Downer

Relationships creating success

Annual Report

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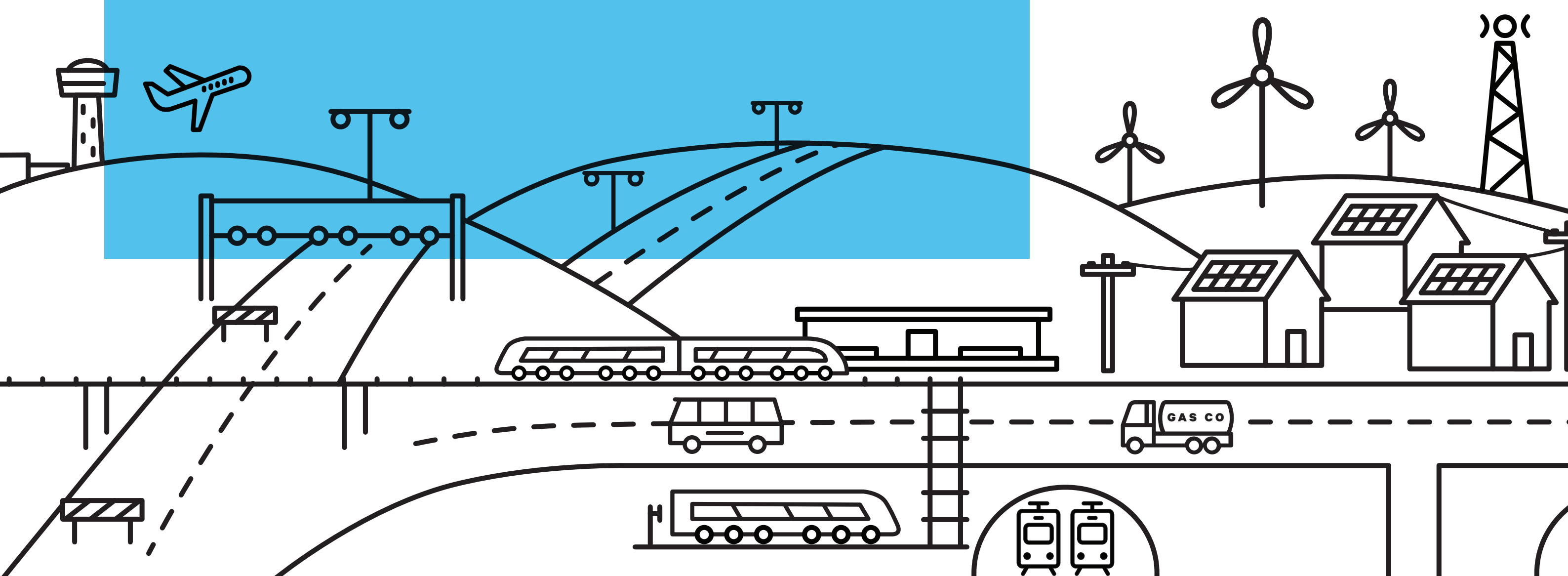
2018



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 2018. The Annual Report is available on the Downer website www.downergroup.com.

Contents

The Directors of Downer EDI Limited submit the Annual Financial Report of the Company for the financial year ended 30 June 2018. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

Board of Directors

R M HARDING (69)

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

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

Mr Harding is currently the Chairman of Lynas Limited and a Director of Cleanaway Waste Management Limited, a former Chairman of Roc Oil Company Limited and Clough Limited and a former Director of Santos Limited.

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

Mr Harding lives in Sydney.

G A FENN (53)

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.

S A CHAPLAIN (60)

Independent Non-executive Director since July 2008

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

Ms Chaplain is Chairman of Queensland Airports Limited and a Director of Seven Group Holdings Limited. Ms Chaplain is also Chairman of Canstar Pty Ltd, a financial services research and ratings company and a Director of Credible Labs Inc and The Australian Ballet. Her former board roles include being a member of the Board of Taxation, a Director of EFIC, Australia's export credit agency and a Director of PanAust .

A Fellow of the Australian Institute of Company Directors, Ms Chaplain holds a Bachelor of Arts degree majoring in Economics and Mandarin from Griffith University in addition to a Masters of Business Administration (MBA) from the University of Melbourne. She holds an honorary doctorate from Griffith University for her service to banking and finance, and to the Gold Coast community.

Ms Chaplain lives on the Gold Coast.

P S GARLING (64)

Independent Non-executive Director since November 2011

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

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

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

Mr Garling lives in Sydney.

T G HANDICOTT (55)

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 a Director of LGE Holding Company Pty Ltd trading as Peak Services, which is the subsidiary of the Local Government Association of Queensland that is responsible for its commercial operations. Ms Handicott is also a Director of Bangarra Dance Theatre Limited and 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 and Member of the Australian Institute of Company Directors and Chief Executive Women, Ms Handicott holds a Bachelor of Laws (Hons) degree from the Queensland University of Technology.

Ms Handicott lives in Brisbane.

N M HOLLOWS (47)

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 currently the Chief Executive Officer of SunWater Limited, a Queensland Government owned corporation. She is the Chair of The Salvation Army Brisbane Red Shield Appeal Committee and an advisory committee member of the Salvation Army Queensland Advisory Council and also a board member of the Water Services Association of Australia and a member of the CEO Advisory Committee for Dean of Queensland University of Technology Business School.

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

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

Ms Hollows lives in Brisbane.

C G THORNE (68)

Independent Non-executive Director since July 2010

Dr Thorne has over 36 years' experience in the mining and extraction industry, specifically in senior operational and executive roles with Rio Tinto. His experience spanned a range of product groups and functional activities in Australia and overseas. After serving in London as Group Mining Executive from 1996 to 1998, Dr Thorne moved to Indonesia as President Director of Kaltim Prima Coal and then returned to Australia to manage Rio Tinto's Australian coal business as Managing Director of Rio Tinto Coal Australia and the publicly listed Coal and Allied Industries. He was President of the Queensland Resources Council in 2001-2003.

In 2006, Dr Thorne was appointed global head of Rio Tinto's technology, innovation and project engineering functions, reporting to the Chief Executive. He was a member of Rio Tinto's Executive Committee and Investment Committee. He retired from Rio Tinto in 2011.

Dr Thorne is a Director of Spotless Group Holdings Limited and a former Director of Wesley Research Institute, JK Tech and Queensland Energy Resources Limited. He is a Fellow of the Australasian Institute of Mining and Metallurgy.

Dr Thorne also holds directorships with a number of private companies.

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

Dr Thorne lives on the Sunshine Coast.

Directors' shareholdings

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

Director	Number of Fully Paid Ordinary Shares	Number of Fully Paid Performance Rights	Number of Fully Paid Performance Options
R M Harding	14,210	–	–
G A Fenn[1]	1,164,203	1,547,403	–
S A Chaplain	103,799	–	–
P S Garling	16,940	–	–
T G Handicott	14,000	–	–
N M Hollows	–	–	–
C G Thorne	82,922	–	–

1 Performance rights granted to Mr Fenn are subject to performance and/or service period conditions over the period 2015 to 2020. 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 Peter Tompkins was appointed Company Secretary on 27 July 2011. He has qualifications in law and commerce from Deakin University and corporate governance from the Governance Institute of Australia and is an admitted solicitor in New South Wales. Mr Tompkins joined Downer in 2008 and was appointed General Counsel in 2010.

Mr Peter Lyons was appointed joint Company Secretary on 27 July 2011. A member of CPA Australia and the Governance Institute of Australia, he has qualifications in commerce from the University of Western Sydney and corporate governance from the Governance Institute of Australia. Mr Lyons was previously Deputy Company Secretary and has been in financial and secretarial roles at Downer for over 15 years.

Review of operations

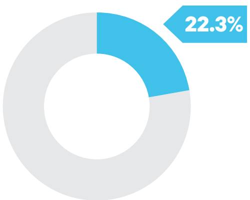
Principal Activities

Downer EDI Limited (Downer) is a leading provider of integrated services in Australia and New Zealand. Downer exists to create and sustain the modern environment and its promise is to work closely with its customers to help them succeed, using world leading insights and solutions to design, build and sustain assets, infrastructure and facilities. Downer employs about 56,000 people, mostly in Australia and New Zealand but also in the Asia-Pacific region, South America and Southern Africa. Downer reports its results under six service lines and an outline of each service line is as follows:

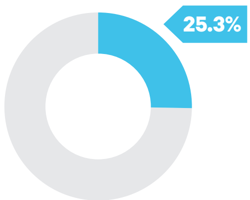
Transport

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

Total revenue[1] (FY18)



EBITA[2] (FY18)



Transport

1 Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated. Due to rounding, divisional percentages do not add up precisely to 100%.

2 Downer calculates EBITA by adjusting EBIT to add back acquired intangibles amortisation expense.

Road Services

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

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

Downer's Road Services customers include all of Australia's State Road Authorities, the New Zealand Transport Agency and the majority of local government councils and authorities in both countries.

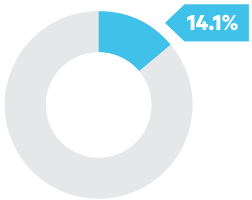
Other transport infrastructure

Other transport infrastructure includes rail construction, light rail construction, rail systems, transport mechanical and electrical construction, car park construction, airport pavements, port construction and associated maintenance services.

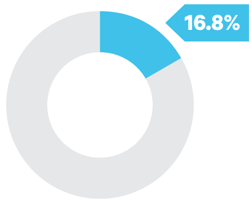
Utilities

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

Total revenue[1] (FY18)



EBITA[2] (FY18)



Utilities

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Power and Gas

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

Downer maintains over 110,000 kilometres of electricity and gas networks across more than 185,000 square kilometres and connects tens of thousands of new power and gas customers each year for customers across all States of Australia and both islands in New Zealand. Downer also designs and constructs steel lattice transmission towers, designs and builds substations, and maintains large and complex power and gas reticulation networks.

Customers include AusNet, ElectraNet, Transgrid, Powerco, Wellington Electricity and Powerlink.

Water

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

Downer supports its customers across the full asset lifecycle from the conceptual development of a project through design, construction, commissioning and optimisation. Downer purchased ITS Pipetech in March 2017 and its principal activities include pipe bursting, civil maintenance and robotics. Downer also operates and maintains treatment, storage, pump stations and network assets.

Customers include Auckland Council, Invercargill City Council, Logan City Council, Mackay Regional Council, Melbourne Water, Queensland Urban Utilities, Tauranga City Council, Yarra Valley Water, Wagga Wagga City Council, Watercare and Horowhenua Council (Alliance).

Renewable energy

Downer is one of Australia's largest and most experienced providers in the renewable energy market, offering design, build and maintenance services for wind farms and solar farms.

Downer offers the services required for the entire asset lifecycle including procurement, assembly, construction, commissioning and maintenance.

Communications

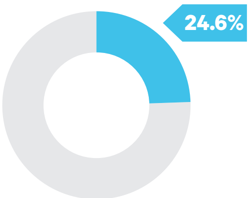
Downer provides an end-to-end infrastructure service offering comprising feasibility, design, civil construction, network construction, commissioning, testing, operations and maintenance across fibre, copper and radio networks in Australia and New Zealand.

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

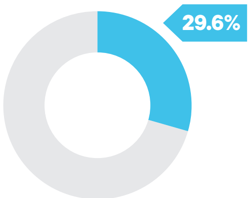
Spotless

Spotless operates in Australia and New Zealand and provides outsourced facility services, catering and laundry services, technical and engineering services, maintenance and asset management services and refrigeration solutions to various industries.

Total revenue[1] (FY18)



EBITA[2] (FY18)



Spotless

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Spotless employs about 36,000 people who deliver services to customers in a diverse range of industry sectors including: defence; education; government; healthcare; senior living; sports and venues; resources; leisure and hospitality; airports; industrial; commercial; property; utilities and public private partnerships.

Spotless owns a number of businesses including AE Smith, Alliance, Asset Services, Ensign, EPICURE, Clean Event, Clean Domain, Mustard, Nuvo, Skilltech, Taylors, TGS, UAM and UASG.

Its customers include corporations and government departments, agencies and authorities at the Federal, State and Municipal level.

Infrastructure & Construction

Spotless provides M&E and HVAC services to customers in markets including health, education, commercial & industrial, defence, justice and transport.

Its AE Smith and Nuvo businesses provide services across the asset lifecycle from design through to commissioning, fine-tuning and maintenance to more than 2,000 commercial facilities in Australia and New Zealand.

Key customers include Probuild, Watpac, Lendlease, John Holland, Crown Casino, Honeywell and Melbourne University.

Government

Spotless provides integrated facilities management, business process outsourcing, and operational support to a range of government customers.

Key customers include NSW Department of Education, Victorian Department of Education, SA Department of Planning, Transport and Infrastructure, SA Health, The Housing Authority of WA and Children's Health Partnership.

Hospitality & Facilities Management

Spotless provides integrated facilities management services to customers in markets including aged care, education, healthcare, airports, business and industry, hospitality, retail, stadia, functions, and special events.

Key customers include Melbourne Cricket Club, Virgin Airlines, Taronga Zoo, Brisbane City Hall, Emirates, and The Kings School.

Laundries

Spotless provides linen and garment services to social infrastructure, industry, accommodation and resources customers in Australia and New Zealand, with 16 laundries processing more than 100,000 tonnes of laundry a year.

Key customers include Ramsay Health, HealthScope, WA Health, SA Health, St John of God, and Inghams.

Defence

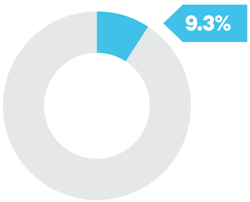
Spotless delivers a range of facilities and asset management services for the Australian Government Department of Defence and the New Zealand Defence Force. These services include management services, cleaning and housekeeping, estate upkeep, pest and vermin control and treatment, reprographic services, sport and recreation, training area and range services, and transport and air operations.

Key customers include the Australian Department of Defence and NZ Defence Force.

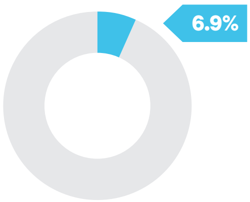
Rail

Downer is Australia's leading provider of passenger rolling stock asset management services, delivering reliable and safe services to the fast-growing and dynamic public transport sector. Downer partners with its customers to deliver solutions across all transport domains including heavy rail, electric and diesel trains, light rail, bus and multi-modal transport solutions.

