Downer

Relationships creating success

Annual Report 2021

The Waratah fleet is the pride of Sydney's network, delivering unprecedented reliability, availability, safety and comfort.

Downer has delivered a total of 119 Waratah trains for the New South Wales Government, across Series 1 and Series 2 trains, making the combined fleet the largest of passenger trains in Australia, serving the largest suburban network.

In 2019, Downer achieved the fastest rollout of a passenger train fleet in Australia's history, delivering 24 world class Waratah Series 2 trains in 31 months. In July 2021, on the 10th anniversary of the first Waratah Series 1 train entering passenger service, the final Series 2 entered passenger service.

Downer is also responsible for the through-life-support of the Waratah trains at the purpose-built Auburn Maintenance Centre.

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 2021. The Annual Report is available on the Downer website **www.downergroup.com.**

Contents

Highlights

Downer's Urban Services businesses performed well during the 2021 financial year, demonstrating their strength and resilience during a year of COVID-19 disruption.

Total revenue was lower than the previous year, primarily due to the divestment of Mining and Laundries businesses, however Downer delivered an increase in earnings, with improved margins, and a very strong cash performance.

Downer reported a statutory net profit after tax of $183.7 million.

This strong overall performance resulted in the Board declaring a final dividend of 12 cents per share, taking total dividends for the year to 21 cents per share, unfranked.

Total Revenue[1] ↓ 8.8% decrease **$12,234.2m**

Underlying[2] **EBITA Margin** ↑ 0.7pp increase **3.8%**

Underlying[2] **NPATA** ↑ 21.4% increase **$261.2m**

EBITDA Cash Conversion ↑ 54.9pp increase **92.0%**

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

2 Underlying EBITA and NPATA are non-IFRS measures that are used by Management to assess the performance of the business. They have been calculated from the statutory measures by adding back the impact of ISIs net of tax. Non-IFRS measures have not been subject to audit or review.

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

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

Downer's Operating Model

Transport

Road Services

Rail and Transit Systems

Projects

Utilities

Telecommunications

Water

Power and Gas

Facilities

Government

Health and Education

Defence

Building

Asset Services

Power and Energy

Industrial and Marine

Divested

Mining

Laundries (Facilities)

Directors' Report

for the year ended 30 June 2021

The Directors of Downer EDI Limited submit the Annual Financial Report of the Company for the financial year ended 30 June 2021. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

Board of Directors

RICHARD MICHAEL HARDING (72)

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 Horizon Oil Limited and a Director of Cleanaway Waste Management Limited. He is a former Chairman of Lynas Limited, Roc Oil Company Limited, Clough Limited and ARC Energy Limited and a former Director of Santos Limited.

Mr Harding will retire from the Board on 30 September 2021.

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

Mr Harding lives in Sydney.

GRANT ANTHONY FENN (56)

Managing Director and Chief Executive Officer since July 2010

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

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

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

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

Mr Fenn lives in Sydney.

PHILIP STUART GARLING (67)

Independent Non-executive Director since November 2011

Mr Garling has over 40 years' experience in the infrastructure, construction, development and investment sectors. He was the Global Head of Infrastructure at AMP Capital Investors, a role he held for nine years. Prior to this, Mr Garling was CEO of Tenix Infrastructure and a long-term senior executive at the Lend Lease Group, including five years as CEO of Lend Lease Capital Services.

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

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

Mr Garling lives in Sydney.

TERESA GAYLE HANDICOTT (58)

Independent Non-executive Director since September 2016

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

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

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

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

Ms Handicott lives in Brisbane.

NICOLE MAREE HOLLOWS (50)

Independent Non-executive Director since June 2018

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

Ms Hollows is the Non-executive Chair of Jameson Resources Limited, a Non-executive Director of Qube Holdings Limited and a member of the CEO Advisory Committee for Dean of Queensland University of Technology (QUT) Business School.

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

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

Ms Hollows lives in Brisbane.

PETER LAWRENCE WATSON (64)

Independent Non-executive Director since May 2019

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

Mr Watson is currently a Consultant of Schiavello Group, BG&E Group Limited and Stephenson Mansell Group where he provides coaching and mentoring to senior executives.

Mr Watson is a former Chairman of LogiCamms Limited (now known as Verbrec), Watpac Limited, Regional Rail Link Authority in Victoria and AssetCo Management which managed PPP assets, a former Director of the Major Transport Infrastructure Board in Victoria, Yarra Trams and Save the Children Australia and was a Board member of Infrastructure Australia and independent Chair of Ross River Solar Farm.

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

Mr Watson lives in Melbourne.

Directors' Report – continued

for the year ended 30 June 2021

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	34,028	–	–
G A Fenn[1]	2,049,772	625,748	–
P S Garling	23,540	–	–
T G Handicott	20,047	–	–
N M Hollows	15,538	–	–
P L Watson	17,933	–	–

1 Performance rights granted to Mr Fenn are subject to performance and/or service period conditions over the period 2018 to 2023. Further details regarding the conditions relating to these restricted shares and performance rights are outlined in sections 6.4 and 9.2 of the Remuneration Report.

Company Secretary

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

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

Mr Peter Lyons was appointed joint Company Secretary in July 2011. A member of CPA Australia and the Governance Institute of Australia, he has qualifications in commerce from the University of Western Sydney and corporate governance from the Governance Institute of Australia. Mr Lyons was previously Deputy Company Secretary and has been in financial and secretarial roles at Downer for over 20 years.

Review of Operations

COVID-19

Downer continues to comply with all Government regulations and advice in relation to the COVID-19 pandemic and has robust Business Continuity Plans in place. Senior managers communicate regularly with their teams to ensure they are fully informed about the evolving situation and putting in place appropriate strategies. Downer is committed to working closely with its customers and partners to minimise the impact on operations while keeping its employees and communities safe.

Detailed and up-to-date information about Downer's response to COVID-19 is provided on the home page of the company's website **(www.downergroup.com)**.

During the 12 months to 30 June 2021, there was no material impact on demand for the businesses within the Group's Transport, Utilities and Mining service lines. The Hospitality business within the Facilities service line continues to be significantly affected by COVID-19 regulations and some Asset Services customers continue to defer non-essential work.

Principal Activities

Downer EDI Limited (Downer) is a leading provider of integrated services in Australia and New Zealand. Downer employs approximately 44,000 people, mostly in Australia and New Zealand.

Downer's strategy is to focus on its core Urban Services businesses: Transport, Utilities, Facilities and Asset Services.

These core Urban Services businesses have:

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

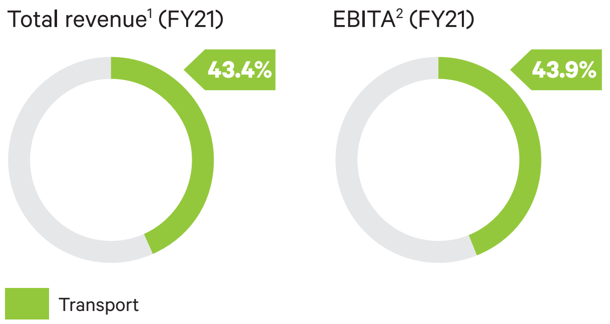
As part of its Urban Services strategy, Downer has made significant progress exiting its capital-intensive Mining businesses. Downer has completed the divestment of its Open Cut Mining West, Underground, Downer Blasting Services and Snowden businesses as well as its share of the RTL JV. It has also entered into a binding sale agreement in relation to its Otraco business, with this divestment expected to complete in FY22. Downer's remaining mining business, Open Cut East, comprises four profitable contracts which are scheduled to complete between 2022 and 2024, in the event that the business is not sold.

On 2 December 2020, Downer announced it had entered an agreement to sell 70% of its Laundries business.

For the 2021 financial year, an overview of Downer's five service lines is set out below.

Transport

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



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

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

Road Services

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

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

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

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

Downer works for all of Australia's State road authorities, the New Zealand Transport Agency and a large number of local government councils and authorities in both countries. Customers also include road owners and businesses operating in a wide range of industries.

Rail and Transit Systems

Downer has over 100 years' rail experience providing end-to-end, innovative transport solutions. Downer is a leading provider of rollingstock asset management services in Australia, with expertise in delivering whole-of-life asset management support to our customers. Downer's capability spans all sectors, from rollingstock to infrastructure, and every project phase, from design and manufacture to through-life-support, fleet maintenance, operations and comprehensive overhaul of assets.

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

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

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

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

Projects

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

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

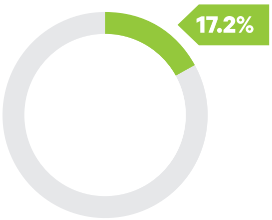
Directors' Report – continued

for the year ended 30 June 2021

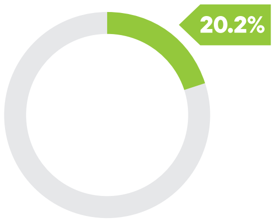
Utilities

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

Total revenue[1] (FY21)



EBITA[2] (FY21)



Utilities

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

Power and Gas

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

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

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

Water

Downer is dedicated to delivering complete water lifecycle solutions for municipal and industrial water users. Downer's expertise includes water treatment, wastewater treatment, water and wastewater network construction and rehabilitation, desalination and biosolids treatment.

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

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

Telecommunications

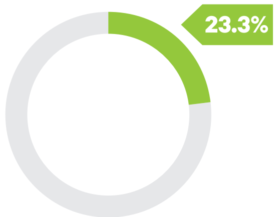
Downer is a leading provider of end-to-end technology and communications service solutions, offering integrated civil construction, electrical, fibre, copper and radio network deployment capability throughout Australia and New Zealand. Key capabilities include:

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

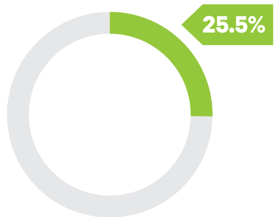
Facilities

The Facilities service line operates in Australia and New Zealand across a range of industry sectors including defence, education, health, government and hospitality.

Total revenue[1] (FY21)



EBITA[2] (FY21)



Facilities

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

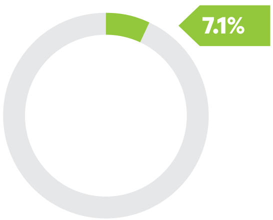
Spotless, a Downer company, is the largest integrated facilities management services provider in Australia and New Zealand, delivering property and facilities management services to government departments, agencies and authorities at the Federal, State and municipal level. With around 21 Public Private Partnership projects across the defence, education, health and leisure sectors, Spotless provides innovative management of its customers' assets across their lifecycle.

Spotless has a 40-year history of supporting the daily operations of hospitals across Australia and New Zealand, delivering a range of services that create a safe environment for hospital staff, patients and their guests. At leading schools and tertiary institutions, Spotless helps to create world-class learning environments through integrated services such as catering, building and grounds maintenance, conserving energy with air-conditioning and lighting solutions and ensuring a secure environment.

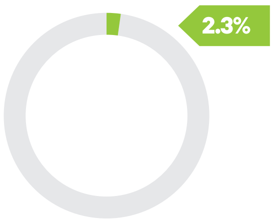
The Facilities services line also includes Hawkins, New Zealand's leading construction business. Hawkins delivers unique transformational projects across a variety of sectors including education, health, airports, commercial office buildings and heritage restorations.

Engineering, Construction and Maintenance (EC&M)

Total revenue[1] (FY21)



EBITA[2] (FY21)



EC&M

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

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

Asset Services

Downer is a leading provider of asset maintenance and specialist services to Australia's critical economic infrastructure including the oil and gas, power generation and industrial sectors. As a trusted partner with a leading safety record, Downer optimises the reliability, efficiency and whole-of-life costs of its customers' assets through long-term relationship-based contracts.

Oil and gas

Downer's state-of-the art equipment and technology, and its people's expertise, support customers through the full asset lifecycle. Downer is a major provider of maintenance, shutdown and field development services to Coal Seam Gas and Liquefied Natural Gas producers in Australia including Santos, Origin and Chevron.

Power Generation

Downer is one of the largest providers of power generation asset management services in Australia, offering the full range of maintenance, shutdown, turnaround, outage and sustaining capital works. This includes maintenance and shutdown services for over 18GW of Australia's power generation for customers who supply approximately 60% of the National Energy Market, including CS Energy, Origin, AGL, Synergy and Energy Australia.

Industrial and Marine

Downer provides maintenance, turnaround, shutdown and sustaining capital programs for industrial operations across Australia's iron ore, minerals and metals, petrochemical, bulk materials handling and processing sectors. Heavy industrial customers include BHP, Queensland Alumina Limited, Bluescope, Orica and CSBP while Downer provides a range of services at major ports including Gladstone Ports, Port Hedland, Port Waratah, Newcastle Coal Infrastructure Group and Kooragang Bulk Facilities.

Mineral Technologies

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

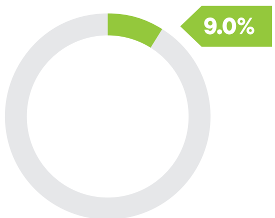
Engineering and Construction

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

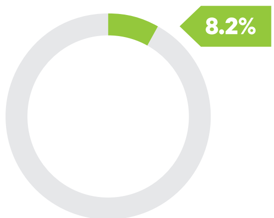
Mining

An important part of Downer's Urban Services strategy is to exit its capital-intensive Mining business. Downer has completed the divestment of its Open Cut Mining West, Underground, Downer Blasting Services and Snowden businesses as well as its share of the RTL JV. It has also entered into a binding sale agreement in relation to its Otraco business, with this divestment expected to complete in FY22. Downer's remaining mining business, Open Cut East, comprises four profitable contracts which are scheduled to complete between 2022 and 2024, in the event that the business is not sold.

Total revenue[1] (FY21)



EBITA[2] (FY21)



Mining

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

Directors' Report – continued

for the year ended 30 June 2021

Group Financial Performance

For the 12 months ended 30 June 2021, Downer reported a decrease in total revenue driven by the loss of revenue contribution from the Mining and Laundries businesses disposed during the year while earnings before interest, tax and amortisation of acquired intangibles (EBITA) and statutory net profit after tax (NPAT) were both higher. Gearing has decreased by 16.7 percentage points (pp) since June 2020, from 35.7% to 19.0%, and statutory EBITA margin has improved from 3.2% at 31 December 2020 to 3.3%.

The main features of the result for the 12 months ended 30 June 2021 were:

- Total revenue of $12.2 billion, down 8.8%
- Statutory EBITA of $401.0 million, up $371.0 million
- EBITA margin of 3.3%, up from 3.2% at 31 December 2020
- Statutory earnings before interest and tax (EBIT) of $334.8 million, up $376.1 million
- Statutory net profit after tax and before amortisation of acquired intangible assets (NPATA) of $230.0 million, up from a loss of $105.8 million
- Statutory net profit after tax (NPAT) of $183.7 million, up from a loss of $155.7 million.

Gearing has decreased by 16.7pp to 19.0% since June 2020 reflecting the strong operating cash flows and a material reduction in debt levels as proceeds from divestments and capital raising in July 2020 were partially utilised to repay borrowings. Gearing also reduced despite $83.3 million deferred interim FY20 dividend paid in the period and a $134.5 million payment made to acquire the remaining 12.2% interest in Spotless.

Cash conversion for the year of 92.0% and 100.8% once adjusted for $79.0 million of cash outflows relating to Individually Significant Items (ISIs) recognised in FY20, has significantly improved from prior year.

ISIs totalled $66.3 million loss before interest and tax for the year, ($31.2 million after tax and interest). These ISIs relate to:

- the fair value movement of the Downer Contingent Share Option (DCSO) as part of the consideration to acquire the remaining 12.2% interest in Spotless
- the impact of derecognition of unamortised deferred financing costs following the termination of the Spotless financing arrangement
- impairment of non-current assets
- the net loss recognised on divestments made during the year (including transaction costs)
- the impact of the adoption of Cloud Computing – Software-as-a-Service (SaaS) interpretations.

Refer to Note B3 to the Financial Report for further details.

The table below provides a comparison of the underlying[1] earnings for FY21 versus the results for FY20 and a reconciliation to statutory NPAT.

Underlying[1] EBITA (A$m)	Reporting Segment	FY21	FY20	Variance (%)
Transport	Transport	250.2	235.6	6.2%
Utilities	Utilities	115.1	114.6	0.4%
Facilities[2]	Facilities	140.0	124.9	12.1%
Asset Services[3]	EC&M	18.3	27.1	(32.5%)
Core Urban Services Businesses		**523.6**	**502.2**	**4.3%**
Engineering and Construction[3]	EC&M	(5.1)	(69.2)	92.6%
Businesses in wind down		**(5.1)**	**(69.2)**	**92.6%**
Mining	Mining	46.6	79.0	(41.0%)
Laundries[2]	Facilities	5.0	9.1	(45.1%)
Hospitality[2]	Facilities	0.4	(19.7)	>100%
Businesses under review or to be sold		**52.0**	**68.4**	**(24.0%)**
Corporate	Unallocated	(103.2)	(85.4)	(20.8%)
Group Underlying EBITA[4]		**467.3**	**416.0**	**12.3%**
Amortisation of acquired intangibles (pre-tax)		(66.2)	(71.3)	7.2%
Underlying EBIT		**401.1**	**344.7**	**16.4%**
Net interest expense		(100.6)	(112.0)	10.2%
Tax expense		(85.6)	(67.5)	(26.8%)
Underlying NPAT		**214.9**	**165.2**	**30.1%**
Amortisation of acquired intangibles (post-tax)		46.3	49.9	(7.2%)
Underlying NPATA[4]		**261.2**	**215.1**	**21.4%**
Items outside of underlying NPATA		(70.6)	(386.0)	81.7%
Tax effect on items outside NPATA		39.4	65.1	(39.5%)
Statutory NPATA		**230.0**	**(105.8)**	**>100%**
Amortisation of acquired intangibles (post-tax)		(46.3)	(49.9)	7.2%
Statutory NPAT		**183.7**	**(155.7)**	**>100%**

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

2 Total underlying EBITA for the Facilities segment was $145.4m (FY20: $114.3m). Refer to Note B1.

3 Total underlying EBITA for the EC&M segment was $13.2m (FY20: loss of $42.1m). Refer to Note B1.

4 Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense. Group FY21: $66.2 million, $46.3 million after-tax. (FY20: $71.3 million, $49.9 million after tax).

Revenue

Total revenue for the Group decreased by $1.2 billion or 8.8%, to $12.2 billion.

Transport revenue increased by 12.8%, or $602.9 million, to $5.3 billion due to strong performance in the Projects business, both in Australia and New Zealand, and continuing strong performance in the Road Services business particularly in Australia. These increases were partially offset by lower revenue from Rollingstock Services due to completion of Waratah bogie overhaul activities.

Utilities revenue decreased by 21.6%, or $581.7 million, to $2.1 billion largely due to the continued wind-down of nbn™ contracts and completion of Murra Warra. This was partially offset by increased activities in Power and Gas and Water services.

Facilities revenue decreased by 14.1%, or $466.0 million, to $2.8 billion largely due to the impact of COVID-19 on Hospitality, loss of revenue contribution from the disposal of Laundries and projects completions in both Australia and New Zealand.

EC&M revenue decreased by 25.9%, or $302.7 million, to $0.9 billion as a result of project completions and reduced construction activity in line with Downer's strategy. The Asset Services business continued to be impacted by COVID-19 resulting in customers deferring non-essential maintenance.

Mining revenue decreased by 29.3%, or $453.7 million, to $1.1 billion as a result of contract completions and the cessation of revenue from those Mining businesses disposed during the year as part of the Group's Urban Services strategy.

Expenses

Total expenses decreased by 12.0% compared to the pcp and includes $77.0 million of Individually Significant Items (ISIs) outside the underlying result, while the pcp included $367.2 million of ISIs. Excluding the impact of ISIs, total expenses decreased by 10.0% or $1,241.7 million.

Employee benefits expenses decreased by 8.5%, or $357.8 million, to $3.9 billion and represent 34.2% of Downer's cost base. The decrease is mainly driven by lower costs due to disposal of businesses, contract completions, reduced activities in Hospitality and the benefit of restructuring activities made in FY20.

Subcontractor costs decreased by 6.2%, or $273.3 million, to $4.1 billion and represent 36.7% of Downer's cost base. This decrease is a result of contract completions during the year particularly in Utilities, disposal of Mining businesses and reduced activities in Hospitality due to COVID-19. This was partially offset by increased contract activities in Transport.

Raw materials and consumables costs decreased by 26.1%, or $563.1 million, to $1.6 billion and represent 14.1% of Downer's cost base. The decrease is mainly due to contract completions, particularly in the Utilities and EC&M segments, as well as completion of Waratah bogie overhaul activities in Rollingstock Services and the disposal of Mining and Laundries businesses during the year.

Plant and equipment costs decreased by 10.7%, or $70.4 million, to $590.2 million and represent 5.2% of Downer's cost base. The decrease in plant and equipment costs is attributed to a less capital-intensive business following the disposal of Laundries and Mining as well as from initiatives to drive efficient plant and equipment utilisation and maintenance practices.

Depreciation and amortisation on leased assets increased by 19.0%, or $28.8 million, to $180.6 million and represent 1.6% of Downer's cost base. This increase is a result of investment in equipment on a lease basis.

Other depreciation and amortisation decreased by 14.1%, or $51.7 million, to $313.8 million and represent 2.8% of Downer's cost base. The decrease is driven by assets disposed as part of the Laundries and Mining divestments together with the normal run-off of assets useful life.

Included in Other depreciation and amortisation is $3.6 million of pre-tax ISIs benefit in relation to the implementation of SaaS arrangements as described in Note B3 to the Financial Report.

Impairment of non-current assets of $20.2 million represents impairment recognised to adjust the carrying value of the Property, plant and equipment and other assets of the Open Cut Mining West business to its expected recoverable value as described in Note B3 to the Financial Report.

Other expenses, which include communication, travel, occupancy and professional fees costs, decreased by 8.3%, or $52.6 million and represent 5.1% of Downer's cost base. The decrease is mainly due to reduced travel and discretionary expenses across the Group.

Included in Other expenses is $60.4 million of pre-tax ISIs in relation to SaaS arrangements, fair value movement on DCSO liability and divestment results (including transaction and divestments costs) in relation to the Laundries and Mining divestments as described in Note B3 to the Financial Report.

Earnings

Statutory earnings before interest and tax (EBIT) of $334.8 million up from loss of $41.3 million in pcp.

Statutory EBITA of $401.0 million up from $30.0 million in pcp.

Underlying EBITA for the Group increased by 12.3%, or $51.3 million, to $467.3 million.

Directors' Report – continued

for the year ended 30 June 2021

A reconciliation of the FY21 underlying result to the statutory result is provided in the table below:

	EBITA	Net Interest expense	Tax expense	NPATA	Deduct Amortisation of acquired intangibles (post-tax)	NPAT
Underlying results	**467.3**	**(100.6)**	**(105.5)**	**261.2**	**(46.3)**	**214.9**
Fair value on Downer Contingent Share Option (DCSO)[1]	(16.6)	–	–	(16.6)	–	(16.6)
Termination of Spotless financing arrangements	–	(4.3)	1.3	(3.0)	–	(3.0)
Mining divestments (net of transaction costs)	(19.5)	–	17.5	(2.0)	–	(2.0)
Laundries divestment (net of transaction costs)	(16.2)	–	16.5	0.3	–	0.3
SaaS arrangements	(14.0)	–	4.1	(9.9)	–	(9.9)
Total items outside underlying performance	**(66.3)**	**(4.3)**	**39.4**	**(31.2)**	**–**	**(31.2)**
Statutory result – Profit/(loss)	**401.0**	**(104.9)**	**(66.1)**	**230.0**	**(46.3)**	**183.7**

1 The initial recognition of the fair value of the Downer Contingent Share Option (DCSO) was $16.7 million as at 12 August 2020 and recorded as a current financial liability. The fair value of the DCSO issued as at the date the transaction completed was determined using an option pricing model. The key assumptions used in this assessment were a TERP adjusted share price of $5.59, option volatility of 40%, interest of 0.51% and dividend yield of 4.1%. The DCSO was remeasured to fair value at 30 June 2021, with any fair value movements recognised through the income statement. As the Downer share price has increased from $4.30 to $5.59 at 30 June 2021 this has resulted in a fair value movement of $16.6 million.

Transport EBITA increased by 6.2% to $250.2 million due to continued strong contribution from Australia and New Zealand operations. In Australia, driven by strong contribution from Roads Services, partially offset by lower Rollingstock Services contribution following completion of the construction phase of the Sydney Growth Trains project and completion of Waratah bogie overhaul activities. In New Zealand, from new contracts and higher activities within the Project business.

Utilities EBITA increased by 0.4% to $115.1 million as increased contributions from Water services in Australia and from telecommunications in New Zealand were offset by the wind-down of nbn™ contracts.

Facilities EBITA increased by 39.3% to $145.4 million mainly driven by increased contribution from Government services, including COVID-19 cleaning activities, a recovery of activity levels within the Hospitality sector due to fewer COVID-19 restrictions in 2H21; and a higher contribution from projects in New Zealand.

EC&M EBITA increased by 125.9% to $13.2 million as the pcp included non-recurring contract losses within the Engineering and Construction business that are now complete. This was partially offset by lower contribution from the Asset Services business due to COVID-19 resulting in customers deferring non-essential maintenance activities.

Mining EBITA decreased by 41.0% to $46.6 million due to loss of earnings as a result of divestments made during the year.

Corporate costs increased by $17.8 million to $103.2 million mainly due to higher information technology and insurance costs and from FY21 short-term incentive expense recognised.

Net finance costs decreased by $7.1 million, or 6.3%, to $104.9 million driven by lower levels of debt throughout the year and lower interest rates. Included in net finance costs is $4.3 million of pre-tax ISIs in relation to termination of Spotless financing arrangements as described in Note B3 to the Financial Report. Excluding ISIs, net finance costs would have been $11.4 million lower than pcp.

Effective tax rate is 20.1% which is lower than the statutory corporate tax rate of 30% due to the impact of items including non-taxable gains on divestments, recognition of previously unrecognised capital losses, non-taxable distributions from joint ventures and lower tax rates in overseas jurisdictions (e.g. New Zealand).

Operating Cash Flow

Operating cash flow was strong at $708.7 million, a major improvement from the $158.6[1] million inflow in the pcp and represents a cash conversion of 92.0% of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA). The improvement in cash was driven by a strong contract performance across the Group including the completion of loss-making contracts in Engineering and Construction.

Included within the operating cash flow is $79.0 million in ISIs recognised in FY20 (mainly restructuring cost and shareholder class action settlement) being the cash outflow incurred during the current period. Excluding the cash outflows for FY20 ISIs, cash conversion would be 100.8%.

Investing Cash

Total investing cash inflow of $35.9 million was driven by $447.8 million of proceeds from disposal activities during the year, partially offset by $134.5 million paid in relation to the acquisition of the remaining 12.2% interest in Spotless. Total proceeds from disposal activities includes $395.9 million proceeds from the sale of businesses, $10.9 million net proceeds from the disposal of RTL JV and $41.0 million from sale of Mining's property plant and equipment.

Excluding the cash flow from the major transactions, investing cash flow would have been an outflow of $277.4 million; $100.3 million or 26.6% lower than prior year[1], driven by lower capex requirements following Laundries and Mining businesses divestments, and by $13.1 million lower payments for intangibles.

Debt and Bonding

The Group's performance bonding facilities totalled $2,009.3 million at 30 June 2021 with $633.0 million undrawn.

As at 30 June 2021, the Group had liquidity of $2.2 billion comprising cash balances of $811.4 million and undrawn committed debt facilities of $1.4 billion.

During the year, the Group raised $390.4 million (net of costs) from the issue of new shares in order to rebalance the Group's gearing and overall liquidity positions, and in anticipation of the payments for the purchase of the Spotless shares it did not already own. In December 2020, the Group established a new $1.4 billion syndicated sustainability linked loan facility. This new facility replaces the Spotless $888.7 million and Downer $400 million syndicated bank loan facilities as the Group's primary source of financing. In addition, $145 million of Spotless bilateral bank loan facilities were refinanced at the Downer level.

A buy-back of Downer's shares was announced to the market on 27 April 2021 and the buy-back commenced on 8 June 2021. As of 30 June 2021, a total of 4,363,398 shares were purchased for total consideration of $24.8 million.

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

Balance Sheet

The net assets of Downer increased by $362.4 million, or 14.0% to $3.0 billion, mainly as a result of capital raising funds received in the period.

Net debt is calculated as borrowings (excluding lease liabilities) less the cash and cash equivalents. Net debt has decreased $792.6 million to $670.2 million mainly driven by $569.7 million lower borrowings following debt repayments made as a result of capital raising funds and $222.9 million higher cash position since 30 June 2020. The strong operating cash flow and lower capital expenditure compared to the pcp further contributed to a lower net debt position.

Group gearing at 30 June 2021 was 19.0% (calculated on a pre-AASB 16 basis) which is 16.7pp lower than 30 June 2020. This reduction was achieved despite the payment of the deferred FY20 interim dividend ($83.3 million) and payment of $134.5 million for the remaining 12.2% interest in Spotless.

Total trade receivables and contract assets decreased by 7.5%, or $180.9 million, to $2,230.2 million reflecting the impact of the trade receivables disposed, contract completions and strong cash collections during the year. The decrease also reflects $24.2 million that has been classified as Assets held for sale in relation to the Otraco divestment described in Note F6 to the Financial Report.

Inventories decreased by 23.9%, or $79.8 million, to $254.2 million largely driven by the disposal of Mining and Laundries businesses while $1.8 million was reclassified to Assets held for sale.

Current tax assets decreased by 25.5%, or $16.6 million, to $48.6 million reflecting tax refund received and timing of tax payments.

Assets held for sale of $41.5 million represent the assets that will be disposed as part of the sale of Otraco business as described in Note F6 to the Financial Report. The completion of the sale of Otraco within 12 months is considered highly probable, and as such the recoverable value of the assets and liabilities is presented separately as Assets/Liabilities held for sale.

Interest in equity accounted investments increased by 40.2%, or $44.5 million, to $155.1 million mainly reflecting $33.4 million for the remaining 30% interest in Laundries and $9.8 million additional investment in Keolis Downer during the year, offset by $8.1 million interest in RTL JV sold and the net impact of profit and distributions received during the period.

Property, plant and equipment decreased by 26.3%, or $355.5 million, to $994.7 million after $340.8 million was disposed of as part of the Laundries and Mining divestments while $9.4 million was transferred to Assets held for sale. Excluding the disposals and transfers, Property, plant and equipment would have decreased by $5.3 million largely from additions of $309.7 million during the year being offset by depreciation and impairment charges of $244.8 million and disposals of $61.4 million.

Right-of-use assets decreased $46.1 million to $546.5 million. The decrease includes $55.2 million that has been disposed as part of Mining and Laundries divestments with $2.2 million classified to Assets held for sale. Excluding these movements, Right-of-use assets would have increased by $11.3 million, reflecting new leases and extensions arrangements entered into during the year.

Intangible assets[1] decreased by 2.7%, or $77.1 million, to $2,782.9 million with $89.2 million of amortisation charges during the year, $23.6 million disposed as part of the divestment program and $0.5 million transferred to Assets held for sale. This was partially offset by $28.4 million additional investment in software during the year.

Net deferred tax balances (net of deferred tax assets and liabilities) of $59.5 million increased by 3.3%, or $1.9 million reflecting the net position of deferred tax, including the consolidation of the Spotless tax consolidated group into the Downer tax consolidated group.

1 2020 Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows have been restated to reflect the Group's change in accounting policy for costs related to configuration and customisation of Software-as-a-Service (SaaS) arrangements. Refer to Note C7 for more details.

Directors' Report – continued

for the year ended 30 June 2021

Total trade payables and contract liabilities decreased by 5.1%, or $129.0 million, to $2,397.2 million primarily due to payment of the deferred 2020 interim dividend ($83.3 million), and settlement of the Spotless shareholder class action, while $27.4 million was disposed as part of the divestment program and $5.9 million has been reclassified to Liabilities held for sale as described in Note F6 to the Financial Report. Trade payables and contract liabilities represent 46.9% of Downer's total liabilities.

Other financial liabilities increased by 11.8%, or $7.1 million, to $67.3 million, representing 1.3% of Downer's total liabilities. The increase mainly reflects the recognition of the fair value of the Downer Contingent Share Option (DCSO) arising from the transaction to acquire the shares in Spotless that it did not already own. Refer to Note B3 to the Financial Report.

Lease liabilities decreased by 13.2%, or $100.4 million, to $662.8 million and represent 13.0% of Downer's total liabilities. The decrease mainly relates to $89.2 million of leases disposed as part of the Laundries and Mining divestments, with $2.4 million reclassified to Liabilities held for sale. Excluding the disposal and reclassification impact, lease liabilities would have decreased by $8.8 million largely reflecting lease arrangements terminated during the year.

Liabilities held for sale of $17.2 million represent total liabilities that will be disposed as part of the sale of Otraco as described in Note F6 to the Financial Report.

Provisions decreased by 13.0%, or $70.7 million, to $474.9 million, representing 9.3% of Downer's total liabilities. The decrease is mainly driven by $31.1 million of provisions disposed as part of the divestment program and due to employee related provisions utilised during the year. Employee related provisions (annual leave and long service leave) made up 81.9% of this balance with the remainder covering contract provisions, decommissioning, restructuring and warranty obligations.

Total Equity increased by $362.4 million, driven by $393.2 million from the equity raising (net of costs) and $183.7 million of net profit after tax. This was partially offset by $140.9 million derecognition of Non-Controlling Interest (NCI) in Spotless following the acquisition of the remaining 12.2% interest, $24.8 million in shares bought back and by dividends declared during the year. Net foreign currency gains on translation of foreign operations, particularly in New Zealand, resulted in a movement in the foreign currency translation reserve of $0.9 million.

Dividends

The Downer Board resolved to pay a final dividend of 12.0 cents per share, unfranked payable on 23 September 2021 to shareholders on the register at 26 August 2021.

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

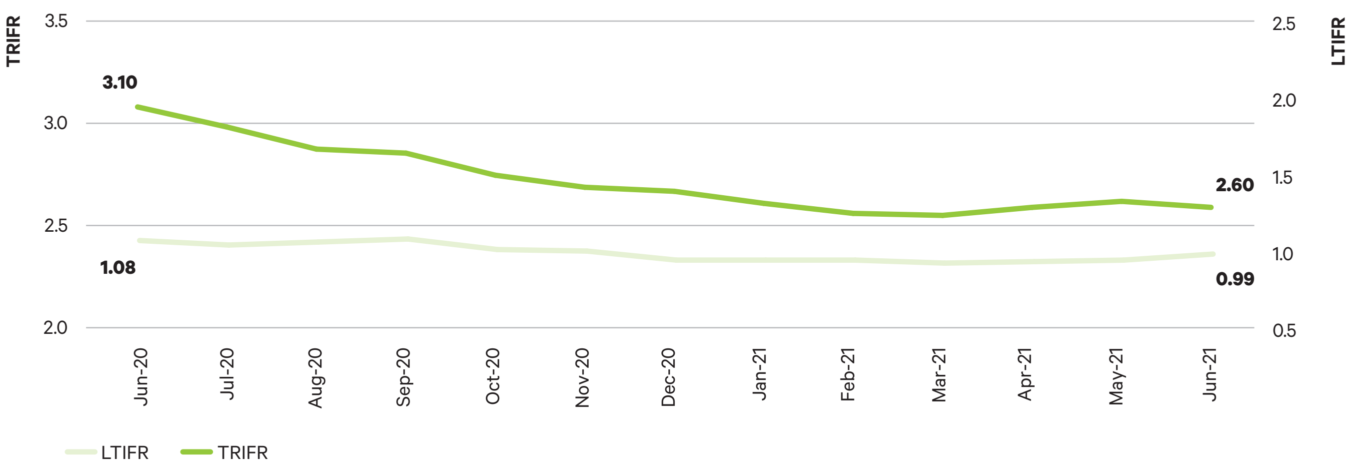
The Board also determined to continue to pay a fully imputed dividend on the ROADS security, which having been reset on 15 June 2021 has a yield of 4.42% per annum payable quarterly in arrears, with the next payment due on 15 September 2021. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 3.18% per annum until the next reset date.

