frozen in 2005. However, because remuneration arrangements for some Non-executive Directors were in place prior to 2005, information about any payments has been fully provided in the financial statements where such retirement benefits have been paid. Directors entitled to a retirement benefit were paid a reduced fee and once a Director's accumulated reduction in base fees reached the value of the retirement benefit, the applicable base fee reverted to the general fee level. This has been applied to Mr Humphrey from 1 July 2009. The retirement benefit has not been offered to Non-executive Directors appointed subsequently.

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-term 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.

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report at page 19 and details of Downer shares beneficially owned by Directors are provided in the Directors' Report at page 4.

Information for Investors
for the year ended 30 June 2016

Downner shareholders

Downer had 18,756 ordinary shareholders as at 30 June 2016.

The largest shareholder, HSBC Custody Nominees (Australia) Limited, holds 27.09% of the 424,785,204 fully paid ordinary shares issued at that date. Downer has 18,279 shareholders with registered addresses in Australia.

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 secondary listed 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.

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 5
115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

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
Level 38, Tower 3
300 Barangaroo Avenue
Sydney NSW 2000

Australian securities exchange information as at 30 June 2016

Number of holders of equity securities:

Ordinary share capital

424,785,204 fully paid listed ordinary shares were held by 18,756 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 2016.

Shareholders	Ordinary shares held	% of issued shares
Dimensional Fund Advisors	30,507,546	7.18
T Rowe Price Associates, Inc	26,313,976	6.19
UBS AG and related bodies corporate	24,403,501	5.74
State Street Corporation	21,928,107	5.16
Vinva Investment Management	21,792,439	5.13
Commonwealth Bank of Australia	21,627,460	5.09
National Australia Bank Limited	21,589,102	5.08
LSV Asset Management	21,467,932	5.05
The Vanguard Group, Inc	21,366,964	5.03

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 30 June 2016 is as follows.

Range of holdings	Number of shareholders	Shareholders %	Ordinary shares held	Shares %
1 – 1,000	10,541	56.20	4,583,713	1.08
1,001 – 5,000	6,314	33.66	14,584,608	3.43
5,001 – 10,000	1,113	5.94	8,041,522	1.90
10,001 – 100,000	732	3.90	15,717,719	3.70
100,001 and over	56	0.30	381,857,642	89.89
Total	18,756		424,785,204	100.00
Holding less than a marketable parcel of shares	1,126			

Twenty largest shareholders

Downer's 20 largest shareholders of ordinary fully paid shares as at 30 June 2016 are as follows.

Shareholders	Shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	115,046,869	27.09
J P Morgan Nominees Australia Limited	105,866,140	24.92
National Nominees Limited	57,292,409	13.49
Citicorp Nominees Pty Ltd	52,748,760	12.42
BNP Paribas Noms Pty Ltd	15,649,161	3.68
Citicorp Nominees Pty Limited – Colonial First State Inv A/C	6,769,222	1.59
CPU Share Plans Pty Ltd	5,508,068	1.30
RBC Investor Services Australia Nominees Pty Limited – PI Pooled A/C	2,569,561	0.60
Argo Investments Ltd	2,392,527	0.56
AMP Life Ltd	1,652,578	0.39
UBS Nominees Pty Ltd	1,330,000	0.31
Masfen Securities Limited	1,171,647	0.28
RBC Investor Services Australia Nominees Pty Ltd – PICREDIT	1,013,979	0.24
Mr Barry Sydney Patterson + Mrs Glenice Margaret Patterson	891,642	0.21
Yirrkala Stud Pty Ltd	712,686	0.17
HSBC Custody Nominees (Australia) Limited-GSCO ECA	703,863	0.17
Woodross Nominees Pty Ltd	650,000	0.15
CS Fourth Nominees Pty Ltd - HSBC Cust NOM AU LTD 11A/C	584,381	0.14
HSBC Custody Nominees (Australia) Limited	551,903	0.13
Share Direct Nominees Pty Ltd	533,648	0.13
Total for top 20 shareholders	373,639,044	87.97

On-market share buy-back

On 5 August 2014, the Board resolved to undertake an ongoing share buy-back program that commenced on 20 August 2014 and ended on 19 August 2015. The total number of shares acquired was 2,716,761.

The Board determined to continue the share buy-back program with a further ongoing share buy-back program that commenced on 4 September 2015. The total number of shares acquired as at 4 August 2016 is 7,898,010. The total number of shares to be purchased under the buy-back will depend on share price levels and capital requirements. The share buy-back program is part of Downer's ongoing capital management strategy and will be managed in conjunction with capital requirements for growth. Downer has a strong balance sheet and is in a good position to take advantage of growth opportunities, including mergers and acquisitions, but any prospect will be subject to robust risk assessment. Downer will focus on opportunities that are strategic, the right price and grow the Company's capability.

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