Total revenue[1] (FY18)



EBITA[2] (FY18)



Rail

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2 Downer calculates EBITA by adjusting EBIT to add back acquired intangibles amortisation expense.

Downer's track record spans across project management services, engineering design, systems engineering, supply chain engagement, systems integration, manufacturing, logistics, testing, commissioning, asset management, fleet maintenance, rail infrastructure design and construction, and through-life-support and operations.

In November 2017, Downer entered an agreement to sell its freight rail business to Progress Rail. The sale was completed on 2 January 2018.

The Keolis Downer joint venture is Australia's largest private provider of multi-modal public transport solutions, with contracts to operate and maintain Yarra Trams in Melbourne, the Gold Coast light rail system in Queensland, and a new integrated public transport system for the city of Newcastle in NSW. Keolis Downer is also one of Australia's most significant bus operators with operations in South Australia, Western Australia and Queensland. Keolis Downer provides more than 210 million passenger trips each year.

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

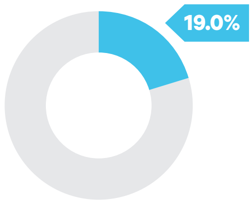
Downer is currently working on the Sydney Growth Trains (SGT) project in New South Wales and the High Capacity Metro Trains (HCMT) project in Victoria.

Engineering, Construction and Maintenance (EC&M)

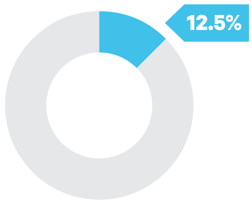
Downer works with customers in the public and private sectors delivering services including design, engineering, construction, maintenance and ongoing management of critical assets.

The EC&M service line includes Hawkins, which Downer acquired in March 2017. Hawkins delivers a range of non-residential building services across a variety of sectors.

Total revenue[1] (FY18)



EBITA[2] (FY18)



EC&M

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

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

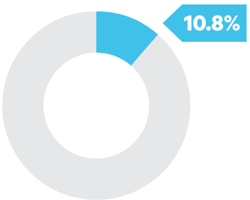
- feasibility studies;
- engineering design;
- civil works;
- structural, mechanical and piping;
- electrical and instrumentation;
- mineral process equipment design and manufacture;
- commissioning;
- maintenance;
- shutdowns, turnarounds and outages;
- strategic asset management; and
- decommissioning.

Customers include Alcoa, Bechtel, BHP Billiton, Chevron, Newcrest, Orica, Origin Energy, Powerlink Queensland, Rio Tinto, Santos, Wesfarmers, Christchurch City and Auckland Councils, Auckland University, Auckland and Wellington Airports and the Ministry of Education in New Zealand.

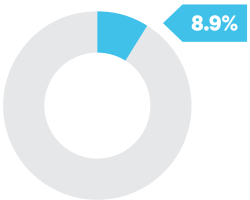
Mining

Downer is one of Australia's leading diversified mining contractors serving its customers across more than 50 sites in Australia, Papua New Guinea, South America and Southern Africa.

Total revenue[1] (FY18)



EBITA[2] (FY18)



Mining

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

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

Customers include BHP Mitsubishi Alliance, Roy Hill Iron Ore, Glencore, Karara Mining, Millmerran Power Partners, Newmarket Gold, Newmont, Rio Tinto, Stanwell Corporation, OZ Minerals and Yancoal Australia.

Group Financial Performance

On 27 June 2017, the Group's ownership interest in Spotless Group Holdings Limited (Spotless) exceeded 50%, requiring the consolidation of Spotless' financial statements from that time. The Group's offer for the remaining shares of Spotless closed on 28 August 2017. As a result of the acquisition, Downer owns 87.8% of Spotless. The Group financial performance includes a full-year contribution from Spotless for the year ended 30 June 2018.

The main features of the result for the 12 months ended 30 June 2018 were:

- Total revenue of $12.6 billion, up 61.5%;
- Underlying earnings before interest, tax and amortisation of acquired intangible assets (EBITA) of $479.6 million, up 68.2% from $285.2 million;
- Statutory EBITA of $271.5 million, down from $285.2 million;
- Statutory earnings before interest and tax (EBIT) of $204.8 million, down from $277.8 million;
- Individually Significant Items (ISI) recognised in EBIT in the period of $208.1 million ($178.6 million after tax);
- Underlying net profit after tax and before amortisation of acquired intangible assets (NPATA) of $296.5 million, up 58.9% from $186.6 million;
- Statutory NPATA of $117.9 million, down from $186.6 million; and
- Statutory net profit after tax (NPAT) of $71.1 million.

During the period, the Group identified Individually Significant Items totalling $178.6 million after tax including:

- $76.4 million Mining goodwill impairment;
- $40.6 million loss on divestment of freight rail;
- $17.5 million unsuccessful Auburn rail claim;
- $20.0 million Divisional merger costs; and
- $24.1 million related to Spotless management redundancies, transaction costs and residual Strategy Reset costs.

Details of the ISI are disclosed in Note B2(b) of the Financial Report.

Revenue

Total revenue for the Group increased by $4.8 billion, or 61.5%, to $12.6 billion.

Transport revenue increased by 30.8% to $2.8 billion due to continuing strong performance by the Roads business in Australia and New Zealand, and ongoing investment in transport projects in Australia.

Utilities revenue increased by 17.5% to $1.8 billion, due to continuing strong contributions from nbn™ contracts in Australia as well as new renewable energy projects.

Spotless revenue for the 12 months was $3.1 billion. The major contributors to this result were Government-related contracts in the defence, health and education sectors, Public Private Partnerships (PPPs), construction projects and lifecycle maintenance contracts.

Rail revenue increased by 37.5% to $1.2 billion driven by the Sydney Growth Trains and High Capacity Metro Trains projects as well as continued strong performance on the Waratah maintenance contract. This result was achieved despite the divestment of the freight rail business. A significant portion of the increase relates to pass-through revenue to the manufacturing construction partner on Sydney Growth Trains.

EC&M revenue increased by 19.9% to $2.4 billion as a result of increased activities on the Ichthys project in the Northern Territory and a full year contribution from Hawkins. This increase was partially offset by a reduction in activities on the Gorgon and Wheatstone projects in Western Australia.

Mining revenue increased by 4.5% to $1.4 billion, mainly due to increased activities at Roy Hill and Goonyella and contributions from JVs and new contracts. These partially offset the completion of the Boggabri contract in the first half and the Christmas Creek contract in FY17.

Expenses

Total expenses increased by 68.5% and include $208.1 million of Individually Significant Items (ISIs). Excluding these ISIs, total expenses increased 65.6% as explained below.

Employee benefits expenses increased by 44.7%, or $1.2 billion, to $4.0 billion and represent 34.0% of Downer's cost base. This increase is mainly due to Spotless' contribution ($1.1 billion), higher activity across the Group and a more labour intensive contract base compared to the prior period. Included in employee expenses is $23.4 million of pre-tax ISIs in relation to divisional merger costs and Spotless transition-related costs as described in Note B2(b) in the Financial Report.

Subcontractor costs increased by $2.0 billion to $3.8 billion and represent 31.9% of Downer's cost base. This increase is as a result of Spotless' contribution ($1.1 billion), higher contract activities and the change in the subcontractor mix on some contracts during the period.

Raw materials and consumables costs increased by 62.1% to $2.2 billion and represent 18.6% of Downer's cost base. The increase is the net impact of raw material requirements for new projects (particularly in Transport, Utilities and Rail) and Spotless' contribution ($421.8 million); partially offset by lower requirements as a result of the completion of contracts in Mining.

Plant and equipment costs increased by 34.7% to $677.1 million and represent 5.7% of Downer's cost base. This largely reflects the Spotless contribution and the increased activity in Transport. The lower increase in plant and equipment costs compared to other types of expenses reflects a less capital intensive business.

Depreciation and amortisation increased by 68.1% or $150.0 million to $370.2 million and represents 3.1% of Downer's cost base. This increase is predominantly from Spotless' contribution and from additional $59.3 million in amortisation on acquired intangible assets following several acquisitions, including Spotless.

Other expenses, which include communication, travel, occupancy, professional fees costs and ISIs, have increased by 86.0% to $788.5 million and represent 6.7% of Downer's cost base. Included in other expenses is $184.7 million of pre-tax ISIs, comprising $76.4 million Mining impairment, $50.2 million from the divestment of freight rail, $25.0 million unsuccessful Auburn rail claim costs, $15.8 million divisional merger costs including surplus lease provision and asset write-offs and $17.3 million of transaction costs related to Spotless.

Earnings

Underlying EBITA for the Group increased by 68.2% to $479.6 million, as a result of 12 months Spotless contribution and the increase in EBITA achieved by Transport, Utilities, Rail and EC&M, partially offset by Mining. Spotless' EBITA contribution for the 12 months was $167.7 million.

Underlying NPATA for the Group increased by 58.9% to $296.5 million.

Underlying NPAT for the Group increased by 37.6% to $249.7 million.

Statutory NPAT for the Group was $71.1 million, including $178.6 million of ISIs.

A reconciliation of the underlying result to the statutory result is set out below.

FY18 $m	EBIT	Net interest expense	Tax expense	NPAT	Add back: Amortisation of acquired intangible assets	NPATA
Underlying result	**412.9**	**(76.3)**	**(86.9)**	**249.7**	**46.8**	**296.5**
Loss on divestment of freight rail	(50.2)	–	9.6	(40.6)	–	(40.6)
Mining goodwill impairment	(76.4)	–	–	(76.4)	–	(76.4)
Auburn Rail claim	(25.0)	–	7.5	(17.5)	–	(17.5)
Spotless integration costs	(7.3)	–	2.0	(5.3)	–	(5.3)
Spotless Management redundancies and integration costs	(9.4)	(3.3)	3.0	(9.7)	–	(9.7)
Spotless residual Strategy Reset costs	(11.3)	(1.5)	3.7	(9.1)	–	(9.1)
Divisional merger costs	(28.5)	–	8.5	(20.0)	–	(20.0)
Individually Significant Items	(208.1)	(4.8)	34.3	(178.6)	–	(178.6)
Statutory result	**204.8**	**(81.1)**	**(52.6)**	**71.1**	**46.8**	**117.9**

Transport EBITA increased by 14.4% to $142.9 million due to continued strong performance across Australia and New Zealand and good progress on infrastructure projects in Australia.

Utilities EBITA increased by 12.7% to $94.8 million, driven by the strong performance from nbn™ contracts in Australia, as well as full year contributions from the acquisitions of UrbanGrid and ITS PipeTech.

Spotless' underlying EBITA contribution was $167.7 million mainly driven by Government related contracts and PPPs.

Rail EBITA increased by 29.4% to $39.2 million, reflecting profit contributions from the SGT and HCMT projects (which made immaterial contributions in the prior period).

EC&M EBITA increased by 34.2% to $70.6 million due to 12 months' contribution from Hawkins in New Zealand and the acquisitions of AGIS and Envista. There were strong performances on Australian gas projects and by the Operations Maintenance and Services business. The Mineral Technologies business increased revenue and returned to profitability during the year.

Mining EBITA decreased by $33.0 million to $50.4 million predominantly due to the completion of contracts at Christmas Creek and Boggabri.

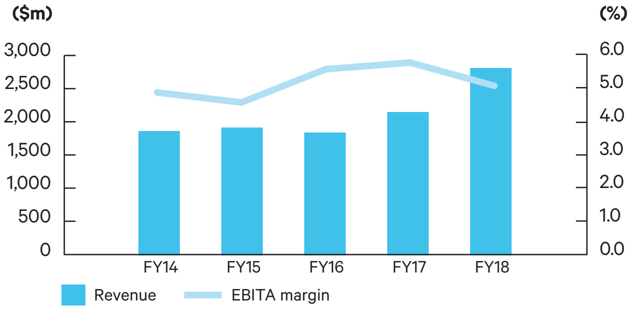
Corporate costs increased by $9.3 million, or 12.1%, to $86.0 million mainly due to investment in governance and risk management functions following the acquisition of Spotless.

Net finance costs increased by $54.3 million to $81.1 million due to $43.4 million additional interest from Spotless (nil in pcp), incremental interest incurred following the acquisition of an additional 22% interest in Spotless and lower interest income contribution.

The underlying effective tax rate is 25.8% which is lower than the statutory rate of 30.0% due to the impact of non-assessable R&D tax incentives, non-taxable distributions from joint ventures and lower overseas tax rates (e.g. New Zealand). The statutory effective tax rate is 42.5% mainly as a result of the impact of ISIs including non-deductible goodwill impairment associated with Mining.

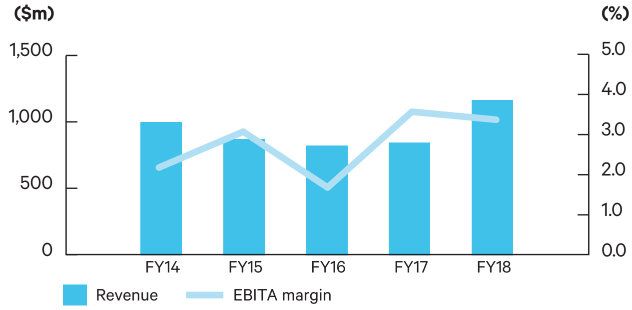
Divisional Financial Performance

Transport



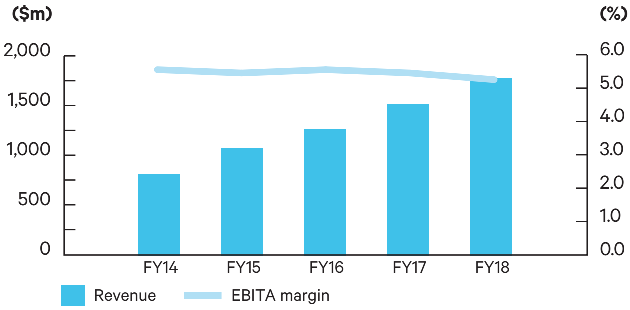
- Total revenue of $2.8 billion, up 30.8%;
- EBITA of $142.9 million, up 14.4%;
- EBITA margin of 5.1%, down 0.7ppts;
- ROFE[1] of 24.2%, up from 22.2%; and
- Work-in-hand of $7.4 billion.