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

Zero Harm

Downer's[1] Lost Time Injury Frequency Rate (LTIFR) decreased to 0.99 from 1.08 and its Total Recordable Injury Frequency Rate (TRIFR) decreased to 2.60 from 3.10 per million hours worked[2].

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



1 Safety data includes Hawkins and Spotless (Note: Hawkins and Spotless were excluded in the FY20 Annual Report).

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

Group Business Strategies and Prospects for Future Financial Years

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

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

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

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

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

Strategic Objective	Prospects	Risks and risk management
Maintain focus on Zero Harm	Downer believes that a sustainable and embedded Zero Harm culture is fundamental to the Company's ongoing success, and to building trusted relationships with customers and business partners. Downer's approach to Zero Harm enables it to work safely and environmentally responsibly in industry sectors with inherently hazardous environments. Zero Harm at Downer means a work environment that supports the health and safety of its people and allows it to deliver its business activities in an environmentally sustainable manner and advance the communities in which it operates. This includes continuing to monitor all COVID-19 risks and controls, and supporting the Government's vaccination rollout strategy.	Downer has a robust Critical Risk program. Risks that could cause serious injury to people or harm to the environment, and the controls needed to eliminate or manage those risks, are understood. This knowledge forms the core of Downer's risk management processes, and the monitoring of its critical controls. There is a strong commitment to Downer's Zero Harm objectives across all levels of the business. A core objective of The Downer Standard program is to unify the way we manage Zero Harm and perform our work. In an important step, Downer achieved centralised third-party accreditation to the International Standards ISO 45001 (Safety), ISO 9001 (Quality) and ISO 14001 (Environment). This gives Downer a single system of work for safety, quality and environment, and a framework to develop, implement and monitor The Downer Standard. Establishing this consistent single platform means Downer can deliver consistent best practice information and work processes to our frontline employees, helping them to better manage risk and change in their dynamic workplaces. Downer continues to be vigilant around the management of COVID and maintaining the highest levels of controls in line with expert advice and Government guidance, providing our workforce with relevant up-to-date information. Downer supports the Government's vaccination initiative and encourages employees to have the vaccination when it is available to them, once they have consulted a health professional on the associated risks and benefits.

Directors' Report – continued

for the year ended 30 June 2021

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

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

Service line	Prospects	Downer's response
Transport	The multi-billion dollar market for transport services continues to grow in both Australia and New Zealand. Governments in both countries continue to invest in a range of projects to reduce congestion, improve mobility, and provide better linkages between communities.	Downer is a market leader in road services in both Australia and New Zealand, light rail construction in Australia and heavy rail construction and maintenance in Australia. Downer maintains strong strategic partnerships with leading global transport solutions providers and, through this model, is pursuing opportunities in rollingstock manufacture and maintenance, and transport network operations and maintenance. The Keolis Downer joint venture is a leading Australian multi-modal transport operator.
Utilities	Growth across utility markets is multi-faceted with a good pipeline of prospects in both Australia and New Zealand.	Downer has market leading positions in the power, gas, water and telecommunications sectors in both Australia and New Zealand. Downer is strongly positioned to take advantage of the growth opportunities available in these sectors, with a demonstrable track record of excellence in service delivery, and a greater focus on introducing operational technology to improve the value Downer brings to customers.
Facilities	Large-scale and long-term outsourcing contracts continue to come to market, however the long-term nature of contracts in this sector means that a lot of work is already under contract. There is a strong pipeline of opportunities on the short-to-medium-term horizon in both Australia and New Zealand.	Through the acquisition of Spotless, Downer is a major force in both Australia and New Zealand with market leading positions across key sectors including defence, health, education and government. Government restrictions imposed to slow the spread of COVID-19 have had a major impact on Spotless' Hospitality business. Downer has reduced the footprint of Hospitality to reflect the smaller scale of operations and is reviewing the future of this business.
Asset Services	There are opportunities for growth in all areas in which Asset Services operates: Oil and Gas, Power Generation and Industrial. These opportunities include the next generation of LNG maintenance contracts and the need to upgrade ageing industrial assets. In addition, all Downer's customers are actively investing in decarbonisation projects and most are investigating Hydrogen opportunities.	Downer has strong market positions across all these areas and is well placed to secure at least its share of new opportunities. Downer is also investing in expertise and capability to ensure we have the necessary skills to participate wholly in the new Hydrogen economy.

Directors' Report – continued

for the year ended 30 June 2021

Outlook

Downer expects its core Urban Services to continue to grow in FY22 both in revenue and earnings. Given the changing nature of the COVID pandemic and the ongoing restrictions Downer will not provide specific earnings guidance.

Subsequent Events

Downer's end markets relate to critical infrastructure and essential services. Downer's strength in those markets, and their diversity, are a key advantage.

At the date of this report, Downer has not had a material impact from the current COVID-19 lockdowns across Sydney and other metropolitan areas in Australia and will continue to monitor the changing nature of the pandemic and the ongoing COVID-19 restrictions.

Outside the above, at the date of this report, 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 management

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

Downer's Urban Services focus delivers many environmental and social benefits, including a move to lower capital intensive and lower carbon activities, which supports Downer's climate change resilience and decarbonisation pathway. Downer is also conscious of its social licence to operate – and responds to this by improving the sustainability of the Company's operations, aiming to achieve Zero Harm to its people, minimise harm to the environment, avoid legal liability and always strives to positively impact Downer's reputation, business value and ultimately shareholder wealth.

Downer's ability to manage the impacts of its activities on the natural and built environment is fundamental to its long-term success. Downer is committed to helping its customers succeed by developing and delivering environmentally responsible and sustainable solutions, so communities remain resilient for the future.

Downer's environmental management system is accredited to AS/NZ ISO 14001:2015 and is integrated into its Group-wide management system, The Downer Standard, which ensures a consistent approach to identifying and controlling environmental hazards and risks, and monitoring environmental performance across the entire organisation. In addition, the environment management system is audited, both internally and externally, by independent third parties.

The effective management of Downer's environmental aspects and impacts is fundamental to the Company's approach to the delivery of its services. Significant emphasis is placed on ensuring effective controls are implemented through the critical risk program and continuous improvement through lessons learned to sustain the natural environment for future generations.

Each Business Unit is required to have an Environment and Sustainability Improvement Plan and strategies in place supported by suitably qualified environment and sustainability professionals. The Improvement Plans allocate internal responsibilities for reducing the impact of its operations and business activities on the environment.

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 2021 or 30 June 2020.

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 2021 financial year and the number of meetings attended by each Director (while they were a Director or Board Committee member). During the year, 17 Board meetings, seven Audit and Risk Committee meetings, four Remuneration Committee meetings, three Zero Harm Committee meetings and two Nominations and Corporate Governance Committee meetings were held. In addition, 29 ad hoc meetings (attended by various Directors) were held in relation to various matters including tender reviews, major projects and due diligence for the on-market share buy-back program and Spotless takeover offer and Entitlement Offer.

	Board		Audit and Risk Committee		Remuneration Committee	
Director	**Held[1]**	**Attended**	**Held[1]**	**Attended**	**Held[1]**	**Attended**
R M Harding	17	17	–	–	4	4
G A Fenn	17	17	–	–	–	–
P S Garling[2]	17	17	–	–	4	4
T G Handicott[3,6]	17	16	7	7	4	4
N M Hollows	17	17	7	7	4	4
C G Thorne[5]	1	1	–	–	–	–
P L Watson[4]	17	17	7	7	–	–

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

1 These columns indicate the number of meetings held during the period each person listed was a Director or member of the relevant Board Committee.
2 Mr Garling was also Chairman of the Rail Projects Committee. The Rail Projects Committee ceased in April 2021.
3 Ms Handicott is also Chairman of the Disclosure Committee and the Buy-back Committee which meets on an unscheduled basis; and was Chair of the Due Diligence Committee for the Spotless takeover offer and Entitlement Offer.
4 Mr Watson is also Chairman of the Tender Risk Evaluation Committee which meets on an unscheduled basis.
5 Mr Thorne retired as a Director on 13 July 2020.
6. Ms Handicott was unable to attend one unscheduled Board meeting which was convened at short notice.

Directors' Report – continued

for the year ended 30 June 2021

Indemnification of officers and auditors

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

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

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

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

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Board endorses the ASX *Corporate Governance Council's Corporate Governance Principles and Recommendations* (ASX Principles). The Group's corporate governance statement is set out at pages 136 to 145 of this Annual Report.

Non-audit services

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

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

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

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

A copy of the Auditor's Independence Declaration is set out on page 52 of this Annual Report.

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

Non-audit services	2021 $	2020 $
Tax services	**205,795**	242,148
Advisory and due diligence services	**506,977**	468,318
	712,772	710,466

Rounding of amounts

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

Remuneration Report

Chairman's Letter

Dear Shareholders,

Downer's 2021 Remuneration Report provides information about the remuneration of its most senior executives and explains how performance has been linked to reward outcomes at Downer for the 2021 financial year.

At the last Annual General Meeting in November 2020, 99.3% of all votes cast by shareholders were in favour of the 2020 Remuneration Report. The structure of the 2021 Remuneration Report has been prepared with the same objective of providing readers with a transparent view of key performance and outcomes using the report structure adopted in previous years.

A strong future

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

These include:

- Acquiring the remaining interests in Spotless
- Selling the RTL joint venture, Open Cut Mining West, Blasting Services, Snowden, and Otraco businesses as well as exiting the Underground Mining business and selling 70% of the Laundries business, delivering on the strategy to exit the capital-intensive Mining and Laundries businesses and significantly decreasing the Group's carbon emissions profile
- Exploring options to sell the Open Cut Mining East and Hospitality businesses
- Commencing an on-market share buy-back to return surplus funds from the divestment program to shareholders.

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

Many of the activities that Downer's people perform every day have potential risks and ensuring they remain safe is of paramount importance. Downer's Lost Time Injury Frequency Rate at 30 June 2021 was 0.99 and the Total Recordable Injury Frequency Rate was 2.60. Downer's culture and our commitment to continuous improvement in Zero Harm remain core strategic objectives.

Key remuneration issues in 2021

Staff and management responded well to the COVID-19 pandemic and, continued to work toward our Zero Harm objectives.

As outlined above, our executive team effected significant transformation in 2021 that positions the Company for more sustainable and less volatile revenues, earnings and cash flows and which will maximize long term shareholder value.

The remaining core businesses are scalable, permitting our balance sheet strength to be deployed for further investment, including bolt-on acquisitions.

These transformative activities should position management well for the 2021 long-term incentive (LTI) grant vesting in 2024. While early into the performance period, current projections are for vesting above 80%.

The Board also considered the base value for the EPS component of the 2021 LTI plan, from which performance will be measured. The Company's policy is to add back any items that were outside of the underlying statutory result when setting the base value. The Board decided that this adjustment be increased by an additional $10 million of earnings to ensure that any future reward is appropriate.

The impact of major divestments or acquisitions on executive remuneration can be significant. The Board's overarching concern is to ensure executives:

- Are accountable for delivery of the annual budget and business plan; and
- Consider potential acquisition or divestment opportunities without the influence of their impact on remuneration outcomes.

For these and other reasons, where a transaction is both material and unbudgeted, the Board's policy is that it should remove the impact of the transaction when calculating the key performance indicators on which executive performance is measured. This ensures that executives are 'no better or worse off' as a result of the transaction.

In 2021, adjustments were made in respect of the acquisition of the remaining interests in Spotless and the divestments, in line with policy.

Directors' Report – continued

for the year ended 30 June 2021

There were two items in 2021 which significantly affected statutory results, which were the fair value adjustment on the Downer Contingent Share Options issued as part of the consideration for its acquisition of the remaining interests in Spotless and the implementation of the International Financial Reporting Standards Interpretations Committee (IFRIC) decision on Configuration or Customisation Costs in a Cloud Computing Arrangement which requires certain software development costs to be expensed as they are incurred.

Link between Downer performance and reward outcomes

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

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

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

R.M. Harding

R M Harding
Chairman

T G Handicott
Remuneration Committee Chairman

Remuneration Report – AUDITED

The Remuneration Report provides information about the remuneration arrangements for key management personnel (KMP), which means Non-executive Directors and the Group's most senior executives, for the year to 30 June 2021. The term 'executive' in this Report means KMPs who are not Non-executive Directors.

The Report covers the following matters:

1. Year in Review
2. Details of Key Management Personnel
3. Remuneration Policy, Principles and Practices
4. Relationship Between Remuneration Policy and Company Performance
5. The Board's Role in Remuneration
6. Description of Executive Remuneration
7. Details of Executive Remuneration
8. Executive Equity Ownership
9. Key Terms of Employment Contracts
10. Related Party Information
11. Description of Non-executive Director Remuneration.

Directors' Report – continued

for the year ended 30 June 2021

1. Year in Review

1.1 Summary of changes to remuneration policy

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

Policy	Enhancements since 2020
Short-term incentive (STI) plan	The environmental sustainability, critical risk and Zero Harm leadership measures for the Zero Harm element have been further refined, building upon previous improvements to move with and support growth in organisational maturity and ensure continual stretch and ongoing Zero Harm improvement through requiring executives, in addition to achieving lagging indicator performance, to: – Undertake a materiality assessment and identify two material Sustainable Development Goals, develop improvement plans for them and achieve their first-year targets – Evidence that the relevant business unit is on track to achieve its science-based decarbonisation target – Review all critical controls for at least 2 critical risk activities amongst the top 5 critical risks of the business unit and develop a plan to raise the effectiveness for the 5 least effective critical controls for each of those activities – Lead and finalise a Community of Practice to improve a critical control that has application across the Group – Achieve independent confirmation that critical control information is fully integrated into all aspects of the operating management system and processes, including risk registers, and the use of Bow Ties for investigations – Complete all actions arising from high potential incidents within a defined timeframe – Deliver Critical Control Verification Programs, perform a minimum number of critical risk observations by senior executives within their business, across businesses, and in partnership with clients and maintain an active program of audits and inspections – Continuing from Downer's implementation of an accredited Group-wide Zero Harm management system, achieve independent confirmation of removal of legacy systems as well as achievement of all certification requirements.
Long-term incentive (LTI) plan – EPS component	The Company adds back any items that were outside of the underlying statutory result to the earnings value when setting the base year value from which performance is measured over the performance period. The Board recognised that the calculated starting value was impacted by the events of 2020 and accordingly increased the base year earnings by an additional $10 million to ensure that any future reward is appropriate.

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
P S Garling	Independent Non-executive Director
T G Handicott	Independent Non-executive Director
N M Hollows	Independent Non-executive Director
C G Thorne	Independent Non-executive Director (retired 13 July 2020)
P L Watson	Independent Non-executive Director

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

Executive	Role
S Cinerari	Chief Operating Officer – Australian Operations
M J Ferguson	Chief Financial Officer
S L Killeen	Chief Executive Officer – New Zealand
P J Tompkins	Chief Executive Officer – Spotless

Directors' Report – continued

for the year ended 30 June 2021

3. Remuneration Policy, Principles and Practices

3.1 Executive remuneration policy

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

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

4. Relationship Between Remuneration Policy and Company Performance

4.1 Company strategy and remuneration

Downer's business strategy includes:

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

The Company's remuneration policy complements this strategy by:

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

4.2 Remuneration linked to performance

The link to performance is provided by:

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

Downer measures performance on the following key corporate measures:

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

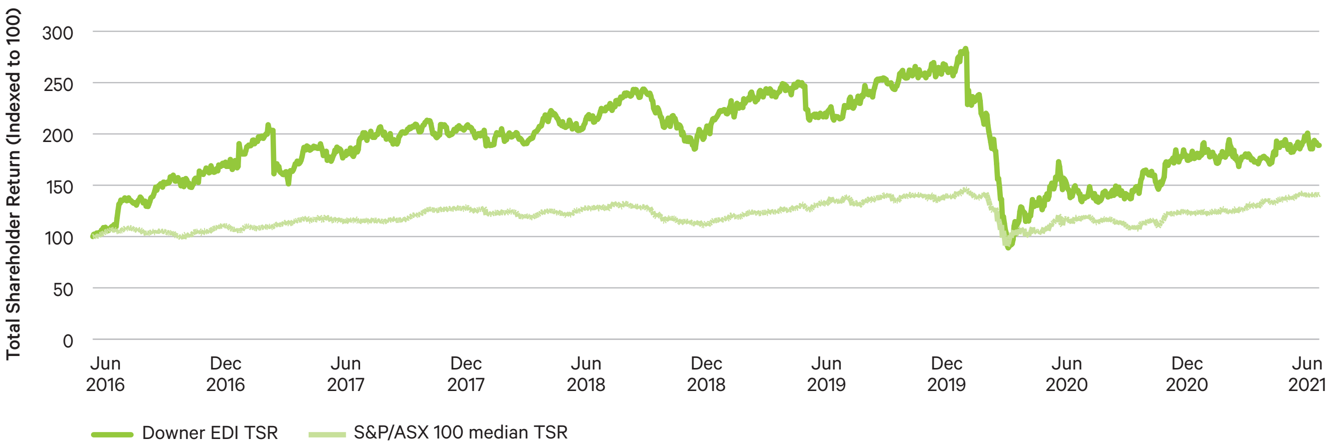
Remuneration for all executives varies with performance on these key measures.

Directors' Report – continued

for the year ended 30 June 2021

The following graph shows the Company's performance compared to the median performance of the ASX 100 over the five-year period to 30 June 2021.

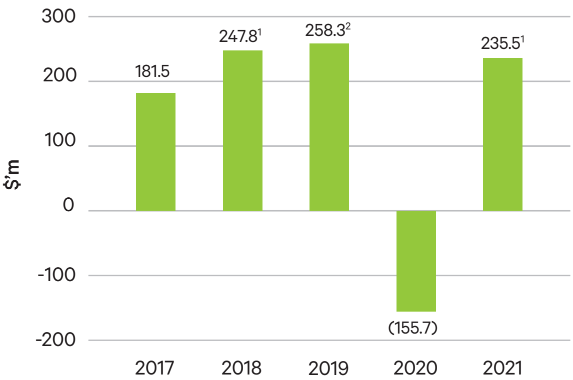
Downer EDI TSR compared to S&P/ASX 100 median*



* S&P/ASX 100 companies as at 30/06/2018

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

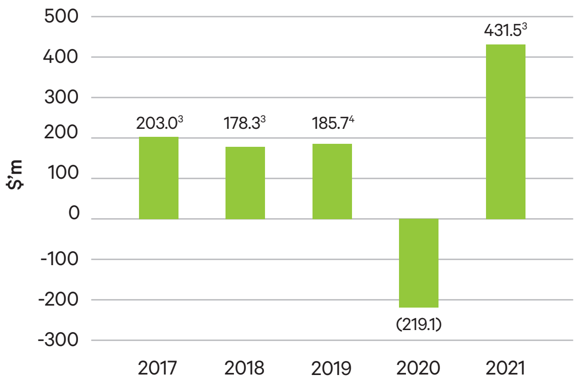
Net profit after tax



1 Adjusted for material unbudgeted transactions and individually significant items.

2 Adjusted for material unbudgeted transactions.

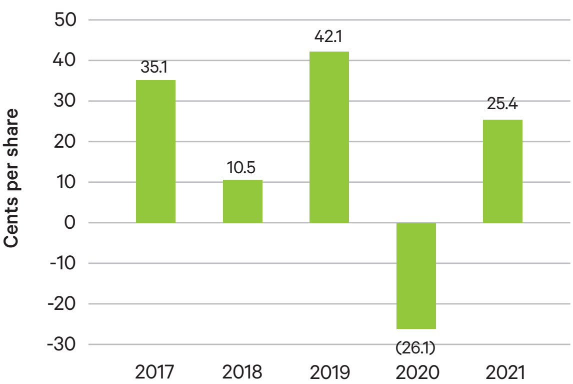
Free cash flow



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

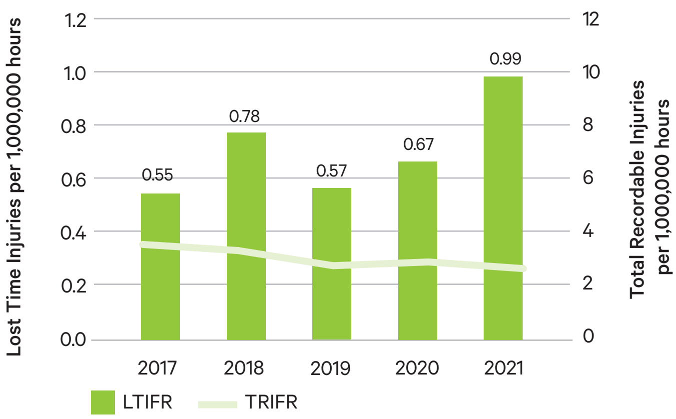
4 Adjusted for material unbudgeted transactions.

Basic earnings per share[5]



5 Historical basic earnings per share were restated as a result of 106.6 million shares issued from the capital raising as part of the acquisition of the remaining shares in Spotless. The weighted average number of shares (WANOS) to calculate EPS was adjusted by an adjustment factor of 0.9817.

Safety[6]



6 Safety data for 2021 includes Hawkins and Spotless. Safety data for 2017 to 2020 excludes Hawkins and Spotless.

5. The Board's Role in Remuneration

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

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

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

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

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

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

Directors' Report – continued

for the year ended 30 June 2021

6. Description of Executive Remuneration

6.1 Executive remuneration structure

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

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

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

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

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

The proportions of STI to LTI take into account:

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

6.2 Fixed remuneration

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

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

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

No adjustment has been made to remuneration for the Managing Director since July 2012, other than a voluntarily reduction in his fixed remuneration by 50% for the period 1 March 2020 to 30 June 2020 in recognition of the likely impact of the coronavirus pandemic on Downer and its people. The funds from this voluntary remuneration reduction, along with contributions from Directors and other executives, were used to establish a fund to provide financial assistance to Downer and Spotless employees experiencing severe hardship.

6.3 Short-term Incentive

6.3.1 STI tabular summary

The following table outlines the major features of the 2021 STI plan.

Purpose of STI plan	– Focus performance on drivers of shareholder value over 12-month period – Improve Zero Harm and people related results – Ensure a part of remuneration costs varies with the Company's 12-month performance.
Minimum performance 'gateway' before any payments can be made	Achievement of a gateway based on budgeted Group NPATA for corporate executives and Division EBITA for divisional heads.
Maximum STI that can be earned	– KMP appointed pre-2011: up to 100% of fixed remuneration – KMP appointed from 2011: up to 75% of fixed remuneration.
Percentage of STI that can be earned on achieving target expectations	75% of the maximum. For an executive to receive more, performance in excess of target expectations will be required.
Individual Performance Modifier (IPM)	– An IPM may be applied based on an executive's individual key performance indicators and relative performance – Moderate individual performance may result in an IPM of less than 1 or outstanding performance may result in an IPM greater than 1. The IPM must average 1 across all participants – Application of an IPM cannot result in an award greater than the maximum STI% level set out in Section 6.1.
Discretion to vary payments	The Board, in its discretion, may vary STI payments by up to + or – 100% from the payment applicable to the level of performance achieved, up to the maximum for that executive.
Performance period	1 July 2020 to 30 June 2021.
Performance assessed	August 2021, following audit of accounts.
Additional service period after performance period for payment to be made	50% of the award is deferred with the first tranche of 25% vesting one year following award and the second tranche of 25% vesting two years following award.
Payment timing	September 2021 for the first cash payment of 50% of the award. The deferred components of the STI payments will be paid one and two years following the award, in equal tranches of 25% of the award.
Form of payment	Cash for initial payment. The value of deferred components will be settled in cash or shares, net of personal tax. An eligible leaver's deferred components will be settled in shares or in cash in the sole and absolute discretion of the Board.
Performance requirements	Group NPATA and divisional EBITA, FFO, Zero Harm and people measures.
Board discretion	The Board may exercise discretion to: – Reduce partly or fully the value of the deferred components that are due to vest in certain circumstances, including where an executive has acted inappropriately or where the Board considers that the financial results against which the STI performance measures were tested were incorrect in a material respect or have been reversed or restated – Settle deferred components in shares or cash.
New recruits	New executives (either new starts or promoted employees) are eligible to participate in the STI in the year in which they commence in their position with a pro-rata entitlement.
Terminating executives	There is no STI entitlement where an executive's employment terminates prior to the end of the financial year. Where an executive's employment terminates prior to the vesting date, the unvested deferred components will be forfeited. However, the Board has retained discretion to vest deferred awards, in the form of shares or cash, in their ordinary course where the executive is judged to be an eligible leaver.

Directors' Report – continued

for the year ended 30 June 2021

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 2021.

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

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

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

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

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

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

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

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

6.3.3 How STI payments are assessed

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

6.3.4 STI performance requirements

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

NPATA and EBITA include joint ventures and associates and include, inter alia, changes in accounting policy. NPATA and EBITA provide transparency on operational business performance, align with how Downer presents its results to the market and allow for easier understanding of alignment between performance and remuneration outcomes. The Board considers this approach to be appropriate as:

- The Board is the ultimate decision maker for transactions that give rise to acquired intangibles that result in the amortisation expense
- The impact of amortisation of acquired intangibles, which in nature relate to long-term strategic decisions, remains reflected in incentive outcomes through the EPS measure in the LTI plan.

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

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

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

Measure	Target
Safety	
Total Recordable Injury Frequency Rate (TRIFR)	Achieve TRIFR and LTIFR below defined threshold for area of responsibility. TRIFR is calculated as the number of recordable injuries per million hours calculated over 12 months.
Lost Time Injury Frequency Rate (LTIFR)	LTIFR is calculated as the number of lost time injuries per million hours calculated over 12 months.
Environmental Sustainability and GHG emissions reduction	Undertake a materiality assessment and identify two material Sustainable Development Goals, develop improvement plans for them and achieve their first-year targets. Evidence that the relevant business unit is on track to achieve its science-based decarbonisation target.
Critical Risk	Review all critical controls for at least 2 critical risk activities amongst the top 5 critical risks of the business unit and develop a plan to raise the effectiveness for the 5 least effective critical controls for each of those activities. Lead and finalise a Community of Practice to improve a critical control that has application across the Group. Achieve independent confirmation that critical control information is fully integrated into all aspects of the operating management system and processes, including risk registers, and the use of Bow Ties for investigations.
Zero Harm Leadership	Completion of all actions arising from high potential incidents within a defined timeframe. Delivery of Critical Control Verification Programs, performance of a minimum number of critical risk observations by senior executives within their business, across businesses, and in partnership with clients; and maintenance of an active program of audits and inspections. Continuing from Downer's implementation of a single accredited Group-wide Zero Harm management system, achieve independent confirmation of removal of legacy systems as well as achievement of all certification requirements.

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

Weightings applied to the 2021 STI scorecard measures for all executives, including the Managing Director, are set out in the table below.

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

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

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

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

Directors' Report – continued

for the year ended 30 June 2021

6.4 Long-term Incentive

6.4.1 LTI tabular summary

The following table outlines the major features of the 2021 LTI plan.

Purpose of LTI plan	– Focus performance on drivers of shareholder value over three-year period – Manage risk by countering any tendency to over-emphasise short-term performance to the detriment of longer-term growth and sustainability – Ensure a part of remuneration costs varies with the Company's longer-term performance.
Maximum value of equity that can be granted	– Managing Director: 100% of fixed remuneration – KMP appointed pre-2011: 75% of fixed remuneration – KMP appointed from 2011: 50% of fixed remuneration.
Performance period	1 July 2020 to 30 June 2023.
Performance assessed	August 2023.
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 2024.
Performance rights vest	July 2024.
Form of award and payment	Performance rights.
Performance conditions	There are three performance conditions. Each applies to one-third of the performance rights granted to each executive. **Relative TSR** The relative TSR performance condition is based on the Company's TSR performance relative to the TSR of companies comprising the ASX 100 index, excluding financial services companies, at the start of the performance period, measured over the three years to 30 June 2023. 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%

Performance conditions

EPS growth

The EPS growth performance condition is based on the Company's compound annual EPS growth over the three years to 30 June 2023.

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

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

Scorecard

The Scorecard performance condition is based on the Group's NPATA and FFO for each of the three years to 30 June 2023. These measures are considered to be key drivers of shareholder value. Accordingly, they have been included in the LTI plan to reward sustainable financial performance.

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

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

How performance rights and shares are acquired

The rights are issued by the Company and held by the participant subject to the satisfaction of the vesting conditions. The number of rights held may be adjusted pro-rata, consistent with ASX adjustment factors, for any capital restructures.

If the rights vest, executives can exercise them to receive shares that are normally acquired on-market. The Board retains the discretion to vest awards in the form of cash.

Treatment of dividends and voting rights on performance rights

Performance rights do not have voting rights or accrue dividends.

Restriction on hedging

Hedging of entitlements under the plan by executives is not permitted.

Restriction on trading

Vested shares arising from the rights may only be traded with the approval of the Remuneration Committee. Approval requires that trading complies with the Company's Securities Trading Policy.

New participants

New executives (either new starters 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.

Ceasing 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.

Directors' Report – continued

for the year ended 30 June 2021

6.4.2 LTI overview

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

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

The 2021 LTI represents an entitlement to performance rights to ordinary shares exercisable subject to satisfaction of both a performance condition and a continued employment condition. Grants will be in three equal tranches, with each tranche subject to an independent performance requirement. The performance requirements for each tranche will share two common features:

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

Performance for the 2021 LTI grants will be measured over the three-year period to 30 June 2023.

The proportion of performance rights that can vest will be calculated in August 2023, but executives will be required to remain in service until 30 June 2024 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 2021 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 2021 LTI grants will be the companies, excluding financial services companies, in the ASX 100 index as at the start of the performance period on 1 July 2020. Consideration has been given to using a smaller group of direct competitors for comparison, however:

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

The absolute performance requirement applicable to the second tranche of performance rights is based on Earnings per Share (EPS) growth over the three-year performance period to 30 June 2023. The EPS measure is based on AASB 133 *Earnings per Share*.

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

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

The absolute performance requirement applicable to the third tranche of performance rights is based on the Scorecard condition over the three-year performance period to 30 June 2023.

The Scorecard condition is designed to:

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

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

The performance of each component will be measured over the three-year period to 30 June 2023.

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

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

Timing	Actions
At the beginning of the plan	Weighting of components is determined. In 2021 the components are equally weighted.
At the beginning of each financial year	NPATA and FFO target performance levels are set.
At the end of each financial year	– Calculate actual performance – Assess actual performance compared to target to determine performance percentage for the year.
At the end of three years	– Calculate average annual performance for each component – Calculate award based on performance against the vesting range.
At the end of four years	Consider the continued service condition and determine vesting.

Directors' Report – continued

for the year ended 30 June 2021

6.4.4 Post-vesting shareholding guideline

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

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

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

6.5 Treatment of major transactions

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

The Board considers this approach to be appropriate as it:

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

In assessing Zero Harm performance of executives, the results of acquired businesses are excluded for a period of 12 months post acquisition to ensure that management is accountable for the objectives set in the annual business planning process and in recognition that an integration period during which Downer's Zero Harm framework (including systems, processes, definitions and measurement and reporting methods) is implemented through the acquired business is appropriate. Where this transition to Downer's framework takes place over a longer period due to the complexity of the implementation or the maturity profile of the acquired business, the Board will consider an extension to a more appropriate period. During 2021, the integration of Hawkins and Spotless into the Downer Zero Harm Framework reached an appropriate stage for their inclusion in the Group's lagging performance measures.

6.6 Treatment of significant items

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

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

7. Details of Executive Remuneration

7.1 Remuneration received in relation to the 2021 financial year

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

The table below lists the remuneration actually received in relation to the 2021 financial year, comprising fixed remuneration, cash STIs relating to 2021, deferred STIs payable in 2021 in respect of prior years and the value of LTI grants that vested during the 2021 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 2021 determined in accordance with accounting standards rather than the value of LTI grants that vested during the year.

	Fixed Remuneration[1] $	Cash Bonus paid or payable in respect of current year[2] $	Deferred Bonus paid or payable in respect of prior years[4] $	Total payments $	Equity that vested during 2021[3] $	Total remuneration received $
G A Fenn	2,084,302	861,500	373,400	3,319,202	1,195,746	4,514,948
S Cinerari	1,119,923	473,825	240,790	1,834,538	448,400	2,282,938
M J Ferguson	1,000,000	323,063	140,025	1,463,088	224,204	1,687,292
S L Killeen	938,299	306,360	150,573	1,395,232	–	1,395,232
P J Tompkins	1,000,000	321,225	99,779	1,421,004	209,251	1,630,255
	6,142,524	**2,285,973**	**1,004,567**	**9,433,064**	**2,077,601**	**11,510,665**

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 2021 financial year. These comprise the 50% cash component of the award. The remaining 50% of the total award is deferred as described in Section 6.3.

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

4 Deferred Bonus represents the deferred cash bonus amount to be paid in September 2021, being the second deferred component of the 2019 award, being 25% of the award.

Directors' Report – continued

for the year ended 30 June 2021

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

2021	Short-term employee benefits				Post-employment benefits					
	Salary and fees $	Cash Bonus paid or payable in respect of current year[1] $	Deferred Bonus paid or payable[3] $	Non-monetary $	Super-annuation $	Other benefits $	Term-ination Benefits $	Subtotal $	Share-based payment transac-tions[2] $	Total $
G A Fenn	1,723,306	861,500	483,425	339,302	21,694	–	–	3,429,227	(116,059)	3,313,168
S Cinerari	1,078,306	473,825	277,691	15,566	26,051	–	–	1,871,439	(61,165)	1,810,274
M J Ferguson	965,904	323,063	181,284	12,402	21,694	–	–	1,504,347	4,098	1,508,445
S L Killeen	905,749	306,360	177,841	72	32,478	–	–	1,422,500	1,733	1,424,233
P J Tompkins	959,525	321,225	167,103	18,781	21,694	–	–	1,488,328	21,039	1,509,367
	5,632,790	**2,285,973**	**1,287,344**	**386,123**	**123,611**	**–**	**–**	**9,715,841**	**(150,354)**	**9,565,487**

1 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2021 financial year. These comprise the 50% cash component of the award.

2 Represents the value of vested and unvested equity expensed during the period including reversal for forfeited equity incentives and the probability of the incentives vesting, in accordance with AASB 2 *Share-based Payment*, related to grants made to the executive, as outlined in Section 8.3. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in Section 6.4.

3 Deferred Bonus represents the value of deferred components attributable to the 2021 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.

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

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

1 Amounts represent the expense relating to the period during which the individual was a KMP.

2 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2020 financial year. These comprise the 50% cash component of the award.

3 Represents the value of vested and unvested equity expensed during the period including reversal for forfeited equity incentives and the probability of the incentives vesting, in accordance with AASB 2 *Share-based Payment*, related to grants made to the executive, as outlined in Section 8.3 and an estimate of the fair value of grants to be made in respect of the 2020 financial year attributable to the period. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in Section 6.4.

4 Deferred Bonus represents the value of deferred components attributable to the 2020 financial year based on amortisation of deferred components over the period from the commencement of the relevant performance year to the end of financial year to which payment of the relevant deferred component relates.

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 2021 that are performance and non-performance related and the proportion of STIs that were earned during the year ended 30 June 2021 due to the achievement of the relevant performance targets.