Rail



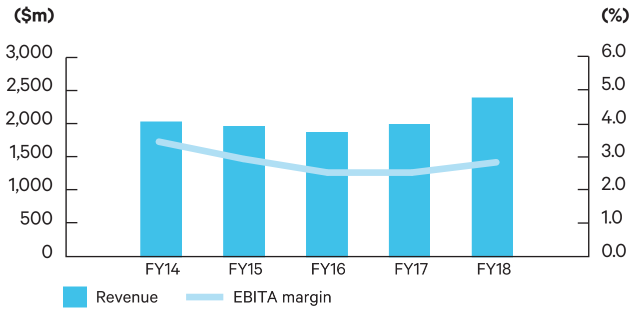
- Total revenue of $1,169.2 million, up 37.5%;
- EBITA of $39.2 million, up 29.4%;
- EBITA margin of 3.4%, down 0.2ppts;
- ROFE[1] of 12.0%, up from 7.3%; and
- Work-in-hand of $8.2 billion.

Utilities



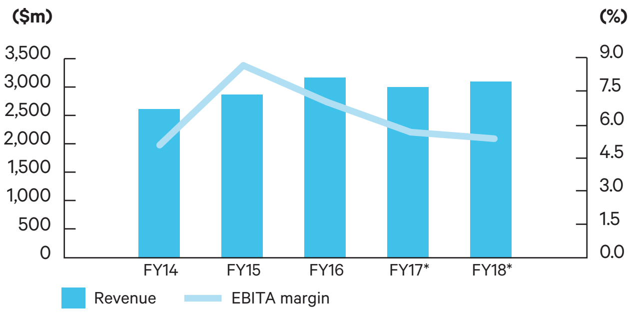
- Total revenue of $1,783.0 million, up 17.5%;
- EBITA of $94.8 million, up 12.7%;
- EBITA margin of 5.3%, down 0.2ppts;
- ROFE[1] of 26.1%, up from 22.7%; and
- Work-in-hand of $3.4 billion.

Engineering, Construction and Maintenance (EC&M)



- Total revenue of $2.4 billion, up 19.9%;
- EBITA of $70.6 million, up 34.2%;
- EBITA margin of 2.9%, up 0.3ppts;
- ROFE[1] of 27.0%, up from 23.0%; and
- Work-in-hand of $2.2 billion.

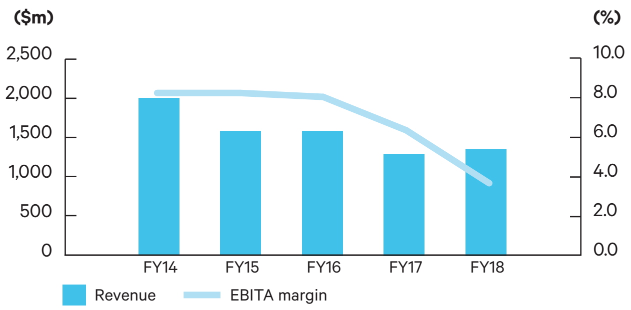
Spotless



- Total revenue of $3.1 billion, up 3.2%;
- EBITA of $167.7 million, down 2.4%;
- EBITA margin of 5.4%, down 0.3ppts;
- ROFE[1] of 14.1%, up from 12.1%; and
- Work-in-hand of $18.0 billion.

* The FY17 and FY18 EBITA have been based on underlying performance.
Note: Spotless past performance has been shown as a reference only as it has started contributing to the Downer Group from 1 July 2017 (FY18).

Mining



- Total revenue of $1.4 billion, up 4.5%;
- EBITA of $50.4 million, down from $83.4 million;
- EBITA margin of 3.7%, down from 6.4%;
- ROFE[1] of 8.6%, down from 13.2%; and
- Work-in-hand of $2.8 billion.

1 ROFE = EBITA divided by average funds employed (AFE). AFE = Average Opening and Closing Net Debt + Equity.

Group Financial Position

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

Operating Cash Flow

Operating cash flow was strong at $583.3 million, up 32.1% from last year due to strong contract performance, advance payments received and a full year contribution from Spotless. Operating cash flow / EBITDA conversion continued to be strong at 90.6%.

Investing Cash

Total investing cash flow was $729.6 million, down $266.2 million. This includes $391.8 million consideration paid in relation to Spotless acquisition (including an additional 22% ownership interest) and a further $84.1 million in net cash consideration paid for other acquisitions including Envista, UrbanGrid and Cabrini. This was partially offset by $129.6 million proceeds received from the divestment of the freight rail business.

The business continued to invest in capital equipment to support the existing contracted operations and future operations, resulting in net capital expenditure of $334.1 million.

Debt and Bonding

The Group's performance bonding facilities totalled $1,915.9 million at 30 June 2018 primarily with $574.3 million undrawn. There is sufficient available capacity to support the ongoing operations of the Group.

As at 30 June 2018, the Group had liquidity of $1.5 billion comprising cash balances of $606.2 million and undrawn committed debt facilities of $925.0 million. Total liquidity available is $1.2 billion through Downer's facilities and $321.2 million through Spotless' facilities.

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

Balance Sheet

The net assets of Downer decreased by 10.6% to $3.2 billion.

Cash and cash equivalents decreased by $238.4 million, or 28.2%, to $606.2 million, due to $391.8 million consideration paid in relation to Spotless acquisition (including an additional 22% ownership interest) and $84.1 million paid for other acquisitions. These payments were offset by $129.6 million proceeds received from the divestment of the freight rail business and from continued strong operating cash flows.

Net debt increased from $620.2 million at 30 June 2017 to $940.0 million at 30 June 2018 primarily as a result of a reduced net cash position. This resulted in an increase in gearing (net debt to net debt plus equity) to 22.7%, up from 14.7% at 30 June 2017.

The present value of operating lease commitments for plant and equipment reduced from $151.5 million to $138.1 million. Total gearing (including off-balance sheet operating lease commitments) was 25.2% at 30 June 2018, up from 17.7% in the prior year.

Current trade and other receivables increased by $399.9 million to $2,121.9 million reflecting higher activities across Transport, Utilities and Mining.

Inventories decreased by $32.9 million to $268.8 million reflecting the divestment of freight rail inventory coupled with continued tight inventory management.

Current tax assets increased by $23.8 million to $69.3 million due to the timing of tax payments.

Interest in joint ventures and associates increased by $8.0 million, with $16.9 million of distributions received, offset by Downer's share of net profits from joint ventures and associates of $25.1 million.

Property Plant and Equipment remained consistent at $1,280.4 million as additional capital expenditure incurred during the year was offset by the divestment of freight rail assets and depreciation for the year including Spotless contribution.

Intangible assets increased by $19.5 million arising from $160.1 million additional goodwill and other acquired intangible assets recognised from the acquisition of Envista, UrbanGrid, Cabrini, Integrated Services and Hawkins; $46.4 million additional investment in software offset by a reduction in goodwill as a result of the Mining goodwill impairment ($76.4 million) and the divestment of freight rail ($14.2 million) and $91.9 million amortisation in FY18 mainly related to Spotless' acquired intangible assets.

Total trade and other payables increased by $516.4 million (28.8%) primarily as a result of higher business activity and timing of payments. Trade and other payables represent 50.4% of Downer's total liabilities.

Other financial liabilities of $77.4 million increased by $31.9 million and represents 1.7% of Downer's total liabilities. The increase mainly reflects deferred consideration payable for acquisitions made during the year.

Deferred tax liability of $170.2 million primarily represents temporary differences arising from work in progress, property plant and equipment, and the tax effect of the recognition of acquired intangibles.

Provisions of $490.5 million decreased by $36.4 million and represent 10.7% of Downer's total liabilities. Employee provisions (annual leave and long service leave) made up 76.4% of this balance with the remainder covering surplus lease contracts provisions and return conditions obligations for leased assets and property and warranty obligations.

Shareholder equity decreased by $381.4 million driven by the payment for the acquisition of additional interest in Spotless and the impact of minority interest, and $156.7 million of dividend payments made during the year. This was offset by the parent entity net profit after tax of $71.4 million. Net foreign currency losses on translation of foreign operations, particularly in New Zealand, resulted in a movement in the foreign currency translation reserve by $8.8 million.

Dividends

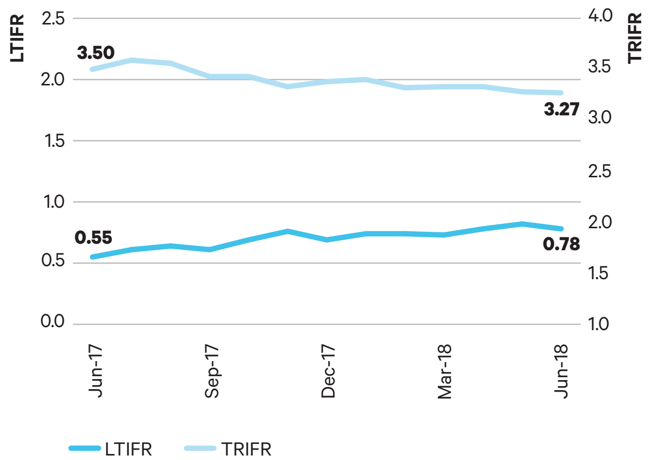
The Downer Board resolved to pay a final dividend of 14.0 cents per share, 50% franked (12.0 cents per share fully franked in the prior corresponding period), payable on 27 September 2018 to shareholders on the register at 30 August 2018. The unfranked portion of the dividend (50%) will be paid out of 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 2018 has a yield of 6.15% per annum payable quarterly in arrears, with the next payment due on 17 September 2018. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 4.43% per annum for the next 12 months.

Zero Harm

Downer's Lost Time Injury Frequency Rate (LTIFR) increased from 0.55 to 0.78 but importantly, the Total Recordable Injury Frequency Rate (TRIFR) reduced from 3.50 to 3.27 per million hours worked.

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



Note: This data excludes Hawkins and Spotless.

Group Business Strategies and Prospects for Future Financial Years

Downer's strategy focuses on safety, driving improvement in existing businesses, investing in growth, and creating new positions. 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 recognises that a sustainable and embedded Zero Harm culture is fundamental to the Company's future success. Zero Harm means working in an environment that supports the health and safety of its people, allows it to deliver its business activities in an environmentally sustainable manner, and advances the communities in which it operates. This requires strong commitment to Downer's Zero Harm objectives from all levels of the business. Downer's Zero Harm culture is built on leading and inspiring, managing risk, rethinking processes, applying lessons learnt, and adopting and adapting practices that aim to achieve zero work-related injuries and minimise environmental harm.	Downer's approach to Zero Harm enables the Company to work safely and environmentally responsibly in industry sectors where there are inherent hazardous environments. Downer has implemented a strong critical risk program throughout its business. This program has provided Downer with the opportunity to understand the risks in its business that could cause serious injury to people or the environment. That knowledge has enabled Downer to implement a program to eliminate or control those risks, and to monitor the performance of those critical controls. Each Downer Division has in place a Zero Harm management system, certified as a minimum to AS/NZS 4801 or BS OHSAS 18001, and ISO 14001. Each management system is reviewed regularly, undergoing internal and external audit.
Improve value and service for customers and their customers	Providing valuable and reliable products and services to Downer's customers, and their customers, is at the very 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, initiatives and activities are focused on helping the Group's customers to succeed. Risks to be managed include: – commoditisation of core products and services, which affects margins; – not keeping pace with changing customer expectations for service improvements; and – lack of focus on customer feedback channels.
Improve asset management and data analytics utilisation across the Group	The ISO 55001 standard sets a new baseline for professional asset management across most of the markets in which Downer operates. As a leader in asset management, Downer aims to adopt and implement world leading solutions and insights to benefit its customers and their customers. Additionally, the proliferation of data points and connected devices, allows for greater data and business intelligence to be captured and monitored. This is key to driving greater levels of efficiency as well as service improvements.	Customers and end users' expectations continue to grow with regard to reliable, intuitive, and cost-effective assets and services. Investments are required into asset management and data analytics frameworks to ensure lifecycle performance is monitored and timely decisions are made to optimise asset utilisation. Risks to be managed include: – lack of value added services to customers reducing their need for integrated services partners; – reduction in scope and service from customers to pure maintenance / blue collar services; and – inability to properly manage performance frameworks and desired service outcomes.

Strategic Objective	Prospects	Risks and risk management
Position for greater government outsourcing	Following the acquisition of Spotless, Downer is the largest and most diverse services contractor in the Asia-Pacific region with over $12 billion in annual revenues. This scale and breadth gives Downer greater resilience to withstand economic headwinds when they arise, and the opportunity to provide a more diverse range of services. Downer is well positioned to pursue government outsourcing opportunities in the Australian and New Zealand markets now and into the future.	Government outsourcing provides a high level of opportunity for Downer as government fiscal demands increase and citizens desire more service from less spend. Risks to be managed include: – longer procurement contract durations reducing opportunities to tender for new opportunities; – commoditisation of long-term contracts; and – introduction of foreign and technology based competitors that bring a different value proposition.
Leverage opportunities that will emerge from greater urbanisation in major cities	As cities become larger and more complex, opportunities will emerge for Downer in connecting, managing and monitoring their core infrastructure. This will include transport infrastructure, public transport, utilities, telecommunications, and other technology platforms. Downer is well positioned to work with governments and citizens to understand and shape the infrastructure and networks that will underpin the megacities of the future.	Greater urbanisation is likely to result in a consolidation of competition, opportunities, and capital. 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 – greater investment in technology.
Orient Downer's portfolio to growth markets	Downer continues to enjoy wide reaching access to substantial asset management, projects, and services opportunities in its core geographies of Australia and New Zealand. While these geographies will remain the core focus for the foreseeable future, Downer continues to investigate and pursue identified and evaluated opportunities in Southern Africa, South America, North America, Europe, and Asia.	Downer continues to review the current shape of its service offerings as well as the exportability of a number of established and mature service offerings which have reached leadership in the Group's core markets. Risks to be managed include: – balancing growth objectives against sustainable profit outcomes; and – determining the optimal timing to export core competencies to new growth markets or to further diversify Downer's offering.
Embed operational technology into core service offerings	Downer is focused on increasing the utilisation of operational technology across all its service lines to improve differentiation and competitive advantage. This includes investing in partnerships with global technology experts, co-creating bespoke products and services to meet customer needs, and investigating selective M&A opportunities to improve the quality of the Group's service offering.	Downer has opportunities to invest in new skills to manage the risks that will emerge from technological advancements. These risks include: – market disruption; – cybersecurity and data hacks as more assets and infrastructure networks are managed remotely; and – switching costs associated with technological infrastructure and networks.