	Proportion of 2021 remuneration		2021 Short-term incentive	
	Performance Related %	Non-performance Related %	Paid %	Forfeited %
G A Fenn[1]	37%	63%	86%	14%
S Cinerari[1]	38%	62%	86%	14%
M J Ferguson	34%	66%	86%	14%
S L Killeen	34%	66%	88%	12%
P J Tompkins[1]	34%	66%	86%	14%

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

Directors' Report – continued

for the year ended 30 June 2021

7.3.2 STI performance outcomes

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

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

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

		Group NPATA	Divisional EBITA	Group FFO	Divisional FFO	Zero Harm	People
Weighting of scorecard element	Corporate	30.0		30.0		30.0	10.0
	Division	7.5	22.5	7.5	22.5	30.0	10.0
Percentage of the element achieved	Corporate	77.2		100.0		100.0	30.0
	Division[1]	77.2	89.9	100.0	100.0	93.8	24.8

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

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

G A Fenn, M J Ferguson and S Cinerari

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

S L Killeen

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

P J Tompkins

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

For 2021, 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[1]	Relevant LTI measure	Performance outcome	% LTI tranche that vested
G A Fenn, S Cinerari, M J Ferguson, P J Tompkins	**2018 plan – performance period 1 July 2017 to 30 June 2020**		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a three-year period.	Actual performance ranked at the 18th percentile based on a TSR result of –17.9%.	0% became provisionally qualified. 100% were forfeited.
	EPS tranche – compound annual earnings per share growth against absolute targets over a three-year period.	Actual performance was –186.6%.	0% became provisionally qualified. 100% were forfeited.
	Scorecard tranche – sustained NPAT and FFO performance against budget over a three-year period.	Actual performance was 41.1% for NPAT and 49.7% for FFO.	0% became provisionally qualified. 100% were forfeited.
G A Fenn, S Cinerari, M J Ferguson, P J Tompkins	**2019 plan – performance period 1 July 2018 to 30 June 2021[2]**		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a three-year period.	Actual performance ranked at the 30th percentile based on a TSR result of –8.4%.	0% became provisionally qualified. 100% were forfeited.
	EPS tranche – compound annual earnings per share growth against absolute targets over a three-year period.	Actual performance was –4.3%.	0% became provisionally qualified. 100% were forfeited.
	Scorecard tranche – sustained NPAT and FFO performance against budget over a three-year period.	Actual performance was 54.3% for NPAT and 63.6% for FFO.	0% became provisionally qualified. 100% were forfeited.

1 Relevant executive refers to members of the KMP who are participants in the plan tested.
2 Test outcomes for the 2019 plan are provisional and will be confirmed following release of the Company's audited 2021 results. Accordingly, the outcomes are not reflected in the disclosures in Section 8.

7.4 Major transactions and significant items

7.4.1 Major transactions

In 2021 Downer continued to optimise its portfolio in keeping with its urban services strategy, creating efficient market positions to deliver long-term shareholder value through restructuring, partnering, divestments and acquisitions.

Downer undertook three transactions during 2021. These transactions were the acquisition of the remaining interests in Spotless and divestment of Mining businesses of Snowden, Downer Blasting Services, Open Cut Mining West and Downer's 50% interest in the RTL joint venture, and 70% of the Laundries business.

In accordance with its policy, the Board considered the impact of each transaction on incentive outcomes and determined that:

- The acquisition of the remaining interests in Spotless was a material, unbudgeted transaction for which it was appropriate to adjust incentive outcomes
- The divestment of the Mining businesses of Snowden, Downer Blasting Services, Open Cut Mining West and 50% interest in the RTL joint venture were material, unbudgeted transactions for which it was appropriate to adjust incentive outcomes
- The divestment of 70% of the Laundries business was a material, unbudgeted transaction for which it was appropriate to adjust incentive outcomes.

Directors' Report – continued

for the year ended 30 June 2021

7.4.2 Significant items

During the year, two items had a significant impact. The Board considers such items at the end of each performance period and whether it is appropriate to adjust for their impact on incentive outcomes.

The Board considered it was appropriate to adjust incentive outcomes for the following items:

Item	Description
Fair value adjustment on the Downer Contingent Share Options	In September 2020, Downer issued contingent share options as part of the consideration for its acquisition of the remaining interests in Spotless. The options are required to be remeasured to fair value at each reporting date. For 2021, the options were revalued upwards by $16.6 million post-tax, resulting in an unbudgeted expense. Issuing the securities in order to acquire the remaining interests in Spotless was considered to be in the best interests of Downer. It was determined that it was appropriate to adjust incentive outcomes for this item.
Software-as-a-Service (SaaS) arrangements	In March 2021 the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a decision on Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 138 Intangible Assets). The decision requires that where a customer does not control a Software-as-a-Service product, customisation costs are required to be expensed rather than capitalised. Downer's accounting policy has historically been to capitalise all costs related to SaaS arrangements as intangible assets in the Statement of Financial Position. The adoption of the decision resulted in the classification of costs incurred in the year as unbudgeted expense of $9.9 million post-tax. It was determined that it was appropriate to adjust incentive outcomes for this item.

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

The Board determined that the following adjustments be made to KPI calculations for the impact of major transactions and significant items. The adjustments mean that executives are 'no better or worse off' as a result of the transactions and significant items so that performance is measured against delivery of the Company's budget and business plan.

Measure	Adjustment	Impact on STI	Impact on LTI
NPATA	Net increase of $51.8 million comprised of: – Exclusion of $16.6 million of fair value movement on Downer Contingent Share Option (DCSO) liability – Exclusion of the costs of termination of Spotless financing arrangement of $3.0 million (post-tax) – Exclusion of net loss on divestment of Mining division, including the loss of operating earnings since the divestment net of interest expense of $20.6 million (post-tax) – Exclusion of net impact on divestment of Laundries business, including the loss of operating earnings since the divestment net of interest expense of $1.7 million (post-tax) – Exclusion of customisation costs on SaaS arrangements as a result of the change in accounting policy of $9.9 million (post-tax).	For Corporate scorecard participants: – The gateway was met; and – 77.2% of the NPATA measure was achieved. For New Zealand scorecard participants, a decrease from 100.0% to 90.0% of the measure being achieved. For Spotless scorecard participants: – The gateway was met; and – 89.8% of the NPATA measure was achieved.	No change.
FFO	Net decrease of $313.1 million comprised of: – Exclusion of $134.5 million payment of consideration for Spotless acquisition and $4.4 million transaction costs paid – Exclusion of $311.6 million proceeds from the divestment of Mining businesses net of transaction costs and $2.9 million net interest benefits – Exclusion of $136.2 million proceeds from the divestment of Laundries business net of transaction costs and $1.3 million net interest benefits.	No change.	No change.
EPS	The use of NPAT adjusted as set out above.	Not applicable.	No change.
TSR	No adjustments were made.	Not applicable.	Not applicable.

7.4.4 Future periods

For major transactions completed in 2021, the impact on operational performance is included in the 2022 budget and accordingly no adjustments are expected in respect of FY22 operational performance.

7.5 Variances from policy

There was one variation from policy in 2021.

2021 Long-term Incentive plan EPS measure

The Company's policy is to add back any items that were outside of the underlying statutory result to the earnings value when setting the base value EPS from which performance will be measured. The Board recognised that the calculated starting value was impacted by the events of 2020 and accordingly decided that this adjustment be increased by an additional $10 million of earnings when calculating the base year EPS in order to ensure that any future reward is appropriate.

Directors' Report – continued

for the year ended 30 June 2021

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 2020 No.	Net Change No.	Balance at 30 June 2021 No.	Balance at 1 July 2020 No.	Net Change No.	Balance at 30 June 2021 No.
G A Fenn	1,582,218	467,554	2,049,772	923,646	(297,898)	625,748
S Cinerari	263,219	(90,354)	172,865	358,823	(112,237)	246,586
M J Ferguson	2,000	90,694	92,694	196,577	(43,986)	152,591
S L Killeen	15,528	35,198	50,726	132,045	9,430	141,475
P J Tompkins	185,511	100,493	286,004	192,576	(36,139)	156,437

8.2 Preference shares

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

	Preference shares		
	Balance at 1 July 2020 No.	Net change No.	Balance at 30 June 2021 No.
S L Killeen	3,000	–	3,000

8.3 Options and rights

No performance options were granted by Downer EDI Limited or exercised during the 2021 financial year.

As foreshadowed in 2020, grants in relation to 2020 were made during the 2021 financial year.

As outlined in section 6.4.1, the LTI plan for the 2021 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, the LTI plan for the 2021 financial year was approved as outlined in section 6.4 of this report; however due to restructuring of the Group, grants of performance rights have not yet been made to KMP, however they are expected to be made in early 2022. This means that grants in relation to 2021 and 2022 are expected to be made during the 2022 financial year.

Consistent with the ASX Listing Rules for the adjustment of the quantity of rights and options on issue at the time of new share issues, the quantity of unlapsed rights granted to executives under the 2018 and 2019 plans was adjusted by the ASX Adjustment Factor of 0.9812 in respect of the bonus element of the accelerated non-renounceable entitlement offer made during the year.

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

	2017 Plan			2018 Plan		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %
G A Fenn	503,526	57.5	–	338,524	–	100
S Cinerari	188,822	57.5	–	139,641	–	100
M J Ferguson	94,411	57.5	–	71,936	–	100
S L Killeen	–	–	–	67,509	–	100
P J Tompkins	88,116	57.5	–	67,705	–	100

1 Grant date 21 June 2017. Expiry date is 1 July 2020. The fair value of shares granted was $5.29 per share for the EPS and Scorecard tranches and $4.61 per share for the TSR tranche.
2 Grant date 21 June 2018. Expiry date is 1 July 2021. The fair value of shares granted was $6.12 per share for the EPS and Scorecard tranches and $3.38 per share for the TSR tranche.

	2019 Plan			2020 Plan		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %
G A Fenn	307,573	–	–	318,175	–	–
S Cinerari	115,340	–	–	131,246	–	–
M J Ferguson	73,048	–	–	79,543	–	–
S L Killeen	67,066	–	–	74,409	–	–
P J Tompkins	76,894	–	–	79,543	–	–

1 Grant date 3 June 2019. Expiry date is 1 July 2022. The fair value of shares granted was $5.93 per share for the EPS and Scorecard tranches and $2.22 per share for the TSR tranche.
2 Grant date 21 October 2020. Expiry date is 1 July 2023. The fair value of shares granted was $4.36 per share for the EPS and Scorecard tranches and $1.14 per share for the TSR tranche.

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

	Maximum number of shares for the vesting year[1]		
	2022	2023	2024
G A Fenn	–	307,573	318,175
S Cinerari	–	115,340	131,246
M J Ferguson	–	73,048	79,543
S L Killeen	–	67,066	74,409
P J Tompkins	–	76,894	79,543

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

The maximum expense for performance options and rights that may vest in future years that will be recognised as share-based payments in future years is set out in the table below. The amount reported is the value of share-based payments calculated in accordance with AASB 2 *Share-based Payment* over the vesting period. In respect of the 2021 plan an estimated expense has been recognised that will be trued up following formal valuation after the grants have been made.

	2022	2023	2024
G A Fenn	885,059	530,711	269,277
S Cinerari	351,796	218,915	111,075
M J Ferguson	216,835	132,677	67,319
S L Killeen	201,377	124,112	62,973
P J Tompkins	221,263	132,677	67,319

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 KMP 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.

Directors' Report – continued

for the year ended 30 June 2021

9. Key Terms of Employment Contracts

9.1 Notice and termination payments

Executives are on contracts with no fixed end date.

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

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

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

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

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

Term	Until terminated by either party.
Fixed remuneration	$2.0 million per annum. This has remained unchanged since July 2012. Fixed remuneration includes superannuation and non-cash benefits but excludes entitlements to reimbursement for Mr Fenn's home telephone rental and call costs, home internet costs and medical, life and salary continuance insurance. Mr Fenn may also be accompanied by his wife when travelling on business, at the Chairman's discretion. There was no such travel during the year.
STI opportunity	Mr Fenn is eligible to receive an annual STI and the maximum STI opportunity is 100% of fixed remuneration. Any entitlement to an STI is at the discretion of the Board, having regard to performance measures and targets developed in consultation with Mr Fenn including Downer's financial performance, safety, people, environmental and sustainability targets and adherence to risk management policies and practices. The Board also retains the right to vary the STI by + or – 100% (up to the 100% maximum) based on its assessment of performance. The STI deferral arrangements in place for KMP apply to Mr Fenn. There is no STI entitlement where the Managing Director's employment terminates prior to the end of the financial year, other than in the event of a change in control or by mutual agreement.
LTI opportunity	Mr Fenn is eligible to participate in the annual LTI plan and the value of the award is 100% of fixed remuneration calculated using the volume weighted average price after each year's half yearly results announcement. Mr Fenn's performance requirements have been described in Section 6.4. In the event of a change of control, providing at least 12 months of a grant's performance period have elapsed, unvested shares and performance rights pro-rated with the elapsed service period are tested for vesting with performance against the relevant hurdles for that period and vest, as appropriate. Shares that have already been tested, have met performance requirements, and are subject to the completion of the service condition, fully vest.

Termination	Mr Fenn can resign: (a) By providing six months' written notice; or (b) Immediately in circumstances where there is a fundamental change in his role or responsibilities. In these circumstances, Mr Fenn is entitled to a payment in lieu of 12 months' notice. Downer can terminate Mr Fenn's employment: (a) Immediately for misconduct or other circumstances justifying summary dismissal; or (b) By providing 12 months' written notice. When notice is required, Downer can make a payment in lieu of notice of all or part of any notice period (calculated based on Mr Fenn's fixed annual remuneration). If Mr Fenn resigns because ill health prevents him from continuing his duties, he will receive a payment in recognition of his past services equivalent to 12 months' fixed remuneration. At the discretion of the Board, his shares under the LTI plan may also vest. If Downer terminates Mr Fenn's employment on account of redundancy, in addition to the notice (or payment in lieu of notice) required to be given by Downer, Mr Fenn will receive a payment in recognition of his past services equivalent to 12 months' fixed remuneration. If Mr Fenn resigns he will be subject to a six-month post-employment restraint in certain areas where the Downer Group operates, where he is restricted from working for competitive businesses.
Other	The agreement contains provisions regarding leave entitlements, duties, confidentiality, intellectual property, moral rights and other facilitative and ancillary clauses. It also contains provisions regarding corporate governance and a provision dealing with the *Corporations Act 2001* (Cth) limits on termination benefits to be made to Mr Fenn.

Directors' Report – continued

for the year ended 30 June 2021

10. Related Party Information

10.1 Transactions with other related parties

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

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

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

11. Description of Non-executive Director Remuneration

11.1 Non-executive Director remuneration policy

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

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.

There was no change to the level of Non-executive Director fees since the prior reporting period.

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

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.

A review of fees was conducted during the year. The review found that base fees paid to the Chairman and Non-executive Directors remained appropriate however fees paid for chairing or serving as a member of a committee were below market levels. Accordingly it was determined that the following changes in fees apply from 1 July 2021:

– Fees be set at a fixed value inclusive of superannuation, rather than a fee plus superannuation at the superannuation guarantee rate
– Increase in the Chairman fees for the Remuneration Committee to $27,000 from $16,425
– Increase in the Chairman fees for the Zero Harm Committee to $27,000 from $16,425
– Increase in the Chairman fees for the Tender Risk Evaluation Committee to $17,000 from $16,425
– Introducing of fees for committee members at the rate of 50% of the respective committee Chairman fee.

The impact of these changes based on the current configuration of the Board is approximately $92,626 per annum.

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

11.2 Non-executive Directors' remuneration

The table below sets out the remuneration paid to Non-executive Directors for the 2021 and 2020 financial years.

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

		Short-term benefits			Post-employment benefits		
	Year	Board fee $	Chair fee $	Total fees $	Super-annuation $	Termination benefits $	Total $
R M Harding	2021	375,000	–	375,000	35,625	–	410,625
	2020	328,125	–	328,125	31,172	–	359,297
P S Garling	2021	150,000	13,750	163,750	15,556	–	179,306
	2020	138,750	13,875	152,625	14,499	–	167,124
T G Handicott	2021	150,000	15,000	165,000	15,675	–	180,675
	2020	138,750	13,875	152,625	14,499	–	167,124
N M Hollows	2021	150,000	35,000	185,000	17,575	–	202,575
	2020	138,750	32,375	171,125	16,257	–	187,382
C G Thorne[1]	2021	5,766	–	5,766	548	–	6,314
	2020	138,750	19,167	157,917	15,002	–	172,919
P L Watson	2021	150,000	28,347	178,347	16,943	–	195,290
	2020	138,750	8,583	147,333	13,997	–	161,330

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

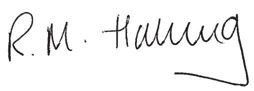
11.3 Equity held by Non-executive Directors

The table below sets out the equity in Downer held by Non-executive Directors for the 2021 and 2020 financial years.

	2021			2020		
	Balance at 1 July 2020	Net change	Balance at 30 June 2021	Balance at 1 July 2019	Net change	Balance at 30 June 2020
R M Harding	28,856	5,172	34,028	28,856	–	28,856
P S Garling	19,962	3,578	23,540	19,962	–	19,962
T G Handicott	17,000	3,047	20,047	14,000	3,000	17,000
N M Hollows	3,000	12,538	15,538	3,000	–	3,000
P L Watson	6,329	11,604	17,933	–	6,329	6,329

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

On behalf of the Directors.



R M Harding
Chairman

Sydney, 12 August 2021

Auditor's Independence Declaration

for the year ended 30 June 2021

KPMG

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

To the Directors of Downer EDI Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Downer EDI Limited for the financial year ended 30 June 2021 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

Nigel Virgo
Partner

Sydney
12 August 2021

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Independent Auditor's Report
for the year ended 30 June 2021

Independent Auditor's Report

To the shareholders of Downer EDI Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2021
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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

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Independent Auditor's Report – continued

for the year ended 30 June 2021

KPMG

Key Audit Matters

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

- Recognition of revenue
- Value of goodwill

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

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

Recognition of revenue

Refer to Note B2 'Revenue' ($11,530.2m)

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

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

Independent Auditor's Report – continued

for the year ended 30 June 2021

	consistency of this to the inclusion or not of an amount in the estimates used for revenue recognition; – we assessed the scope, competency and objectivity of the legal and external experts engaged by the Group; and • We evaluated the method applied by the Group to estimate the highly probable amount of the key performance payments, liquidated damages and abatements against the specific contract terms. This included gathering underlying evidence in relation to the Group's performance against the terms of the contract. We then recalculated the amount of variable consideration. We compared the recalculated amounts to the amounts recorded by the Group as offsets to revenue.

Value of goodwill

Refer to Note C7 'Intangible assets' ($2,280.8m)

The key audit matter	How the matter was addressed in our audit
The value of goodwill is a key audit matter due to the size of the balance (being 28.3% of total assets) and the significant audit effort arising from: • The Group having 8 groups of Cash Generating Units (CGUs) for which the impairment of goodwill is assessed; • The Spotless CGU recorded an impairment charge in the prior year, increasing the risk that an unfavourable change in certain key assumptions, in the absence of any mitigating factors, may result in impairment in the current year. We focused on the following key forward looking assumptions in the Group's value in use models and fair value less cost of disposal model including: • Forecast cash flows including budgeted EBIT – including the improvement in forecast cash flows compared to the prior year forecasts which contained a higher degree of uncertainty due to the COVID-19 pandemic.	Our procedures included: • We obtained an understanding of the Group's goodwill impairment assessment process and tested key controls such as the review and approval of the budget by management and the Board. • We considered the appropriateness of the value in use and fair value less cost of disposal (FVLCOD) methods applied by the Group to perform the annual test of goodwill for impairment against the requirements of the accounting standards. • We considered independently prepared valuations of the Spotless CGU prepared on a FVLCOD basis during the year to identify any contradictory evidence for further consideration in our testing. • We assessed the integrity of the value in use and FVLCOD models used, including the accuracy of the underlying calculation formulas. • We assessed the accuracy of previous Group forecasting to inform our evaluation of forecasts

• Discount rates – these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time; and • Long-term growth rates – certain valuations for CGUs of the Group are highly sensitive to changes in this assumption. Using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. The significant judgement involved in key assumptions required the involvement of valuation specialists to supplement our senior audit team members in assessing this key audit matter.	included in the value in use and FVLCOD models. We applied increased scepticism to current period forecasts in areas where previous forecasts were not achieved and/or where future uncertainty is greater, or volatility is expected. • We obtained the Group's value in use models and FVLCOD model and checked amounts to the Board approved FY22 budget and the FY23-FY24 business plan. We challenged the Group's projected cash flows by comparing the budget and business plan to our understanding of the business. We compared actual performance in FY21 to the budget for FY21. We also considered the compound annual growth rate between FY21 and the terminal year in the models through our sensitivity analysis. • We considered the sensitivity of the models by varying key assumptions including budgeted EBIT, long-term growth rates and discount rates, within a reasonably possible range. We considered the interdependencies of key assumptions when performing the sensitivity analysis. We did this to identify those CGUs at higher risk of impairment and those assumptions at higher risk of bias or inconsistency in application to focus our further procedures. • Working with our valuation specialists we: – independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in; and – independently assessed the long-term growth rate for each of the CGUs against publicly available market data for comparable entities and compared this to the Group's assumption; • We assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the valuation of goodwill, by comparing these disclosures to our understanding and the requirements of the accounting standards.

Independent Auditor's Report – continued

for the year ended 30 June 2021

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:
http://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf
This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2021, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 23 to 51 of the Directors' report for the year ended 30 June 2021.

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

KPMG

KPMG

Nigel Virgo
Partner

Stephen Isaac
Partner

Sydney
12 August 2021

Financial Statements

for the year ended 30 June 2021

Notes to the consolidated financial statements

Other information

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2021

	Note	2021 $'m	2020 $'m
Revenue	B2	**11,530.2**	12,669.4
Other income	B2	**53.9**	73.3
Total revenue and other income		**11,584.1**	12,742.7
Employee benefits expense	D1	**(3,859.5)**	(4,217.3)
Subcontractor costs		**(4,132.7)**	(4,406.0)
Raw materials and consumables used		**(1,594.6)**	(2,157.7)
Plant and equipment costs		**(590.2)**	(660.6)
Depreciation on leased assets	C6	**(180.6)**	(151.8)
Other depreciation and amortisation	C5,C7	**(313.8)**	(365.5)
Impairment of non-current assets	B3	**(20.2)**	(212.0)
Other expenses from ordinary activities		**(579.9)**	(632.5)
Total expenses		**(11,271.5)**	(12,803.4)
Share of net profit of joint ventures and associates	F1(a)	**22.2**	19.4
Earnings before interest and tax		**334.8**	(41.3)
Finance income		**4.2**	6.0
Lease finance costs		**(27.7)**	(26.4)
Other finance costs		**(81.4)**	(91.6)
Net finance costs		**(104.9)**	(112.0)
Profit/(loss) before income tax		**229.9**	(153.3)
Income tax expense	B5(a)	**(46.2)**	(2.4)
Profit/(loss) after income tax		**183.7**	(155.7)
Profit/(loss) for the year that is attributable to:			
– Non-controlling interest		**2.1**	(5.4)
– Members of the parent entity		**181.6**	(150.3)
Total profit/(loss) for the year		**183.7**	(155.7)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
– Actuarial movement on net defined benefit plan obligations	D2	**5.0**	0.7
– Income tax effect of actuarial movement on defined benefit plan obligations		**(1.5)**	(0.2)
Items that will be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**1.1**	(14.6)
– Net gain/(loss) on foreign currency forward contracts taken to equity		**1.4**	(3.3)
– Net gain/(loss) on cross currency and interest rate swaps taken to equity		**8.4**	(5.3)
– Income tax effect of items above		**(2.9)**	2.9
Other comprehensive income/(loss) for the year (net of tax)		**11.5**	(19.8)
Other comprehensive income/(loss) for the year is attributable to:			
– Non-controlling interest		**0.5**	(1.0)
– Members of the parent entity		**11.0**	(18.8)
Other comprehensive income/(loss) for the year		**11.5**	(19.8)
Total comprehensive income/(loss) for the year		**195.2**	(175.5)

			Restated
Earnings per share (cents)			
Basic earnings per share(i)	B4	**25.4**	(26.1)
Diluted earnings per share(i) (ii)	B4	**24.8**	(26.1)

(i) FY20 figures have been adjusted to reflect the impact of the equity raising as part of the acquisition of the remaining shares in Spotless. Refer to Note B4.

(ii) At 30 June 2020, the ROADS were deemed anti-dilutive and consequently, diluted EPS remained at (26.1) cents per share.

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes on pages 65 to 130.

Consolidated Statement of Financial Position

as at 30 June 2021

	Note	30 June 2021 $'m	Restated(i) 30 June 2020 $'m
ASSETS			
Current assets			
Cash and cash equivalents	C1(a)	**811.4**	588.5
Trade receivables and contract assets	C2	**2,121.0**	2,315.9
Other financial assets	G3	**62.7**	26.2
Inventories	C3	**254.2**	334.0
Lease receivables	C8	**0.1**	18.5
Current tax assets		**48.6**	65.2
Prepayments and other assets		**63.7**	56.4
Assets held for sale	F6	**41.5**	–
Total current assets		**3,403.2**	3,404.7
Non-current assets			
Trade receivables and contract assets	C2	**109.2**	95.2
Equity accounted investments	F1(a)	**155.1**	110.6
Property, plant and equipment	C5	**994.7**	1,350.2
Right-of-use assets	C6	**546.5**	592.6
Intangible assets	C7	**2,782.9**	2,860.0
Other financial assets	G3	**7.8**	21.4
Lease receivables	C8	**–**	48.3
Deferred tax assets	B5(b)	**65.3**	152.1
Prepayments and other assets		**7.4**	11.9
Total non-current assets		**4,668.9**	5,242.3
Total assets		**8,072.1**	8,647.0
LIABILITIES			
Current liabilities			
Trade payables and contract liabilities	C4	**2,363.0**	2,497.4
Borrowings	E1	**296.2**	1.4
Lease liabilities	E3	**157.7**	168.9
Other financial liabilities	G3	**49.0**	45.8
Employee benefits provision	D1	**353.6**	377.1
Other provisions	C9	**64.4**	74.1
Current tax liabilities		**7.9**	11.0
Liabilities held for sale	F6	**17.2**	–
Total current liabilities		**3,309.0**	3,175.7
Non-current liabilities			
Trade payables and contract liabilities	C4	**34.2**	28.8
Borrowings	E1	**1,185.4**	2,049.9
Lease liabilities	E3	**505.1**	594.3
Other financial liabilities	G3	**18.3**	14.4
Employee benefits provision	D1	**35.3**	55.0
Other provisions	C9	**21.6**	39.4
Deferred tax liabilities	B5(b)	**5.8**	94.5
Total non-current liabilities		**1,805.7**	2,876.3
Total liabilities		**5,114.7**	6,052.0
Net assets		**2,957.4**	2,595.0
EQUITY			
Issued capital	E5	**2,802.6**	2,429.7
Reserves	E7	**(31.2)**	(47.7)
Retained earnings		**181.5**	68.8
Parent interests		**2,952.9**	2,450.8
Non-controlling interest	E6	**4.5**	144.2
Total equity		**2,957.4**	2,595.0

(i) 2020 balances have been restated to reflect the Group's change in accounting policy for costs related to configuration and customisation of Software-as-a-Service (SaaS) arrangements. Refer to Note C7 for more details.

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 65 to 130.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2021

2021 $'m	Issued capital	Reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2020	2,429.7	(47.7)	68.8	2,450.8	144.2	2,595.0
Profit after income tax	–	–	181.6	181.6	2.1	183.7
Other comprehensive income for the year (net of tax)	–	11.0	–	11.0	0.5	11.5
Total comprehensive income for the year	–	11.0	181.6	192.6	2.6	195.2
Capital raising (net of transaction costs and tax)	393.2	–	–	393.2	–	393.2
Vested executive incentive share transactions	4.5	(4.5)	–	–	–	–
Share-based employee benefits expense	–	(0.4)	–	(0.4)	–	(0.4)
Income tax relating to share-based transactions during the year	–	1.2	–	1.2	–	1.2
Payment of dividends(i)	–	–	(68.9)	(68.9)	(1.4)	(70.3)
Group on-market share buy-back	(24.8)	–	–	(24.8)	–	(24.8)
Acquisition of non-controlling interest	–	9.2	–	9.2	(140.9)	(131.7)
Balance at 30 June 2021	2,802.6	(31.2)	181.5	2,952.9	4.5	2,957.4

(i) Relates to the 2021 interim dividend and $5.8 million ROADS dividends paid during the financial year.

2020 $'m	Issued capital	Reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total
Restated balance as at 30 June 2019(i)	2,425.1	(27.5)	481.4	**2,879.0**	153.8	**3,032.8**
Opening balance adjustment on application of IFRS Interpretation Committee decision(ii)	–	–	(25.5)	**(25.5)**	–	**(25.5)**
Opening balance adjustment on application of AASB 16 (net of tax)(iii)	–	–	(62.8)	**(62.8)**	(3.2)	**(66.0)**
Balance at 1 July 2019	2,425.1	(27.5)	393.1	**2,790.7**	150.6	**2,941.3**
Loss after income tax	–	–	(150.3)	**(150.3)**	(5.4)	**(155.7)**
Other comprehensive loss for the year (net of tax)	–	(18.8)	–	**(18.8)**	(1.0)	**(19.8)**
Total comprehensive income for the year	–	(18.8)	(150.3)	**(169.1)**	(6.4)	**(175.5)**
Vested executive incentive share transactions	4.6	(4.6)	–	**–**	–	**–**
Share-based employee benefits expense	–	4.8	–	**4.8**	–	**4.8**
Income tax relating to share-based transactions during the year	–	(1.6)	–	**(1.6)**	–	**(1.6)**
Declared dividends(iv)	–	–	(174.0)	**(174.0)**	–	**(174.0)**
Balance at 30 June 2020	2,429.7	(47.7)	68.8	**2,450.8**	144.2	**2,595.0**

(i) June 2019 balances have been restated following review of the Group's compliance with Enterprise Agreements (EAs) and Modern Award obligations. Refer to Note D1 of the 30 June 2020 Annual Report.

(ii) 2020 balances have been restated to reflect the Group's change in accounting policy for costs related to configuration and customisation of Software-as-a-Service (SaaS) arrangements. Refer to Note C7 for more details.

(iii) Refer to Annual Report as at 30 June 2020 for details on opening balance adjustments made on application of new accounting standard AASB 16.

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

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 65 to 130.

Consolidated Statement of Cash Flows

for the year ended 30 June 2021

	Note	2021 $'m	Restated[(i)] 2020 $'m
Cash flows from operating activities			
Receipts from customers		**12,988.8**	13,841.5
Payments to suppliers and employees		**(12,173.2)**	(13,538.5)
Distributions from equity accounted investees	F1(a)	**11.6**	17.2
Operating cash flow before interest and tax		**827.2**	320.2
Interest received		**2.9**	4.7
Interest paid on lease liabilities		**(27.7)**	(26.4)
Interest and other costs of finance paid		**(73.8)**	(82.0)
Income tax paid		**(19.9)**	(57.9)
Net cash generated by operating activities	C1(c)	**708.7**	158.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**69.6**	21.9
Payments for property, plant and equipment		**(250.2)**	(290.7)
Payments for intangible assets		**(28.4)**	(41.5)
Payment to acquire remaining shares in NCI	E6	**(134.5)**	–
Payments of deferred consideration on acquisition of businesses	F5	**(14.3)**	(29.8)
Proceeds from sale of business (net of cash disposed)	F5	**395.9**	–
Proceeds from sale of equity accounted investments		**20.2**	–
Investment in equity accounted investments	F1(a)	**(9.8)**	–
Advances to equity accounted investments		**(5.9)**	(3.6)
Purchases of assets as a lessor		**(6.7)**	(34.0)
Net cash generated from/(used in) investing activities		**35.9**	(377.7)
Cash flows from financing activities			
Group on-market share buy-back	E5	**(24.8)**	–
Proceeds from issue of shares (net of costs)		**390.4**	–
Proceeds from borrowings		**6,653.0**	7,411.9
Repayments of borrowings		**(7,193.7)**	(7,063.2)
Payment of principal of lease liabilities	C1(b)	**(194.5)**	(152.9)
Dividends paid		**(153.6)**	(90.7)
Net cash (used in)/generated by financing activities		**(523.2)**	105.1
Net increase/(decrease) in cash and cash equivalents		**221.4**	(114.0)
Cash and cash equivalents at the beginning of the year		**588.5**	710.7
Effect of exchange rate changes		**1.5**	(8.2)
Cash and cash equivalents at the end of the year	C1(a)	**811.4**	588.5

(i) 2020 balances have been restated to reflect the Group's change in accounting policy for costs related to configuration and customisation of Software-as-a-Service (SaaS) arrangements. Refer to Note C7 for more details.

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 65 to 130.

Notes to the consolidated financial statements

for the year ended 30 June 2021

A About this report

Statement of compliance

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

The Financial Report was authorised for issue by the Board of Directors on 12 August 2021.

Rounding of amounts

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

Basis of preparation

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

The accounting policies used in the preparation of the Financial Report are consistent with those adopted and disclosed in Downer's Annual Report for the financial year ended 30 June 2020, except changes to a significant accounting policy as disclosed below.

Changes to significant accounting policy

The IFRIC has issued two final agenda decisions which impact Software-as-a-Service (SaaS) arrangements:

- Customer's right to receive access to the supplier's software hosted on the cloud (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- Configuration or customisation costs in a cloud computing arrangement (April 2021) – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Group's accounting policy has historically been to capitalise costs related to the configuration and customisation of SaaS arrangements as intangible assets in the Statement of Financial Position. The adoption of the above agenda decisions has resulted in an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the current year and derecognition of previously capitalised costs as an opening balance adjustment to prior year.

The new accounting policy and impact of adoption is presented in Note C7.

Accounting estimates and judgements

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

Accounting estimates and judgements	Note	Page
Revenue recognition	B2	73
Recovery of deferred tax assets	B5	78
Income taxes	B5	78
Credit risk	C2	84
Useful lives and residual values	C5 to C7	87, 88, 92
SaaS arrangements	C7	92
Impairment of assets	C7	92
Other provisions	C9	95
Employee benefits obligations	D1	98
Valuation of the defined benefit plan assets and obligations	D2	98
Lease liabilities	E3	103
Allocable Cost Amount (ACA) calculation	E6	106
Acquisition of businesses	F5	118
Disposal group held for sale	F6	119
Valuation of asset held for sale	F6	119

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

A. About this report – continued

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. Other significant accounting policies are contained in the notes to the Financial Report to which they relate.

(i) Principles of consolidation

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

The Financial Report includes the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

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

(ii) Foreign currency

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

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

Foreign exchange gains and losses resulting from translation are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, except for qualifying cash flow hedges which are deferred to equity.

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

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

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

(iii) Finance and borrowing costs

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

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.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

B1. Segment information – continued

There have been no changes to the composition of the Group's reportable segments since last reported in the 2020 Annual Report. The reportable segments identified within the Group are outlined as follows:

Service line	Segment description
Transport	Comprises the Group's road services, transport infrastructure and rail businesses. Downer's road and transport infrastructure services include: road network management; routine road maintenance; asset management systems; spray sealing; asphalt laying; manufacture and supply of bitumen-based products and asphalt products; the use of recycled products and environmentally sustainable methods to produce asphalt; landfill diversion solutions; intelligent transport systems; design and construction of light rail and heavy rail networks; signalling; track and station works; rail safety technology; and bridges. The Rail business spans all light rail and heavy rail sectors, from rollingstock to infrastructure; from design and manufacture to through-life-support including fleet maintenance, operations and comprehensive overhaul of assets.
Utilities	Comprises the Group's power, gas, water, renewable energy and telecommunications businesses. This includes: planning, designing, constructing, operating, maintaining, managing and decommissioning power and gas network assets; providing complete water lifecycle solutions for municipal and industrial water users including water and wastewater treatment, network construction and rehabilitation; design, construction and maintenance services for a range of renewable assets in the wind, solar and power system storage sectors; and end-to-end technology and communications solutions including design, civil construction, network construction, operations and maintenance across fibre, copper and radio networks.
Facilities	Facilities operates in Australia and New Zealand and provides outsourced facility services to customers across a diverse range of industry sectors including: defence; education; government; healthcare; resources; leisure; and hospitality. Facilities provides catering and laundry services; technical and engineering services; maintenance and asset management services and refrigeration solutions to various industries; as well as building and construction solutions across a variety of sectors in New Zealand. The Laundries business within the Facilities segment was disposed of on 31 March 2021.
Engineering, Construction and Maintenance (EC&M)	Provides design, engineering, construction, shutdowns, turnaround and outage delivery, operations maintenance and ongoing management of strategic assets across a range of sectors and in all stages of the project lifecycle including: feasibility studies; engineering design; procurement and construction; structural, mechanical and piping; electrical and instrumentation; commissioning and decommissioning services; and design and manufacture of mineral process equipment.
Mining	Provides services across all stages of the mining lifecycle including: resource definition; exploration drilling and mine feasibility studies; open cut and underground mining services; drilling, explosives manufacture and supply; blasting and crushing; asset management; tyre management; and mine closure and rehabilitation. Snowden, RTL JV, Open Cut Mining West, Underground and Downer Blasting Services have each been disposed of during the year. Refer to Note F5.

B1. Segment information – continued

2021 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Segment revenue and other income	**4,658.2**	**2,106.3**	**2,844.1**	**865.3**	**1,088.6**	**21.6**	**11,584.1**
Share of sales revenue from joint ventures and associates[(i)]	**637.0**	**–**	**5.6**	**–**	**7.5**	**–**	**650.1**
Total revenue including joint ventures and other income[(i)]	**5,295.2**	**2,106.3**	**2,849.7**	**865.3**	**1,096.1**	**21.6**	**12,234.2**
Share of net profit from joint ventures and associates	**22.0**	**–**	**(0.1)**	**–**	**0.3**	**–**	**22.2**
Depreciation and amortisation	**168.5**	**37.1**	**91.7**	**12.8**	**103.5**	**80.8**	**494.4**
EBIT before amortisation of acquired intangibles (EBITA)	**250.2**	**115.1**	**145.4**	**13.2**	**46.6**	**(169.5)**	**401.0**
Amortisation of acquired intangibles	**(7.3)**	**(2.5)**	**(6.8)**	**–**	**–**	**(49.6)**	**(66.2)**
Total reported segment results (EBIT)	**242.9**	**112.6**	**138.6**	**13.2**	**46.6**	**(219.1)**	**334.8**
Net finance costs							**(104.9)**
Total profit before income tax							**229.9**
Acquisition of segment assets	**199.9**	**19.8**	**42.0**	**4.3**	**42.0**	**30.1**	**338.1**
Segment assets	**3,178.4**	**1,088.7**	**2,190.3**	**462.9**	**411.2**	**740.6**	**8,072.1**
Segment liabilities	**1,628.0**	**442.1**	**734.2**	**196.9**	**176.3**	**1,937.2**	**5,114.7**
Carrying value of equity accounted investees	**121.7**	**–**	**33.4**	**–**	**–**	**–**	**155.1**

2020 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Segment revenue and other income	4,081.1	2,688.0	3,308.4	1,168.0	1,493.1	4.1	12,742.7
Share of sales revenue from joint ventures and associates[(i)]	611.2	–	7.3	–	56.7	–	675.2
Total revenue including joint ventures and other income[(i)]	4,692.3	2,688.0	3,315.7	1,168.0	1,549.8	4.1	13,417.9
Share of net profit from joint ventures and associates	15.3	–	0.3	–	3.8	–	19.4
Depreciation and amortisation	150.2	40.1	109.8	15.3	119.2	82.7	517.3
EBIT before amortisation of acquired intangibles and historical contract claims adjustments	235.6	114.6	114.3	(42.1)	79.0	(452.6)	48.8
Historical contract claims adjustments[(ii)]	–	–	(9.9)	(8.9)	–	–	(18.8)
EBITA	235.6	114.6	104.4	(51.0)	79.0	(452.6)	30.0
Amortisation of acquired intangibles	(10.9)	(2.6)	(9.8)	–	–	(48.0)	(71.3)
Total reported segment results (EBIT)	224.7	112.0	94.6	(51.0)	79.0	(500.6)	(41.3)
Net finance costs							(112.0)
Total loss before income tax							(153.3)
Acquisition of segment assets	98.3	34.9	68.5	3.8	107.0	30.2	342.7
Segment assets	2,649.1	1,186.0	2,621.6	617.4	939.0	633.9	8,647.0
Segment liabilities	1,278.6	478.5	1,751.2	345.6	339.8	1,858.3	6,052.0
Carrying value of equity accounted investees	101.1	–	1.2	–	8.3	–	110.6

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

(ii) Relates to historical Spotless contracts on foot at the time of Downer acquisition which are separately monitored by the Group's Chief Operating Decision Maker.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

B1. Segment information – continued

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

	Note	Segment results 2021 $'m	Segment results 2020 $'m
Segment EBIT		**553.9**	459.3
Unallocated:			
Fair value movement on DCSO liability	B3	**(16.6)**	–
SaaS arrangements	B3	**(14.0)**	–
Laundries divestment	B3	**(16.2)**	–
Mining divestment	B3	**(19.5)**	–
Portfolio restructure and exit costs	B3	**–**	(142.4)
Payroll remediation costs	B3	**–**	(16.3)
Goodwill impairment	B3	**–**	(165.0)
Spotless Shareholder class action	B3	**–**	(34.0)
Legal settlement	B3	**–**	(9.5)
Amortisation of Spotless and Tenix acquired intangible assets		**(49.6)**	(48.0)
Corporate costs		**(103.2)**	(85.4)
Total unallocated		**(219.1)**	(500.6)
Earnings/(loss) before interest and tax		**334.8**	(41.3)
Net finance costs		**(104.9)**	(112.0)
Profit/(loss) before income tax		**229.9**	(153.3)
Income tax expense	B5(a)	**(46.2)**	(2.4)
Profit/(loss) after income tax		**183.7**	(155.7)

Segment assets by geographical location

	Segment assets Non-current [(ii)]		Acquisition of segment assets Non-current	
	2021 $'m	2020 $'m	2021 $'m	2020 $'m
Geographical location [(i)]				
Australia	**3,925.5**	4,371.3	**271.9**	273.1
New Zealand and Pacific	**554.3**	546.5	**65.7**	64.8
Rest of the world	**6.8**	7.5	**0.5**	4.8
Total	**4,486.6**	4,925.3	**338.1**	342.7

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

B2. Revenue

Revenue and other income

2021 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Rendering of services	2,908.8	1,911.8	2,083.2	599.2	1,054.6	0.1	8,557.7
Construction contracts	1,540.6	188.3	695.5	251.7	–	–	2,676.1
Sale of goods	188.8	5.0	57.7	13.6	13.9	–	279.0
Total revenue from contracts with customers	4,638.2	2,105.1	2,836.4	864.5	1,068.5	0.1	11,512.8
Other revenue	4.8	0.2	–	0.1	7.4	4.9	17.4
Total revenue	4,643.0	2,105.3	2,836.4	864.6	1,075.9	5.0	11,530.2
Government grants(i)	0.3	0.3	4.4	–	–	–	5.0
Gain on divestments of equity accounted investee (Note B3)	–	–	0.9	–	10.7	–	11.6
Insurance recoveries	10.2	–	–	–	–	13.6	23.8
Other	4.7	0.7	2.4	0.7	2.0	3.0	13.5
Other income	15.2	1.0	7.7	0.7	12.7	16.6	53.9
Total revenue and other income	4,658.2	2,106.3	2,844.1	865.3	1,088.6	21.6	11,584.1
Share of sales revenue from joint ventures and associates(ii)	637.0	–	5.6	–	7.5	–	650.1
Total revenue including joint ventures and other income(ii)	5,295.2	2,106.3	2,849.7	865.3	1,096.1	21.6	12,234.2

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

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

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

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

B2. Revenue – continued

Revenue from contracts with customers by geographical location:

2021 $'m	Transport	Utilities	Facilities	EC&M	Mining	Un-allocated	Total
Geographical location (i)							
Australia	**3,353.8**	**1,542.6**	**2,162.6**	**847.3**	**1,034.8**	**0.1**	**8,941.2**
New Zealand and Pacific	**1,284.4**	**562.5**	**673.8**	**–**	**–**	**–**	**2,520.7**
Rest of the world	**–**	**–**	**–**	**17.2**	**33.7**	**–**	**50.9**
Total revenue from contracts with customers	**4,638.2**	**2,105.1**	**2,836.4**	**864.5**	**1,068.5**	**0.1**	**11,512.8**

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

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

Recognition and measurement

Revenue

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

(i) Rendering of services

The Group primarily generates service revenue from the following activities:

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

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

(ii) Construction contracts

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

(iii) Sale of goods

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

(iv) Other revenue

Other revenue primarily includes rental income.

(v) Other income

Other income primarily includes insurance recoveries and government grants.

Insurance recoveries relates to insurance refunds received for claims lodged that met the recoverability criteria of being 'virtually certain' following confirmation of indemnity received from insurers.

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

B2. Revenue – continued

Recognition and measurement – continued

Contract modifications

For services and construction contracts, revenue from variations and claims is recognised to the extent they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent it is highly probable that a significant reversal of revenue will not occur.

In making this assessment, the Group considers a number of factors including nature of the claim, formal or informal acceptance by the customer of the validity of the claim, stage of negotiations, or the historical outcome of similar claims to determine whether the enforceable and 'highly probable' threshold has been met.

Revenue in relation to modifications, such as a change in the scope of the contract, will only be included in the transaction price when it is approved by the parties to the contract or the modification is enforceable and the amount becomes highly probable. Modifications may also be recognised when client instruction has been received in line with customary business practice for the customer.

Contract costs (tender costs)

Costs incurred during the tender/bid process are expensed, unless they are incremental to obtaining the contract and the Group expects to recover those costs or where they are explicitly chargeable to the customer regardless of whether the contract is obtained.

Performance obligations and contract duration

Revenue is allocated to each performance obligation and recognised as the performance obligation is satisfied which may be at a point in time or over time.

AASB 15 requires a granular approach to identify the different revenue streams (i.e. performance obligations) in a contract by identifying the different activities that are being undertaken and then aggregating only those where the different activities are significantly integrated or highly interdependent. Revenue will be recognised, on certain contracts over time, as a single performance obligation when the services are part of a series of distinct goods and services that are substantially integrated with the same pattern of transfer.

AASB 15 provides guidance in respect of the term over which revenue may be recognised and is limited to the period for which the parties have enforceable rights and obligations. When the customer can terminate a contract for convenience (without a substantive penalty), the contract term and related revenue is limited to the termination period.

The Group has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for the service is expected to be one year or less.

Measure of progress

The Group recognises revenue using the measure of progress that best reflects the Group's performance in satisfying the performance obligation within the contracts over time. The different methods of measuring progress include an input method (e.g. costs incurred) or an output method (e.g. milestones reached). The same method of measuring progress will be consistently applied to similar performance obligations.

Variable consideration

Variable consideration that is contingent on the Group's performance, including key performance payments, liquidated damages and abatements that offset revenue under the contract, is recognised only when it is highly probable that a reversal of that revenue will not occur.

In addition, where the identified revenue stream is determined to be a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (for example maintenance services), variable consideration is recognised in the period/(s) in which the series of distinct goods or services subject to the variable consideration are completed.

Loss-making contracts

Loss-making contracts are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as onerous contracts.

Key estimates and judgements: Revenue recognition

Stage of completion

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

Modifications

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

Variable consideration

Determining the amount of variable consideration requires an estimate based on either the 'expected value' or the 'most likely amount'. The estimate of variable consideration can only be recognised to the extent it is highly probable that a significant revenue reversal will not occur in future. Changes in these estimates or judgements could have a material impact on the financial statements of the Group.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

B3. Individually significant items

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

2021 $'m	Fair value movement on DCSO liability	Termination of Spotless financing arrangements	Software-as-a-Service (SaaS) arrangements	Mining divestments	Laundries divestment	Total
Loss on disposal of businesses	–	–	–	7.1	16.2	23.3
Gain on divestment of equity accounted investee	–	–	–	(10.7)	–	(10.7)
Depreciation and amortisation	–	–	(3.6)	–	–	(3.6)
Impairment of non-current assets	–	–	–	20.2	–	20.2
Other expenses from ordinary activities	16.6	–	17.6	2.9	–	37.1
Loss before interest and tax	16.6	–	14.0	19.5	16.2	66.3
Other finance costs	–	4.3	–	–	–	4.3
Income tax benefit	–	(1.3)	(4.1)	(17.5)	(16.5)	(39.4)
Loss/(profit) after income tax	16.6	3.0	9.9	2.0	(0.3)	31.2

Refer to Note F5 for additional information on disposal of businesses.

Fair value movement on Downer Contingent Share Option (DCSO) liability

As part of the consideration to acquire the shares in Spotless that it did not already own, the Group granted three tranches of 2.5 million share options to the previous minority interest shareholders which are exercisable within four years of issue on achievement of three prescribed share price targets (the Downer Contingent Share Options or DCSO). The fair value at issue date of these options was recognised as a liability arising on the acquisition of the shares. The DCSO are classified as a liability, with subsequent changes in the fair value recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Since grant date, and primarily driven by the movement in Downer's share price from $4.30 at grant date to $5.59 at 30 June 2021, the fair value of the DCSO increased by $16.6 million, which has been expensed through 'Other expenses' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (refer to Note E6).

Termination of Spotless financing arrangements

Following the purchase of the Non-Controlling Interest (NCI) in Spotless, the Group extinguished the Spotless financing arrangements. As a result, the unamortised deferred financing costs related to the extinguished facilities were immediately written-off to the 'Other finance costs' line in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, with the tax effect of $1.3 million being credited to the income tax expense line.

Mining divestments

The divestment program for the Mining division has resulted in a number of material transactions netting to a pre-tax $19.5 million expense. These include:

- $7.1 million representing the net loss made from the disposal of Open Cut Mining West, Downer Blasting Services, Underground and Snowden businesses. This individually significant item is disclosed as part of 'Other expenses from ordinary activities' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income
- $10.7 million gain on the divestment of the equity accounted investment in RTL JV. This individually significant item is disclosed as part of 'Other income' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income
- $20.2 million impairment charge to adjust the carrying value of the property, plant and equipment and other assets of the Open Cut Mining West business to its expected recoverable value on the earlier classification of this business as a Disposal group held for sale
- $2.9 million representing transaction, redundancies and other costs incurred as part of the divestment program.

The net income tax benefit arising on the Mining divestments is $17.5 million. This is comprised of a tax benefit of $5.4 million attributable to net non-taxable accounting gains on divestments and a net tax benefit of $5.9 million arising on associated divestment costs. A tax benefit of $6.2 million has also been recognised in respect of previously unbooked capital losses used to offset capital gains arising on the Mining divestments.

B3. Individually significant items – continued

Laundries divestment

On 31 March 2021, the Group completed the share sale of 70% of Spotless' Laundries business to Adamantem Capital (Adamantem) and recognised a 30% interest in the remaining Laundries business as an equity accounted investment (refer to Note F1(a)). The transaction resulted in a pre-tax loss of $16.2 million net of transaction costs and stamp duty costs incurred. This individually significant item is disclosed as part of 'Other expenses from ordinary activities' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The net income tax benefit arising on the Laundries divestment is $16.5 million. This is primarily comprised of a tax benefit of $12.8 million in respect of capital losses arising on the divestment and a net tax benefit of $3.7 million arising on associated divestment costs.

Software-as-a-Service (SaaS) arrangements

IFRS Interpretations Committee (IFRIC) has recently issued an agenda decision which impacts whether a customer can recognise an intangible asset in relation to configuration or customisation of cloud computing arrangements (CCA), specifically for Software-as-a-Service (SaaS). The Group's accounting policy has historically been to capitalise costs related to the configuration and customisation of SaaS arrangements as intangible assets in the Statement of Financial Position.

Downer used SaaS across a range of businesses and functions. Following the adoption of the above IFRIC agenda decision, current SaaS arrangements were identified and assessed to determine if the Group has control of the software. For those arrangements where control does not exist, the Group derecognised the intangible previously capitalised.

The adoption of the above agenda decisions has resulted in recognition of costs to configure SaaS arrangements as a pre-tax expense of $14.0 million in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the current year. The opening retained earnings adjustment is presented in Note C7.

2020

The Group recognised the following items as individually significant items as at 30 June 2020:

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

Portfolio restructure and exit costs

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

- $46.4 million restructure costs to cover redundancies, asset impairments, stock write-offs, onerous contracts and other exit costs in Hospitality business.
- $15.0 million restructure costs to cover redundancies and other exit costs as the Group has exited the resource based electrical and mechanical major construction market within the Engineering and Construction (E&C) business unit.
- $9.3 million restructure costs to cover redundancies and other exit costs as Spotless has exited the facilities based electrical and mechanical major construction market within the Infrastructure and Construction (I&C) business unit.
- $35.6 million restructure costs in relation to the Group's management overhead reduction through reduction in management layers, headcount, property footprint, systems and discretionary spend to better reflect the new operating model.
- $10.0 million transaction costs related to the portfolio review of Mining and Laundries.
- $26.1 million impairment on carrying value of information systems related to applications and infrastructure in businesses that are being wound down.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

B3. Individually significant items – continued

2020

Payroll remediation costs

During the year ended 30 June 2020, Spotless commenced a review of the applicable Enterprise Agreements (EAs) and Modern Award obligations, together with the assumptions regarding their interpretation and application in its payroll systems in order to validate the correct application of pay rates to employees as well as identify historical underpayments and overpayments.

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

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

Goodwill impairment

$165.0 million goodwill impairment was recognised following the identification of possible impairment indicators on the carrying value of the Spotless group of CGUs.

Spotless shareholder class action

$34.0 million expense (net of insurance recoveries) to settle the shareholder class action commenced against Spotless in the Federal Court of Australia in May 2017. This claim was previously disclosed as a contingent liability.

Legal settlement

$9.5 million expense for a settlement agreement in relation to a legacy leaky building claim in New Zealand. This claim was previously disclosed as a contingent liability.

B4. 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.

2021	2021	Restated[i] 2020
Profit attributable to members of the parent entity ($'m)	**181.6**	(150.3)
Adjustment to reflect ROADS dividends paid ($'m)	**(5.8)**	(7.4)
Profit attributable to members of the parent entity used in calculating EPS ($'m)	**175.8**	(157.7)
Weighted average number of ordinary shares (WANOS) on issue (m's)[ii]	**692.9**	603.3
Basic earnings per share (cents)	**25.4**	(26.1)

B4. Earnings per share – continued

Diluted earnings per share

The calculation of diluted earnings per share is based on the following 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.

2021	2021	Restated[i] 2020
Profit attributable to members of the parent entity used in calculating basic EPS ($'m)	**181.6**	(150.3)
Weighted average number of ordinary shares		
– Weighted average number of ordinary shares (WANOS) on issue (m's)[ii]	**692.9**	604.1
– WANOS adjustment to reflect potential dilution for ROADS (m's)[iii]	**38.0**	29.4
WANOS used in the calculation of diluted EPS (m's)	**730.9**	633.5
Diluted earnings per share (cents)[iv]	**24.8**	(26.1)

(i) Basic and diluted EPS calculations for June 2020 were restated as a result of 106.6 million shares issued from the capital raising as part of the acquisition of the remaining shares in Spotless. Under the entitlement offer, 1 new share for each 5.58 outstanding shares were issued at a discounted price of $3.75 per share. As a result of the new shares issued, the weighted average number of ordinary shares (WANOS) to calculate EPS needs to be adjusted by a theoretical ex-rights price (TERP) factor. The adjustment factor of 0.9817 was utilised to restate the 30 June 2020 WANOS for the basic and diluted EPS calculations.

(ii) The WANOS on issue has been adjusted by the weighted average effect of on-market share buy-back and the unvested executive incentive shares.

(iii) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the reporting date. It is calculated based on the issued value of ROADS in New Zealand dollars converted to Australian dollars at the spot rate prevailing at the reporting date, which was $186.2 million (2020: $186.9 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2020 to 30 June 2021 discounted by 2.5% according to the ROADS contract terms, which was $4.90 (2020: $6.37).

(iv) At 30 June 2020, the ROADS were deemed anti-dilutive and consequently, diluted EPS remained at (26.1) cents per share.

B5. Taxation

(a) Reconciliation of income tax expense

The prima facie income tax expense on profit before income tax expense/(benefit) in the financial statements as follows:

	2021 $'m	2020 $'m
Profit/(loss) before income tax	**229.9**	(153.3)
Tax using the Company's statutory tax rate	**69.0**	(46.0)
Effect of tax rates in foreign jurisdictions	**(2.6)**	(1.4)
Non-deductible expenses	**5.6**	0.9
Profits and franked distributions from joint ventures and associates	**(5.2)**	(4.2)
Impairment of goodwill	**–**	49.5
Tax effect of divestments	**(17.1)**	–
Tax effect of previously unrecognised capital losses	**(6.2)**	–
Other items	**0.9**	2.9
Under provision of income tax in previous year	**1.8**	0.7
Total income tax expense	**46.2**	2.4
Current tax expense	**36.7**	45.0
Deferred tax expense/(benefit)	**9.5**	(42.6)

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.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

B5. Taxation – continued

(a) Reconciliation of income tax expense – continued

Recognition and measurement

Current tax

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

Deferred tax

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

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

Deferred tax assets and liabilities are not recognised for:

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

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

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

Offsetting deferred tax balances

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

Tax consolidation

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

Key estimates and judgements:

Recovery of deferred tax assets

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

Income taxes

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

B5. Taxation – continued

(b) Movement in deferred tax balances

2021 $'m	At 30 June 2020	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	Net foreign currency exchange differences	Acquisition and disposal	Assets Held For Sale	Net balance at 30 June 2021	Deferred tax assets	Deferred tax liabilities
Trade receivables and contract assets	**(133.3)**	**(8.2)**	**0.9**	**11.2**	**0.1**	**(0.2)**	**–**	**(129.5)**	**–**	**(129.5)**
Property, plant and equipment, Right-of-use assets and Lease liabilities	**(42.1)**	**(6.8)**	**–**	**13.3**	**(0.1)**	**0.8**	**(1.6)**	**(36.5)**	**–**	**(36.5)**
Intangible assets	**(108.4)**	**24.5**	**–**	**–**	**–**	**–**	**–**	**(83.9)**	**–**	**(83.9)**
Tax losses and other attributes	**96.6**	**(9.1)**	**–**	**–**	**–**	**–**	**–**	**87.5**	**87.5**	**–**
Trade payables and contract liabilities	**37.1**	**(21.0)**	**(0.2)**	**–**	**–**	**(0.8)**	**–**	**15.1**	**15.1**	**–**
Employee benefits and other provisions	**192.9**	**(0.2)**	**(1.5)**	**–**	**(0.1)**	**(9.0)**	**–**	**182.1**	**182.1**	**–**
Other	**14.8**	**11.3**	**(1.6)**	**0.3**	**0.2**	**(0.3)**	**–**	**24.7**	**24.7**	**–**
Net deferred tax assets/(liabilities)	**57.6**	**(9.5)**	**(2.4)**	**24.8**	**0.1**	**(9.5)**	**(1.6)**	**59.5**	**309.4**	**(249.9)**
Set-off of DTA against DTL									**(244.1)**	**244.1**
Net tax assets/(liabilities)								**59.5**	**65.3**	**(5.8)**

2020 $'m	At 30 June 2019	Application of AASB 16	Adjustment on application of IFRS Interpretation Committee decision(i)	At 1 July 2019	Recognised in profit or loss	Recognised in other comprehensive income	Net foreign currency exchange differences	Acquisition and disposal	Net balance at 30 June 2020	Deferred tax assets	Deferred tax liabilities
Trade receivables and contract assets	(63.4)	–	–	(63.4)	(70.3)	–	0.4	–	(133.3)	–	(133.3)
Property, plant and equipment, Right-of-use assets and Lease liabilities	(40.9)	28.9	–	(12.0)	(29.9)	–	(0.2)	–	(42.1)	–	(42.1)
Intangible assets	(153.7)	–	10.6	(143.1)	34.6	–	0.1	–	(108.4)	–	(108.4)
Income tax losses	28.3	–	–	28.3	68.3	–	–	–	96.6	96.6	–
Trade payables and contract liabilities	27.9	–	–	27.9	9.1	–	0.1	–	37.1	37.1	–
Employee benefits and other provisions	154.0	–	–	154.0	27.4	(0.2)	0.5	11.2	192.9	192.9	–
Other	11.1	–	–	11.1	3.4	1.3	(1.0)	–	14.8	14.8	–
Net deferred tax assets/ (liabilities)	(36.7)	28.9	10.6	2.8	42.6	1.1	(0.1)	11.2	57.6	341.4	(283.8)
Set-off of DTA against DTL										(189.3)	189.3
Net tax assets/(liabilities)									57.6	152.1	(94.5)

(i) 2020 balances have been restated to reflect the Group's change in accounting policy for costs related to configuration and customisation of Software-as-a-Service (SaaS) arrangements. Refer to Note C7 for more details.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

B6. Remuneration of auditor

	2021 $	2020 $
Audit and review of financial statements	**5,355,264**	5,224,180
Assurance services:		
Regulatory assurance services	**20,000**	50,000
Other assurance services	**325,566**	340,211
Total assurance services	**345,566**	390,211
Other services:		
Tax services	**205,795**	242,148
Advisory services	**506,977**	468,318
Total other services	**712,772**	710,466

The auditor of the Group is KPMG.

B7. Subsequent events

Downer's end markets relate to critical infrastructure and essential services. Downer's strength in those markets, and their diversity, are a key advantage.

At the date of this report, Downer has not had a material impact from the current COVID-19 lockdowns across Sydney and other metropolitan areas in Australia and will continue to monitor the changing nature of the pandemic and the ongoing COVID-19 restrictions.

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

C
Operating assets and liabilities

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

C1. Reconciliation of cash and cash equivalents

(a) Cash and cash equivalents

	2021 $'m	2020 $'m
For the purpose of the statement of cash flows, cash and cash equivalents comprises:		
Cash	**563.8**	567.9
Short-term deposits	**247.6**	20.6
Total cash and cash equivalents	**811.4**	588.5

(b) Reconciliation of liabilities arising from financing activities

$'m	1 July 2020	Net cash flows	Lease net additions and remeasure	Amortisation and foreign exchange movement	Disposal of businesses	Transferred to disposal group assets held for sale	30 June 2021
Interest bearing loans	2,051.3	(540.7)	–	(29.0)	–	–	**1,481.6**
Lease liabilities	763.2	(194.5)	187.1	(1.4)	(89.2)	(2.4)	**662.8**
Total liabilities from financing activities	**2,814.5**	**(735.2)**	**187.1**	**(30.4)**	**(89.2)**	**(2.4)**	**2,144.4**

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

C1. Reconciliation of cash and cash equivalents – continued

(c) Reconciliation of cash flows from operating activities

	Note	2021 $'m	Restated[(i)] 2020 $'m
Profit/(loss) after tax for the year		**183.7**	(155.7)
Adjustments for:			
Share of joint ventures and associates' profits net of distributions	F1(a)	**(10.6)**	(2.2)
Depreciation on leased assets	C6	**180.6**	151.8
Depreciation and amortisation of other non-current assets	C5,C7	**313.8**	365.5
Impairment of goodwill	C7	**–**	165.0
Impairment of other non-current assets	C5,C6,C7	**20.2**	47.0
Amortisation of deferred borrowing costs		**8.4**	6.7
Net gain on sale of property, plant and equipment		**(8.2)**	(5.7)
Movement in current tax balances		**14.3**	(11.9)
Movement in deferred tax balances		**1.0**	(43.7)
Movements on net defined benefit plan obligation	D2	**1.7**	7.0
Share-based employee benefits expense	D1	**(0.4)**	4.8
Adjustment on application of IFRS Interpretation Committee decision		**–**	(20.2)
Other		**1.2**	(0.2)
		522.0	663.9
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase)/decrease in assets:			
Current trade receivables and contract assets		**115.7**	(315.1)
Current inventories		**–**	(31.9)
Other current assets		**(9.5)**	(4.3)
Non-current trade receivables and contract assets		**(14.0)**	(21.0)
Other non-current assets		**4.7**	8.1
Increase/(decrease) in liabilities:			
Current trade payables and contract liabilities		**(15.6)**	15.8
Current financial liabilities		**(16.4)**	4.8
Shareholder class action payable	C4	**(34.0)**	34.0
Current provisions		**0.7**	(18.8)
Non-current trade payables and contract liabilities		**4.2**	(22.3)
Non-current financial liabilities		**3.8**	8.3
Non-current provisions		**(36.6)**	(7.2)
		3.0	(349.6)
Net cash generated by operating activities		**708.7**	158.6

(i) 2020 balances have been restated to reflect the Group's change in accounting policy for costs related to configuration and customisation of Software-as-a-Service (SaaS) arrangements. Refer to Note C7 for more details.

C2. Trade receivables and contract assets

	2021 $'m	2020 $'m
Trade receivables	**685.4**	792.1
Contract assets [(i)]	**1,493.8**	1,573.5
	2,179.2	2,365.6
Other receivables	**71.6**	64.7
Loss allowance on trade receivables and contract assets arising from contracts with customers	**(20.6)**	(19.2)
Total	**2,230.2**	2,411.1
Included in the financial statements as:		
Current [(i)]	**2,121.0**	2,315.9
Non-current	**109.2**	95.2

(i) Current contract assets: $1,386.5 million (2020: $1,482.9 million).

Allowance for credit losses:

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

	2021 $'m	2020 $'m
Government – not due	**938.7**	1,015.8
Government – less than 90 days past due	**29.5**	31.4
Government – more than 90 days past due	**35.0**	35.9
Private – not due	**1,078.6**	1,191.5
Private – less than 90 days past due	**63.0**	55.2
Private – more than 90 days past due	**34.4**	35.8
Total Gross Carrying Amount	**2,179.2**	2,365.6
Credit impaired – specific allowance	**13.2**	6.9
Not credit impaired – lifetime expected credit loss	**7.4**	12.3
Loss allowance on trade receivables and contract assets arising from contracts with customers	**20.6**	19.2

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

In assessing lifetime expected credit losses (ECL) as at 30 June 2021, the Group has considered the risk arising from the economic impacts of COVID-19. The Group has assessed ECLs by segmenting the portfolio of trade receivables and contract assets by customer (i.e. Government and Private) as well as by geography to better assess inherent credit risk. The Group defines counterparties as 'Government' if the contract is with a National, Federal, State or Local Government body, or an agency or entity that is owned, controlled or guaranteed by such bodies. Any counterparties other than those defined as 'Government' are classified as 'Private' and include Blue-Chip listed companies, PPPs, large multinational companies, network infrastructure companies, as well as other private sector businesses.

The credit risk associated with Government balances is considered to be negligible (FY20: negligible) due to the high creditworthiness of the counterparties. No Government balances are currently in default.

For 'Private' balances, the Group has recorded specific impairment losses for counterparties that are currently in default.

The ECLs have decreased from $12.3 million at 30 June 2020 to $7.4 million at 30 June 2021 reflecting a lower credit risk in the current portfolio of trade receivables and contract assets, determined in reference to past default experience.

Credit losses on 'Private' counterparty balances have historically averaged less than 1%. The allowance for credit losses, excluding specific provisions, is 0.6% (2020: 1.1%) of the trade receivables and contract assets.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

C2. Trade receivables and contract assets – continued

Remaining performance obligations

As of 30 June 2021, the aggregate amount of the transaction price allocated to the remaining performance obligations is $13,572.6 million (2020: $13,466.1 million). The Group will recognise this revenue when the performance obligations are satisfied. Approximately ~44% of remaining performance obligations are expected to occur within the next five years; with the remaining ~56% related to long-term service/maintenance contracts ranging up to 41 years.

The remaining performance obligations balances for both 30 June 2021 and 30 June 2020 presented above relate to the revenue expected to be recognised from ongoing construction type contracts with an expected duration of more than 12 months.

During the current financial year revenue of $3,368.4 million has been recognised in relation to performance obligations satisfied or partially satisfied in previous periods.

Recognition and measurement

Trade receivables

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

Contract assets

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

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

Costs to obtain or fulfil contracts

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

Financial assets and liabilities

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

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

Fair value

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

Impairment

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

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

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

Key estimate and judgement: Credit risk

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

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

C3. Inventories

	2021 $'m	2020 $'m
Current		
Raw materials	**74.4**	134.6
Work in progress	**4.3**	1.3
Finished goods	**54.4**	57.7
Components and spare parts	**121.1**	140.4
Total inventories	**254.2**	334.0

Recognition and measurement

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

C4. Trade payables and contract liabilities

	Note	2021 $'m	2020 $'m
Trade payables		**670.5**	697.7
Contract liabilities		**444.3**	497.7
Accruals		**1,091.5**	1,034.4
Shareholder class action payable	B3	**–**	34.0
Dividends payable	E8	**–**	83.3
Other payables		**190.9**	179.1
Total trade payables and contract liabilities		**2,397.2**	2,526.2
Included in the financial statements as:			
Current		**2,363.0**	2,497.4
Non-current		**34.2**	28.8

Recognition and measurement

Trade payables, accruals and other payables

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

Contract liabilities

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

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

Of the Contract liabilities balance of $497.7 million at 30 June 2020, substantially all has been recognised in the current year.

Fair value

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

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

C5. Property, plant and equipment

2021 $'m	Note	Freehold land and buildings	Plant, equipment and leasehold improvements	Equipment under finance lease	Laundries rental stock	Total
Balance as at 1 July 2020		**123.1**	**1,187.9**	**–**	**39.2**	**1,350.2**
Additions		**0.7**	**281.4**	**–**	**27.6**	**309.7**
Disposals at net book value		**(1.8)**	**(59.6)**	**–**	**–**	**(61.4)**
Disposal of businesses	F5	**(52.2)**	**(247.7)**	**–**	**(40.9)**	**(340.8)**
Depreciation expense		**(2.6)**	**(196.2)**	**–**	**(25.8)**	**(224.6)**
Impairment charge(i)	B3	**–**	**(20.2)**	**–**	**–**	**(20.2)**
Transferred to disposal group assets held for sale	F6	**–**	**(9.4)**	**–**	**–**	**(9.4)**
Reclassification at net book value(ii)		**–**	**(8.2)**	**–**	**–**	**(8.2)**
Net foreign currency exchange differences at net book value		**(0.1)**	**(0.4)**	**–**	**(0.1)**	**(0.6)**
Net book value as at 30 June 2021		**67.1**	**927.6**	**–**	**–**	**994.7**
Cost		**96.5**	**2,005.4**	**–**	**–**	**2,101.9**
Accumulated depreciation and impairment		**(29.4)**	**(1,077.8)**	**–**	**–**	**(1,107.2)**
2020						
Balance as at 30 June 2019		124.0	1,196.2	9.0	44.1	1,373.3
Opening balance adjustment on application of AASB 16		–	–	(9.0)	–	(9.0)
Balance as at 1 July 2019		124.0	1,196.2	–	44.1	1,364.3
Additions		4.0	248.7	–	33.5	286.2
Disposals at net book value		(0.2)	(19.1)	–	–	(19.3)
Depreciation expense		(4.4)	(225.6)	–	(35.0)	(265.0)
Impairment charge(iii)		–	(6.8)	–	(3.3)	(10.1)
Net foreign currency exchange differences at net book value		(0.3)	(5.5)	–	(0.1)	(5.9)
Net book value as at 30 June 2020		**123.1**	**1,187.9**	**–**	**39.2**	**1,350.2**
Cost		155.1	2,748.7	–	139.0	3,042.8
Accumulated depreciation and impairment		(32.0)	(1,560.8)	–	(99.8)	(1,692.6)

(i) Impairment relates to the divestment of Open Cut Mining West (refer to Note F5).
(ii) Reclassifications of software from Capital work in progress to Intangible assets.
(iii) Impairment relates to leasehold improvement assets as a result of the portfolio restructure.