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 market for transport infrastructure and services continues to exhibit good growth in both Australia and New Zealand, as respective governments invest in a range of projects to reduce congestion, improve mobility, and provide better linkages between communities. In both Australia and New Zealand, Downer is noticing a shift toward greater network integration, journey management, and multi-modal solutions. This is seeing not only a convergence between transport modes but also between industries like transport and energy. Two-way digital methods of communication with passengers in real-time is proliferating in the transport sector.	As a market leader in Australia and New Zealand, Downer is well positioned to capitalise on future transport opportunities. In particular, focus will be upon the markets for road maintenance services, road surfacing and bitumen supply, rail infrastructure delivery, and public transport operations. Downer continues to innovate across its core service offerings, to ensure it brings to customers global insights and competitively benchmarked solutions. It also continues to selectively acquire scale where this creates value for shareholders. Downer is particularly focused on transport issues which affect communities like congestion, parking management, transport integration, and value capture from associated developments.
Utilities	Growth across power and gas utility markets is multi-faceted with a good pipeline of prospects in both Australia and New Zealand. In Australia, growth will be driven by prospects in electricity transmission and distribution, as well as significant new capital projects in the renewable energy market. In New Zealand, increasing demand from a growing population is seeing higher levels of activity across the water and power & gas sectors. Activity in telecommunications markets continues to be dynamic, with large capital builds in both Australia and New Zealand coming to a close. Downer's view is that the timing of these large network builds will extend beyond most analysts' predictions. However, increasing demand for data services will see a solid baseload of activity in this sector remains.	Downer has market leading positions in the electricity, water, gas 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. In addition to maximising its share of the outsourced 'poles and wires' services market, the business is focused on growing the national water sector and participating in new construction, maintenance, and operations contracts.
Rail	The manufacture and associated servicing of rail rolling stock continues to be a strong growth market for Downer. Major procurement activities have been undertaken in Queensland, NSW and Victoria in recent years, with the resulting volume of work continuing to permeate the market. Looking forward, potential outsourcing and franchising opportunities across the transport sector may further expand Downer's portfolio in public transport operations.	Downer's rail asset management model is a clear market leader with a strong focus on 'return on investment' – i.e. increasing fleet availability and reliability for customers' customers. Downer maintains strong strategic partnerships with leading global transport solutions providers and, through this model, is pursuing opportunities in rolling stock manufacture and maintenance, and transport network operations and maintenance. The Keolis Downer joint venture is a leading Australian multi-modal transport operator, through its light rail and bus operations.

Service line	Prospects	Downer's response
EC&M	EC&M comprises resources-related infrastructure, infrastructure projects, and non-residential building. Resources-related infrastructure is showing green shoots of growth for the first time in a long period. Downer expects this investment to largely focus on brownfield expansions with relatively few new greenfield developments. Good growth prospects in the non-residential building and commercial sector are expected as business confidence remains high in both Australia and New Zealand, while investment into social infrastructure continues with particular focus on health and education.	Downer is a market leader in electrical and instrumentation work, particularly in the oil & gas sector, and is growing its structural mechanical piping business. Downer has experience working on all of the recent Australian major oil & gas developments. While the first phase of major LNG construction comes to an end, Downer does envisage the potential for additional trains to be constructed in the near future due to the improving productivity of gas extraction at these facilities. Outside of oil & gas, Downer continues to be a major player in the delivery of resources related engineering, construction and maintenance services with long and enduring relationships with all of Australia's major mining and industrial customers. Downer increased its presence in the growing market for infrastructure and building in New Zealand through the acquisition of Hawkins, the country's second-largest builder.
Mining	While mine owners continue to have a strong focus on cost reduction, Downer is seeing green shoots of growth particularly in Western Australia across iron ore, gold and other precious metals. Some mine owners are currently shifting their operating models to maximise supply chain benefits, which opens opportunities for contractors to work collaboratively to drive productivity improvements and reduce production costs.	Downer is one of Australia's leading diversified mining contractors offering customers open cut, underground, mining services, tyre management, drill and blast, and engineering and technology services. A core focus is to drive efficiency in the way Downer delivers services to ensure it creates value for its customers.
Spotless	The facilities management and services market is undergoing consolidation, as operators look to leverage scale across multiple service lines. Downer and Spotless continue to see large-scale and long-term outsourcing contracts come to market across the government sector, however the volume of PPPs in social infrastructure and integrated services contracts in the resources sector appears to be slowing. The proliferation of operational technology to enable real-time performance monitoring is shaping the future of outsourcing, leading to bundling services and the provision of 'anything as a service'. The defence, health, education, corrections, and commercial markets continue to provide a range of exciting opportunities on the short-to-medium term horizon in both Australia and New Zealand.	Through the acquisition of Spotless, Downer is now a major force in both Australia and New Zealand with market leading positions across key sectors including: defence; health; education; corrections; commercial; stadia and open space management; leisure; and resources. There is a focus on leveraging both businesses' scale and routes to market to position the Group's core services offerings in an integrated way.

Outlook

Downer is targeting consolidated net profit after tax and before amortisation of acquired intangible assets (NPATA) of $335 million before minority interests.

Subsequent events

There have been no matters or circumstances other than those referred to in the financial statements or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Changes in state of affairs

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

Environmental

Downer makes a positive contribution in industry sectors such as utilities, renewable energy, public transport, infrastructure and facilities management. Downer recognises it also operates in highly carbon-intensive industry sectors, for example, mining. Downer's strategy focuses on driving improvement in existing businesses, investing in sustainable growth, and adapting as industry and customer needs and preferences change. Downer's business diversity allows it to leverage emerging opportunities such as increasing and ageing populations, infrastructure renewal requirements and the increased need for inter-connected smart cities and regional city hubs.

Downer recognises its obligation to stakeholders, including customers, shareholders, employees, contractors and the communities in which it operates, to advance sustainability and mitigate the Company's environmental impact. Downer acknowledges its role as a corporate citizen, and respects the places and communities in which it operates. Downer's Purpose, Promise and Pillars underpin everything it does and Downer is committed to conducting its operations in a manner that is environmentally responsible and sustainable.

The Board oversees the Company's environmental and sustainability performance via the Zero Harm Board Committee. The Zero Harm Management System Framework sets the minimum standard for environment and sustainability within the Divisions. As such, each Division is required to have an Environmental Sustainability Action Plan (ESAP) and strategies in place supported by suitably qualified environment and sustainability professionals. The ESAP allocates internal responsibilities for reducing the impact of its operations and business activities on the environment. In addition, all Downer Divisions' environment management systems are audited by both internal and external independent third parties.

The international environmental standard ISO 14001:2015, is used as a benchmark for assessing, improving and maintaining the environmental integrity of our business management systems. The Company's Divisions also adhere to environmental management requirements established by customers in addition to all applicable licence and regulatory requirements.

Dividends

In respect of the financial year ended 30 June 2018, the Board:

- declared a 50% franked interim dividend of 13.0 cents per share that was paid on 4 April 2018 to shareholders on the register at 7 March 2018 with the unfranked portion paid out of Conduit Foreign Income; and
- declared a 50% franked final dividend of 14.0 cents per share, payable on 27 September 2018 to shareholders on the register at 30 August 2018 with the unfranked portion to be paid out of Conduit Foreign Income.

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

As detailed in the Directors' Report for the 2017 financial year, the Board declared a fully franked final dividend of 12.0 cents per share, that was paid on 10 October 2017 to shareholders on the register at 12 September 2017.

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 2018 or 30 June 2017.

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 2018 financial year and the number of meetings attended by each Director (while they were a Director or Board Committee member). During the year, 22 Board meetings, seven Audit and Risk Committee meetings, five Zero Harm Committee meetings, four Remuneration Committee meetings and three Nominations and Corporate Governance Committee meetings were held. In addition, 28 ad hoc meetings (attended by various Directors) were held in relation to various matters including tender reviews and major projects.

	Board		Audit and Risk Committee		Remuneration Committee	
Director	**Held[1]**	**Attended**	**Held[1]**	**Attended**	**Held[1]**	**Attended**
R M Harding	22	21	–	–	4	4
G A Fenn	22	22	–	–	–	–
S A Chaplain	22	20	7	7	–	–
P S Garling[2]	22	21	7	7	4	4
T G Handicott[3]	22	21	7	7	4	4
N M Hollows	1	1	1	1	–	–
E A Howell	12	12	–	–	–	–
C G Thorne[4]	22	21	7	7	–	–

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

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

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, 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 2 to 4, individuals who act as a Director or Company Secretary of Downer's subsidiaries and certain individuals who formerly held any of these roles also have the benefit of the indemnity in the Constitution.

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

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles). The Group's corporate governance statement is set out at pages 127 to 135 of this Annual Report.

Non-audit services

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

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

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

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

A copy of the auditor's independence declaration is set out on page 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	2018 $	2017 $
Tax services	556,106	719,955
Sustainability assurance	278,634	217,000
Due diligence and other non-audit services	950,457	1,066,814
	1,785,197	2,003,769

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 – AUDITED

Chairman's letter

Dear Shareholders,

Downer's 2018 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 2018 financial year.

At the last Annual General Meeting in November 2017, 93.2 percent of all votes cast by shareholders were in favour of the 2017 Remuneration Report. The structure of the 2018 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.

Strong financial and safety performance

Downer has once again delivered strong financial and safety performance in 2018 and has continued to deliver on its promises:

- Total Revenue was $12,620.2 million, an increase of 61.5 percent from 2017;
- Underlying Net Profit After Tax and before Amortisation of acquired intangibles was $296.5 million, an increase of $1.5 million over underlying guidance given at the start of the year;
- Conversion of EBITDA (earnings before interest, tax, depreciation and amortisation) to cash continued to be strong at 90.6 percent;
- Work-in-hand is now $42.0 billion, up 7.1 percent from December 2017; and
- Downer's Total Shareholder Return over the three years to 30 June 2018 was 85.1 percent, 43.5 percent higher than the ASX 100 median.

Downer's Zero Harm performance continues to be industry leading. Downer's Lost Time Injury Frequency Rate was 0.78 and the Total Recordable Injury Frequency Rate was 3.27. Many of the activities that Downer's people perform every day are inherently dangerous and ensuring they remain safe is of paramount importance. Zero Harm is central to Downer's culture and our commitment to continuous improvement in Zero Harm remains a core strategic objective.

Key remuneration issues in 2018

Downer continued to invest in its future through strategic acquisitions and capital investments that have enhanced the geographic footprint of the existing business, grown capability and created new market positions which will maximise long term shareholder value. These include the acquisitions of Envista, Integrated Services, UrbanGrid and Cabrini Linen Service.

Downer also divested the Freight Rail business. The restructuring of Spotless and the integration of the Spotless business into the Downer Group has also been a major activity during 2018.

The impact of these major transactions 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.

There were three significant items in 2018 which affected statutory earnings being:

- A non-cash impairment of goodwill in the mining business;
- Major restructures to merge the Mining Division with the Engineering, Construction and Maintenance Division to form the new Mining, Energy and Industrial Services Division and merger of the Rail Division into the Infrastructure Services Division to form the Transport and Infrastructure Division to ensure that our service offerings best align with the needs of our customers; and
- Remediation of ground subsidence at the Auburn (Waratah) Maintenance Centre.

The Board considers whether to adjust for the impact of significant items (positive or negative) on a case by case basis, having regard to the circumstances relevant to each item.

In 2018, adjustments were made in respect of the major transactions in line with policy, major restructures and the Mining goodwill impairment. No adjustment was made for the Auburn Maintenance Centre remediation. The adjustments that were made ensured that executives were rewarded for performance against the operational performance targets set at the beginning of the year absent the influence of remuneration outcomes. The adjustments resulted in the Group gateway being met which opened the Corporate scorecard and part achievement of the Corporate Net Profit after Tax and Before Amortisation of acquired intangibles measure but for other measures had no or an immaterial impact on reward outcomes.

More information on the Board's approach to the above activities and their impact in 2018 can be found at sections 6.5 and 7.4 of the Remuneration Report.

Link between Downer performance and reward outcomes

Downer is one of the few companies in its sector that provides earnings guidance to the market each year. Downer has been successful in meeting or exceeding this earnings guidance for the last seven reporting periods. 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 percent of short term incentive payments over a further two year period; and
- The delivery of a significant proportion of pay in equity.

To ensure that this framework continues to support the achievement of Downer's strategy, a review has commenced with outcomes to be communicated in next year's Remuneration Report.

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	**T G Handicott**
Chairman	Remuneration Committee Chairman

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 2018. 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; and
11. Description of Non-executive Director remuneration.

1. Year in review

1.1 Summary of changes to remuneration policy

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

Policy	Enhancements since 2017
Short-term incentive (STI) plan	– The Zero Harm measures for safety and environmental performance have been further refined, building upon previous improvements to move with and support growth in organisational maturity and ensure continual stretch and ongoing Zero Harm improvement through: – Requiring the completion of trend analysis on the outcomes of completed critical control verifications to identify the existence of ineffective controls and escalation factors, thereby further improving the understanding of the control environment; and – Initiating a program of projects to improve the effectiveness of critical controls, informed by the trend analysis on the outcomes of completed critical risk observations. – The Financial measures for earnings have evolved from Net Profit After Tax (NPAT) to Net Profit After Tax and Before Amortisation of acquired intangibles (NPATA) at the Group level and Earnings Before Interest and Tax (EBIT) to Earnings Before Interest, Tax and Amortisation of acquired intangibles (EBITA) at the Divisional level to ensure that reward remains focused on the delivery of operational performance. – As with 2017, the People measure is based on the outcomes of a Company-wide employee engagement survey. In 2018, the targets were adjusted to create additional stretch which reflects the Company's increased maturity in this area and to ensure continuous improvement.

1.2 Remuneration Framework Review

Downer's current remuneration framework was established in 2008 and has been developed and refined over the subsequent years.

In recent years, Downer has undergone transformational change in becoming Australia's largest integrated services provider, including through the acquisitions of Tenix, Hawkins and Spotless as well as the divestment of the Century Drilling and Freight Rail businesses and its revenue and market capitalisation have grown significantly.

Accordingly, the Board, with the support of management, determined that it was timely and appropriate to review whether the framework currently in place continues to be 'fit for purpose' for today's Downer.

Guerdon Associates has been engaged to assist the Board with this review. A summary of outcomes of the review and any changes to the remuneration framework will be provided in the 2019 Remuneration Report.

2. Details of Key Management Personnel

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

Director	Role
R M Harding	Chairman, Independent Non-executive Director
G A Fenn	Managing Director and Chief Executive Officer
S A Chaplain	Independent Non-executive Director
P S Garling	Independent Non-executive Director
N M Hollows	Independent Non-executive Director, from 19 June 2018
T G Handicott	Independent Non-executive Director
E A Howell	Independent Non-executive Director, to 2 November 2017
C G Thorne	Independent Non-executive Director

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

Executive	Role
S Cinerari	Chief Executive Officer – Infrastructure Services, to 6 March 2018 Chief Executive Officer – Transport and Infrastructure, from 7 March 2018
M J Ferguson	Chief Financial Officer
S L Killeen	Chief Executive Officer – New Zealand
M J Miller	Chief Executive Officer – Rail, to 6 March 2018
D Nelson	Chief Executive Officer – Spotless, from 22 August 2017
D J Overall	Chief Executive Officer – Mining, to 19 February 2018
B C Petersen	Chief Executive Officer – Engineering, Construction & Maintenance, to 19 February 2018 Chief Executive Officer – Mining, Energy and Industrial Services, from 20 February 2018

3. Remuneration policy, principles and practices

3.1 Executive remuneration policy

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

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

4. Relationship between remuneration policy and company performance

4.1 Company strategy and remuneration

Downer's business strategy includes:

- Maintaining focus on Zero Harm by continually improving health, safety and environmental performance to achieve Downer's goal of zero work-related injuries and 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; and
- Maintaining flexibility to be able to adapt to the changing economic and competitive environment to ensure Downer delivers shareholder value.

The Company's remuneration policy complements this strategy by:

- Incorporating Company-wide performance requirements for both STI and LTI reward vesting for earnings (NPAT and 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; and
- 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; and
- 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 ASX100 companies (excluding ASX "Financials" sector companies);
- Group NPATA;
- Divisional EBITA;
- FFO;
- Engagement with Downer's people; and
- "Zero Harm" measures of safety and environmental sustainability.

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

The following graph shows the Company's performance compared to the median performance of the ASX100 over the three year period to 30 June 2018.

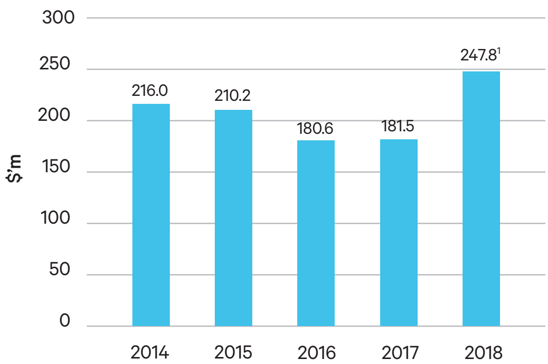
Downer EDI TSR compared to S&P/ASX 100 median*

* S&P/ASX 100 companies as at 30/06/2015

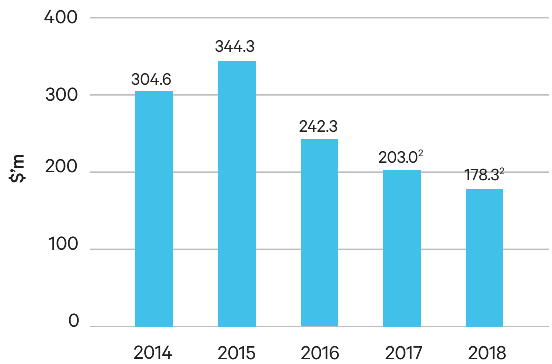
Downer EDI TSR S&P/ASX 100 median TSR

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

Net profit after tax



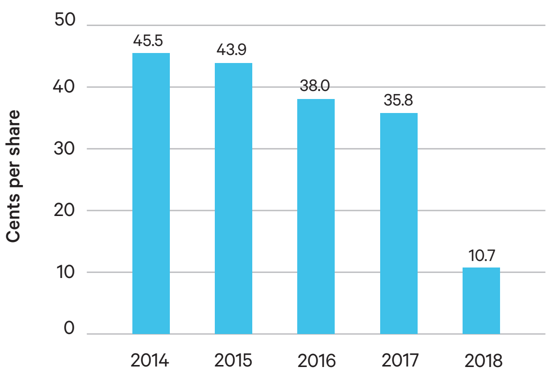
Free cash flow



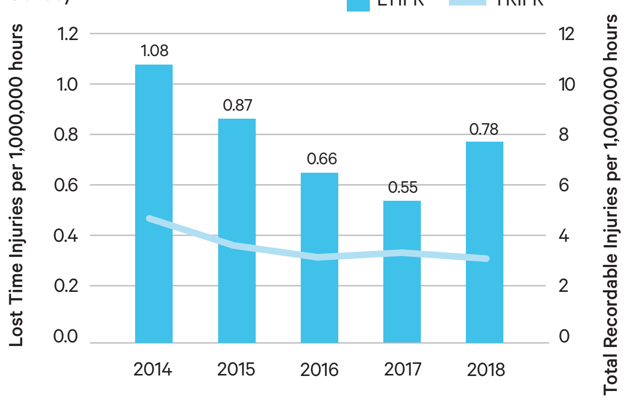
1 Adjusted for material unbudgeted transactions and individually significant items.

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

Basic earnings per share[3]



Safety



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

5. The Board's role in remuneration

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

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

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

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

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

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

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

Details of the remuneration structure and arrangements for 2018 for D Nelson in her role as Chief Executive Officer – Spotless, as established by the Spotless Board, are outlined at section 6.7.

6. Description of executive remuneration

6.1 Executive remuneration structure

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

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

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

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

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

The proportions of STI to LTI take into account:

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

6.2 Fixed remuneration

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

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

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

No adjustment has been made to remuneration for the Managing Director since July 2012.

6.3 Short-term incentive

6.3.1 STI tabular summary

The following table outlines the major features of the 2018 STI plan.

Purpose of STI plan	– Focus performance on drivers of shareholder value over 12 month period; – Improve "Zero Harm" and people related results; and – Ensure a part of remuneration costs varies with the Company's 12 month performance.
Minimum performance "gateway" before any payments can be made	Achievement of a gateway based on budgeted Group 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; and – KMP appointed from 2011: up to 75% of fixed remuneration.
Percentage of STI that can be earned on achieving target expectations	75% of the maximum. For an executive to receive more, performance in excess of target expectations will be required.
Individual Performance Modifier (IPM)	– An IPM may be applied based on an executive's individual key performance indicators and relative performance; – 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; and – 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 2017 to 30 June 2018.
Performance assessed	August 2018, 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 2018 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 STIP performance measures were tested were incorrect in a material respect or have been reversed or restated; and – Settle deferred components in shares or cash.
New recruits	New executives (either new starts or promoted employees) are eligible to participate in the STI in the year in which they commence in their position with a pro-rata entitlement.
Terminating executives	There is no STI entitlement where an executive's employment terminates prior to the end of the financial year. Where an executive's employment terminates prior to the vesting date, the unvested deferred components will be forfeited. However, the Board has retained discretion to vest deferred awards, in the form of shares or cash, in their ordinary course where the executive is judged to be an eligible leaver.

6.3.2 STI overview

The STI plan provides for an annual payment that varies with annual performance. This has been applied to performance measured over the Company's financial year to 30 June 2018.

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 percent x scorecard result x IPM.

6.3.4 STI performance requirements

Overall performance is assessed on NPATA, 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.

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

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

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

Measure	Target
Safety	
TRIFR (total recordable injury frequency rate) LTIFR (lost time injury frequency rate)	Retain TRIFR and LTIFR below defined threshold levels for area of responsibility. TRIFR is calculated as the number of recordable injuries x 1,000,000/the hours worked in 12 months. LTIFR is calculated as the number of lost time injuries x 1,000,000/the hours worked in 12 months.
Environmental	
Greenhouse gas emission reductions	Review of targets for greenhouse gas reduction and energy efficiency and the achievement of energy efficiency targets for the area of control.
Critical risks	Continuation of critical control verification programs, trend analysis on critical control verifications and the implementation of a program of initiatives to improve the resilience of critical controls.
Zero Harm Leadership	Performance of a minimum number of cross-divisional critical risk observations by senior executives within the relevant area of control in other areas of Downer.

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

Weightings applied to the 2018 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 requirements are set out in section 7.3.

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

6.4 Long-term incentive

6.4.1 LTI tabular summary

The following table outlines the major features of the 2018 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; and – Ensure a part of remuneration costs varies with the Company's longer-term performance.
Maximum value of equity that can be granted	– Managing Director: 100% of fixed remuneration; – KMP appointed pre-2011: 75% of fixed remuneration; and – KMP appointed from 2011: 50% of fixed remuneration.
Performance period	1 July 2017 to 30 June 2020.
Performance assessed	September 2020.
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 2021.
Performance rights vest	1 July 2021.
Form of award and payment	Performance rights.
Performance conditions	There are three performance conditions. Each applies to one-third of the performance rights granted to each executive.

Relative TSR

The relative TSR performance condition is based on the Company's TSR performance relative to the TSR of companies comprising the ASX100 index, excluding financial services companies, at the start of the performance period, measured over the three years to 30 June 2020.

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

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

	EPS growth The EPS growth performance condition is based on the Company's compound annual EPS growth over the three years to 30 June 2020. The performance vesting scale that will apply to the performance rights subject to the EPS growth test is shown in the table below:

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

Scorecard

The Scorecard performance condition is based on the Group's NPAT and FFO for each of the three years to 30 June 2020.

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

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

6.4.2 LTI overview

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

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

The 2018 LTI represents an entitlement to performance rights to ordinary shares exercisable subject to satisfaction of both a performance condition and a continued employment condition. Grants will be in three equal tranches, with each tranche subject to an independent performance requirement. The performance requirements for each tranche will share two common features:

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

Performance for the 2018 LTI grants will be measured over the three-year period to 30 June 2020.

The proportion of performance rights that can vest will be calculated in September 2020, but executives will be required to remain in service until 30 June 2021 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 2018 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 2018 LTI grants will be the companies, excluding financial services companies, in the ASX100 index as at the start of the performance period on 1 July 2017. Consideration has been given to using a smaller group of direct competitors for comparison, however:

- Limiting the comparator group to a small number of direct competitors could result in very volatile outcomes from period to period; and
- Management's strong focus on improving the Company's ranking among ASX100 companies has become embedded in Company culture, so reinforcing this rather than trying to dislodge it with another focus was considered desirable.

The absolute performance requirement applicable to the second tranche of performance rights is based on Earnings per Share (EPS) growth over the three year performance period to 30 June 2020. The EPS measure is based on AASB 133 *Earnings per Share*.

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

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

The absolute performance requirement applicable to the third tranche of performance rights is based on the Scorecard condition over the three year performance period to 30 June 2020.

The Scorecard condition is designed to:

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

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

The performance of each component will be measured over the three year period to 30 June 2020.

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

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

Timing	Actions
At the beginning of the plan	Weighting of components is determined. In 2018 the components are equally weighted.
At the beginning of each financial year	NPAT and FFO target performance levels are set.
At the end of each financial year	– Calculate actual performance; and – Assess actual performance compared to target to determine performance percentage for the year.
At the end of three years	– Calculate average annual performance for each component; and – Calculate award based on performance against the vesting range.
At the end of four years	Consider the continued service condition and determine vesting.

6.4.4 Post-vesting shareholding guideline

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

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

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

6.5 Treatment of major transactions

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

This 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 interest of shareholders;
- Is consistent with the Board's long-term view when considering the value of major transactions to Downer's shareholders; and
- Ensures Downer remains agile and responsive in managing its portfolio by pursuing opportunities as and when they emerge rather than be constrained by the annual budget process.

In assessing Zero Harm performance of executives, the results of acquired businesses are excluded for a period of twelve 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.

6.6 Treatment of significant items

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

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

6.7 Chief Executive Officer – Spotless

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

Following is a summary of the remuneration structure and arrangements for FY18 for D Nelson in her role as Chief Executive Officer – Spotless as established by the Spotless Board.

6.7.1 Remuneration structure

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

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

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

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

For 2018, the Spotless Board determined that it was inappropriate to grant performance rights under the LTI, which was based on EPS and TSR performance hurdles, due to the low level of free float shares in Spotless and lack of trading liquidity following the takeover by Downer. Accordingly, for 2018, the maximum value of the STI was increased from 100% to 150% of fixed remuneration and STI deferral was introduced. The Spotless Board will give consideration to a longer term approach for 2019.

6.7.2 STI tabular summary

The following table outlines the major features of the Spotless 2018 STI plan.

Minimum performance "gateway" before any payments can be made	Achievement of a gateway based on budgeted NPAT must be met before any STI payment can be made. A further Zero Harm gateway must be met for an award for safety performance to be made.
Maximum STI that can be earned	100% of fixed remuneration. This was increased to 150% for 2018 only as no LTI grant was made for 2018.
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.
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 2017 to 30 June 2018.
Performance assessed	August 2018, 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 2018 for the first payment of 50% of the award. The deferred components of the STI payments will be paid one and two years following the award, in equal tranches of 25% of the award.
Form of payment	Payments are made in cash.
Performance requirements	The Spotless performance scorecard is comprised of the following measures:
Board discretion	The Board may exercise discretion to reduce partly or fully the value of the deferred components that are due to vest in certain circumstances, including where an executive has acted inappropriately or where the Board considers that the financial results against which the STI performance measures were tested were incorrect in a material respect or have been reversed or restated.
Terminating executives	There is no STI entitlement where employment terminates prior to the end of the financial year. Where employment terminates prior to the vesting date, the unvested deferred components will be forfeited other than where the Spotless Board judges to be an eligible leaver.

Measure	Weighting
NPAT	30%
FFO	30%
Revenue	10%
Zero Harm – Recordable Injury Frequency Rate	20%
People – talent and succession planning, regrettable turnover	10%

These arrangements reflect changes from the previous Spotless remuneration framework and an intention of the Spotless Board to align with the Downer framework as appropriate.