Recognition and measurement

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

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

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

C5. Property, plant and equipment – continued

Recognition and measurement – continued

Key estimate and judgement: Useful lives and residual values

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

C6. Right-of-use assets

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

2021 $'m	Leasehold Property	Motor Vehicles	Plant and Equipment	Total
Balance as at 1 July 2020	**340.9**	**109.1**	**142.6**	**592.6**
Additions	**35.3**	**53.2**	**77.3**	**165.8**
Remeasure	**(1.4)**	**25.7**	**12.8**	**37.1**
Depreciation expense	**(61.1)**	**(61.4)**	**(58.1)**	**(180.6)**
Transferred to disposal group assets held for sale	**(0.2)**	**(1.1)**	**(0.9)**	**(2.2)**
Disposal of businesses	**(25.8)**	**(2.5)**	**(26.9)**	**(55.2)**
Disposals at net book value	**(5.4)**	**(2.6)**	**(2.1)**	**(10.1)**
Net foreign currency exchange differences at net book value	**(0.7)**	**(0.1)**	**(0.1)**	**(0.9)**
Net book value as at 30 June 2021	**281.6**	**120.3**	**144.6**	**546.5**
Cost	**401.6**	**226.7**	**224.0**	**852.3**
Accumulated depreciation and impairment	**(120.0)**	**(106.4)**	**(79.4)**	**(305.8)**
2020				
Balance recognised on adoption of AASB 16	385.5	101.7	83.4	570.6
Additions	57.5	56.4	86.1	200.0
Remeasure	(24.1)	9.2	10.1	(4.8)
Depreciation expense	(60.8)	(56.0)	(35.0)	(151.8)
Impairment charge [(i)]	(13.0)	–	–	(13.0)
Disposals at net book value	(1.5)	(0.9)	(1.2)	(3.6)
Net foreign currency exchange differences at net book value	(2.7)	(1.3)	(0.8)	(4.8)
Net book value as at 30 June 2020	**340.9**	**109.1**	**142.6**	**592.6**
Cost	413.9	164.8	176.8	755.5
Accumulated depreciation and impairment	(73.0)	(55.7)	(34.2)	(162.9)

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

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

C6. Right-of-use assets – continued

Recognition and measurement

Right-of-use assets

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

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

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

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

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

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

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

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

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

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

C7. Intangible assets

2021 $'m	Goodwill	Customer contracts and relation-ships	Brand names on acquisition	Intellectual property on acquisition	Software and system develop-ment	Total
Restated balance as at 1 July 2020	**2,281.3**	**280.6**	**67.0**	**1.8**	**229.3**	**2,860.0**
Additions	**–**	**–**	**–**	**–**	**28.4**	**28.4**
Amortisation expense	**–**	**(62.0)**	**(4.0)**	**(0.2)**	**(23.0)**	**(89.2)**
Disposal of businesses	**–**	**(15.4)**	**–**	**–**	**(8.2)**	**(23.6)**
Transferred to disposal group assets held for sale	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Reclassification at net book value[(i)]	**–**	**–**	**–**	**–**	**8.2**	**8.2**
Net foreign currency exchange differences at net book value	**(0.5)**	**–**	**–**	**–**	**0.1**	**(0.4)**
Net book value as at 30 June 2021	**2,280.8**	**203.2**	**63.0**	**1.6**	**234.3**	**2,782.9**
Cost	**2,598.2**	**471.2**	**79.0**	**2.4**	**436.6**	**3,587.4**
Accumulated amortisation and impairment	**(317.4)**	**(268.0)**	**(16.0)**	**(0.8)**	**(202.3)**	**(804.5)**
2020						
Carrying amount as at 1 July 2019	2,454.5	345.0	71.3	2.0	257.9	3,130.7
Opening balance adjustment on application of IFRS Interpretation Committee decision[(ii)]	–	–	–	–	(36.1)	(36.1)
Adjusted carrying amount as at 1 July 2019	2,454.5	345.0	71.3	2.0	221.8	3,094.6
Additions	–	2.7	–	–	61.4	64.1
Disposals at net book value	–	–	–	–	(0.2)	(0.2)
Business acquisition adjustments	(5.5)	–	–	–	–	(5.5)
Amortisation expense	–	(67.1)	(4.0)	(0.2)	(29.2)	(100.5)
Impairment charge[(iii)]	(165.0)	–	–	–	(23.9)	(188.9)
Net foreign currency exchange differences at net book value	(2.7)	–	(0.3)	–	(0.6)	(3.6)
Net book value as at 30 June 2020	**2,281.3**	**280.6**	**67.0**	**1.8**	**229.3**	**2,860.0**
Cost	2,598.7	494.7	79.1	2.4	441.9	3,616.8
Accumulated amortisation and impairment	(317.4)	(214.1)	(12.1)	(0.6)	(212.6)	(756.8)

(i) Reclassifications of software from Capital work in progress to Intangible assets.

(ii) Restated to reflect the Group's change in accounting policy for costs related to configuration and customisation of Software-as-a-Service (SaaS) arrangements.

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

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

C7. Intangible assets – continued

Software-as-a-Service (SaaS) arrangements

During the year, the Group revised its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements.

The Group's accounting policy has historically been to capitalise costs related to the configuration and customisation of SaaS arrangements as intangible assets in the Statement of Financial Position. Following the adoption of the above IFRIC agenda decision, current SaaS arrangements were identified and assessed to determine if the Group has control of the software. For those arrangements where control does not exist, the Group derecognised the intangible previously capitalised.

The adoption of the above agenda decisions has resulted in recognition of costs to configure SaaS arrangements as an expense of $14.0 million ($9.9 million post-tax) in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the current year and $25.5 million (post-tax) as an opening balance adjustment to prior year.

The impact of this change has flowed through to the closing balances for the year ended 30 June 2020. The Consolidated Statement of Profit or Loss and Other Comprehensive Income comparatives for FY20 are unchanged, as the net impact of an increase in expenses and a reduction on amortisation was not assessed to be material.

The following table presents the impact of the 1 July 2019 restatement on the comparative information presented in the prior year Annual Report:

Consolidated Statement of Financial Position Balances as at 30 June 2020: $'m	Note	As previously reported	Adjustment	As restated
Intangible assets		2,896.1	(36.1)	2,860.0
Deferred tax asset	B5(b)	141.5	10.6	152.1
Other net assets/(liabilities)		(417.1)	–	(417.1)
Net assets		2,620.5	(25.5)	2,595.0
Retained earnings		94.3	(25.5)	68.8
Other equity balances		2,526.2	–	2,526.2
Total equity		2,620.5	(25.5)	2,595.0

Consolidated Statement of Cash Flows For the year ended 30 June 2020: $'m	As previously reported	Adjustment	As restated
Payments to suppliers and employees	(13,518.3)	(20.2)	(13,538.5)
Net cash generated by operating activities	178.8	(20.2)	158.6
Payments for intangible assets	(61.7)	20.2	(41.5)
Net cash used in investing activities	(397.9)	20.2	(377.7)

Recognition and measurement

Goodwill

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

Customer contracts and relationships on acquisition

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

Brand names on acquisition

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

Intellectual property on acquisition

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

C7. Intangible assets – continued

Intellectual property, software and system development

Intangible assets acquired by the Group, including intellectual property (purchased patents and trademarks) 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 and direct labour costs. Costs incurred in determining project feasibility are expensed as incurred.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. As such the Group does not receive a software intangible asset at the contract commencement date.

For SaaS arrangements, the Group assesses if the contract will provide a resource that it can 'control' to determine whether an intangible asset is present. If the Group cannot determine control of the software, the arrangement is deemed a service contract and any implementation costs including costs to configure or customise the cloud provider's application software are recognised as operating expenses when 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
Software and system development	5 to 15 years
Brand names	20 years
Intellectual property acquired	15 to 20 years
Customer contracts and relationships	1 to 20 years
Other intangible assets	20 years

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

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units or CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Allocation of goodwill to cash-generating units

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

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

The goodwill allocation to each CGU is presented below:

	Carrying value of consolidated goodwill	
	2021 $'m	2020 $'m
Transport Australia	**275.1**	275.1
Utilities Australia	**335.0**	335.0
Rail	**55.3**	55.3
Defence	**53.7**	53.7
Downer NZ Services	**69.0**	69.3
Building Projects NZ	**62.0**	62.2
Spotless	**1,276.3**	1,276.3
EC&M Australia	**154.4**	154.4
	2,280.8	2,281.3

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

C7. Intangible assets – continued

Key estimates and judgements:

SaaS arrangements

Where the SaaS arrangement supplier provides both configuration and customisation services, judgement has been applied to determine whether each of these services are distinct from the underlying use of the SaaS application software. Distinct configuration and customisation costs are expensed as incurred as the software is configured or customised (i.e. upfront).

Non-distinct configuration and customisation costs are expensed over the SaaS contract term. Non-distinct customisation activities significantly enhance or modify a SaaS cloud-based application. Judgement has been applied in determining whether the degree of customisation and modification of the SaaS cloud-based application is significant.

In implementing SaaS arrangements, the Group has developed software code that either enhances, modifies or creates additional capability to the existing owned software. This software is used to connect with the SaaS arrangement cloud-based application.

Judgement has been applied in determining whether the changes to the owned software meets the definition of and recognition criteria for an intangible asset in accordance with AASB 138 *Intangible Assets*.

Impairment of assets

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

Estimation of useful life

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

Recoverable amount testing

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

The carrying value of the CGUs has been determined using methodologies consistent with the prior period.

Value in use calculation

Transport Australia, Utilities Australia, EC&M Australia, Rail, Defence, Building Projects NZ and NZ Services CGUs have been assessed using a VIU model.

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

The Group determines the recoverable amount, using three-year cash flow projections based on the FY22 budget and the business plans for the years ending 30 June 2023 and 2024 (as approved by the Board). For FY25 onwards, the Group assumes a long-term growth rate of 2.25% to reflect the organic growth expectations of the industry.

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

Fair value less cost of disposal calculation

The carrying value of the Spotless CGUs has been assessed using a FVLCD model.

In FY21 Downer reached an agreement with shareholders to acquire the remaining 12.2% minority interest in Spotless. Following the acquisition on 7 October 2020, the Group has delivered on its FY21 synergy targets with further synergies anticipated to be realised in FY22.

The use of the FVLCD method for impairment testing is considered more appropriate as a market participant would take advantage of the ongoing synergy benefits available.

In determining FVLCD for the Spotless CGU, a discounted cash flow model was used. Similarly to the other CGUs, a three-year cash flow projection, based on the EBIT as per the FY22 budget and the business plan for FY23 and FY24, was utilised. For FY25 onwards, the Group assumes a long-term growth rate of 2.25% to allow for organic growth on the existing asset base.

C7. Intangible assets – continued

Recoverable amount testing – continued

Adjustments are made to these projections to include assumptions that a market participant would make, such as cash flows relating to restructuring and integration, following Downer obtaining 100% control of Spotless.

These calculations, classified as Level 3 on the fair value hierarchy, are compared to valuation multiples, or other fair value indicators where available, to ensure reasonableness.

Results of impairment testing

No impairment has been identified for any of the CGUs.

For all CGUs, sensitivities were made around WACC, growth rate and cash flows assumptions. No reasonably possible change in key assumptions would give rise to an impairment of any of the CGUs.

Recoverable amount testing – Key assumptions

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

	2021			2020		
	Budgeted EBIT(i)	Long-term growth rate	Discount rate (post-tax)	Budgeted EBIT(ii)	Long-term growth rate	Discount rate (post-tax)
Transport Australia	**3.7%**	**2.25%**	**8.5%**	4.7%	2.25%	9.0%
Utilities Australia	**7.1%**	**2.25%**	**8.3%**	(2.6)%	2.25%	8.2%
Rail	**5.7%**	**2.25%**	**8.7%**	0.3%	2.25%	9.1%
Defence	**13.8%**	**2.25%**	**9.4%**	16.8%	2.25%	10.3%
Downer NZ Services	**3.0%**	**2.25%**	**8.6%**	3.9%	2.25%	8.3%
Building Projects NZ	**1.4%**	**2.25%**	**9.7%**	(2.0)%	2.25%	9.5%
Spotless	**6.8%**	**2.25%**	**8.1%**	1.8%	2.25%	8.3%
EC&M Australia	**8.6%**	**2.25%**	**9.0%**	1.8%	2.25%	9.7%

(i) Budgeted EBIT for 2021 is expressed as the compound annual growth rates (CAGR) from FY21 actual to terminal year forecast based on the CGU's business plan.
(ii) Budgeted EBIT for 2020 is expressed as the compound annual growth rates (CAGR) from FY19 actual to terminal year forecast based on the CGU's business plan. An FY19 actual to terminal year CAGR has been disclosed to normalise for the impacts of COVID-19 in FY20.

For all CGUs the FY22 budget and the business plan for FY23 and FY24 have included consideration of the impact of climate risk. The impact of climate risk is not a key assumption in the 'value in use' or 'fair value less cost of disposal' calculations.

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

COVID-19 Impact on projected cash flows

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

Downer continues to be vigilant around the management of COVID-19 and maintaining the highest levels of controls in line with expert advice and Government guidance. Following a shock to GDP growth in 2020 driven by COVID-19 shutdowns and restrictions, the economy has rebounded sharply. In its latest Economic Outlook statement, the RBA estimates domestic GDP will grow 4.75% in 2021 and 3.5% in 2022.

Growth in activity is expected to be broad-based over this period, led by the household sector and, importantly for Downer, the public sector. Growth is then forecast to settle in a range of 2-3%.

Whilst the near-term future health consequences of COVID-19 remain uncertain, the experience to date of the impacts of COVID-19 on FY20 and FY21 financial performance has been taken into consideration in the preparation of the projected cash flows for the FY22 budget and the business plans for FY23 and FY24.

Generally speaking, the Transport Australia, Utilities Australia, Rail, Defence and Downer NZ Services CGUs have demonstrated ongoing resilience, mainly as their customer base includes Government Agencies or Government-owned corporations.

Through FY21 the EC&M Australia CGU was the most heavily impacted by COVID-19 due to customers deferring maintenance program spending and challenges in mobilising labour as a result of State border closures. Maintenance expenditure deferred from FY21 is anticipated to give rise to an improved performance in FY22.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

C7. Intangible assets – continued

Recoverable amount testing – Key assumptions – continued

Ongoing cash flow forecasts

The cash flow projections through to the terminal year are based on the Group's past experience and assessment of economic and regulatory factors affecting the business in which the Downer businesses operate. The terminal year cash flow reflects a steady state performance. Specifically, for each CGU:

- Transport Australia is expected to benefit from an increase in activity in the transport sector due to higher user expectation and higher Government spend.
- Utilities Australia is expected to benefit from an increase in new work won and increased levels of activity in maintenance work contracts.
- Rail is expected to improve through new opportunities on rail fleet extensions and maintenance, increased work opportunities in Queensland and through committed operational synergies.
- The Defence business is expected to benefit from an increase in Government spending to deliver a number of key initiatives as well as from expanding its offering and services to current and new customers.
- Downer New Zealand Services is expected to benefit from increased investment in infrastructure, particularly in transport and utilities.
- Building Projects New Zealand is expected to benefit from Government-linked expenditure in the vertical build area.
- EC&M Australia's revenue and EBIT growth assumptions have reflected an expected recovery on plant maintenance and shutdowns that were delayed due to COVID-19.
- The cash flows of the Spotless CGU have outperformed against expectations in the year, and with the exception of the impact of COVID-19 on the Hospitality business, have demonstrated operational resilience. During the year Spotless has disposed of its Laundries business (refer to Note F5), resulting in a reduction in ongoing capital investment required to deliver forecast cash flows.

(ii) Long-term growth rates

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

(iii) Discount rates

Post-tax discount rates of between 8.1% and 9.7% reflect the Group's estimate of the time value of money and risks associated with each CGU.

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

(iv) Budgeted capital expenditure

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

(v) Budgeted working capital

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

C8. Lease receivables

	2021 $'m	2020 $'m
Less than one year	**0.1**	20.6
Between one and five years	**–**	50.9
Greater than five years	**–**	–
Future minimum lease receivables	**0.1**	71.5
Less: unearned finance income	**–**	(4.7)
Present value of minimum lease receivables	**0.1**	66.8
Included in the financial statements as:		
Current	**0.1**	18.5
Non-current	**–**	48.3

The Group's lease receivables materially related to mining businesses that have been divested in the year. Refer to Note F5.

There were no guaranteed residual values of assets leased under finance leases at reporting date (2020: nil). However some of the leased assets serve as a guarantee against these receivables.

Recognition and measurement

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

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

C9. Other provisions

2021 $'m	Decomm-issioning and restoration	Warranties and contract claims	Onerous contracts and other	Total
Balance at 1 July 2020	29.1	37.7	46.7	113.5
Additional provisions recognised	1.3	15.5	17.3	34.1
Unused provisions reversed	(1.3)	(1.8)	–	(3.1)
Utilisation of provisions	(4.0)	(25.1)	(28.6)	(57.7)
Disposal of businesses	–	–	(0.8)	(0.8)
Balance at 30 June 2021	25.1	26.3	34.6	86.0
Included in financial statements as:				
Current	8.5	21.6	34.3	64.4
Non-current	16.6	4.7	0.3	21.6

Recognition and measurement

Provisions

Provisions are recognised when:

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

(i) Decommissioning and restoration

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

Future rectification costs are reviewed annually and any changes are reflected in the present value of the rectification provision at the end of the reporting period.

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

(ii) Warranties and contract claims

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

(iii) Onerous contracts and other

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

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

Key estimates and judgements: Provisions

(i) Decommissioning and restoration

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

(ii) Warranties and contract claims

The provision is estimated having regard to previous claims experience.

(iii) Onerous contracts and other

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

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

C10. Contingent liabilities

Bonding	Note	2021 $'m	2020 $'m
The Group has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for controlled entities	E2	**1,376.3**	1,439.8

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

Other contingent liabilities

(i) The Group is subject to design liability in relation to completed design and construction projects. The Directors are of the opinion that there is adequate insurance to cover this area and accordingly, no amounts are recognised in the financial statements.

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

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

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

(v) Downer New Zealand, an entity in the Group, has been named as co-defendants in a 'leaky building' claim. The leaky building claim where the Group entity is co-defendant relates to water damage arising from historical design and construction methodologies (and certification) for residential and other buildings in New Zealand during the early to mid 2000s. The Directors are of the opinion that disclosure of any further information relating to the leaky building claim would be prejudicial to the interests of the Group.

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

	2021 $'m	2020 $'m
Employee benefits expense:		
– Defined contribution plans costs	**214.6**	262.3
– Share-based employee benefits expense (i)	**(0.4)**	4.8
– Employee benefits	**3,630.7**	3,885.8
– Redundancy costs	**12.9**	57.4
– Defined benefit plan costs	**1.7**	7.0
Total	**3,859.5**	4,217.3
Employee benefits provision:		
– Current	**353.6**	377.1
– Non-current (ii)	**35.3**	55.0
Total	**388.9**	432.1

(i) Share-based payments net benefit for the year includes the reversal for the 2018 Long Term Incentive Plan performance rights due to forfeiture.
(ii) Included in the non-current employee benefit provision is the net obligation of the defined benefit plan. Refer to Note D2.

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.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

Key estimates and judgements:

Annual leave and long service leave

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

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

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

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

Interpretation of Enterprise Agreements (EAs) and Modern Awards

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

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

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

D2. Defined benefit plan

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

As at 30 June 2021, the fair value of plan assets (comprising Investment Funds) was $59.6 million. The plan obligation balance was $60.5 million. The net liability of $0.9 million is included in Employee provisions above (refer to Note D1). These balances were subject to an independent actuarial review as at 30 June 2021.

The main movements during the year were $1.7 million of services costs expensed to the profit or loss, $5.0 million of actuarial gains on the obligation, and the Group contributions of $1.3 million.

Key actuarial assumptions used in determining the values were a discount rate of 2.5% and an expected salary increase rate of 3.0%. Sensitivity analysis shows a 0.5 percentage point reduction in the discount rate would increase the obligation by 4.6% and 0.5 percentage point increase in the expected salary increase rate would increase the obligation by 4.4%.

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

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

D3. Key management personnel compensation

	2021 $	2020 $
Short-term employee benefits	**10,665,093**	7,914,786
Post-employment benefits	**225,533**	244,055
Share-based payments[i]	**(150,354)**	1,878,243
Total	**10,740,272**	10,037,084

(i) Share-based payments net benefit for the year includes the reversal for the 2018 Long Term Incentive Plan performance rights due to forfeiture.

Recognition and measurement

Equity-settled transactions

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

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

Cash-settled transactions

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

D4. Employee discount share plan

No shares were issued under the Employee Discount Share Plan during the years ended 30 June 2021 and 30 June 2020.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

E
Capital structure and financing

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

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

E1. Borrowings

	2021 $'m	2020 $'m
Current		
Unsecured:		
– Bank loans	**50.0**	5.4
– AUD medium term notes	**250.0**	–
– Deferred finance charges	**(3.8)**	(4.0)
Total current borrowings	**296.2**	1.4
Non-current		
Unsecured:		
– Bank loans	**400.0**	982.2
– USD private placement notes	**133.0**	145.7
– AUD private placement notes	**30.0**	30.0
– AUD medium term notes	**510.7**	762.8
– JPY medium term notes	**120.4**	135.3
– Deferred finance charges	**(8.7)**	(6.1)
Total non-current borrowings	**1,185.4**	2,049.9
Total borrowings	**1,481.6**	2,051.3
Fair value of total borrowings(i)	**1,611.5**	2,230.4

(i) Excludes lease liabilities.

Recognition and measurement

Borrowings

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

Fair value

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

E2. Financing facilities

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

	2021 $'m	2020 $'m
Syndicated loan facilities	**1,100.0**	960.0
Bilateral loan facilities	**327.0**	310.0
Total unutilised loan facilities	**1,427.0**	1,270.0
Syndicated bank guarantee facilities	**148.1**	102.5
Bilateral bank guarantees and insurance bonding facilities	**484.9**	492.5
Total unutilised bonding facilities	**633.0**	595.0

Summary of borrowing arrangements

The Group's borrowing arrangements are as follows:

Bank loan facilities

Bilateral loan facilities:

The Group has a total of $477.0 million in bilateral loan facilities which are unsecured, committed facilities.

Syndicated loan facilities:

The Group has $1,400.0 million of syndicated bank loan facilities which are unsecured, committed facilities.

USD private placement notes

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

AUD private placement notes

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

Medium Term Notes (MTNs)

The Group has the following unsecured MTNs on issue:

- $250.0 million maturing March 2022
- $500.0 million maturing April 2026
- JPY 10.0 billion maturing May 2033
- The carrying value of the AUD MTN maturing April 2026 includes a premium of $10.7 million over the face value owing to the differential between the coupon rate for that instrument and the prevailing market interest rate at the date of issue.
- The JPY denominated principal and interest amounts have been fully hedged against the Australian dollar through a cross-currency interest rate swap.

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

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

Maturing in the period $'m	Bilateral Loan Facilities	Syndicated Loan Facilities	USD Private Placement Notes	AUD Private Placement Notes	Medium Term Notes	Total
1 July 2021 to 30 June 2022	**50.0**	–	–	–	**250.0**	**300.0**
1 July 2022 to 30 June 2023	**352.0**	–	–	–	–	**352.0**
1 July 2023 to 30 June 2024	**75.0**	**300.0**	–	–	–	**375.0**
1 July 2024 to 30 June 2025	–	**400.0**	–	–	–	**400.0**
1 July 2025 to 30 June 2026	–	**400.0**	**133.0**	**30.0**	**500.0**	**1,063.0**
1 July 2026 to 30 June 2027	–	**300.0**	–	–	–	**300.0**
1 July 2032 to 30 June 2033	–	–	–	–	**120.4**	**120.4**
Total	**477.0**	**1,400.0**	**133.0**	**30.0**	**870.4**	**2,910.4**

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

E2. Financing facilities – continued

Covenants on financing facilities

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

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

Financial covenants testing is undertaken monthly and reported at the Downer Board meetings. Reporting of financial covenants to financiers occurs semi-annually for the rolling 12-month periods to 30 June and 31 December. Downer Group was in compliance with all its financial covenants as at 30 June 2021.

Bank guarantees and insurance bonds

The Group has $2,009.3 million of bank guarantee and insurance bond facilities to support its contracting activities.

$1,126.5 million of these facilities are provided to the Group on a committed basis and $882.8 million on an uncommitted basis.

The Group's facilities are provided by a number of banks and insurance companies on an unsecured and revolving basis. $1,376.3 million (refer to Note C10) of these facilities were utilised as at 30 June 2021 with $633.0 million unutilised. These facilities have varying maturity dates between financial years 2022, 2023 and 2024.

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

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

Refinancing requirements

The Group will negotiate with existing and, where required, with new financiers to extend the maturity date or refinance facilities maturing within the next 12 months. The Group's financial metrics and credit rating as well as conditions in financial markets and other factors may influence the outcome of these negotiations. As at 30 June 2021, the Group has $300 million debt facilities maturing within the next 12 months, comprising a $250 million MTN that matures in March 2022 and a $50 million Term Loan facility that matures in June 2022. Whilst the means of refinancing has not yet been determined, the Group's strong liquidity, investment grade credit rating and extensive bank relationships are expected to provide it with sufficient flexibility to either repay these maturities from existing undrawn committed debt facilities or refinance them with new facilities prior to maturity. Refer to Note G2(f) for liquidity risk management.

Credit ratings

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

E3. Lease liabilities

Contractual undiscounted cash flows	2021 $'m	2020 $'m
Less than one year	**176.1**	193.1
One to five years	**360.8**	402.2
More than five years	**196.1**	292.5
Total undiscounted lease liabilities	**733.0**	887.8
Current	**157.7**	168.9
Non-current	**505.1**	594.3
Total lease liabilities	**662.8**	763.2

Lease liabilities

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

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

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

Variable lease payments not included in the initial measurement of the lease liability are recognised directly in profit or loss.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in the amount expected to be payable under a residual value guarantee
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The expense charged to profit or loss for low value and short-term leases (excluded from lease liabilities) is analysed as:

	2021 $'m	2020 $'m
Lease expenses		
Land and buildings	**2.1**	2.4
Plant and equipment	**52.7**	36.5
Total lease expenses	**54.8**	38.9

Key estimates and judgements: Lease liabilities

(i) Extension option

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

(ii) Incremental borrowing rate

In determining the present value of the future lease payments, the Group discounts the lease payments using an incremental borrowing rate (IBR). The IBR reflects the financing characteristics and duration of the underlying lease. Once a discount rate has been set for a leased asset (or portfolio of assets with similar characteristics), this rate will remain unchanged for the term of that lease. When a lease modification occurs, and it is not accounted for as a separate lease, a new IBR will be assigned to reflect the new characteristics of the lease.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

E4. Commitments

	2021 $'m	2020 $'m
Capital expenditure commitments		
Plant and equipment and other		
Within one year	**42.5**	72.1
Between one and five years	**16.7**	15.5
Greater than five years	**0.7**	0.4
Total	**59.9**	88.0
Catering rights		
Catering rights relates to exclusive secured catering rights arrangements with customers.		
Within one year	**16.8**	24.3
Between one and five years	**7.0**	35.2
Greater than five years	**2.5**	3.7
Total	**26.3**	63.2

E5. Issued capital

	Jun 2021		Jun 2020	
	No.	$'m	No.	$'m
Ordinary shares	**696,928,956**	**2,631.5**	594,702,512	2,263.1
Unvested executive incentive shares	**1,249,255**	**(7.5)**	2,231,632	(12.0)
Distributing Securities (ROADS)	**200,000,000**	**178.6**	200,000,000	178.6
Total		**2,802.6**		2,429.7

(a) Fully paid ordinary share capital

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

	2021		2020	
	m's	$'m	m's	$'m
Fully paid ordinary share capital				
Balance at the beginning of the financial year	**594.7**	**2,263.1**	594.7	2,263.1
Capital raising (i)	**106.6**	**399.7**	–	–
Capital raising costs net of tax	**–**	**(6.5)**	–	–
Group on-market share buy-back	**(4.4)**	**(24.8)**	–	–
Balance at the end of the financial year	**696.9**	**2,631.5**	594.7	2,263.1
(b) Unvested executive incentive shares				
Balance at the beginning of the financial year	**2.2**	**(12.0)**	3.4	(16.6)
Vested executive incentive share transactions (ii)	**(1.0)**	**4.5**	(1.2)	4.6
Balance at the end of the financial year	**1.2**	**(7.5)**	2.2	(12.0)

(i) On 30 July 2020, 88,585,611 shares were issued with net proceeds of $332.2 million, and on 20 August 2020 18,004,231 shares were issued with net proceeds of $67.5 million being received.

(ii) June 2021 figures relate to the 2017 LTI plan, second deferred component of the 2018 STI award and first deferred component of the 2019 STI award totalling 982,377 vested shares for a value of $4,488,658. June 2020 figures relate to the 2016 LTI plan, second deferred component of the 2017 STI award and first deferred component of the 2018 STI award totalling 1,153,814 vested shares for a value of $4,608,778.

E5. Issued capital – continued

(b) Unvested executive incentive shares – continued

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.

(c) Redeemable Optionally Adjustable Distributing Securities (ROADS)

	2021		2020	
	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 2021 is 4.42% per annum (2020: 4.32% per annum) which is equivalent to the one year swap rate on 15 June 2021 of 0.37% per annum plus the step-up margin of 4.05% per annum.

Share options and performance rights

During the financial year 1,420,213 performance rights (Jun 2020: nil) 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 the Employee benefits reserve.

E6. Non-controlling interest (NCI)

The following table summarises the NCI in relation to the Group's subsidiaries:

	Jun 2021			Jun 2020		
	Spotless $'m	Other $'m	Total $'m	Spotless $'m	Other $'m	Total $'m
Current assets	–	**17.3**	**17.3**	563.9	18.4	582.3
Non-current assets	–	**1.4**	**1.4**	2,407.3	0.3	2,407.6
Current liabilities	–	**(1.4)**	**(1.4)**	(738.3)	(1.4)	(739.7)
Non-current liabilities	–	**(0.1)**	**(0.1)**	(1,087.4)	(0.1)	(1,087.5)
Net assets	–	**17.2**	**17.2**	1,145.5	17.2	1,162.7
NCI percentage	–	**26.0%**	**26.0%**	12.198%	26.0%	
Net assets attributable to NCI	–	**4.5**	**4.5**	139.7	4.5	144.2

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

E6. Non-controlling interest (NCI) – continued

On 7 October 2020, the Group completed the acquisition of the 12.198% of the Spotless shares that it did not already own. The table below summarises the accounting for the acquisition of the NCI.

	Note	$'m
Cash consideration paid		134.5
Fair value of Downer Contingent Share Options (DCSO) at issue date		16.7
Total consideration		**151.2**
Value of Spotless NCI at 30 June 2020		(139.7)
NCI share of Spotless results		(1.2)
		(140.9)
NCI share of other reserves		(0.3)
Value of NCI on acquisition		**(141.2)**
Net premium		**(10.0)**
Transaction Costs (net of tax)		**(5.3)**
Deferred Tax recognised on Spotless joining the Downer tax consolidated group (i)		**24.8**
Amount recognised in Equity reserve	E7	**9.5**

(i) The acquisition of the remaining 12.198% shares in Spotless that Downer did not already own automatically resulted in Spotless joining the Downer tax consolidated group on 7 October 2020. As such, the tax bases of the assets of Spotless are required to be reset by applying the allocable cost amount (ACA) methodology prescribed under the income tax legislation. An ACA calculation has been undertaken resulting in a net increase of $24.8 million in deferred tax assets which has been recognised in equity at 30 June 2021.

The fair value of the DCSO issued as at the date the transaction completed was determined using an option pricing model. The key assumptions used in this assessment were a TERP adjusted share price of $4.30, option volatility of 40%, interest of 0.31% and dividend yield of 8.5%.

The premium payable (being the difference between the total carrying value of the NCI interest, and the fair value of the consideration paid or payable) was recognised within Equity.

The liability recognised in relation to the DCSO is a Level 2 financial instrument whose fair value is calculated based on an option pricing model, using inputs from observable data. It is recorded in the Statement of financial position as part of the current Other financial liabilities balance and is revalued at each reporting date, with any movement in the liability being recognised through 'Other expenses from ordinary activities' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

	Note	$'m
DCSO Liability recognised at issue date		16.7
Charge to 'Other expenses from ordinary activities'	B3	16.6
Liability at 30 June 2021		**33.3**

Key estimate and judgement: Allocable cost amount (ACA) calculation

As a consequence of acquiring the remaining 12.198% shares in Spotless that Downer did not already own, Spotless automatically joined the Downer tax consolidated group on 7 October 2020. As such, the tax bases of the assets of Spotless were reset applying the ACA methodology. An external valuation of the assets of Spotless at the joining date was undertaken for the purpose of performing the ACA calculation. Judgement is required to determine the market values of the relevant assets.

E7. Reserves

2021 $'m	Hedge reserve	Foreign currency trans-lation reserve	Employee benefits reserve	Equity reserve	Fair value through OCI reserve	Total attribut-able to the members of the Parent
Balance at 1 July 2020	**(29.4)**	**(30.6)**	**14.9**	**–**	**(2.6)**	**(47.7)**
Foreign currency translation difference	**–**	**0.7**	**–**	**–**	**–**	**0.7**
Actuarial movement on defined benefit plan obligations	**–**	**–**	**5.0**	**–**	**–**	**5.0**
Income tax effect of actuarial movement on defined benefit plan obligations	**–**	**–**	**(1.5)**	**–**	**–**	**(1.5)**
Change in fair value of cash flow hedges (net of tax)	**6.8**	**–**	**–**	**–**	**–**	**6.8**
Total comprehensive income for the year	**6.8**	**0.7**	**3.5**	**–**	**–**	**11.0**
Vested executive incentive share transactions	**–**	**–**	**(4.5)**	**–**	**–**	**(4.5)**
Share-based employee benefits expense	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**
Income tax relating to share-based transactions during the year	**–**	**–**	**1.2**	**–**	**–**	**1.2**
Acquisition of Non-Controlling Interest (net of tax)	**(0.5)**	**0.2**	**–**	**9.5**	**–**	**9.2**
Balance at 30 June 2021	**(23.1)**	**(29.7)**	**14.7**	**9.5**	**(2.6)**	**(31.2)**
2020						
Balance at 1 July 2019	(24.0)	(16.7)	15.8	–	(2.6)	(27.5)
Foreign currency translation difference	–	(13.9)	–	–	–	(13.9)
Change in fair value of cash flow hedges (net of tax)	(5.4)	–	–	–	–	(5.4)
Actuarial movement on defined benefit plan obligations	–	–	0.7	–	–	0.7
Income tax effect of actuarial movement on defined benefit plan obligations	–	–	(0.2)	–	–	(0.2)
Total comprehensive income for the year	(5.4)	(13.9)	0.5	–	–	(18.8)
Vested executive incentive share transactions	–	–	(4.6)	–	–	(4.6)
Share-based employee benefits expense	–	–	4.8	–	–	4.8
Income tax relating to share-based transactions during the year	–	–	(1.6)	–	–	(1.6)
Balance at 30 June 2020	(29.4)	(30.6)	14.9	–	(2.6)	(47.7)

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to future transactions.