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

7. Details of executive remuneration

7.1 Remuneration received in relation to the 2018 financial year

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

The table below lists the remuneration actually received in relation to the 2018 financial year, comprising fixed remuneration, cash STIs relating to 2018, deferred STIs payable in 2018 in respect of prior years and the value of LTI grants that vested during the 2018 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 2018 determined in accordance with accounting standards rather than the value of LTI grants that vested during the year.

	Fixed Remuneration[1] $	Cash Bonus paid or payable in respect of current year $	Deferred Bonus paid or payable in respect of prior years $	Total payments $	Equity that vested during 2017[3] $	Total remuneration received $
G A Fenn[2,4]	2,060,323	840,300	804,400	3,705,023	–	3,705,023
S Cinerari[2,4]	1,082,745	492,580	485,775	2,061,100	–	2,061,100
M J Ferguson[2,5]	825,000	267,846	135,577	1,228,423	–	1,228,423
S L Killeen[2,5]	829,185	200,476	34,367	1,064,028	–	1,064,028
M J Miller[2,5]	483,882	156,576	116,222	756,680	–	756,680
D Nelson[2]	948,731	506,237	–	1,454,968	–	1,454,968
D J Overall[4]	800,891	–	581,745	1,382,636	–	1,382,636
B C Petersen[2,4]	852,640	283,146	189,553	1,325,339	–	1,325,339
	7,883,397	**2,747,161**	**2,347,639**	**12,978,197**	**–**	**12,978,197**

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 2018 financial year. These comprise the 50% cash component of the award. The remaining 50% of the total award is deferred as described in section 6.3.

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

4 Deferred Bonus represents the deferred cash bonus amount to be paid in September 2018, being the second deferred component of the 2016 award and the first deferred component of the 2017 award, being 25% of each award.

5 Deferred Bonus represents the deferred cash bonus amount to be paid in September 2018, being the first deferred component of the 2017 award, being 25% of the award.

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

2018	Short-term employee benefits				Post-employment benefits				
	Salary and fees $	Cash Bonus paid or payable in respect of current year $	Deferred Bonus paid or payable[4] $	Non-monetary $	Super-annuation $	Other benefits $	Subtotal $	Share-based payment transactions[3] $	Total $
G A Fenn[2,4]	1,766,618	840,300	859,283	273,656	20,049	–	3,759,906	1,373,275	5,133,181
S Cinerari[2,4]	1,038,284	492,580	491,054	14,084	30,377	–	2,066,379	546,250	2,612,629
M J Ferguson[2,4]	792,549	267,846	224,583	12,402	20,049	–	1,317,429	211,220	1,528,649
S L Killeen[2,4]	750,268	200,476	109,854	7,130	71,787	–	1,139,515	86,100	1,225,615
M J Miller[1,2,4]	450,420	156,576	192,511	19,773	13,689	–	832,969	187,063	1,020,032
D Nelson[1,2,4]	931,394	506,237	210,932	2,300	15,037	–	1,665,900	–	1,665,900
D J Overall[1,2,4]	785,743	–	335,984	2,319	12,829	–	1,136,875	161,500	1,298,375
B C Petersen[2,4]	821,267	283,146	260,140	11,324	20,049	–	1,395,926	276,351	1,672,277
	7,336,543	**2,747,161**	**2,684,341**	**342,988**	**203,866**	**–**	**13,314,899**	**2,841,759**	**16,156,658**

1 Amounts represent the payments relating to the period during which the individuals were Key Management Personnel (KMP).
2 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2018 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 sections 8.2 and 8.3. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in section 6.4.
4 Deferred Bonus represents the value of deferred components attributable to the 2018 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.

2017	Short-term employee benefits				Post-employment benefits				
	Salary and fees $	Cash Bonus paid or payable in respect of current year $	Deferred Bonus paid or payable[4] $	Non-monetary $	Super-annuation $	Other benefits $	Subtotal $	Share-based payment transactions[3] $	Total $
G A Fenn[2,4]	1,775,384	964,100	803,667	288,050	19,616	–	3,850,817	1,656,713	5,507,530
S Cinerari[2,4]	980,384	495,550	467,313	19,916	26,276	–	1,989,439	593,437	2,582,876
M J Ferguson[2,4]	659,616	271,153	112,980	8,268	19,616	–	1,071,633	119,473	1,191,106
S L Killeen[1,2,4]	289,648	66,129	28,639	2,351	10,792	–	397,559	–	397,559
M J Miller[2,4]	638,762	232,444	96,852	16,622	19,616	–	1,004,296	111,507	1,115,803
D J Overall[2,4,5]	1,326,197	568,277	584,940	8,495	19,616	395,708	2,903,233	496,208	3,399,441
B C Petersen[2,4]	810,235	315,913	157,961	20,149	19,616	–	1,323,874	184,604	1,508,478
	6,480,226	**2,913,566**	**2,252,352**	**363,851**	**135,148**	**395,708**	**12,540,851**	**3,161,942**	**15,702,793**

1 Amounts represent the payments relating to the period during which the individuals were Key Management Personnel (KMP).
2 Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2017 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 sections 8.2 and 8.3. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in section 6.4.
4 Deferred Bonus represents the value of deferred components attributable to the 2017 financial year based on amortisation of deferred components over the period from the commencement of the relevant performance year to the end of financial year to which payment of the relevant deferred component relates.
5 D J Overall: Other benefits represents the accrual of the cash retention benefit payable on 21 May 2017 ($395,708), being 12 months' fixed remuneration.

7.3 Performance related remuneration

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

The table below lists the proportions of remuneration paid during the year ended 30 June 2018 that are performance and non-performance related and the proportion of STIs that were earned during the year ended 30 June 2018 due to the achievement of the relevant performance targets.

	Proportion of 2018 remuneration		2018 Short-term incentive	
	Performance Related %	Non-performance Related %	Paid %	Forfeited %
G A Fenn[1]	60	40	84	16
S Cinerari[1]	59	41	90	10
M J Ferguson	46	54	84	16
S L Killeen	32	68	76	24
D Nelson	43	57	61	39
B C Petersen	49	51	89	11

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

7.3.2 STI performance outcomes

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

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

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

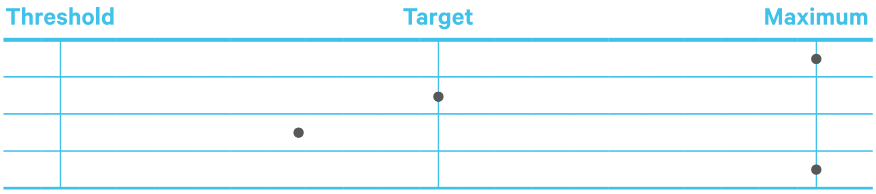
		Group NPATA	Divisional EBITA	Group FFO	Divisional FFO	Zero Harm	People
Weighting of scorecard element	Corporate	30.0		30.0		30.0	10.0
	Division	7.5	22.5	7.5	22.5	30.0	10.0
Percentage of the element achieved	Corporate	58.4		100.0		100.0	65.0
	Division[1]	58.4	66.7	100.0	95.2	96.0	48.6

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

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

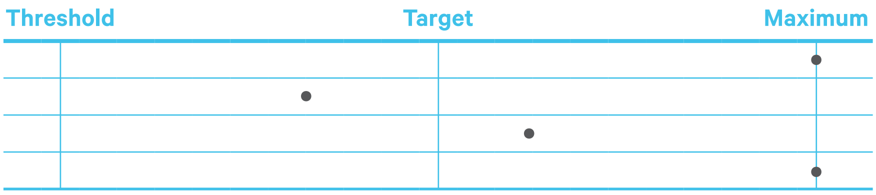
G A Fenn and M J Ferguson

Element	Measure
Zero Harm	Safety and Environmental
People	Employee engagement
Financial	Profit (NPATA)
	FFO



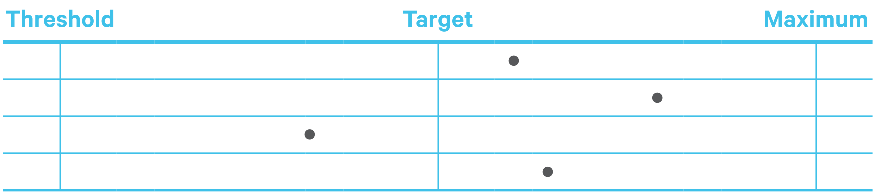
S Cinerari

Element	Measure
Zero Harm	Safety and Environmental
People	Employee engagement
Financial	Profit (NPATA/EBITA)
	FFO



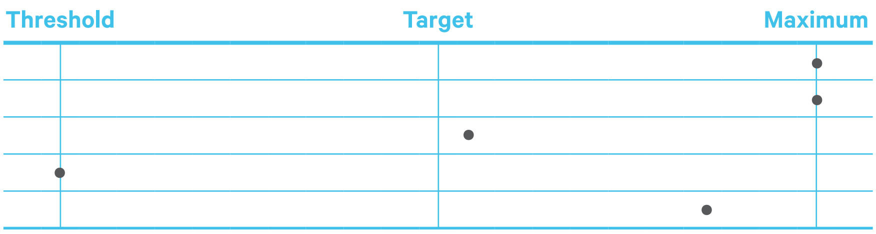
S L Killeen

Element	Measure
Zero Harm	Safety and Environmental
People	Employee engagement
Financial	Profit (NPATA/EBITA)
	FFO



D Nelson

Element	Measure
Zero Harm	Safety
People	Talent and succession
Financial	Profit (NPAT)
	FFO
	Revenue



B C Petersen

Element	Measure
Zero Harm	Safety and Environmental
People	Employee engagement
Financial	Profit (NPATA/EBITA)
	FFO

For 2018, the IPM applied to each member of the KMP ranged from 0.9 to 1.

7.3.3 LTI performance outcomes

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

Relevant executives	Relevant LTI measure	Performance outcome	% LTI tranche that vested
G A Fenn, S Cinerari, D J Overall	2015 plan		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX100 over a three-year period.	Actual performance ranked at the 76th percentile.	100% became provisionally qualified.
	EPS tranche – compound annual earnings per share growth against absolute targets over a three-year period.	Actual performance was –4.95%.	0% became provisionally qualified. 100% were forfeited.
	Scorecard tranche – sustained NPAT and FFO performance against budget over a three-year period.	Actual performance was 102.6% for NPAT and 170.5% for FFO.	87.1% became provisionally qualified. 12.9% were forfeited.

7.4 Major transactions and significant items

7.4.1 Major transactions

In 2018 Downer continued to optimise its portfolio in keeping with its strategy of creating efficient market positions to deliver long-term shareholder value through restructuring, partnering, acquisition and divestment.

Downer undertook five M&A transactions and a significant restructure of existing businesses during 2018. These transactions were the acquisition of Cabrini Linen Service, Envista, Integrated Services and UrbanGrid and the divestment of the Freight Rail business.

The acquisition and integration of Spotless continued during 2018 which was also restructured in order to align its service offerings with its core markets. Downer achieved majority ownership of Spotless on 27 June 2017, with Downer nominated Directors appointed to the Spotless Board on 19 July 2017. In setting the 2018 financial targets at the beginning of the performance period, the mid-point of 2018 underlying earnings guidance provided by the pre-acquisition Spotless Board was adopted by Downer and management has been measured against these operational performance targets. Several unbudgeted non-operational items were incurred for integration costs, redundancy costs and costs associated with completion of the Strategy Reset program established by the pre-acquisition Spotless Board.

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

- The performance of the Cabrini Linen Service business was reflected in the budget and accordingly no adjustment would be made to incentive outcomes;
- The Integrated Services acquisition was immaterial and accordingly no adjustment would be made to incentive outcomes;
- The UrbanGrid acquisition was immaterial and accordingly no adjustment would be made to incentive outcomes;
- The divestment of the Freight Rail business was a material, unbudgeted transaction for which it was appropriate to adjust incentive outcomes;
- The acquisition of Envista was a material, unbudgeted transaction for which it was appropriate to adjust incentive outcomes; and
- Costs related to the Spotless acquisition for integration, senior management redundancy and completion of Strategy Reset were material and unbudgeted and it was appropriate to adjust incentive outcomes.

7.4.2 Significant items

During the year there were three significant one-off items. 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. In forming its views, the Board noted the robust operational performance of the Company and strong returns to shareholders through TSR returns of 11.1% and 85.1% over one and three years respectively, share price growth and increase in the dividend rate.

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

Item	Description
Mining goodwill impairment	In February 2018, a $76.4 million non-cash impairment of goodwill in the Mining business was made. The earnings of the Mining division in 2018 (excluding the impairment) were below target threshold levels and accordingly the Mining Division did not meet its 2018 earnings gate for STI purposes. The negative impact of the lower earnings have also been reflected in the 2018 Group earnings for STI and LTI purposes. The Mining division has subsequently won contracts including at the Blackwater, Carrapateena, Century and CSA mines. The Board noted the negative impact on the STI outcomes from reduced Mining earnings (excluding the impairment) and that there had been no noticeable negative impact on the share price from the impairment and that shareholder returns continued to be strong, with TSR of 11.1% over one year and 85.1% over three years, share price growth and an increase in the dividend rate recorded for FY18. Accordingly, the Board determined that it was appropriate to adjust incentive outcomes for the impairment.
Organisational restructuring costs	In 2018, the following management restructures were implemented: – The Mining Division was merged with the Engineering, Construction and Maintenance Division to form a new Division: Mining, Energy and Industrial Services; and – The Rail Division was merged into the Infrastructure Services Division to form the Transport and Infrastructure Division. The Board believes that maintaining flexibility in adapting to changing markets is important to the achievement of Downer's objectives, including creating shareholder wealth and that management should be encouraged to make decisions in the best interests of the Company without the influence of incentive outcomes. The restructures will also deliver significant synergies. Implementation of these restructures in 2018, rather than in a future reporting period was considered to be in the best interest of Downer, notwithstanding that allowance for restructuring costs was not made in the budget. Accordingly, it was determined that it was appropriate to adjust incentive outcomes for this item.
Auburn Maintenance Centre remediation	Ground subsidence at the Auburn (Waratah) Train Maintenance Centre was identified in 2014. Downer has since completed rectification work and pursued associated legal claims. In March 2018, Downer was unsuccessful in respect of the contractual claims related to the ground subsidence and as a result expensed unbudgeted remediation and legal costs of approximately $25 million which it had expected to recover. The Board noted that this was a legacy issue and that current management had appropriately overseen the remediation work and the legal claim. Notwithstanding, no adjustment was made to 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 (STI) NPAT (LTI)	Net increase of $159.2 million comprised of: – Exclusion of loss on divestment of Freight Rail of $40.6 million; – Exclusion of Mining goodwill impairment of $76.4 million; – Exclusion of Divisional merger costs of $20.0 million; – Exclusion of Spotless related costs (management redundancies, integration and residual strategy reset costs) of $24.1 million; and – Exclusion of operating earnings of Envista (net of transaction costs) of $1.9 million.	For Corporate scorecard participants: – the gateway was met; and – 58.4% of the NPATA measure was achieved. For Mining scorecard participants, the gateway was not met and no STI was paid.	An increase from nil to 52.4% of rights in the NPAT tranche met the performance condition. This equates to 8.7% of the total number of rights in the grant.
FFO	Net decrease of $67.2 million comprised of: – Exclusion of the net proceed on divestment of Freight Rail of $109.0 million; and – Exclusion of the cash flow impact on Envista acquisition (transaction costs, net interest expense, operating cash and payment for business acquisition) of $41.8 million.	No change.	No change.
Zero Harm	The Zero Harm performance of acquired businesses has been excluded.	Not applicable as acquired businesses historical performance has been measured on a different basis.	Not applicable.
EPS	– The use of NPAT adjusted as set out above; and – Exclusion of shares issued under the capital raising from the weighted average number of shares calculation.	Not applicable.	No change.
TSR	No adjustments were made.	Not applicable.	No change.