Foreign currency translation reserve

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of operations where their functional currency is different to the presentation currency of the Group.

Employee benefit reserve

The employee benefit reserve is used to recognise the fair value of share-based payments issued to employees over the vesting period, and to recognise the value attributable to the share-based payments during the reporting period. This reserve also includes the actuarial gain/loss arisen on the defined benefit plan (refer to Note D2).

Equity reserve

The Equity reserve accounts for the difference between the fair value of, and the amounts paid or received for, equity transactions with non-controlling interests.

Fair value through OCI reserve

The fair value through OCI reserve comprises the cumulative net change in the fair value of equity investments designated as FVOCI. Until the assets are derecognised or reclassified, this amount is reduced by the amount of loss allowance.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

E8. Dividends

(a) Ordinary shares

	2021 Final	2021 Interim	2020 Final	2020 Interim
Dividend per share (in Australian cents)	**12.0**	**9.0**	–	14.0
Franking percentage	**0%**	**0%**	–	0%
Cost (in $'m)	**83.6**	**63.1**	–	83.3
Dividend record date	**26/8/21**	**25/2/21**	–	26/2/20
Payment date	**23/9/21**	**25/3/21**	–	25/9/20

Recognition and measurement

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

Downer deferred the unfranked FY20 interim dividend which was originally due to be paid on 25 March 2020 which was disclosed as a dividend payable as at 30 June 2020 (refer to Note C4). The dividend was paid on 25 September 2020 and is disclosed in the cash flows for the year ended 30 June 2021.

The final 2021 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)

2021	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	**0.72**	**0.73**	**0.71**	**0.72**	**2.88**
New Zealand imputation credit percentage	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'m)	**1.4**	**1.5**	**1.5**	**1.4**	**5.8**
Payment date	**15/9/20**	**15/12/20**	**15/3/21**	**15/6/21**	

2020	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	0.92	0.95	0.96	0.92	3.75
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'m)	1.8	1.9	1.9	1.8	7.4
Payment date	16/9/19	16/12/19	16/3/20	15/6/20	

(c) Franking credits

The franking account balance as at 30 June 2021 is nil (2020: 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

	Note	2021 $'m	2020 $'m
Interest in joint ventures at the beginning of the financial year		**32.1**	31.5
Share of net profit		**12.9**	18.2
Share of distributions		**(11.6)**	(17.2)
Interest in joint venture divested		**(9.3)**	–
Foreign currency exchange differences		**–**	(0.4)
Interest in joint ventures at the end of the financial year		**24.1**	32.1
Interest in associates at the beginning of the financial year		**78.5**	77.3
Share of net profit		**9.3**	1.2
Investment in associates		**9.8**	–
Additional associate interest acquired	F5	**33.4**	–
Interest in associates at the end of the financial year		**131.0**	78.5
Total interest in joint ventures and associates		**155.1**	110.6

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

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 2021 %	2020 %
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
Eden Park Catering Limited [(i)]	Catering for functions at Eden Park	New Zealand	**–**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rollingstock	Australia	**50**	50
Emulco Limited	Emulsion plant	New Zealand	**50**	50
Isaac Asphalt Limited	Manufacture and supply of asphalt	New Zealand	**50**	50
Repurpose It Holdings Pty Ltd	Waste recycling	Australia	**45**	50
RTL Mining and Earthworks Pty Ltd [(i)]	Contract mining; civil works and plant hire	Australia	**–**	44
Waanyi Downer JV Pty Ltd	Contract mining services	Australia	**50**	50
ZFS Functions (Pty) Ltd	Catering for functions at Federation Square	Australia	**50**	50
Associates				
Keolis Downer Pty Ltd	Operation and maintenance of Gold Coast light rail, Melbourne tram network, Adelaide metro and bus operation	Australia	**49**	49
HT HoldCo Pty Ltd [(ii)]	Laundries services	Australia	**30**	–

(i) Downer's interest in this joint venture was disposed of during the year ended 30 June 2021.
(ii) Joint venture was entered into during the year ended 30 June 2021, upon 70% sale of Laundries business.

There are no material commitments held by joint ventures or associates. All joint ventures and associates have a statutory reporting date of 30 June.

The Group's share of aggregate financial information from joint ventures and associates is presented below.

The Group does not disclose the details of the individual joint ventures and associates on the basis these are individually immaterial.

The Group's share of the carrying amounts:

	2021 $'m	2020 $'m
Current assets	**266.1**	229.1
Non-current assets	**228.2**	149.0
Current liabilities	**(165.8)**	(144.7)
Non-current liabilities	**(184.6)**	(132.7)
Net assets	**143.9**	100.7
Goodwill	**7.0**	7.0
Adjustment to align accounting policies	**4.2**	2.9
Carrying amount	**155.1**	110.6
Profit for the year	**22.2**	19.4
Total comprehensive income	**22.2**	19.4

F1. Joint arrangements and associate entities – continued

Recognition and measurement

Equity accounting

(i) Investments in joint ventures

Investments in joint ventures are accounted for using the equity method of accounting.

(ii) Investments in associates

Investments in entities over which the Group has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting. The investment in associates is carried at cost plus post-acquisition changes in the Group's share of the associates' net assets, less any impairment in value.

Proportionate consolidation

Joint operations

Joint operations give the Group the right to the underlying assets and obligations for liabilities and are accounted for by recognising the share of those assets and liabilities.

(b) Interests in joint operations

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

			Ownership interest	
Name of joint operation	Principal activity	Country of operation	2021 %	2020 %
Ausenco Downer Joint Venture	Enabling works for Carrapateena Project	Australia	**50**	50
Bama Civil Pty Ltd and Downer EDI Works Pty Ltd	Civil Infrastructure design and/or construction activities	Australia	**50**	50
China Hawkins Construction JV	Building construction	New Zealand	**50**	50
City Rail JV	Enabling works for Auckland City Rail Link	New Zealand	**50**	50
Concrete Pavement Recycling Pty Ltd (i)	Road maintenance	Australia	**49**	49
Confluence Water JV	Sydney Water services	Australia	**43**	43
CPB Downer Joint Venture	Parramatta Light Rail construction	Australia	**50**	50
CRL Construction Joint Venture	Construction of the City Rail Link Alliance Project	New Zealand	**30**	30
Dampier Highway Joint Venture	Highway construction and design	Australia	**50**	50
Downer-Carey Mining JV (ii)	Management of run of mine and ore rehandling services	Australia	**46**	46
Downer Electrical GHD JV (iii)	Traffic control infrastructure	Australia	**90**	90
Downer FKG JV	Major civil and roadworks	Australia	**50**	50
Downer HEB Joint Venture (Memorial Park Alliance)	Design and build of the New Zealand National War Memorial Park	New Zealand	**50**	50
Downer HEB Joint Venture (Mt Messenger Project)	Design and build of the Mt Messenger Project	New Zealand	**50**	50
Downer MCD Wynyard Edge JV (Americas Cup Project)	Design and build on Americas Cup Project	New Zealand	**50**	50
Downer Seymour Whyte JV	Road construction	Australia	**50**	50
Downer York Joint Venture	Tramline extension	Australia	**50**	50
Downtown Infrastructure Development Project JV	Downtown infrastructure development program	New Zealand	**33**	33
Gumala Downer Joint Venture	Contract mining services	Australia	**50**	50
Hatch Downer JV	Design and construction of solvent extraction plant	Australia	**50**	50
HCMT Supplier JV	Rail build supplier	Australia	**50**	50

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

F1. Joint arrangements and associate entities – continued

Name of joint operation	Principal activity	Country of operation	Ownership interest 2021 %	2020 %
John Holland Pty Ltd and Downer Utilities Australia Pty Ltd Partnership	Operation of water recycling plant at Mackay	Australia	**50**	50
Macdow Downer Joint Venture (Connectus)	Rail construction	New Zealand	**50**	50
Macdow Downer Joint Venture (CSM2)	Road construction	New Zealand	**50**	50
Macdow Downer Joint Venture (Russley Road)	Road construction	New Zealand	**50**	50
NEWest Alliance	Construction activities as part of Perth's METRONET program	Australia	**50**	50
North Canterbury Transport Infrastructure Economic Recovery Alliance 'NCTIER' JV	Kaikoura earthquake works	New Zealand	**25**	25
Safety Focused Performance JV	Water and sewerage capital works	Australia	**45**	45
Thiess VEC Joint Venture	Highway construction	Australia	**50**	50
Utilita Water JV	Plant maintenance	Australia	**50**	50
VEC Shaw Joint Venture	Road construction	Australia	**50**	50
Waanyi ReGen JV	Rehab contract services	Australia	**50**	50
WDJV Unit Trust	Contract mining services	Australia	**50**	50
Wiri Train Depot Joint Venture	Construction of the Wiri train depot	New Zealand	**50**	50

(i) Concrete Paving Recycling Pty Ltd changed its name to Concrete Pavement Recycling Pty Ltd during the financial year 30 June 2021.
(ii) Joint operation is currently undergoing liquidation/de-registration.
(iii) Contractual arrangement prevents control despite ownership of more than 50% of this joint operation.

F2. Controlled entities

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

Australia

ACN 009 173 040 Pty Ltd (viii)
AGIS Group Pty Limited
ASPIC Infrastructure Pty Ltd
DMH Plant Services Pty Ltd
DMH Maintenance and Technology Services Pty Ltd
DM Road Services Pty Ltd
DMH Electrical Services Pty Ltd
Downer Australia Pty Ltd
Downer EDI Associated Investments Pty Ltd
Downer EDI Engineering Company Pty Limited
Downer EDI Engineering CWH Pty Limited
Downer EDI Engineering Electrical Pty Ltd
Downer EDI Engineering Group Pty Limited
Downer EDI Engineering Holdings Pty Ltd
Downer EDI Engineering Power Pty Ltd
Downer EDI Engineering Pty Limited
Downer EDI Limited Tax Deferred Employee Share Plan
Downer EDI Mining Pty Ltd
Downer EDI Mining-Blasting Services Pty Ltd (v)
Downer EDI Mining-Minerals Exploration Pty Ltd
Downer EDI Rail Pty Ltd
Downer EDI Services Pty Ltd
Downer EDI Works Pty Ltd
Downer Energy Systems Pty Limited
Downer Group Finance Pty Limited
Downer Holdings Pty Limited
Downer Investments Holdings Pty Ltd
Downer Mining Regional NSW Pty Ltd
Downer PipeTech Pty Limited
Downer PPP Investments Pty Ltd
Downer Utilities Australia Pty Ltd
Downer Utilities Holdings Australia Pty Ltd
Downer Utilities New Zealand Pty Ltd
Downer Utilities SDR Australia Pty Ltd (iv)
Downer Utilities SDR Pty Ltd
Downer Victoria PPP Maintenance Pty Ltd
EDI Rail PPP Maintenance Pty Ltd
EDICO Pty Ltd
Emoleum Partnership
Emoleum Road Services Pty Ltd
Emoleum Roads Group Pty Ltd
Envista Pty Limited
Evans Deakin Industries Pty Ltd
LNK Group Pty Ltd
Lowan (Management) Pty. Ltd.
Maclab Services Pty Ltd
Mineral Technologies Pty Ltd
Mineral Technologies (Holdings) Pty Ltd
New South Wales Spray Seal Pty Ltd
Otraco International Pty Ltd
Otracom Pty Ltd
Primary Producers Improvers Pty Ltd.

F2. Controlled entities – continued

Australia – continued

Rail Services Victoria Pty Ltd
REJV Services Pty Ltd (iv)
Roche Bros. Superannuation Pty. Ltd. (iv)
Roche Services Pty Ltd
RPC Roads Pty Ltd
RPQ Asphalt Pty. Ltd.
RPQ Mackay Pty Ltd (ix)
RPQ North Coast Pty. Ltd.
RPQ Pty Ltd
RPQ Services Pty. Ltd.
RPQ Spray Seal Pty. Ltd.
Smarter Contracting Pty Ltd
Snowden Holdings Pty Ltd (v)
Snowden Mining Industry Consultants Pty Ltd (v)
Snowden Technologies Pty Ltd (v)
Southern Asphalters Pty Ltd
Trico Asphalt Pty. Ltd.
VEC Civil Engineering Pty Ltd
VEC Plant & Equipment Pty Ltd

New Zealand and Pacific

AF Downer Memorial Scholarship Trust
DGL Investments Limited
Downer Construction (Fiji) Limited
Downer Construction (New Zealand) Limited
Downer EDI Engineering Power Limited
Downer EDI Engineering PNG Limited
Downer EDI Works Vanuatu Limited
Downer New Zealand Limited
Downer New Zealand Projects 1 Limited
Downer New Zealand Projects 2 Limited
Downer Utilities Alliance New Zealand Limited
Downer Utilities New Zealand Limited
Downer Utilities PNG Limited (iii)
Green Vision Recycling Limited
Hawkins Limited (x)
Hawkins Project 1 Limited
ITS Pipetech Pacific (Fiji) Pte Limited (xi)
Richter Drilling (PNG) Limited
Techtel Training & Development Limited
The Roading Company Limited
Underground Locators Limited
Waste Solutions Limited
Works Finance (NZ) Limited

Africa

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

Asia

Chang Chun Ao Hua Technical Consulting Co Ltd
Downer EDI Engineering (S) Pte Ltd
Downer EDI Engineering Holdings (Thailand) Limited
Downer EDI Engineering Thailand Ltd
Downer EDI Group Insurance Pte Ltd
Downer EDI Rail (Hong Kong) Limited
Downer EDI Works (Hong Kong) Limited
Downer Pte Ltd
Downer Singapore Pte Ltd
MD Mineral Technologies Private Limited
PT Duffill Watts Indonesia
PT Otraco Indonesia

Americas

DBS Chile SpA (iii) (v)
Mineral Technologies Comercio de Equipamentos para Processamento de Minerais LTD
Mineral Technologies, Inc.
Otraco Brasil Gerenciamento de Pneus Ltda
Otraco Chile SA

United Kingdom and Channel Islands

KHSA Limited
Sillars (B. & C.E.) Limited
Sillars (TMWD) Limited
Sillars Holdings Limited
Sillars Road Construction Limited
Works Infrastructure (Holdings) Limited
Works Infrastructure Limited

Spotless (vi)

A E Smith & Son (NQ) Pty Ltd
A E Smith & Son (SEQ) Pty Ltd
A.E. Smith & Son Proprietary Limited
AE Smith Building Technologies Pty Ltd
A.E. Smith Service (SEQ) Pty Ltd
A.E. Smith Service Holdings Pty Ltd
A.E. Smith Service Pty Ltd
Airparts Holdings Pty Ltd
Airparts Fabrication Pty Ltd
Airparts Fabrication Unit Trust
Aladdin Group Services Pty Limited (vii)
Aladdins Holdings Pty. Limited (vii)
Aladdin Laundry Pty Limited (vii)
Aladdin Linen Supply Pty Limited (vii)
Asset Services (Aust) Pty Ltd (vii)
Berkeley Challenge (Management) Pty Limited (vii)
Berkeley Challenge Pty Limited (vii)
Berkeley Railcar Services Pty Ltd (vii)
Berkeleys Franchise Services Pty Ltd (vii)
Bonnyrigg Management Pty. Limited (vii)
Cleandomain Proprietary Limited (vii)
Cleanevent Australia Pty. Ltd. (vii)
Cleanevent Holdings Pty. Limited (vii)
Cleanevent International Pty. Limited (vii)
Cleanevent Middle East FZ LLC (iii)

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

F2. Controlled entities – continued

Spotless (vi) – continued

Cleanevent Technology Pty Ltd (vii)
Emerald ESP Pty Ltd
Ensign Services (Aust.) Pty. Ltd. (v) (vii)
Envar Installation Pty Ltd
Envar Service Pty Ltd
Envar Holdings Pty Ltd
Envar Engineers and Contractors Pty Ltd
Errolon Pty Ltd (vii)
Fieldforce Services Pty Ltd (vii)
Infrastructure Constructions Pty Ltd (vii)
International Linen Service Pty Ltd (vii)
Monteon Pty Ltd (vii)
National Community Enterprises (iii)
Nationwide Venue Management Pty Limited (vii)
NG-Serv Pty Ltd (vii)
Nuvogroup (Australia) Pty Ltd" (vii)
Pacific Industrial Services BidCo Pty Ltd (vii)
Pacific Industrial Services FinCo Pty Ltd (vii)
Riley Shelley Services Pty Limited (vii)
Skilltech Consulting Services Pty. Ltd. (vii)
Skilltech Metering Solutions Pty Ltd. (vii)
Sports Venue Services Pty Ltd (vii)
Spotless Defence Services Pty Ltd (vii)
Spotless Facility Services (NZ) Limited
Spotless Facility Services Pty Ltd (vii)
Spotless Financing Pty Limited (vii)
Spotless Group Limited (vii)
Spotless Group Holdings Limited (vii)
Spotless Holdings (NZ) Limited
Spotless Investment Holdings Pty Ltd (vii)
Spotless Management Services Pty Ltd (vii)
Spotless Property Cleaning Services Pty Ltd (vii)
Spotless Securities Plan Pty Ltd (vii)
Spotless Services Australia Limited (vii)
Spotless Services International Pty Ltd (vii)
Spotless Services Limited (vii)
Spotless Treasury Pty Limited (vii)
SSL Asset Services (Management) Pty Ltd (vii)
SSL Facilities Management Real Estate Services Pty Ltd (vii)
SSL Security Services Pty Ltd (vii)
Taylors Laundries Limited (v)
Taylors Two Two Seven Pty Ltd (vii)
Trenchless Group Pty Ltd (vii)
UAM Pty Ltd (vii)
Utility Services Group Holdings Pty Ltd (vii)
Utility Services Group Limited (vii)

(i) 70% ownership interest.
(ii) 74% ownership interest.
(iii) Entity is currently undergoing liquidation/dissolution.
(iv) Entity de-registered during the financial year ended 30 June 2021.
(v) Entity disposed during the financial year ended 30 June 2021.
(vi) The ownership interest in Spotless is 100% as at 30 June 2021.
(vii) These Spotless controlled entities all form part of the tax consolidated group of which Downer EDI Limited is the head entity. The acquisition of the remaining 12.198% shares in Spotless that Downer did not already own automatically resulted in Spotless joining the Downer tax consolidated group on 7 October 2020.
(viii) QCC Resources Pty Ltd changed its name to ACN 009 173 040 Pty Ltd during the financial year ended 30 June 2021.
(ix) Rock N Road Bitumen Pty Ltd changed its name to RPQ Mackay Pty Ltd during the financial year ended 30 June 2021.
(x) Hawkins 2017 Limited changed its name to Hawkins Limited during the financial year ended 30 June 2021.
(xi) ITS Pipetech Pacific (Fiji) Limited changed its name to ITS Pipetech Pacific (Fiji) Pte Limited during the financial year ended 30 June 2021.

F3. Related party information

(a) Transactions with controlled entities

Aggregate amounts receivable from and payable to controlled entities by the parent entity are included within total assets and liabilities balances as disclosed in Note F4.

Other transactions which occurred during the financial year between the parent entity and controlled entities, as well as between entities in the Group, were on normal arm's length commercial terms.

(b) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note F2.

Equity interests in joint arrangements and associate entities

Details of interests in joint arrangements and associate entities are disclosed in Note F1. The business activities of a number of these entities are conducted under joint venture arrangements. Associated entities conduct business transactions with various controlled entities. Such transactions include purchases and sales, dividends and interest. All such transactions are conducted on the basis of normal arm's length commercial terms.

(c) Controlling entity

The parent entity of the Group is Downer EDI Limited.

F4. Parent entity disclosures

	Company 2021 $'m	Company 2020 $'m
(a) Financial Position		
Assets		
Current assets	**19.8**	46.5
Non-current assets	**2,883.8**	2,343.9
Total assets	**2,903.6**	2,390.4
Liabilities		
Current liabilities	**74.6**	111.8
Non-current liabilities	**4.2**	4.1
Total liabilities	**78.8**	115.9
Net assets	**2,824.8**	2,274.5
Equity		
Issued capital	**2,624.0**	2,251.1
Retained earnings	**190.1**	9.0
Reserves		
Employee benefits reserve	**10.7**	14.4
Total equity	**2,824.8**	2,274.5
(b) Financial performance		
Profit for the year	**244.2**	53.2
Total comprehensive income	**244.2**	53.2

(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 2021 (2020: nil) other than those disclosed in Note C10 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 2021 (2020: nil).

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

F5. Acquisition and disposals of businesses

2021 acquisitions

There have been no acquisitions during the year ended 30 June 2021.

During the year, deferred consideration payments of $14.3 million were made (2020: $29.8 million) in relation to acquisitions completed in previous periods.

The purchase of the remaining Spotless shares not already owned does not represent an acquisition of a business as the Group already controlled this entity. Further information on that transaction is presented in Note E6 Non-controlling interest.

2021 disposals

As previously announced, Downer's strategy is to focus on its core Urban Services businesses. Initiatives included to have 100% ownership of Spotless and exit non-core capital intensive Mining and Laundries businesses. During the financial year, the Group was able to complete the sale of a majority shareholding of the Laundries business as well as the disposal of certain businesses of the Mining segment, as described below.

Disposal of Mining businesses

Disposal of Downer Blasting Services (DBS) business

On 18 November 2020, Downer entered into an agreement to sell its blasting services business (Downer Blasting Services or DBS) to Enaex S.A. (a subsidiary of Sigdo Koppers Group (Chile)) for gross proceeds of $62.0 million.

The transaction was completed on 1 March 2021 with net proceeds (after transaction costs) of $59.1 million and net gain on disposal of $6.5 million.

Disposal of Open Cut Mining West business

On 15 December 2020, Downer entered into an agreement to sell its Western Australian open cut mining business (Open Cut Mining West) to MACA Limited for gross proceeds of $175 million. The sale included the transfer of certain assets (including fleet and inventory) and liabilities; and the novation of the existing contracts to MACA. On classification as a disposal group held for sale, the Group recognised a $20.2 million impairment to adjust the carrying value of the assets to its expected recoverable value. Refer to Note B3.

On 1 February 2021, the sale of Open Cut Mining West was completed. Downer received an initial payment of $109.0 million, with an additional $66.0 million to be received in 12 equal monthly instalments of $5.5 million commencing in February 2021.

As at 30 June 2021, net proceeds of $133.5 million had been received with a $14.4 million pre-tax loss on disposal recognised.

Disposal of Underground

On 4 March 2021, Downer completed the transition of underground mining services at OZ Minerals' Carrapateena mine to Byrnecut Australia. The transition included the transfer of equipment from Downer to Byrnecut for $56 million (representing book value). Net proceeds received (after transaction costs with the unwinding of working capital) amounted to $59.6 million with a net pre-tax loss on disposal of $4.8 million recognised.

Disposal of Snowden

During the year, Downer disposed of its Snowden Consulting business.

The sale of Snowden Consulting was completed on 15 July 2020 to Datamine for a net consideration of $7.5 million with a net gain on disposal of $5.6 million recognised.

Disposal of RTL JV

On 28 August 2020, Mining disposed its 44% interest in RTL JV to Thiess for a total gross consideration of $18.9 million, representing a gain on disposal of $10.7 million. Refer to Note F1.

Divestment of 70% of the Laundries business

On 2 December 2020, Downer entered into an agreement to sell 70% of its Laundries business to an Australian private equity firm, Adamantem Capital (Adamantem) for $139.6 million (net of transaction costs). The sale was completed on 31 March 2021.

Upon completion of this transaction, Downer ceased to consolidate the Laundries business on 31 March 2021 and recognised its remaining interest in the Laundries business of 30% as an equity accounted investment. Refer to Note F1(a).

As at 30 June 2021, net proceeds of $136.2 million had been received with a $16.2 million pre-tax loss on disposal recognised.

F5. Acquisition and disposals of businesses – continued

The table below summarises the impact on divestment during the financial year:

$'m	Note	Laundries	Mining Divestments	Total
Proceeds on disposal (net of transaction costs)		139.6	260.6	400.2
Less cash disposed		(3.4)	(0.9)	(4.3)
Proceeds net of disposal costs		136.2	259.7	395.9
Deferred consideration		–	39.2	39.2
Additional associate interest acquired	F1	33.4	–	33.4
Total proceeds on disposal		169.6	298.9	468.5
Cash		3.4	0.9	4.3
Trade receivables and contract assets		30.7	37.6	68.3
Inventory		3.7	74.4	78.1
Finance lease receivable		–	60.6	60.6
Other assets		1.4	0.5	1.9
Right-of-use assets	C6	26.1	29.1	55.2
Property, plant and equipment	C5	180.1	160.7	340.8
Intangible assets	C7	23.6	–	23.6
Deferred tax assets		19.7	5.1	24.8
Assets disposed		288.7	368.9	657.6
Trade payables and contract liabilities		11.3	16.1	27.4
Employee benefits provisions		13.9	16.4	30.3
Provisions	C9	–	0.8	0.8
Lease liabilities		59.7	29.5	89.2
Deferred tax liabilities		14.6	0.7	15.3
Liabilities disposed		99.5	63.5	163.0
Net assets disposed		189.2	305.4	494.6
FCTR held on businesses disposed		–	1.5	1.5
Loss on disposal before tax	B3	(16.2)	(7.1)	(23.3)

2020 acquisitions and disposals

There were no new acquisitions and disposals during the year.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

F5. Acquisition and disposals of businesses – continued

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Asset/liability acquired	Valuation technique
Trade receivables and contract assets	Cost technique – considers the expected economic benefits receivable when due.
Property, plant and equipment	Market comparison technique and cost technique – the valuation model considers quoted market prices for similar items when available and depreciated replacement cost when appropriate.
Intangible assets	Multi-period excess earnings method – considers the present value of net cash flows expected to be generated by the customer contracts and relationships, intellectual property and brand names, excluding any cash flows related to contributory assets. For the valuation of certain brand names, discounted cash flow under the relief from royalty valuation methodology has been utilised.
Trade payables and contract liabilities	Cost technique – considers the expected economic outflow of resources when due.
Borrowings	Cost technique – considers the expected economic outflow of resources when due.
Provisions	Cost technique – considers the probable economic outflow of resources when the obligation arises.

Goodwill from acquisitions

The goodwill resulting from the above acquisitions represents future market development, expected revenue growth opportunities, technical talent and expertise, and the benefits of expected synergies. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Recognition and measurement

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value. Acquisition-related costs are expensed as incurred in profit or loss.

(i) Acquisition achieved in stages

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of or control of the acquiree obtained.

(ii) Contingent consideration

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

(iii) Non-controlling interest

The Group can elect, on an acquisition by acquisition basis, to recognise non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's share of the acquired entity's net identifiable assets/(liabilities).

Key estimate and judgement: Acquisition of businesses

Accounting for acquisition of businesses requires judgement and estimates in determining the fair value of acquired assets and liabilities. The relevant accounting standard allows the fair value of assets acquired to be refined in a window of a year after the acquisition date and judgement is required to ensure that the adjustments made reflect new information obtained about facts and circumstances that existed as of the acquisition date. The adjustments made to the fair value of assets are retrospective in nature and have an impact on goodwill recognised on acquisition.

F6. Disposal group held for sale

Continuing with the Group's divestment of its portfolio of Mining businesses as part of Urban Services strategy, the Group has made further progress in the disposal of remaining Mining businesses as follows:

Disposal of Otraco business:

On 26 April 2021, an agreement was reached for the sale of Mining's tyre management business (Otraco) to Bridgestone Corporation (Bridgestone). The estimated $79 million sale price represents enterprise value of Otraco. Completion of the Otraco transaction, which is subject to regulatory approvals and other customary conditions, is expected to occur in FY22.

$'m	Otraco
Property, plant and equipment	9.4
Right-of-use assets	2.2
Intangible assets	0.5
Trade receivables and contract assets	24.2
Inventory	1.8
Other assets	3.4
Assets held for sale	**41.5**
Trade payables and contract liabilities	5.9
Lease liabilities	2.4
Other liabilities	8.9
Liabilities held for sale	**17.2**

Recognition and measurement

Disposal groups are recognised when a sale is considered highly probable. The assets and liabilities of these disposal groups are disclosed separately on the basis that their value is expected to be realised through a sale event rather than continued use. Disposal group assets are presented at the lower of their carrying value or the value expected to be realised through the sale. Any impairment to the carrying value of the assets is recognised through the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Key estimate and judgement:

Disposal group held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. To meet this, Downer must be committed to a plan to sell the asset; an active program to locate a buyer must be in place; the asset must be actively marketed for sale at a price at its fair value and the sale should be completed within one year.

Valuation of asset held for sale

An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell. This requires judgement and estimates in determining the fair value of disposed assets and liabilities. Fair value has been taken as the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

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 and interpretations adopted by the Group

During the year, the Group has applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2020, as follows:

- AASB 2018-6 *Definition of Business (Amendments to AASB 3).*
- AASB 2018-7 *Definition of Material (Amendments to AASB 101 and AASB 8).*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to Conceptual Framework.*
- AASB 2019-3 *Interest Rate Benchmark Reform (Amendments to AASB 139, AASB 7 and AASB 9).*
- AASB 2019-5 *Disclosure of the Effect of New IFRS Standards Not Yet issued in Australia (Amendments to AASB 1054).*
- AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions.*
- AASB 1059 *Service Concession Arrangements: Grantors (effective to annual reporting periods beginning on or after 1 January 2020).*
- IFRIC agenda decisions on *Cloud Computing Arrangements Costs.*

(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 2020-1 and 2020-6 *Classification of liabilities as current or non-current.*
- AASB 2020-4 *COVID-19 Related Rent Concessions Beyond 30 June 2021 (AASB 2020-4).*
- AASB 2020-3 *Narrow scope improvements to AASB 116, AASB 137 and AASB 3. Annual improvements to AASB 16, AASB 1, AASB 9 and AASB 141.*
- AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2.*
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates.*
- AASB 2021-3 *Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions Beyond 30 June 2021.*
- AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction.*
- AASB 17 *Insurance Contracts (effective to annual reporting periods beginning on or after 1 January 2023).*

Management continues to assess the impact of AASB 17 *Insurance Contracts* on the Group, and has not yet quantified the effect of the new standard. With the exception of AASB 17 *Insurance Contracts*, these new or amended standards' impacts are not expected to have a significant impact on the Group's consolidated financial statements when they are adopted.

G2. Capital and financial risk management

(a) Capital risk management

The capital structure of the Group consists of debt and equity. The Group may vary its capital structure by adjusting the amount of dividends, returning capital to shareholders, issuing new shares or increasing or reducing debt.

The Group's objectives when managing capital are to safeguard its ability to operate as a going concern so that it can meet all its financial obligations when they fall due, provide adequate returns to shareholders, maintain an appropriate capital structure to optimise its cost of capital and maintain an investment grade credit rating to ensure ongoing access to funding.

(b) Financial risk management objectives

The Group's Treasury function manages the funding, liquidity and financial risks of the Group. These risks include foreign exchange, interest rate, commodity and financial counterparty credit risk.

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

(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

(iii) Interest rate swaps to manage interest rate risk

(iv) Commodity forward contracts to manage commodity price movements in contracts.

The Group does not enter into or trade derivative financial instruments for speculative purposes.

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. No material amounts with a right to offset were identified in the Consolidated Statement of Financial Position.

(c) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. As a result, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts and cross-currency swaps.

The carrying amounts of the Group's unhedged foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

	Financial assets (i)		Financial liabilities (i)	
	2021 $'m	2020 $'m	2021 $'m	2020 $'m
US dollar (USD)	**2.3**	2.7	**–**	1.2

(i) The above table shows foreign currency financial assets and liabilities in Australian dollar equivalent.

Foreign currency forward contracts

The following table summarises, by currency pairs, the Australian dollar value (unless otherwise stated) of forward exchange contracts outstanding as at the reporting date:

	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	2021	2020	2021 FC'm	2020 FC'm	2021 $'m	2020 $'m	2021 $'m	2020 $'m
Buy USD / Sell AUD								
Less than 3 months	**0.7728**	0.6552	**5.1**	52.3	**6.7**	79.9	**0.2**	(3.7)
3 to 6 months	**0.7729**	0.6670	**12.1**	29.2	**15.7**	43.9	**0.4**	(1.3)
Later than 6 months	**0.7593**	0.6403	**2.8**	10.5	**3.7**	16.4	**–**	(1.1)
			20.0	92.0	**26.1**	140.2	**0.6**	(6.1)
Sell USD / Buy AUD								
Less than 3 months	**0.7755**	0.6949	**5.8**	33.9	**7.4**	48.8	**(0.2)**	(0.5)
3 to 6 months	**0.7625**	0.6846	**6.9**	34.1	**9.1**	50.0	**(0.1)**	0.3
Later than 6 months	**0.7777**	0.6814	**29.9**	4.8	**38.5**	7.0	**(1.3)**	–
			42.6	72.8	**55.0**	105.8	**(1.6)**	(0.2)
Buy EUR / Sell AUD								
Less than 3 months	**0.6356**	0.5960	**4.1**	3.7	**6.4**	6.2	**–**	(0.1)
3 to 6 months	**0.6127**	0.6060	**1.6**	7.1	**2.7**	11.6	**(0.1)**	–
Later than 6 months	**0.6208**	0.5902	**2.1**	5.2	**3.4**	8.8	**–**	(0.2)
			7.8	16.0	**12.5**	26.6	**(0.1)**	(0.3)

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

G2. Capital and financial risk management – continued

(c) Foreign currency risk management – continued

Outstanding contracts	Weighted average exchange rate 2021	Weighted average exchange rate 2020	Foreign currency 2021 FC'm	Foreign currency 2020 FC'm	Contract value 2021 $'m	Contract value 2020 $'m	Fair value 2021 $'m	Fair value 2020 $'m
Sell EUR / Buy AUD								
Less than 3 months	**0.6409**	0.5987	**1.6**	0.2	**2.5**	0.4	**–**	–
3 to 6 months	**0.6364**	0.5973	**0.1**	0.6	**0.2**	1.1	**–**	–
Later than 6 months	**0.6156**	0.6081	**0.1**	1.6	**0.2**	2.6	**–**	–
			1.8	2.4	**2.9**	4.1	**–**	–
Buy JPY / Sell AUD								
Less than 3 months	**78.50**	73.46	**138.5**	770.8	**1.8**	10.5	**(0.1)**	–
3 to 6 months	**77.44**	73.75	**80.5**	46.9	**1.0**	0.6	**(0.1)**	–
Later than 6 months	**84.02**	68.92	**463.0**	64.5	**5.5**	0.9	**0.1**	(0.1)
			682.0	882.2	**8.3**	12.0	**(0.1)**	(0.1)
Sell JPY / Buy AUD								
Less than 3 months	**78.27**	70.96	**116.7**	31.9	**1.5**	0.4	**0.1**	–
3 to 6 months	**83.01**	–	**12.8**	–	**0.2**	–	**–**	–
Later than 6 months	**83.79**	73.32	**301.2**	98.8	**3.6**	1.3	**–**	–
			430.7	130.7	**5.3**	1.7	**0.1**	–
Buy NZD / Sell AUD								
Less than 3 months	**1.0767**	1.0659	**190.0**	112.0	**176.5**	105.1	**0.4**	(0.4)
Sell NZD / Buy AUD								
Less than 3 months	**1.0746**	–	**10.0**	–	**9.3**	–	**–**	–
Buy GBP / Sell AUD								
Less than 3 months	**0.5625**	0.4812	**1.9**	0.2	**3.4**	0.4	**0.1**	(0.1)
3 to 6 months	**–**	0.5367	**–**	0.5	**–**	0.9	**–**	–
Later than 6 months	**0.5653**	0.5511	**1.5**	0.4	**2.7**	0.7	**0.1**	–
			3.4	1.1	**6.1**	2.0	**0.2**	(0.1)
Buy CAD / Sell AUD								
Less than 3 months	**0.9387**	–	**0.2**	–	**0.2**	–	**–**	–
3 to 6 months	**0.9379**	–	**0.1**	–	**0.1**	–	**–**	–
Later than 6 months	**0.9383**	0.9182	**0.6**	3.7	**0.7**	4.0	**–**	(0.1)
			0.9	3.7	**1.0**	4.0	**–**	(0.1)
Sell CAD / Buy AUD								
Less than 3 months	**0.9581**	0.9052	**0.2**	5.1	**0.2**	5.7	**–**	0.2
3 to 6 months	**0.9685**	0.9093	**0.4**	5.1	**0.4**	5.6	**–**	0.2
Later than 6 months	**0.9572**	–	**1.9**	–	**1.9**	–	**(0.1)**	–
			2.5	10.2	**2.5**	11.3	**(0.1)**	0.4
Buy USD / Sell NZD								
Less than 3 months	**0.7134**	–	**0.8**	–	**1.1**	–	**–**	–
3 to 6 months	**0.7132**	–	**0.1**	–	**0.1**	–	**–**	–
			0.9	–	**1.2**	–	**–**	–
BUY ZAR / Sell AUD								
Less than 3 months	**–**	11.83	**–**	24.3	**–**	2.1	**–**	–
Total							**(0.6)**	(6.9)

G2. Capital and financial risk management – continued

(c) Foreign currency risk management – continued

Cross-currency interest rate swaps

Under cross-currency interest rate swaps, the Group is committed to exchange certain foreign currency loan principal and interest amounts at agreed future dates at fixed foreign exchange and interest rates. Such contracts enable the Group to eliminate the risk of adverse movements in foreign exchange and interest rates related to foreign currency denominated borrowings.

The following table details the Australian dollar equivalent of cross-currency interest rate swaps outstanding as at the reporting date:

	Weighted average AUD equivalent interest rate (including credit margin)		Weighted average exchange rate		Contract value		Fair value	
Outstanding contracts	2021 %	2020 %	2021	2020	2021 $'m	2020 $'m	2021 $'m	2020 $'m
Buy USD / Sell AUD								
1 to 5 years	**5.9**	–	**0.7739**	–	**129.2**	–	**(2.1)**	–
5 years or more	**–**	5.9	**–**	0.7739	**–**	129.2	**–**	13.2
					129.2	129.2	**(2.1)**	13.2
Buy JPY / Sell AUD								
5 years or more	**5.2**	5.2	**83.12**	83.12	**120.3**	120.3	**(20.7)**	(12.4)

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

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

G2. Capital and financial risk management – continued

(c) Foreign currency risk management – continued

Foreign currency sensitivity analysis

The Group is mainly exposed to the movement in United States dollar (USD), New Zealand dollar (NZD), Euro (EUR), Japanese Yen (JPY), Great British Pound (GBP) and Canadian dollar (CAD).

The following table details the Group's sensitivity to movements in the Australian dollar against relevant foreign currencies. The percentages disclosed below represent the Group's assessment of the possible changes in spot foreign exchange rates (i.e. forward exchange points and discount factors have been kept constant). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a given percentage change in foreign exchange rates.

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)]	
	2021 $'m	2020 $'m	2021 $'m	2020 $'m
USD impact				
- 15% rate change	**0.4**	0.3	**(4.7)**	6.0
+ 15% rate change	**(0.3)**	(0.2)	**3.5**	(4.5)
NZD impact				
- 15% rate change	**–**	–	**19.7**	18.5
+ 15% rate change	**–**	–	**(14.6)**	(13.7)
EUR impact				
- 15% rate change	**–**	–	**1.7**	4.4
+ 15% rate change	**–**	–	**(1.3)**	(3.3)
GBP impact				
- 15% rate change	**–**	–	**1.1**	–
+ 15% rate change	**–**	–	**(0.8)**	–
JPY impact				
- 15% rate change	**–**	–	**0.5**	1.9
+ 15% rate change	**–**	–	**(0.4)**	(1.4)
CAD impact				
- 15% rate change	**–**	–	**(0.3)**	(1.2)
+ 15% rate change	**–**	–	**0.2**	0.9

(i) This is mainly as a result of the changes in the value of unhedged foreign currency denominated financial asset and liabilities.
(ii) This is as a result of the changes in the value of forward foreign exchange contracts designated as cash flow hedges.

(d) Interest rate risk management

The Group is exposed to interest rate risk as entities borrow funds at floating interest rates. Management of this risk is governed by a Board approved Treasury Policy and is managed by maintaining an appropriate mix between fixed and floating rate borrowings and hedging is undertaken through cross-currency interest rate swaps and interest rate swap contracts and the issue of long-term fixed rate debt securities.

G2. Capital and financial risk management – continued

(d) Interest rate risk management – continued

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the table below:

	Weighted average AUD equivalent interest rate (including credit margin)		Liability/(asset)	
	2021 %	2020 %	2021 $'m	2020 $'m
Floating interest rates – cash flow exposure				
Bank loans	**1.2**	1.3	**45.0**	333.7
Cash and cash equivalents	**0.3**	0.8	**(811.4)**	(588.5)
Total cash flow exposure			**(766.4)**	(254.8)
Fixed interest rates – fair value exposure				
Bank loans(i)	**3.0**	2.6	**407.7**	662.3
USD private placement notes(i)	**5.9**	5.9	**135.2**	132.5
AUD private placement notes	**5.8**	5.8	**30.0**	30.0
Medium term notes(i)	**3.9**	3.9	**901.8**	910.4
Total fair value exposure			**1,474.7**	1,735.2

(i) The values of the interest rate and cross-currency swaps have been included in the debt amounts.

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

The table above relates to amounts that are drawn. The Group has a number of undrawn facilities, which if utilised would be on a floating rate basis.

The Group uses cross-currency interest rate swaps and interest rate swap contracts to manage interest rate exposures. Under these contracts, the Group commits to exchange the difference between fixed and floating rate interest amounts calculated on notional principal amounts. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date.

The following table details the interest rate swap contracts and related notional principal amounts as at the reporting date:

	Weighted average interest rate		Notional principal amount		Fair value	
Outstanding floating to fixed swap contracts	2021 %	2020 %	2021 $'m	2020 $'m	2021 $'m	2020 $'m
AUD interest rate swaps						
Less than 1 year	**1.2**	1.2	**270.0**	150.0	**(1.0)**	(0.2)
1 to 2 years	**1.3**	1.2	**135.0**	270.0	**(1.7)**	(3.7)
2 to 3 years	**–**	1.3	**–**	135.0	**–**	(2.9)
			405.0	555.0	**(2.7)**	(6.8)
NZD interest rate swaps						
1 to 2 years	**–**	1.5	**–**	100.0	**–**	(1.7)

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.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

G2. Capital and financial risk management – continued

(d) Interest rate risk management – continued

Interest rate sensitivity analysis – continued

Sensitivities have been based on a movement in interest rates of 100 basis points across the yield curve of the relevant currencies. The selected basis point increase or decrease represents the Group's assessment of the possible change in interest rates on variable rate instruments, cross-currency interest rate swaps and interest rate swaps. An increase in interest rates of 100 basis points on the unhedged position (mostly cash and cash equivalents) will generate a profit of $7.7 million (2020: $2.5 million profit) to the profit or loss; a similar decrease in interest rates will generate a loss of $7.7 million (2020: $2.5 million loss) to the profit or loss.

For hedged positions designated as cash flow hedges, an increase and decrease in interest rates of 100 basis points will generate an increase and decrease in equity of $2.0 million (2020: $6.9 million) and $3.5 million (2020: $6.6 million) respectively.

(e) Credit risk management

Credit risk refers to the risk that a financial counterparty will default on its contractual obligations in respect of a financial instrument, resulting in a potential loss to the Group.

Trade receivables and contract assets arise from a large number of customers, spread across diverse industries and geographical areas. A credit evaluation is performed at the onset of material contracts to assess the financial condition of the counterparty and a credit evaluation is maintained over the life of the contract to take account of any changes in the risk profile of the counterparty. Where possible, a bank guarantee or performance bond, or parent guarantee from a creditworthy counterparty, is sought to secure a counterparty's contractual payment obligations. Refer to Note C2 for details on credit risk arising from trade receivables and contract assets.

Financial counterparty credit limits and the related credit acceptability of financial counterparties are set by a Board approved Treasury Policy that is subject to annual review to ensure it remains relevant to the external environment and reflects the Group's risk appetite at all times. The Treasury Policy sets clear parameters for determining acceptable financial counterparties and limits the exposure the Group may have at any one time to any individual financial counterparties to mitigate financial loss due to a default by a counterparty. No material exposure is considered to exist by virtue of the non-performance of any financial counterparty.

Credit risk on derivative financial instruments and cash balances held with financial counterparties is managed by Group Treasury with transactions only made with approved counterparties that have a minimum investment grade rating from Standard & Poor's of A- (or equivalent from Moody's or Fitch rating agencies). In limited circumstances, surplus cash may be held in foreign jurisdictions with financial counterparties that do not meet the minimum rating threshold where there is no other alternative.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

(f) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its financial obligations as and when they fall due. The Group's liquidity risk is managed under a Board approved Treasury Policy that sets clear parameters governing the Group's continued access to liquidity.

The Group manages liquidity risk by ensuring a minimum level of liquidity is available to meet the Group's financial obligations in the form of available liquid cash balances and access to committed undrawn debt facilities and other forms of capital, monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The Group seeks to mitigate its exposure to liquidity risk by ensuring that debt facilities are provided by strong investment grade rated financial counterparties and by the early refinancing of debt facilities to ensure continued access to capital over the medium term.

During the year, the Group raised $399.7 million from the issue of new shares in order to rebalance the Group's gearing and overall liquidity positions, and in anticipation of the payments for the purchase of the Spotless shares it did not already own. In December 2020, the Group established a new $1,400.0 million syndicated sustainability linked loan facility. This new facility replaces the Spotless $888.7 million and Downer $400 million syndicated bank loan facilities as the Group's primary source of financing. The new facility is split into various tranches maturing in financial years 2024, 2025, 2026 and 2027. In addition, $145 million of Spotless bilateral bank loan facilities were refinanced at the Downer level.

A buy-back of Downer's shares was announced to the market on 27 April 2021 and the buy-back commenced on 8 June 2021. As of 30 June 2021, a total of 4,363,398 shares were purchased for total consideration of $24.8 million, funded by the Group's cash reserves.

As at 30 June 2021, the Group has $300 million of debt facilities maturing within the next 12 months, comprising a $250 million MTN that matures in March 2022 and a $50 million Term Loan facility that matures in June 2022. Whilst the means of refinancing has not yet been determined, the Group's strong liquidity, investment grade credit rating and extensive bank relationships are expected to provide it with sufficient flexibility to either repay these maturities from existing undrawn committed debt facilities or refinance them with new facilities prior to maturity. The maturity profile and quantum of the Group's debt facilities will continue to be monitored and refinanced in advance subject to credit market conditions and the support of its financial counterparties. Included in Note E2 is a summary of committed undrawn bank loan facilities.

G2. Capital and financial risk management – continued

(f) Liquidity risk management – continued

Liquidity risk tables

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

2021 $'m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Trade payables	**670.5**	**–**	**–**	**–**	**–**	**–**
Lease liabilities	**176.1**	**132.8**	**101.6**	**75.2**	**51.2**	**196.1**
Bank loans (i)	**51.8**	**100.0**	**–**	**–**	**–**	**300.0**
USD notes	**6.1**	**6.1**	**6.1**	**6.1**	**136.1**	**–**
AUD notes	**1.7**	**1.7**	**1.7**	**1.7**	**30.9**	**–**
Medium term notes	**281.1**	**19.8**	**19.8**	**19.8**	**519.8**	**129.7**
Total borrowings including interest	**340.7**	**127.6**	**27.6**	**27.6**	**686.8**	**429.7**
Cross-currency interest rate swaps	**6.5**	**6.4**	**6.4**	**6.5**	**1.8**	**34.3**
Interest rate swaps	**3.1**	**0.3**	**–**	**–**	**–**	**–**
Foreign currency forward contracts	**0.7**	**0.1**	**–**	**–**	**–**	**–**
Total derivative instruments (ii)	**10.3**	**6.8**	**6.4**	**6.5**	**1.8**	**34.3**
Total	**1,197.6**	**267.2**	**135.6**	**109.3**	**739.8**	**660.1**

2020 $'m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Trade payables	697.7	–	–	–	–	–
Dividend payable	83.3	–	–	–	–	–
Shareholder class action payable	34.0	–	–	–	–	–
Lease liabilities	193.1	139.9	105.8	86.4	70.1	292.5
Bank loans	10.9	153.1	532.3	300.0	–	–
USD notes	6.7	6.7	6.7	6.7	6.7	149.1
AUD notes	1.7	1.7	1.7	1.7	1.7	30.9
Medium term notes	31.3	281.3	20.0	20.0	20.0	665.8
Total borrowings including interest	50.6	442.8	560.7	328.4	28.4	845.8
Cross-currency interest rate swaps	5.7	5.7	5.7	5.7	5.7	6.9
Interest rate swaps	5.8	3.7	0.3	–	–	–
Foreign currency forward contracts	7.1	–	–	–	–	–
Total derivative instruments (ii)	18.6	9.4	6.0	5.7	5.7	6.9
Total	1,077.3	592.1	672.5	420.5	104.2	1,145.2

(i) $450m of the bank loan liabilities relate to loan principal obligations with the balance relating to interest obligations for the current quarterly or monthly drawn profile. Interest obligations beyond the respective loan rollover dates are set by reference to the quarterly or monthly floating interest rate at the time of the respective loan rollover. As these rates have not yet been quantified, the interest obligations for these liabilities beyond the current rollover period have not been disclosed .

(ii) Includes assets and liabilities.

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

G2. Capital and financial risk management – continued

Recognition and measurement

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Any gains or losses arising from changes in fair value of derivatives, except those that qualify as effective hedges, are immediately recognised in profit or loss.

Hedge accounting

AASB 9 aligns the accounting for hedging instruments closely with the Group's risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Group has elected to adopt the general hedge accounting model in AASB 9. AASB 9 includes requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

Fair value hedges

Fair value hedges are used to hedge the exposure to changes in the fair value of a recognised asset, liability or firm commitment. For fair value hedges, changes in the fair value of the derivative, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk, are immediately recorded in profit or loss. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Cash flow hedges

Cash flow hedges are used to hedge risks associated with contracted and highly probable forecast transactions. For cash flow hedges, the effective portion of changes in the fair value of the derivative is deferred in equity and the gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are transferred to profit or loss in the same period the hedged item is recognised in profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred to form part of the initial measurement of the cost of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss. If the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting, any gain or loss deferred in equity remains in equity until the forecast transaction occurs.

G3. Other financial assets and liabilities

2021 $'m	Financial assets		Financial liabilities	
	Current	**Non-current**	**Current**	**Non-current**
At amortised cost:				
Other financial assets	**18.8**	**5.7**	**–**	**–**
Advances to/from joint ventures and associates	**3.2**	**–**	**3.6**	**–**
Deferred consideration	**39.2**	**–**	**0.1**	**0.2**
	61.2	**5.7**	**3.7**	**0.2**
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	**1.5**	**0.1**	**2.0**	**0.2**
Commodity forward contract – Cash flow hedge	**–**	**–**	**2.4**	**–**
Cross-currency and interest rate swaps – Cash flow hedge	**–**	**–**	**7.6**	**17.9**
Downer Contingent Share Options (DCSO) financial instrument	**–**	**–**	**33.3**	**–**
	1.5	**0.1**	**45.3**	**18.1**
Level 3				
Unquoted equity investments – Fair value through OCI	**–**	**2.0**	**–**	**–**
	–	**2.0**	**–**	**–**
Total	**62.7**	**7.8**	**49.0**	**18.3**

2020 $'m	Financial assets		Financial liabilities	
	Current	**Non-current**	**Current**	**Non-current**
At amortised cost:				
Other financial assets	19.0	5.7	–	–
Advances to/from joint ventures and associates	4.5	–	15.6	–
Deferred consideration	–	–	14.4	0.2
	23.5	5.7	30.0	0.2
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	1.7	–	8.6	–
Commodity forward contracts – Fair value through profit or loss	1.0	–	–	–
Cross-currency and interest rate swaps – Cash flow hedge	–	13.7	7.2	14.2
	2.7	13.7	15.8	14.2
Level 3				
Unquoted equity investments – Fair value through OCI	–	2.0	–	–
	–	2.0	–	–
Total	26.2	21.4	45.8	14.4

Reconciliation of Level 3 fair value measurements of financial assets

The fair value of Level 3 investments remained unchanged from prior year (2020: no change).

Notes to the consolidated financial statements – continued

for the year ended 30 June 2021

G3. Other financial assets and liabilities – continued

Recognition and measurement

Fair value measurement

When a derivative is designated as the cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Valuation of financial instruments

For financial instruments measured and carried at fair value, the Group uses the following to categorise the methods used:

- Level 1: fair value is calculated using quoted prices in active markets for identical assets or liabilities
- Level 2: fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: fair value is estimated using inputs for the asset or liability that are not based on observable market data.

During the year there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

The following table shows the valuation technique used in measuring Level 2 and 3 fair values, as well as significant unobservable inputs used:

Type	Valuation technique	Significant unobservable input
Cross-currency and interest rate swaps	Calculated using the present value of the estimated future cash flows based on observable yield curves.	Not applicable.
Foreign currency forward contracts	Calculated using forward exchange rates prevailing at the balance sheet date.	Not applicable.
Unquoted equity investments	Calculated based on the Group's interest in the net assets of the unquoted entities.	Assumptions are made with regard to future expected revenues and discount rates. Changing the inputs to the valuations to reasonably possible alternative assumptions would not significantly change the amounts recognised in profit or loss, total assets or total liabilities, or total equity.

Directors' Declaration

for the year ended 30 June 2021

In the opinion of the Directors of Downer EDI Limited:

(a) The financial statements and notes set out on pages 61 to 130 are in accordance with the *Australian Corporations Act 2001* (Cth), including:

(i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) The financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;

(b) There are reasonable grounds to believe that Downer EDI Limited will be able to pay its debts as and when they become due and payable;

(c) The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* (Cth); and

(d) The attached financial statements are in compliance with International Financial Reporting Standards, as noted in Note A to the financial statements.

Signed in accordance with a resolution of the Directors made pursuant to Section 295(5) of the *Corporations Act 2001* (Cth).

On behalf of the Directors

R.M. Harding

R M Harding
Chairman

Sydney, 12 August 2021

Sustainability Performance Summary

for the year ended 30 June 2021

Downer's sustainability approach

At Downer, sustainability means sustainable and profitable growth, providing value to customers, delivering services in a safe and environmentally responsible manner, helping people to be better and advancing the communities in which it operates. Downer recognises that sustainability is vital for securing long-term environmental, economic and social viability and understands its role in contributing to a sustainable future for communities to prosper.

Downer's sustainability strategy is integrated into its business strategy which is shaped by its four Pillars: Safety; Delivery; Relationships and Thought Leadership. Downer's commitment to sustainability is outlined on the Downer website and within the Sustainability Report located at **www.downergroup.com/sustainability**.

Downer operates in sectors that are closely connected to the investment that is being driven by population growth and urbanisation. These sectors include roads, rail, light rail, other public transport, power, gas, water, telecommunications, health, education, defence and other government sectors.

These sectors are served by Downer's Urban Services businesses – Transport, Utilities, and Facilities and Asset Services. These businesses have demonstrated strength and resilience, hold market leading positions and attractive medium-term and long-term growth opportunities. They have a high proportion of government and government-related contracts and a capital light, services-based business model generating lower risk, and more predictable revenues and cash flows. Downer's Urban Services strategy delivers many environmental and social benefits including a move to lower capital intensive and lower carbon activities which supports Downer's decarbonisation pathway.

Downer is proud of the role it plays in creating more sustainable cities and improving the quality of life in Australia and New Zealand. Downer is also heavily involved in providing services for social infrastructure such as schools, universities, hospitals, public housing and other areas of government such as defence.

Customers trust Downer to deliver these services, which will have a direct impact on their customers every day.

With services impacting millions of lives every day, the sustainability of Downer's operations is paramount – for its people, its partners, its shareholders, its customers and their customers. Downer delivers these services while managing the impacts of its activities on the environment and communities in which it operates, and working collaboratively with its supply chain. Downer understands that its ability to do this is fundamental to the Company's long-term success.

Downer's ESG reporting approach

Downer prepares its Sustainability Report with reference to the Global Reporting Initiative's (GRI) Standards to provide investors with comparable information relating to environmental, social and governance (ESG) performance. Specifically, Downer's approach takes into consideration the GRI's principles for informing report content: materiality, completeness, and sustainability context and stakeholder inclusiveness. A key focus is to demonstrate how Downer delivers sustainable returns while managing risk and being responsible in how it operates.

Downer seeks to identify the issues that have the greatest potential to impact its future success and returns to shareholders. This year Downer revisited its materiality assessment in line with the GRI Standards via a rigorous independent lead process to formally engage internal and external stakeholders to understand what they believe are the material sustainability issues for Downer and inform the identification of its material issues by economic, social, environmental and governance categories.

The materiality assessment provided key sustainability insights for Downer's strategy and frames the content for this year's Sustainability Report. The results were positive with strong alignment between internal and external stakeholder views.

The material issues ranked in order of importance for Downer and its stakeholders are:

1. Health, safety and wellbeing
2. Governance and ethics
3. Economic performance
4. Customer relationships
5. Contractor management
6. Climate change
7. Cybersecurity
8. Business resilience
9. Employee development and engagement
10. Diversity and inclusion
11. Community engagement, impact and development
12. Human rights (including modern slavery)
13. Supply chain management

Further information including the Materiality process undertaken is available on Downer's website and within the 2021 Sustainability Report located at **www.downergroup.com/sustainability**.

Governance and risk management

The Downer Board, through its oversight functions, has verified that Downer appropriately considers ESG risks including those related to climate change. In fulfilling this function, the Downer Board also receives oversight from Downer's Zero Harm Board Committee Audit and Risk Committee, Tender Risk Evaluation Committee and Disclosure Committee. ESG related risks and opportunities are incorporated into Downer's broader corporate strategy, planning and risk management.

Downer's Board recognises that an integrated approach to managing ESG risks and opportunities is essential. This has been reflected in the strengthening of Downer's governance structure and increased focus in both Board and executive forums throughout the 2021 financial year. Managing the business to be sustainable over the long term has always been front of mind for Downer's Board. In March, Downer reaffirmed this commitment by appointing a new role of Group Head of Sustainability.

ESG risks and opportunities are governed as part of Downer's Group Risk and Opportunity Management Framework and Project Risk Management Framework. Downer identifies, manages and discloses material climate-related risks as part of Downer's standard business practices, and, in accordance with the Group and Divisional strategies, which apply to everyone at Downer.

Downer's Zero Harm Management System Framework sets the Company's Zero Harm and sustainability governance requirements. Downer achieved centralised third-party accreditation to the International Standards ISO 45001 (Safety), ISO 9001 (Quality) and ISO 14001 (Environment). This gives Downer a single system of work for safety, quality and environment, and a framework to develop, implement and monitor The Downer Standard.

The Board's Zero Harm Committee oversees the strategy and monitors the development and implementation of Downer's Zero Harm management systems, improvement and performance reporting systems, and monitors Downer's Zero Harm performance. Effective monitoring occurs through extensive internal and third-party audit programs, with oversight by both the Board Zero Harm and Board Audit and Risk Committees. Other aspects of Downer's approach to sustainability are overseen by the Group Diversity Committee and other relevant corporate governance forums.

The method for measuring the Company's performance is clearly set out in its governance framework. Short-term remuneration incentives are offered to senior managers in relation to the Company's performance against Zero Harm and Sustainability targets. These targets include the management of Downer's Safety performance (LTIFR and TRIFR) Zero Harm critical risks, developing improvement plans aligned to material Sustainable Development Goals and focusing on decarbonisation (greenhouse gas (GHG) emissions reductions) in order to achieve Downer's science-based target net zero by 2050.

Downer's Zero Harm performance during 2021 is summarised below. More comprehensive information is provided in Downer's 2021 Sustainability Report which will be available on the Downer website **www.downergroup.com/sustainability**.

Health and safety

Downer's business is founded on a deeply held value of Zero Harm. Health and safety is Downer's highest priority, its top material issue and the first of its strategic pillars. Zero Harm is embedded in Downer's culture and is fundamental to future success. Downer's managers, supervisors and employees bring this core principle to fruition and actively live it every day, vigilantly protecting the health and safety of themselves and others in and around its workplaces.

Downer's approach to health and safety is built on leading, innovating, managing risk, rethinking processes, applying lessons learnt, and adopting and adapting practices that aim to achieve zero work-related injuries. Downer's integrated lifecycle approach is a market differentiator, and enables its people to work safely in industry sectors that may be inherently hazardous. In everything it does, the health and safety of its people and communities that it works within is always its top priority.

Downer's commitment is enhanced by strong leadership from senior leaders within the business, who actively engage, enable and empower its people to work safely, and maintain safe working environments for themselves and the community. Downer has a mature safety culture; it is proud of its people's support and commitment to its Zero Harm principles and practices.

Strategic initiatives as identified for FY21 have been progressed and have continued to strive for a more aligned and consistent approach across the Group. Downer's strategic program for health and safety has focused on:

- Optimising the Critical Risk program to eliminate all preventable significant harm and establish Downer as a leader in critical risk management
- Finalising the harmonisation of best practice and management system integration, as well as the integration of our Critical Risk Optimisation and Centre of Excellence programs into its management system
- Enriching the quality of data and utilising emerging technologies in strategy and planning activities. This includes the continued focus on the deployment of mobile technology and digital forms via mobile applications
- Progressing outcomes of our Communities of Practice program
- Business resilience, including mental health. The goal is to proactively respond to emerging strategic Zero Harm issues that impact the sectors it operates in and reinforce the positioning of Downer as a thought leader. To further demonstrate its commitment to mental health Downer joined Beyond Blue as a Major Partner and linked uptake and maintenance of its Mental Health First Aid training program to its Sustainability Linked Loan (SLL) facility.

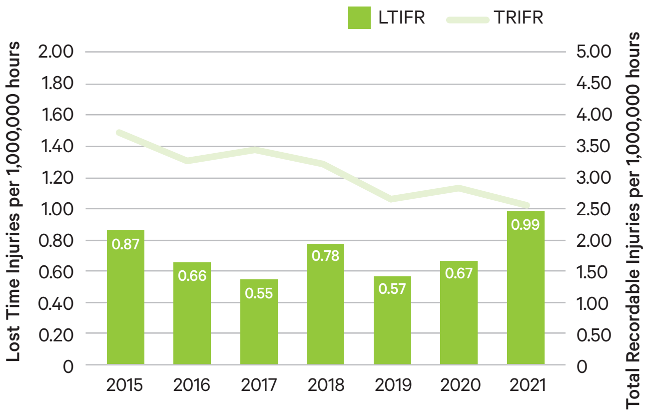
Sustainability Performance Summary – continued

for the year ended 30 June 2021

During FY21 Downer received two Penalty Infringement Notices for safety-related breaches. One was for A$3,000 for disruption of power to a residence in Queensland, and the other was for A$27,000 relating to the 2019 fatality at the Otraco depot in Calama, Chile, which was reported in Downer's FY20 Sustainability Report.

In FY21, WorkSafe NZ filed charges against Downer and its joint venture partner in relation to the fatality of a cyclist (non-employee) in October 2020. At the time of writing this report, proceedings had been adjourned to enable consideration of an Enforceable Undertaking.

Full details of these matters are described in Downer's 2021 Sustainability Report which will be available on the Downer website **www.downergroup.com/sustainability**.



1 Safety data for 2021 includes Hawkins and Spotless. Safety data for 2015 to 2020 excludes Hawkins and Spotless.

Environmental Sustainability

Downer's environmental sustainability performance is measured against the key areas of risk management, compliance, minimising environmental impact and maximising resource efficiency opportunities in its own and its customers' businesses. Downer's key focus areas during the year were:

- Continuing to focus on the resilience and assurance of environmental risk controls
- Taking a whole-of-life approach when considering initiatives and specifying materials
- Incorporating sustainability rating tools and initiatives into major projects
- Improving environmental workforce capability
- Engaging with customers regarding Downer's environmental capability
- Protecting high value biodiversity located on sites Downer owns, occupies or operates
- Preparing the business as markets transition to a low carbon economy.

Downer achieved its Group-wide target of zero Level 5[1] or Level 6[2] environmental incidents. There were no significant environmental incidents[3] (≥ Level 4) during financial year 2021.

In FY21, Downer incurred one penalty infringement notice for environmental breaches which was an improvement on Downer's performance over the past five years.

Downer was found guilty of two charges, fined NZ$15,000 (A$13,921), and contributed NZ$7,000 (A$6,497) towards marketing Hawkes Bay Regional Council's burning rules in relation to burning of waste containing prohibited items within the Hawkes Bay Regional Council in New Zealand.

The Enforceable Undertaking under negotiation with the NSW EPA which was disclosed in FY20 relating to the Downer Seymour White Joint Venture stormwater discharges near Nowra in New South Wales was formalised in FY21. In addition to the Enforceable Undertaking, Downer paid the NSW EPA $9,500 for associated investigation and legal costs.

Full details of these matters are described in Downer's 2021 Sustainability Report which will be available on the Downer website **www.downergroup.com/sustainability**.

Noteworthy achievements for FY21 include:

- Divestment of capital and carbon intensive Laundries and Mining businesses. Upon completing the sale of the remaining Mining services business and exiting the Mining sector, Downer's operational emissions will reduce by 35% or 206,000 tonnes of carbon dioxide equivalent
- Successfully completed the refinancing of the Group's debt platform with a new $1.4 billion SLL facility
- Achieved FY21 SLL Targets for KPI1 – GHG emission intensity reduction, KPI3 – Indigenous and cultural awareness training and KPI4 – Mental Health First Aid training
- S&P Global ranked Downer in the top 650 of 7,000 companies globally and listed Downer in their Sustainability Yearbook 2021 because its sustainability performance is within the top 15% for its industry sector. Downer was also awarded Industry Mover status, for the company with the strongest year-on-year score improvement in its industry
- Achieved third-party certification to the International Standards, and ISO 14001 (Environment), ISO 9001 (Quality), and ISO 45001 (Safety). This gives a single system of work for safety, environment and quality.

1 A Level 5 environmental incident is defined as any incident that causes significant impact or serious harm on the environment, where material harm has occurred and if costs in aggregate exceed $50,000.

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

3 A significant environmental incident or significant environmental spill (≥ Level 4) is any environmental incident or spill where there is significant impact on or material harm to the environment; or a notifiable incident where there is a spill that results in significant impact or material harm; or there is long-term community irritation leading to disruptive actions and requiring continual management attention.

Climate change and TCFD Update

Downer is committed to reducing its direct emissions profile and is well positioned to contribute to Australia and New Zealand's energy transition that is essential for the broader economy to decarbonise.

The Taskforce on Climate-related Financial Disclosures (TCFD) scenario analysis tested the resilience of Downer's strategy in relation to plausible climate futures that considered possible physical, socioeconomic and political changes. In each scenario Downer's strategy was found to be resilient and well positioned. It affirmed that Downer was well placed to provide products and services to its customers that will contribute to a low carbon future. It highlighted there are considerable opportunities for Downer which outweigh identified risks. These will assist in lower cost capital and increased margins.

Downer's Urban Services strategy delivers many environmental and social benefits including a move to lower capital intensive and lower carbon activities, which supports Downer's Climate Change Resilience and decarbonisation pathway.

Downer set an ambitious science-based target (aligned to a 1.5°C pathway) and committed to the decarbonisation of its absolute Scope 1 and 2 GHG emissions by 45-50% by 2035 from a FY18 base year and being Net Zero by 2050. In FY21, Downer became a signatory to the Science-Based Target Initiative (SBTi) in line with the 1.5°C business ambition pathway. In addition, Downer linked its Science-Based GHG emissions reductions targets with financial incentives as part of the SLL facility.

Downer has expanded its commitment to decarbonisation to incorporate Scope 3 emissions, as Downer recognises that it has a key role to play in minimising emissions that occur throughout its value chain. As such Downer has signed up to the Carbon Disclosure Project (CDP) supply chain program.

Downer is focused on initiatives to ensure it meets its SBT commitment. Downer has a clear pathway to Net Zero by 2050 which aligns to its Urban Services Strategy. The six key focus areas include:

- Divesting from high capital, carbon intense industries to lower carbon activities (2020>)
- Continue to focus on energy efficiency and GHG emission reductions (2010>)
- Decarbonise our fixed assets with new technology and fuel switching (2025>)
- Decarbonise Downer's fleet through electric vehicles (EVs) and alternate fuel vehicles (2025>)
- Increase uptake of renewables both on and off-grid (2010>)
- Reduce Scope 3 emissions i.e. low carbon materials e.g. asphalt and work with suppliers to lower their emissions (2018>).

In FY22 and beyond Downer will:

- Revisit the TCFD risks and opportunities, in line with its Urban Services Strategy;
- Undertake climate related financial impact assessment of:
  - Downer's fleet, (light and heavy)
  - Fixed assets, e.g. asphalt plants
  - Physical climate impacts
- Develop a framework to integrate into Downer's capital allocation decision making process to consider carbon implications of investment over the short and longer terms.

Downer will track its progress towards its emissions reduction target and review its emission reduction approach in line with the Intergovernmental Panel on Climate Change (IPCC) updated scientific reports, whilst considering other developments in low-emissions technology, to ensure a practical and affordable transition towards this commitment.

Downer recognises the uncertainties, challenges and opportunities that climate change presents and despite the recent impacts of COVID-19, Downer remains committed to partnering with its customers and supply chain to achieve its long-term GHG emission reduction target.

Refer to Downer's Sustainability Report located at **www.downergroup.com/sustainability** for further disclosures on Downer's response to climate change and how it has specifically addressed the TCFD recommendations.

Corporate Governance

for the year ended 30 June 2021

Overview

Downer's corporate governance framework provides the platform from which:

- The Board is accountable to shareholders for the operations, performance and growth of the Company
- Downer management is accountable to the Board
- The risks to Downer's business are identified and managed
- Downer effectively communicates with its shareholders and the investment community.

Downer continues to enhance its policies and processes to promote leading corporate governance practices.

The Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles).

Principle 1: Lay solid foundations for management and oversight

The Downer Board Charter sets out the functions and responsibilities of the Board and is available on the Downer website at **www.downergroup.com**.

The Board Charter states that the role of the Board is to provide strategic guidance and to effectively oversee management of the Company. Among other things, the Board is responsible for:

- Overseeing the Company, including its control and accountability systems
- Appointing and removing the Group CEO and senior executives
- Monitoring performance of the Group CEO and senior executives
- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Before appointing a Director or senior executive, the Board undertakes appropriate checks.

The Board provides shareholders with all material information which is relevant to the decision to elect or re-elect a Director.

Directors receive formal letters of engagement setting out the key terms, conditions and expectations of their engagement.

The Board Charter also describes the functions delegated to management, led by the Group CEO.

The primary goal set for management by the Board is to focus on enhancing shareholder value, which includes responsibility for Downer's economic, environmental and social performance.

The Group CEO is responsible for the day-to-day management of Downer and his authority is delegated and authorised by the Board.