7.4.4 Future periods

For major transactions completed in 2018, the impact on operational performance is included in the 2019 budget and accordingly no adjustments are expected in respect of FY19 operational performance.

7.5 Variance from policy

There were no variances from policy during the year.

8. Executive equity ownership

8.1 Ordinary shares

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

	Ordinary shares			Performance rights		
	Balance at 1 July 2017	Net change	Balance at 30 June 2018	Balance at 1 July 2017	Net change	Balance at 30 June 2018
	No.	No.	No.	No.	No.	No.
G A Fenn	826,226	–	826,226	1,757,163	128,217	1,885,380
S Cinerari	10,407	–	10,407	626,421	72,774	699,195
M J Ferguson	–	–	–	94,411	70,584	164,995
S L Killeen	1,000	–	1,000	–	66,240	66,240
D Nelson	–	–	–	–	–	–
B C Petersen	–	2,510	2,510	170,016	70,584	240,600

KMP equity holdings in fully paid ordinary shares issued by Spotless Group Holdings Limited are as follows:

	Ordinary shares		
	Balance at 1 July 2017	Net change	Balance at 30 June 2018
	No.	No.	No.
D Nelson	634,377	(634,377)	–

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 2017	Net change	Balance at 30 June 2018
	No.	No.	No.
S L Killeen	3,000	–	3,000

8.3 Options and rights

No performance options were granted by Downer EDI Limited or exercised during the 2018 financial year.

As outlined in section 6.4.1, the LTI plan for the 2018 financial year is in the form of performance rights. Relief from certain regulatory requirements was applied for and has been received from the Australian Securities and Investments Commission. During the year, grants of performance rights were made to KMP in respect of the 2018 financial year.

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

	2015 Plan			2016 Plan			2017 Plan			2018 Plan		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %	Number of performance rights[3]	Vested %	Forfeited %	Number of performance rights[4]	Vested %	Forfeited %
G A Fenn	541,920	–	37.6	711,717	–	–	503,526	–	–	332,160	–	–
S Cinerari	170,705	–	37.6	266,894	–	–	188,822	–	–	137,016	–	–
M J Ferguson	–	–	–	–	–	–	94,411	–	–	70,584	–	–
S L Killeen	–	–	–	–	–	–	–	–	–	66,240	–	–
D Nelson	–	–	–	–	–	–	–	–	–	–	–	–
B C Petersen	–	–	–	63,017	–	–	106,999	–	–	70,584	–	–

1 Grant date 2 June 2015. The fair value of shares granted was $4.23 per share for the EPS and Scorecard tranches and $1.70 per share for the TSR tranche.
2 Grant date 30 June 2016. The fair value of shares granted was $3.24 per share for the EPS and Scorecard tranches and $0.97 per share for the TSR tranche.
3 Grant date 21 June 2017. 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.
4 Grant date 21 June 2018. 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.

KMP equity holdings in options and rights issued by Spotless Group Holdings Limited are as follows:

	Options			Rights		
	Balance at 1 July 2017	Net change	Balance at 30 June 2018	Balance at 1 July 2017	Net change	Balance at 30 June 2018
	No.	No.	No.	No.	No.	No.
D Nelson	1,484,089	(272,177)	1,211,912	348,838	(348,838)	–

The following table shows the number of options and rights granted by Spotless Group Holdings Limited and percentage of performance rights that vested or lapsed during the year for each grant that affects compensation in this or future reporting periods.

	2014 Options			2015 Options			2016 Rights		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %	Number of performance rights[3]	Vested %	Forfeited %
D Nelson	272,177	–	100	1,211,912	–	–	348,838	100	–

1 Grant date 23 May 2014. The fair value of options granted was $0.213 per option for the EPS tranche and $0.209 per option for the TSR tranche. The exercise price was $1.60 per option.
2 Grant date 28 September 2015. The fair value of options granted was $0.251 per option for the EPS tranche and $0.238 per option for the TSR tranche. The exercise price was $2.07 per option.
3 Grant date 24 November 2016. The fair value of rights granted was $0.744 per right for the EPS tranche and $0.496 per right 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			
	2019	2020	2021	2022
G A Fenn	337,977	711,717	503,526	332,160
S Cinerari	106,463	266,894	188,822	137,016
M J Ferguson	–	–	94,411	70,584
S L Killeen	–	–	–	66,240
D Nelson[1]	1,211,912	–	–	–
B C Petersen	–	63,017	106,999	70,584

1 Options granted to D Nelson that may vest in future years relate to shares in Spotless Group Holdings Limited.

The maximum value 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. The amount reported is the value of share-based payments calculated in accordance with AASB 2 Share-based Payment over the vesting period.

	2019	2020	2021
G A Fenn	1,625,831	1,070,144	432,953
S Cinerari	625,922	417,539	178,593
M J Ferguson	211,475	211,475	92,002
S L Killeen	86,340	86,340	86,340
D Nelson[1]	–	–	–
B C Petersen	276,607	227,405	92,002

1 Options granted to D Nelson that may vest in future years relate to shares in Spotless Group Holdings Limited.

8.4 Remuneration consultants

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

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

9. Key terms of employment contracts

9.1 Notice and termination payments

Executives are on contracts with no fixed end date.

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

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

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

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

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

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

10. 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; and
- 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 judgment to steward the Company.

There has been no change to the level of Non-executive Director fees since the prior reporting period and there will be no changes in the 2019 financial year.

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

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

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

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

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

11.2 Non-executive Directors' remuneration

The table below sets out the remuneration paid to Non-executive Directors for the 2018 and 2017 financial years.

		Short-term benefits			Post-employment benefits		
	Year	Board fee $	Chair fee $	Total fees $	Superannuation $	Termination benefits $	Total $
R M Harding	2018	375,000	–	375,000	35,625	–	410,625
	2017	375,000	–	375,000	35,625	–	410,625
S A Chaplain	2018	150,000	35,000	185,000	17,575	–	202,575
	2017	150,000	35,000	185,000	17,575	–	202,575
P S Garling	2018	150,000	15,000	165,000	15,675	–	180,675
	2017	150,000	15,000	165,000	15,675	–	180,675
T G Handicott	2018	150,000	15,000	165,000	15,675	–	180,675
	2017	114,454	11,250	125,704	11,942	–	137,646
N M Hollows	2018	4,566	–	4,566	434	–	5,000
	2017	–	–	–	–	–	–
E A Howell	2018	50,833	–	50,833	4,829	–	55,662
	2017	150,000	11,250	161,250	15,319	–	176,569
C G Thorne	2018	150,000	30,000	180,000	17,100	–	197,100
	2017	150,000	18,750	168,750	16,031	–	184,781

11.3 Equity held by Non-executive Directors

The table below sets out the equity in Downer held by Non-executive Directors for the 2018 and 2017 financial years.

	2018			2017		
	Balance at 1 July 2017	Net change	Balance at 30 June 2018	Balance at 1 July 2016	Net change	Balance at 30 June 2017
R M Harding	14,210	–	14,210	10,150	4,060	14,210
S A Chaplain	103,799	–	103,799	74,142	29,657	103,799
P S Garling	16,940	–	16,940	12,100	4,840	16,940
T G Handicott	14,000	–	14,000	–	14,000	14,000
N M Hollows	–	–	–	–	–	–
C G Thorne	82,922	–	82,922	59,230	23,692	82,922

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

On behalf of the Directors

R.M. Harding

R M Harding
Chairman

Sydney, 16 August 2018

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 year ended 30 June 2018 there have been:

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

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

KPMG.

KPMG

John Teer
Partner

Sydney
16 August 2018

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 2018 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 2018
- Consolidated Statement of profit or loss and other comprehensive income, Consolidated Statement of changes in equity, and Consolidated Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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

Key Audit Matters

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

- Recognition of revenue and transitional adjustment to AASB 15 *Revenue from Contracts with Customers*
- Value of goodwill
- Acquisition of controlled entities

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 and transitional adjustments to AASB 15 *Revenue from Contracts with Customers*

Refer to Note B2 'Revenue and other income' ($12,620.2m) and Note G1(b) New accounting standards and interpretations not yet adopted.

The key audit matter	How the matter was addressed in our audit
A substantial amount of the Group's revenue relates to revenue from the rendering of services and construction contracts. Where these services and/or contracts have a long-term duration, revenue and margin are recognised based on the stage of completion of individual contracts. This is predominantly calculated on the proportion of total costs incurred at the reporting date compared to the Group's estimation of total costs of the contract. We focussed on these types of contracts due to the high level of estimation involved, in particular relating to: • Forecasting total cost to complete at initiation of the contract, including the estimation of cost contingencies for contracting risks; • Revisions to total forecast costs for certain events or conditions that occur during the performance of the contract, or are expected to occur to complete the contract; and • The recognition of variations and claims, based on an assessment by the Group as to the probability the amount will be approved by the customer and therefore recovered. We focused on this area as a key audit matter due to the number and type of estimation events that may occur over the course of the	Our procedures included: • We evaluated the Group's process regarding accounting for the Group's contract revenues. We tested controls such as: – the authorisation of monthly project valuations, which involves management review and approval of key contract KPIs, including cashflows; – management's review assessment and approval of significant changes in work in progress balances; – management's review assessment of project unapproved variations and claims, and responses to project risk ratings; – 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 identified by the Group risk and legal team, as prescribed in the Group's risk management process; • We undertook a sample of site visits (to both contract sites and commercial offices) across the Group's major divisions and geographies to obtain a detailed understanding of the Group's contract processes, their consistent application, and to understand the variety of

contract life, leading to complex and judgemental revenue recognition from contracts. In addition to the above, the transition to the new accounting standard AASB15 *Revenue from contracts with customers* (AASB 15) (with effect from 1 July 2018 for the Group) has resulted in additional disclosure of the expected transition adjustments. We focussed on this as a key audit matter due to the audit effort required from: ● the complex nature of the changes to the accounting standard and the impact on services and construction contract accounting requiring senior team involvement; and ● the need to consider consistency in application of AASB 15 across the components of the Group.	risk elements of the contracts; • We used data analytic routines to select a sample of contracts for testing based on a number of quantitative and qualitative factors. These factors included contracts with significant deterioration in margin, significant variations and claims, and factors which indicated to us 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 sample selected, where relevant: – we read the contract terms and conditions to evaluate the individual characteristics of each contract reflected in the Group's estimate; – we assessed the estimation of costs to complete by checking key forecast cost assumptions to underlying documentation such as Enterprise Bargaining Agreements for wage rates, previous purchase invoices for parts, and agreements with subcontractors; – we assessed the Group's ability to forecast margins on contracts by analysing the accuracy of previous margin forecasts to actual outcomes; – we tested the variations and claims both within contract revenue and contract costs to underlying documentation, such as timesheets, correspondence with customers and objective time and cost claim experts (where applicable) for consistency and appropriateness with contract terms; – we evaluated the Group's legal and external experts' reports received on contentious matters to identify conditions indicating the inappropriate recognition of variations and claims. We checked the consistency of this to the inclusion or not of an amount in the estimates used for revenue recognition; – for contracts with significant variation and claim elements, we used our project management specialists to evaluate the claim elements for risk of non-recovery; and – we evaluated significant exposures to liquidated damages for late delivery of

	contract works by assessing the variation registers, which track the nature, quantum and status of current exposures. We evaluated disclosures relating to the transition to AASB15. For a sample of contracts assessed by the Group for the transitional impacts of the new standard we evaluated the conclusions reached by the Group using our understanding of the contracts obtained in the procedures noted above, in the context of the requirements of AASB 15. We assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the transitional adjustment, by comparing these disclosures to our understanding of the matter and the requirements of the accounting standards.

Value of goodwill

Refer to C7 'Intangible assets' ($2,351.5m).

The key audit matter	How the matter was addressed in our audit
The Group has 6 groups of Cash Generating Units (CGU's) for which the impairment of goodwill is assessed, including the recently acquired Spotless CGU group. As a consequence, significant audit effort was required to assess this matter and the value of goodwill was therefore considered a key audit matter. We focussed on the following assumptions in the Group's models as a result of the significant level of judgement applied by the Group: • The determination of CGUs or groups of CGUs following the acquisitions made during the year; • Budgeted future revenue, including the outcome of tenders, and costs; • Discount rates; and • Terminal growth rate. In addition to the above, the Group recorded a full impairment of goodwill for the Mining CGU at 31 December 2017.	Our procedures included: • We evaluated the Group's goodwill impairment assessment process and tested controls such as the review and approval of forecasts by management; • We considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business and how independent cash inflows were generated, against the requirements of the accounting standards; • We obtained the Group's value in use and FVLCOD models and checked amounts to a combination of the FY19 budget and the FY20-FY21 business plan approved by the Board; • Key inputs to the value in use and FVLCOD models included forecast revenue, costs, capital expenditure, discount rates and terminal growth rates. We challenged the key market based assumptions to published industry growth rates and industry reports. For non-market based assumptions we compared forecasts to historical costs incurred or

	margins. We also assessed the inclusion of key ongoing revenue contracts by comparing the margins in the impairment model to historical contract margins. For current tenders we assessed the probability weighting and margins based on our understanding of the business; • We assessed the accuracy of previous Group forecasting to inform our evaluation of forecasts included in the value in use and FVLCOD model. We applied increased scepticism to current period forecasts in areas where previous forecasts were not achieved and/or where future uncertainty is greater or volatility is expected; • We involved our valuation specialists, for those CGUs with a higher risk of impairment. Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in. Valuation specialists were also involved in assessing the value in use and FVLCOD model valuation methodology against the criteria in the accounting standards. This included the treatment of assumptions for capital expenditure, terminal value and the net present value calculation; • We performed sensitivity analysis on CGUs in two main areas, being the discount rate and terminal growth rate assumptions. For the CGUs with a higher risk of impairment we performed a range of sensitivity analyses. This included the discount rate and terminal growth rate assumptions, revenue growth and cost savings targets set by the Group, as well as probability adjusting the outcomes of key tenders; • We assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the valuation of goodwill, by comparing these disclosures to our understanding of the matter and the requirements of the accounting standards.