Downer has written employment agreements with each of its senior executives and the performance of those senior executives is regularly reviewed against appropriate measures, including performance targets linked to the business plan and overall corporate objectives. In 2021, Downer's senior executives participated in periodic performance evaluations where they received feedback on progress against these targets.

The Company Secretary is responsible for supporting the effectiveness of the Board and is directly accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Details of Downer's Directors and the Executive Leadership Team are available on the Downer website at **www.downergroup.com**.

Diversity at Downer

Downer is committed to ensuring that it has a diverse and inclusive workforce, which fulfils the expectations of its employees, customers and shareholders while building a sustainable future for its business. This is formalised through the Downer Diversity and Inclusion (D&I) Policy which outlines the Company's commitment to developing a diverse and inclusive workforce.

In 2016, Downer launched a revised Diversity Framework. The purpose of this framework is to support the D&I Policy and implementation of Divisional D&I strategies.

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

ASX diversity recommendations – diversity statement

This diversity statement outlines Downer's performance throughout 2021 with respect to its broader diversity program, but with a particular focus on gender, and specifically includes:

- Details of Downer's key gender representation metrics
- An overview of the gender diversity initiatives undertaken by Downer throughout 2021
- An outline of Downer's measurable gender diversity objectives for 2021.

Gender representation metrics

As at 30 June 2021, Downer's female gender representation metrics were as follows:

- Board 33%
- Senior Executive[1] 25%
- Management[2] 17%
- Workforce 34%

1 For present purposes, 'Senior Executive' refers to CEO, KMP and Other Executives/General Managers as defined in the Workplace Gender Equality Agency Reference guide to the workplace profile and reporting questionnaire (WGEA Reference Guide).

2 For present purposes, 'Management' refers to CEO, KMP, Other Executives/General Managers, Senior Managers and Other Managers as defined in the WGEA Reference Guide.

Looking back: 2021 measurable objectives

Focus Area	Objective	Targets	Outcome
Flexibility, Diversity and Inclusion	To continue developing Downer's commitment to representing the businesses and communities in which we serve through a focus on D&I.	Report quarterly to the Executive Committee on progress towards targets and objectives.	Achieved: – Governance structure embedded through the establishment of the Group Diversity Steering Committee and Line of Business Steering Committees and Tactical Plans. Progress reporting occurs quarterly to the Executive Committee. – COVID-19 necessitated increased use of flexible working arrangements across the business. – Strategic partnerships with Aboriginal employment and ex-Defence human resource organisations enabled ongoing attraction of diverse, disadvantaged and/or minority groups. – Established a strategic supplier relationship with social enterprise Social Traders to participate in contracted works. Progressing: – Launch of the 'Own Different' Campaign across the business to celebrate our commitment to Inclusion. – Referral programs such as refer a female friend and refer an Indigenous friend continued during FY21.
Gender Diversity	To improve opportunities for women to reach their potential through an inclusive work environment while positioning Downer Group as a preferred employer for women in our industry.	40% women in the workforce by 2023. 25% women in management positions by 2023. 25% women in executive positions by 2023. 30% women on the Board.	Achieved: – Development and launch of leadership opportunities and networking programs in Australia and New Zealand. Progressing: – Focus on extending female talent in Management and Subject Matter Expert positions. – Working with Registered Training Organisations and employment organisations to support women into trades-based employment in skilled trades that are male-dominated with a view to a formal partnership and pilot. – An unconscious bias learning module will form part of a Podcast series in FY22.
Cultural Diversity	To build on Downer Group's commitment to closing the gap by increasing Indigenous workforce participation and developing strategic partnerships with Indigenous organisations and community groups.	3% Aboriginal and Torres Strait Islander employees.	Achieved: – Progress on Downer Group's Reconciliation Action Plan (RAP) 'Innovate', endorsed by Reconciliation Australia, which outlines our reconciliation vision, strategy and targeted initiatives, continues. – Downer has exceeded RAP commitments by establishing relationships with labour hire companies, employment agencies and other Indigenous Organisations. – Downer continues to work with Indigenous Organisations to further develop opportunities for Aboriginal and Torres Strait Islander employees, apprentices, and trainees. Progressing: – Downer continues to review, consult and enhance its Aboriginal and Torres Strait Islander Employment and Retention Strategy through engaging employment organisations and community to identify barriers and implement recommendations for improvement.

Generational Diversity	To establish Downer Group as a sought-after employer for all age groups and as an organisation that builds a talent pipeline of thought leaders and continues to value experience.	Maintain or increase the number of graduate employees year-on-year.	Progressing:
			– Downer continues to build its pipeline of talent by investing in entry level programs that align to our generational diversity focus and priority areas, including:
			  – The Downer Graduate Development Program
			  – Cadets and further Undergraduate programs
			  – Implementation of The Downer Standard for Apprentices and Trainees that supports strategic attraction, selection, development, management and retention.

Corporate Governance – continued

for the year ended 30 June 2021

Looking ahead: 2022 measurable objectives

Focus Area	Objective	Targets	Initiatives
Flexibility, Diversity and Inclusion	To continue developing Downer's commitment to representing the businesses and communities in which we serve through a focus on D&I.	Report quarterly to the Executive Committee on progress towards targets and objectives.	– Embed talent management and succession planning framework cohort to CEO-3 for females – Establish a Group Level Community of Practice that provides strategic advice and governance for the Line of Business D&I Steering Committees. This will include a strategic focus on flexible work arrangements – Embed and leverage the Diversity and Inclusion Steering Committees within each Line of Business to focus on programs and initiatives that will support the achievement of targets – Continue to review and modify Downer's Mandatory Induction program to ensure our commitment to a diverse and inclusive workforce and working environment is embedded in Downer's culture – Deliver a series of D&I 'Lunch 'n' Learn' sessions for all employees across the Group, covering a range of topics including Indigenous, gender, disability, orientation and generational diversity – Launch a Workplace Giving Program – Continue to leverage our relationships that manage the transition of ex-Defence personnel into employment – Engage with not-for-profit and community organisations to provide pathways and opportunities for culturally and linguistically diverse groups and people.
Gender Diversity	To improve opportunities for women to reach their potential through an inclusive work environment while positioning Downer Group as a preferred employer for women in our industry.	40% women in the workforce by 2023. 25% women in management positions by 2023. 25% women in executive positions by 2023. 30% women on the Board.	– Analyse the WGEA reporting data and use the learnings as key inputs to develop ongoing strategy, programs and initiatives – Deliver Downer's THRIVE women's personal and professional growth program – Develop and release an unconscious bias capability program to support an inclusive workplace – Realign our leadership programs to include further D&I content and learning.
Cultural Diversity	To build on Downer's commitment to Aboriginal and Torres Strait Islander peoples and the Māori people, through the development of strategic partnerships with Indigenous organisations and community and increased workforce participation.	3% Aboriginal and Torres Strait Islander employees.	– Work with Reconciliation Australia to develop and launch a Downer Group Innovate RAP – Create an Indigenous Champions network – Embed best practice cultural heritage monitoring within large-scale on-country project deliveries – Continue to deliver Downer's Māori Leadership Development program, Te Ara Whanake – Continue to deliver the Te Ara Whanake program to Non-Māori leaders which gives them a deeper understanding of Māori history, culture and Tikanga.

Generational Diversity	To establish Downer Group as a sought-after employer for all age groups and as an organisation that builds a talent pipeline of thought leaders and continues to value experience.	Maintain or increase the number of graduate employees year-on-year.	– Continue to build a talent pipeline by investing in entry level programs that align to our generational diversity focus and priority areas, including:
			  – The Downer Graduate Development Program
			  – Cadets and further Undergraduate programs
			  – Apprentices and Trainees.

Principle 2: Structure the Board to be effective and add value

Throughout the 2021 financial year, the Board was comprised of a majority of independent Directors.

The Board is currently comprised of the Chairman (Mike Harding, an independent, Non-executive Director), four other independent, Non-executive Directors and an Executive Director (the Group CEO, Grant Fenn). Details of the members of the Board, including their skills, experience, status and their term of office are set out in the Directors' Report on pages 4 to 51 and are also available on the Downer website at **www.downergroup.com**.

The composition of the Board is reviewed and assessed by the Nominations and Corporate Governance Committee to ensure the Board is of a composition, size and commitment to effectively discharge its responsibilities and duties.

Directors are required to bring their independent judgement to bear on all Board decisions. To facilitate this, it is Downer's policy to provide Directors with access to independent professional advice at the Company's expense in appropriate circumstances.

Downer's Non-executive Directors recognise the benefit of conferring regularly without management present, and they do so at various times throughout the year.

The Board considers that an independent Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could (or could reasonably be perceived to) materially interfere with the independent exercise of their judgement.

The Board regularly assesses the independence of each Director to ensure that each Director has the capacity to bring independent judgement to bear on issues before the Board and to act in the best interests of Downer as a whole.

Downer's governance framework requires each Director to promptly disclose actual and possible conflicts of interest, any interests in contracts, other directorships or offices held, related party transactions and any dealing in the Company's securities.

At least one Director must retire from office at each Annual General Meeting (AGM). No Non-executive Director can serve more than three years without offering themselves for re-election.

The Chairman of the Board is an independent, Non-executive Director. He is responsible for the leadership of the Board and for the efficient organisation and functioning of the Board. The Chairman is appointed by the Board to ensure that a high standard of values, governance and constructive interaction is maintained.

The Chairman facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and the Board and management. He also represents the views of the Board to Downer's shareholders and conducts the AGM.

The roles of Chairman and Group CEO are not exercised by the same person and the division of responsibilities between the Chairman and the Group CEO have been agreed by the Board and are set out in the Board Charter and Downer's Delegations Policy.

Corporate Governance – continued

for the year ended 30 June 2021

The Board has established a number of committees to assist the Board to effectively and efficiently execute its responsibilities. A list of the main Board Committees and their current membership is set out in the table below.

Board Committee	Chairman	Members
Audit and Risk	N M Hollows	T G Handicott P L Watson
Zero Harm	P L Watson	G A Fenn P S Garling
Nominations and Corporate Governance	R M Harding	T G Handicott N M Hollows
Remuneration	T G Handicott	P S Garling R M Harding N M Hollows
Disclosure	T G Handicott	G A Fenn R M Harding
Rail Projects	P S Garling	G A Fenn T G Handicott R M Harding
Tender Risk Evaluation	P L Watson	G A Fenn R M Harding N M Hollows

The names of members of each committee, the number of meetings and the attendances by each of the members of the various committees to which they are appointed are set out in the Directors' Report on page 19.

The Tender Risk Evaluation Committee's primary purpose is to oversee tenders and contracts that exceed the delegation of the Group CEO. The Tender Risk Evaluation Committee is chaired by an independent Director and comprises four members, including the Group CEO. Meetings of the Tender Risk Evaluation Committee are convened as required to review tender opportunities.

The Rail Projects Committee was formed to provide oversight of the major rollingstock delivery programs, being Sydney Growth Trains for the Sydney metropolitan network and High Capacity Metropolitan Trains in Melbourne. With the projects reaching an advanced stage, the Committee ceased in April 2021 and regular periodic reports are being made directly to the Board.

The Board has established the Nominations and Corporate Governance Committee to oversee the practices for selection and appointment of Directors of the Company.

The Nominations and Corporate Governance Committee's primary purpose is to support and advise the Board on fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and leading governance practice.

The Nominations and Corporate Governance Committee has a charter which sets out its roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. The Nominations and Corporate Governance Committee Charter gives the Nominations and Corporate Governance Committee access to internal and external resources, including advice from external consultants and specialists. The Nominations and Corporate Governance Committee Charter is available on the Downer website at **www.downergroup.com**.

The Nominations and Corporate Governance Committee, all members of which are independent Directors, is chaired by an independent Director and has a minimum of three members.

The Committee's responsibilities include:

- Assessing the skills and competencies required on the Board
- Assessing the extent to which the required skills are represented on the Board
- Establishing processes for the review of the performance of individual Directors, Board Committees and the Board as a whole
- Establishing processes for identifying suitable candidates for appointment to the Board (including undertaking a formal due diligence screening process)
- Recommending the engagement of nominated persons as Directors.

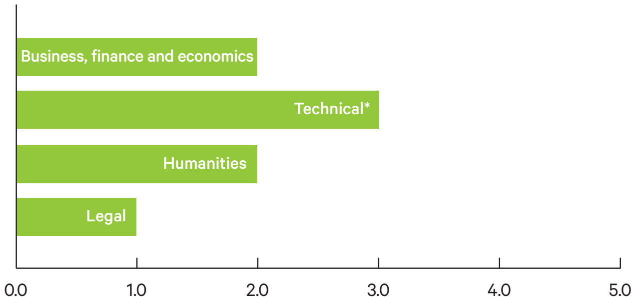
When appointing Directors, the Nominations and Corporate Governance Committee aims to ensure that an appropriate balance of skills, experience, expertise and diversity is represented on the Board. This may result in a Non-executive Director with a longer tenure remaining in office to bring that experience and depth of understanding to matters brought before the Board.

Given the breadth of Downer's service offerings across a range of markets, the Board seeks to ensure that it maintains an appropriate range of technical skills and executive experience across engineering, construction and scientific disciplines as well as services activities and professional services when considering the appointment of a new Director.

In June 2021, Downer announced that its Chairman, Mr R M Harding, would retire on 30 September 2021 and that Mr M P Chellew had been appointed as a Non-executive Director effective 1 September 2021 and would become Chairman on 30 September 2021. In appointing Mr Chellew, the Downer Board identified the need to ensure ongoing engineering expertise and his extensive experience as a Chief Executive Officer, Non-executive Director and Non-executive Chairman of large publicly listed organisations.

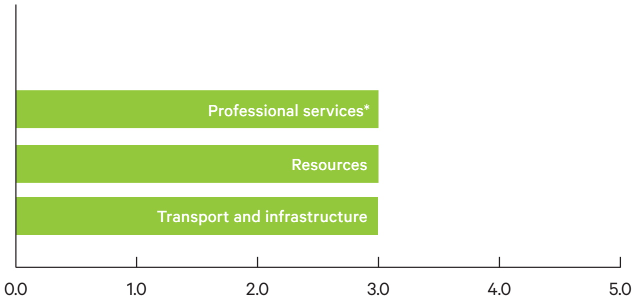
The chart illustrates the balance achieved with the current Board composition. The Company recognises the value of diversity which has been a component of the appointment process over the past few years.

Professional qualifications



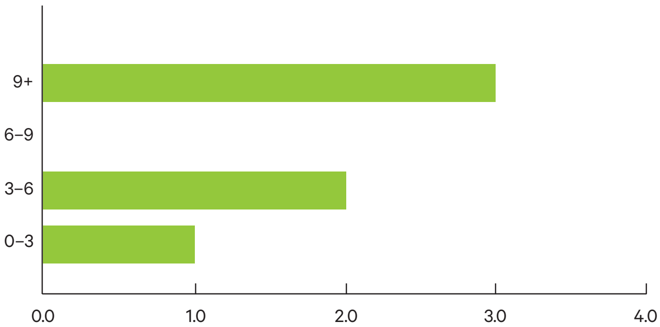
* Comprises construction, engineering, metallurgy and science.

Industry experience

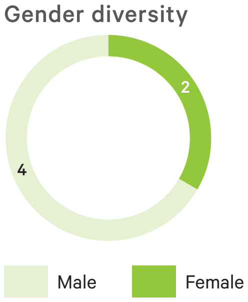


* Includes banking, finance and legal.

Tenure (years)



Gender diversity



Corporate Governance – continued

for the year ended 30 June 2021

From time to time, Downer engages external specialists to assist with the selection process as necessary, and the Chairman, Board and Group CEO meet with candidates as part of the appointment process.

Nominations for re-election of Directors are reviewed by the Nominations and Corporate Governance Committee and Directors are re-elected in accordance with the Downer Constitution and the ASX Listing Rules.

As part of its commitment to leading corporate governance practice, the Board undertakes improvement programs, including externally facilitated periodic reviews of its performance and that of its Committees and Directors. The last review was completed during FY21 and included consideration of the skills and knowledge of Directors.

The Company has formal induction procedures for both Directors and senior executives. These induction procedures have been developed to enable new Directors and senior executives to gain an understanding of:

- Downer's financial position, strategies, operations and risk management policies
- The respective rights, duties and responsibilities and roles of the Board and senior executives
- Downer's culture and values.

Directors are given an induction briefing by the Company Secretary and an induction pack containing information about Downer and its business, Board and Committee charters and Downer Group policies. New Directors also meet with key senior executives to gain an insight into the Company's business operations and the Downer Group structure.

Directors are encouraged to continually build on their exposure to the Company's business and a formal program of Director site visits has been in place since 2009. Directors are also encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge and the Company Secretary regularly organises governance and other continuing education sessions for the Board.

The Board is provided with the information it needs to discharge its responsibilities effectively. The Directors also have access to the Company Secretary for all Board and governance-related issues and the appointment and removal of the Company Secretary is determined by the Board. The Company Secretary is accountable to the Board, through the Chair, on all governance matters.

Principle 3: Instil a culture of acting lawfully, ethically and responsibly

Downer's Purpose is to create and sustain the modern environment by building trusted relationships with our customers. Its Promise is to work closely with our customers to help them succeed, using world-leading insights and solutions. Downer's Purpose and Promise are founded on the Pillars of Zero Harm, Delivery, Relationships and Thought Leadership and define the way it manages its business and are the foundations that support Downer's culture. An overview of the Purpose, Promise and Pillars can be found on the Downer website at **www.downergroup.com**.

Downer strives to attain the highest standards of behaviour and business ethics when engaging in corporate activity. The Downer Standards of Business Conduct sets the ethical tone and standards of the Company and deals with matters such as:

- Compliance with the letter and the spirit of the law
- Workplace behaviour
- Prohibition against bribery and corruption
- Protection of confidential information
- Engaging with stakeholders
- Workplace safety
- Diversity and inclusiveness
- Sustainability
- Conflicts of interest.

Downer has a formal whistleblower policy and procedures for reporting and investigating breaches of the Standards of Business Conduct. This includes the Our Voice service, an external and independent reporting service which enables employees to anonymously report potential breaches of the Standards of Business Conduct, including misconduct or other unethical behaviour. Reports received through Our Voice are investigated where appropriate, with the Company Secretary overseeing the completion of any remedial action. The Board is informed of material breaches of the Standards of Business Conduct through reporting of incidents reported under the whistleblower policy, investigations of allegations of fraud and breaches of Downer's Zero Harm Cardinal Rules.

The Standards of Business Conduct applies to all officers and employees and is available on the Downer website at **www.downergroup.com**.

Downer endorses leading governance practices and has in place policies setting out the Company's approach to various matters, including:

- Securities trading (stipulating 'closed periods' for designated employees and a formal process which employees must adhere to when dealing in securities)
- The Company's disclosure obligations (including continuous disclosure)
- Communicating with shareholders and the general investment community
- Privacy.

Downer has an Anti-Bribery and Corruption Policy which expands upon the prohibition against bribery and corruption currently contained in the Standards of Business Conduct, and which addresses key issues such as working with government, political donations, human rights, conducting business internationally and gifts and benefits. The Board is informed of material breaches of the Anti-Bribery and Corruption Policy.

As Downer has operations in foreign jurisdictions, Downer employees are confronted by the challenges of doing business in environments where bribery and corruption are real risks. However, regardless of the country or culture within which its people work, Downer is committed to compliance with the law, as well as maintaining its reputation for ethical practice.

These policies are available on the Downer website at **www.downergroup.com**.

Principle 4: Safeguard the integrity of corporate reporting

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

An external limited assurance engagement is performed on selected sustainability information in Downer's annual Sustainability Report. Downer also follows a comprehensive internal verification process to ensure the integrity of the Sustainability Report and other periodic corporate reports which are not audited or reviewed by the external auditor, including the Directors' Report, Corporate Governance Statement, and Information for Investors. This process involves review of reporting by relevant subject matter experts across the organisation to ensure it is materially accurate, balanced and provides investors with appropriate information.

The Audit and Risk Committee assists the Board to fulfil its responsibilities relating to:

- The quality and integrity of the accounting, auditing and reporting practices of the Company with a particular focus on the qualitative aspects of financial reporting to shareholders
- The Company's risk profile and risk policies
- The effectiveness of the Company's system of internal control and framework for risk management.

The Audit and Risk Committee is structured so that it:

- Consists of only Non-executive Directors
- Consists of a majority of independent Directors
- Is chaired by an independent Chairman (who is not the Chairman of the Board)
- Has at least three members.

The Audit and Risk Committee comprises only independent Directors, includes members who are financially literate and has at least one member who has relevant qualifications and experience.

The Audit and Risk Committee Charter sets out the Audit and Risk Committee's role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Board receives assurances from the Group CEO and the Group CFO that the declarations provided to it in relation to the annual and half-year financial statements, in accordance with sections 295A and 303(4) of the *Corporations Act 2001* (Cth) are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Downer's external auditor attends the Company's AGMs and is available to answer any questions which shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

Information regarding the number of times the Audit and Risk Committee convened in FY21, together with the individual attendances of members at the meetings, is set out in the Directors' Report on page 19.

The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

Corporate Governance – continued

for the year ended 30 June 2021

Principle 5: Make timely and balanced disclosure

The Company's Disclosure Policy sets out processes which assist the Company to ensure that all investors have equal and timely access to material information about the Company and that Company announcements are factual and presented in a clear and balanced way. It includes that new and substantive investor or analyst presentations are released on the ASX Market Announcements Platform ahead of the presentation. A copy of the Disclosure Policy is available on the Downer website at **www.downergroup.com**.

The Disclosure Policy also sets out the procedures for identifying and disclosing material and market-sensitive information in accordance with the *Corporations Act 2001* (Cth) and the ASX Listing Rules. The Board receives copies of all material market announcements promptly after they have been made.

Downer's Disclosure Committee consists of two independent, Non-executive Directors (one of which is the Chairman of the Board) and the Group CEO. The Disclosure Committee oversees disclosure of information by the Company to the market and the general investment community.

Principle 6: Respect the rights of security holders

Downer empowers its shareholders by:

- Communicating effectively, openly and honestly with shareholders
- Giving shareholders ready access to balanced and understandable information about the Company and its governance
- Making it easy for shareholders to participate in general meetings
- Giving shareholders the option to receive communications from, and send communications to, the Company and its security registry electronically.

The Downer Communication Policy sets out the Company's approach to communicating with shareholders and is available on the Downer website at **www.downergroup.com**.

The Company publishes corporate information on its website (**www.downergroup.com**), including Annual and Half Year Reports, ASX announcements, investor updates and media releases.

Downer encourages shareholder participation at members meetings through its use of electronic communication, including by making notices of meetings available on its website and audio casting of general meetings and significant Group presentations. All substantive resolutions at meetings of shareholders are conducted by poll.

The Directors and key members of management attend the Company's AGMs and are available to answer questions.

Principle 7: Recognise and manage risk

To mitigate the risks that arise through its activities, Downer has various risk management policies and procedures in place that cover (among other matters) interest rate management, foreign exchange risk management, credit risk management, tendering and contracting risk and project management.

Downer has controls at the Board, executive and business unit levels that are designed to safeguard Downer's interests and ensure the integrity of reporting (including accounting, financial reporting, environment and workplace health and safety policies and procedures). These controls are designed to ensure that Downer complies with legal and regulatory requirements, as well as community standards.

Downer has a Risk Management Framework in place to enable business risks to be identified, evaluated and managed. The Board ratifies Downer's approach to managing risk and oversees Downer's Risk Management Framework, including the Group risk profile and the effectiveness of the systems being implemented to manage risk. The last review of the Risk Management Framework was completed in 2021. The Board reviews the Group risk profile twice each year and considers other risk matters, such as business resilience, tender review processes, risk appetite, and specific risk areas, on a regular basis, as well as regular reports from senior management, the internal audit team, and the external auditor.

Downer's annual Sustainability Report provides a detailed overview of Downer's approach to managing its environmental and social risks. The Sustainability Report is available on the Downer website at **www.downergroup.com/sustainability**.

The Company's internal audit function objectively evaluates and reports on the existence, design and operating effectiveness of internal controls. Downer's internal audit team is independent of the external auditor and reports to the Audit and Risk Committee.

Downer's Audit and Risk Committee assists the Board in its oversight of Downer's risk profile and risk policies, the effectiveness of the systems of internal control and Risk Management Framework and Downer's compliance with applicable legal and regulatory obligations. The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

Management reports regularly to the Audit and Risk Committee on the effectiveness of Downer's management of its material business risks and on the progress of mitigation treatments.

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee and has adopted the Remuneration Committee Charter which sets out its role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board about:

- Executive remuneration and incentive policies
- The remuneration, recruitment, retention, performance measurement and termination policies and procedures for all senior executives reporting directly to the Group CEO
- Executive and equity-based incentive plans
- Superannuation arrangements and retirement payments.

Remuneration of the Group CEO, Executive Directors and Non-executive Directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Downer's remuneration policy is designed to motivate senior executives to pursue the long-term growth and success of the Company and prescribes a relationship between the performance and remuneration of senior executives.

The Remuneration Committee is structured so that it:

- Consists of a majority of independent Directors
- Is chaired by an independent Director
- Has at least three members.

The Executive Director is not a member of the Remuneration Committee.

The maximum aggregate fee approved by shareholders that can be paid to Non-executive Directors is $2.0 million per annum. This cap was approved by shareholders on 30 October 2008. Further details about remuneration paid to Non-executive Directors are set out in the Remuneration Report at page 23.

Retirement benefits are not paid to Non-executive Directors.

Non-executive Directors do not participate in any equity incentive schemes.

The remuneration structure for Executive Directors and senior executives is designed to achieve a balance between fixed and variable remuneration taking into account the performance of the individual and the performance of the Company. Executive Directors receive payment of equity-based remuneration as short-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, as set out in the Securities Trading Policy. A copy of the Securities Trading Policy is available on the Downer website at **www.downergroup.com**.

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report at page 23 and details of Downer shares beneficially owned by Directors are provided in the Directors' Report at page 6.

Information for Investors

for the year ended 30 June 2021

Downer shareholders

Downer had 28,171 ordinary shareholders as at 30 June 2021, of which 26,295 shareholders had a registered address in Australia.

The largest shareholder, HSBC Custody Nominees (Australia) Limited, held 33.53% of the 696,928,956 fully paid ordinary shares issued at that date.

Securities exchange listing

Downer is listed on the Australian Securities Exchange (ASX) under the 'Downer EDI' market call code 3965, with ASX code DOW, and is a foreign exempt issuer on the New Zealand Exchange with the ticker code DOW NZ.

Company information

The Company's website **www.downergroup.com** offers comprehensive information about Downer and its services. The site also contains news releases and announcements to the ASX and NZX, financial presentations, Annual Reports, Half Year Reports and company newsletters. Downer printed communications for shareholders include the Annual Report which is available on request.

Dividends

Dividends are determined by the Board having regard to a range of circumstances within the business operations of Downer including operating profit and capital requirements. The level of franking on dividends is dependent on the level of taxes paid to the Australian Taxation Office by Downer and its incorporated joint ventures.

Dividends are paid in Australian dollars, other than for shareholders with a registered address in New Zealand, who receive dividends in New Zealand dollars unless an election is made to receive payment in Australian dollars by providing Australian bank account details.

International shareholders can use Computershare's Global Payments System to receive dividend payments in the currency of their choice at a nominal cost to the shareholder.

Dividend reinvestment plan

Downer's Dividend Reinvestment Plan (DRP) is a mechanism to allow shareholders to increase their shareholding in the Company without the usual costs associated with share acquisitions, such as brokerage. Details of the DRP are available from the Company's website or the Easy Update website at **www.computershare.com.au/easyupdate/dow**.

Share registry

Shareholders and investors seeking information about Downer shareholdings or dividends should contact the Company's share registry, Computershare Investor Services Pty Ltd (Computershare):

Level 3
60 Carrington Street
Sydney NSW 2000

GPO Box 2975
Melbourne VIC 3001

Tel: 1300 556 161 (within Australia)
+61 3 9415 4000 (outside Australia)

Fax: 1300 534 987 (within Australia)
+61 3 9473 2408 (outside Australia)

www.computershare.com

Shareholders must give their holder number (SRN/HIN) when making inquiries. This number is recorded on issuer sponsored and CHESS statements.

Updating your shareholder details

Shareholders can update their details (including bank accounts, DRP elections, tax file numbers and email addresses) online at **www.computershare.com.au/easyupdate/dow**.

Shareholders will require their holder number (SRN/HIN) and postcode to access this site.

Tax file number information

Providing your tax file number to Downer is not compulsory. However, for shareholders who have not supplied their tax file number, Downer is required to deduct tax at the top marginal rate plus Medicare levy from unfranked dividends paid to investors residing in Australia. For more information please contact Computershare.

Lost issuer sponsored statement

You are advised to contact Computershare immediately, in writing, if your issuer sponsored statement has been lost or stolen.

Annual Report mailing list

Shareholders must elect to receive a Downer Annual Report by writing to Computershare Investor Services Pty Ltd at the address provided. Alternatively, shareholders may choose to receive this publication electronically.

Change of address

So that we can keep you informed, and protect your interests in Downer, it is important that you inform Computershare of any change of your registered address.

Registered office and principal administration office

Downer EDI Limited
Level 2, Triniti III
Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

Tel: +61 2 9468 9700
Fax: +61 2 9813 8915

Auditor

KPMG
International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000

Australian securities exchange information as at 30 June 2021

Number of holders of equity securities:

Ordinary share capital

696,928,956 fully paid listed ordinary shares were held by 28,171 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 2021.

Shareholders	Ordinary shares held	% of issued shares
Yarra Management Nominees Pty Ltd	53,484,319	7.67
FIL Limited	51,772,061	7.43
The Vanguard Group	42,930,691	6.16
T Rowe Price Associates, Inc.	35,171,878	5.05
Pendal Group Limited	35,075,107	5.03
L1 Capital Pty Ltd	34,994,479	5.02

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 30 June 2021 is as follows.

Range of holdings	Number of shareholders	Shareholders %	Ordinary shares held	Shares %
1 – 1,000	14,922	52.97	6,441,384	0.92
1,001 – 5,000	9,955	35.34	23,380,204	3.35
5,001 – 10,000	2,005	7.12	14,504,847	2.08
10,001 – 100,000	1,217	4.32	26,517,726	3.81
100,001 and over	72	0.26	626,084,795	89.84
Total	28,171		696,928,956	100.00
Holding less than a marketable parcel of shares	1,026			

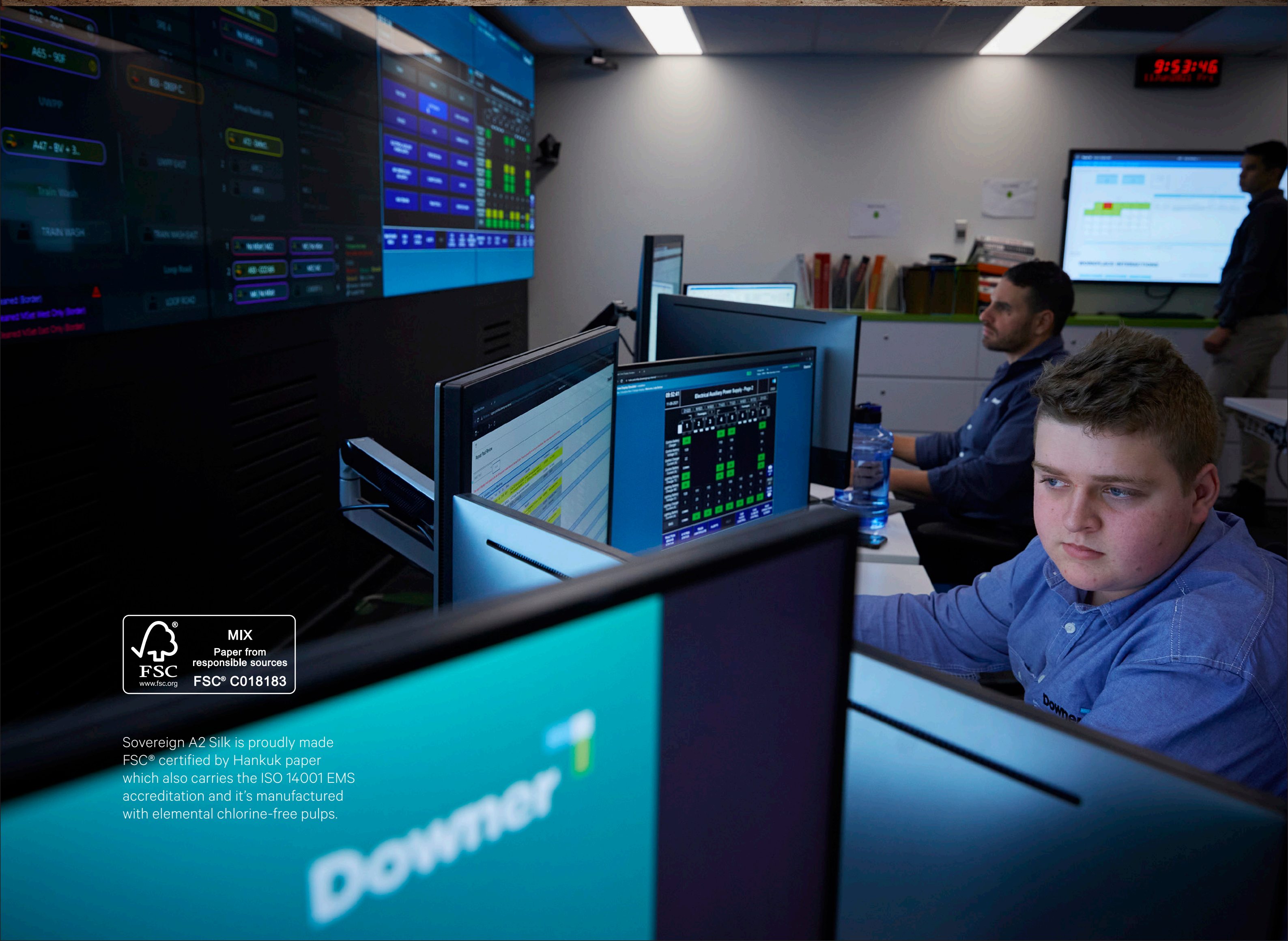
Information for Investors – continued

for the year ended 30 June 2021

Twenty largest shareholders

Downer's 20 largest shareholders of ordinary fully paid shares as at 30 June 2021 are as follows.

Shareholders	Shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	233,684,156	33.53
Chase Manhattan Nominees Limited	185,227,143	26.58
Citicorp Nominees Pty Limited	90,917,638	13.05
National Nominees Limited	39,060,370	5.60
BNP Paribas Noms Pty Ltd <DRP>	19,105,044	2.74
Argo Investments Ltd	11,315,059	1.62
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	8,587,021	1.23
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	6,261,227	0.90
Netwealth Investments Limited <Wrap Services A/C>	3,175,085	0.46
Sandhurst Trustees Ltd <Harper Bernays Ltd A/C>	2,962,080	0.43
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,484,424	0.36
BNP Paribas Nominees Pty Ltd Six Sis Ltd <DRP A/C>	1,931,979	0.28
UBS Nominees Pty Ltd	1,720,677	0.25
CPU Share Plans Pty Ltd <PRV Control A/C>	1,595,624	0.23
CPU Share Plans Pty Limited	1,572,505	0.23
Hobson Wealth Custodians Ltd <Resident Cash Account>	1,168,073	0.17
BNP Paribus Noms (NZ) Ltd <DRP>	1,038,338	0.15
Mr Barry Sydney Patterson + Mrs Glenice Margaret Patterson	891,642	0.13
Navigator Australia Ltd <SMA Antares Inv DV Build A/C>	873,846	0.13
Mr Grant Fenn	795,809	0.11
Total for top 20 shareholders	614,367,740	88.15



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www.downergroup.com