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Acquisition of controlled entities	
Refer to F2 'Acquisition of businesses'' ($475.9m)	
The key audit matter	**How the matter was addressed in our audit**
During the year the Group purchased controlling interests in a number of businesses/entities and finalised the purchase accounting for a number of business combinations previously provisionally accounted for (including Spotless Group Holdings Limited). Accounting for the purchase of controlling interests in a number of businesses/entities acquired during the year and the finalisation of the previously provisional purchase accounting is a key audit matter due to the: • Aggregated size of the acquisitions; • The complexity of the finalisation of the provisional accounting for Spotless Group Holdings Limited (Spotless) which included the use of an external expert engaged by the Group to value acquired intangibles, requiring our assessment; • Early status of the acquisition accounting for certain transactions, which remain provisional at year end. This increases the possible range of outcomes for the auditor to consider and is impacted by the reduced precision of audit evidence; and • Significance of the estimation required for the Group to determine the fair values, of acquired assets and liabilities under the accounting standards, for those transactions where the acquisition accounting has been finalised. We focused on assessing the basis for the estimations against the allowed criteria in the accounting standards to determine fair value and the documentation available from the Group to date. For those acquisitions where the purchase accounting has been completed the key inputs to the valuations were forecast assumptions relating to: ● revenue, ● operating costs, ● the impact of contributory assets, and ● discount rates.	Our procedures included: • We read the Bidders Statement and Sale and Purchase Agreements (as applicable) to understand key terms and conditions; • We evaluated the methodology used for the acquisition accounting against accounting standard requirements and common industry practice for the determination of fair value; • We challenged key assumptions in the Group's intangible valuation models by comparing these inputs to historic and current entity records, and strategic plans; • Working with our valuation specialists, for the Spotless acquisition we evaluated the valuation methodology and assumptions used by the external expert in the Group's determination of the fair value of identifiable intangibles acquired to the requirements of the accounting standards and publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in; • We assessed the scope of work, capability, competence and objectivity of the external expert used by the Group to value the Spotless acquired intangibles; • We compared the acquired company's accounting policies against the Group's policies; • We assessed the adequacy of the Group's disclosures in respect of the acquisitions against the requirements of accounting standards and our knowledge of the transactions.

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 opinions.

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2018, 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 21 to 51 of the Directors' report for the year ended 30 June 2018.

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

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KPMG

John Teer	Cameron Slapp
Partner Sydney 16 August 2018	Partner Sydney 16 August 2018

Financial Statements

Notes to the consolidated financial statements

Other information

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2018

	Note	2018 $'m	2017 $'m
Revenue from ordinary activities	B2(a)	**12,016.6**	7,267.1
Other income	B2(a)	**14.3**	20.3
Total revenue and other income		**12,030.9**	7,287.4
Employee benefits expense	D1	**(4,034.2)**	(2,787.3)
Subcontractor costs		**(3,781.3)**	(1,740.8)
Raw materials and consumables used		**(2,199.9)**	(1,357.0)
Plant and equipment costs		**(677.1)**	(502.8)
Depreciation and amortisation	C6,C7	**(370.2)**	(220.2)
Other expenses from ordinary activities		**(788.5)**	(424.0)
Total expenses		**(11,851.2)**	(7,032.1)
Share of net profit of joint ventures and associates	F1(a)	**25.1**	22.5
Earnings before interest and tax		**204.8**	277.8
Finance income		**7.1**	14.4
Finance costs		**(88.2)**	(41.2)
Net finance costs		**(81.1)**	(26.8)
Profit before income tax		**123.7**	251.0
Income tax expense	B4(a)	**(52.6)**	(69.5)
Profit after income tax		**71.1**	181.5
Profit for the year is attributable to:			
– Non-controlling interest		**(0.3)**	–
– Members of the parent entity		**71.4**	181.5
Profit for the year		**71.1**	181.5
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
– Exchange differences arising on translation of foreign operations		**(8.3)**	0.4
– Net gain / (loss) on foreign currency forward contracts taken to equity		**4.8**	(1.9)
– Net loss on cross currency and interest rate swaps taken to equity		**(14.0)**	(2.6)
– Change in fair value of available-for-sale assets		**(1.3)**	18.3
– Available-for-sale reserve transferred to profit or loss		**(0.5)**	(19.1)
– Income tax relating to components of other comprehensive income		**2.6**	0.9
Other comprehensive income / (loss) for the year (net of tax)		**(16.7)**	(4.0)
Other comprehensive income for the year is attributable to:			
– Non-controlling interest		**0.7**	–
– Members of the parent entity		**(17.4)**	(4.0)
Other comprehensive income / (loss) for the year		**(16.7)**	(4.0)
Total comprehensive income for the year		**54.4**	177.5
Earnings per share (cents)			
– Basic earnings per share	B3	**10.7**	35.8
– Diluted earnings per share(i)	B3	**10.7**	35.0

(i) At 30 June 2018, the ROADS are deemed anti-dilutive and consequently, diluted EPS remained at 10.7 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 66 to 120.

Consolidated Statement of Financial Position

as at 30 June 2018

	Note	30June 2018 $'m	30June 2017 $'m
ASSETS			
Current assets			
Cash and cash equivalents	C1(c)	**606.2**	844.6
Trade and other receivables[(i)]	C2	**2,121.9**	1,722.0
Other financial assets	G3	**18.6**	12.5
Inventories	C4	**268.8**	301.7
Current tax assets		**69.3**	45.5
Prepayments and other assets		**48.8**	49.5
Total current assets		**3,133.6**	2,975.8
Non-current assets			
Trade and other receivables[(i)]		**117.7**	64.6
Interest in joint ventures and associates	F1(a)	**96.0**	88.0
Property, plant and equipment[(i)]	C6	**1,280.4**	1,280.4
Intangible assets[(i)]	C7	**3,050.7**	3,031.2
Other financial assets	G3	**15.5**	17.1
Deferred tax assets[(i)]	B4(b)	**75.5**	95.8
Prepayments and other assets		**18.8**	31.7
Total non-current assets		**4,654.6**	4,608.8
Total assets		**7,788.2**	7,584.6
LIABILITIES			
Current liabilities			
Trade and other payables	C5	**2,281.6**	1,761.0
Borrowings	E1	**153.7**	863.2
Other financial liabilities	G3	**43.2**	23.8
Employee benefits provision	D1	**336.7**	365.4
Provisions[(i)]	C8	**50.7**	70.1
Current tax liabilities		**15.7**	7.2
Total current liabilities		**2,881.6**	3,090.7
Non-current liabilities			
Trade and other payables[(i)]		**26.5**	30.7
Borrowings	E1	**1,367.5**	581.8
Other financial liabilities	G3	**34.2**	21.7
Employee benefits provision	D1	**38.0**	38.2
Provisions[(i)]	C8	**65.1**	53.2
Deferred tax liabilities[(i)]	B4(b)	**170.2**	181.8
Total non-current liabilities		**1,701.5**	907.4
Total liabilities		**4,583.1**	3,998.1
Net assets		**3,205.1**	3,586.5
EQUITY			
Issued capital	E4	**2,421.9**	2,421.8
Reserves	E5	**(26.9)**	(10.9)
Retained earnings		**655.1**	740.4
Parent interests		**3,050.1**	3,151.3
Non-controlling interest	F2	**155.0**	435.2
Total equity		**3,205.1**	3,586.5

(i) June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances.

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 66 to 120.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2018

2018 $'m	Issued capital	Reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2017	**2,421.8**	**(10.9)**	**740.4**	**3,151.3**	**435.2**	**3,586.5**
Profit after income tax	–	–	**71.4**	**71.4**	**(0.3)**	**71.1**
Other comprehensive income for the year (net of tax)	–	**(17.4)**	–	**(17.4)**	**0.7**	**(16.7)**
Total comprehensive income for the year	–	**(17.4)**	**71.4**	**54.0**	**0.4**	**54.4**
Capital raising (net of transaction costs and tax)	**(0.1)**	–	–	**(0.1)**	–	**(0.1)**
Vested executive incentive share transactions	**0.2**	**(0.2)**	–	–	–	–
Share-based employee benefits expense	–	**2.8**	–	**2.8**	–	**2.8**
Income tax relating to share-based transactions during the year	–	**(1.2)**	–	**(1.2)**	–	**(1.2)**
Payment of dividends[(i)]	–	–	**(156.7)**	**(156.7)**	–	**(156.7)**
Acquisition of non-controlling interest	–	–	–	–	**(280.6)**	**(280.6)**
Balance at 30 June 2018	**2,421.9**	**(26.9)**	**655.1**	**3,050.1**	**155.0**	**3,205.1**

(i) Payment of dividend relates to the 2017 final dividend, 2018 interim dividend and $8.0m ROADS dividends paid during the financial year.

2017 $'m	Issued capital	Reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2016	1,427.8	(8.8)	669.5	**2,088.5**	–	**2,088.5**
Profit after income tax	–	–	181.5	**181.5**	–	**181.5**
Other comprehensive income for the year (net of tax)	–	(4.0)	–	**(4.0)**	–	**(4.0)**
Total comprehensive income for the year	–	(4.0)	181.5	**177.5**	–	**177.5**
Capital raising (net of transaction costs and tax)[(i)]	993.0	–	–	**993.0**	–	**993.0**
Acquisition of business[(ii)]	–	–	–	**–**	435.2	**435.2**
Vested executive incentive share transactions	1.0	(1.0)	–	**–**	–	**–**
Share-based employee benefits expense	–	5.6	–	**5.6**	–	**5.6**
Income tax relating to share-based transactions during the year	–	(2.7)	–	**(2.7)**	–	**(2.7)**
Payment of dividends[(iii)]	–	–	(110.6)	**(110.6)**	–	**(110.6)**
Balance at 30 June 2017	2,421.8	(10.9)	740.4	**3,151.3**	435.2	**3,586.5**

(i) Relates to capital raising for the Spotless takeover bid. Refer to Note E4.
(ii) Non-controlling interest as a result of Spotless acquisition. Refer to Note F2.
(iii) Payment of dividends relates to 2016 final dividend, 2017 interim dividend and ROADS dividends paid during the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 66 to 120.

Consolidated Statement of Cash Flows

for the year ended 30 June 2018

	Note	2018 $'m	2017 $'m
Cash flows from operating activities			
Receipts from customers		**12,856.9**	7,957.7
Distributions from equity accounted investees	F1(a)	**16.9**	17.9
Payments to suppliers and employees		**(12,164.3)**	(7,462.0)
Interest received		**7.4**	11.4
Interest and other costs of finance paid		**(77.6)**	(34.4)
Income tax paid		**(56.0)**	(49.0)
Net cash generated by operating activities	C1(a)	**583.3**	441.6
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**22.7**	23.2
Payments for property, plant and equipment		**(356.8)**	(203.6)
Payments for intangible assets		**(47.0)**	(37.9)
Payments for acquisition of Spotless	F2	**(391.8)**	(636.1)
Payments for businesses acquired	F2	**(84.1)**	(143.2)
Proceeds from sale of business	F3	**129.6**	–
Receipts from investments		**0.4**	0.6
Advances (to) / from joint ventures		**(7.1)**	1.2
Proceeds from sale of assets		**4.5**	–
Net cash used in investing activities		**(729.6)**	(995.8)
Cash flows from financing activities			
Net proceeds from capital raising	E4(a)	**–**	989.9
Issue of shares (net of costs)	E4(b)	**(0.2)**	–
Proceeds from borrowings		**2,043.9**	321.2
Repayments of borrowings		**(1,974.7)**	(370.0)
Dividends paid		**(156.7)**	(110.6)
Net cash (used in) / generated by financing activities		**(87.7)**	830.5
Net (decrease) / increase in cash and cash equivalents		**(234.0)**	276.3
Cash and cash equivalents at the beginning of the year		**844.6**	569.4
Effect of exchange rate changes		**(4.4)**	(1.1)
Cash and cash equivalents at the end of the year		**606.2**	844.6

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 66 to 120.

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 statement 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 16 August 2018.

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 values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation in the preparation of the Financial Report are consistent with those adopted and disclosed in Downer's Annual Report for the financial year ended 30 June 2017, except in relation to the relevant amendments and their effects on the current period or prior periods as described in Note G1.

As previously disclosed, Downer obtained control in Spotless Group Holdings Limited (Spotless) on 27 June 2017. However, at 30 June 2017, the Group did not consolidate the trading performance of Spotless as part of the Group's consolidated profit or loss and cash flow as the Directors concluded that Spotless' profit or loss and cash flow impact for the three days to 30 June 2017 was not material to the Downer Group.

Downer has commenced the consolidation of Spotless with effect from 30 June 2017. As at 30 June 2018, Downer holds a relevant interest of 87.8% (2017: 65.7%). Refer to Note F2.

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	**71**
Recovery of deferred tax assets	B4	**75**
Income taxes	B4	**75**
Capitalisation of tender/bid costs	C2	**79**
Useful lives and residual values	C6	**81**
Impairment of assets	C7	**83**
Provisions	C8	**86**
Annual leave and long service leave	D1	**88**
Accounting for acquisition of businesses	F2	**102**

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.

A. About this report – continued

(ii) Foreign currency

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

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

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

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

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

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

(iii) Finance and borrowing costs

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

(iv) Available-for-sale financial assets

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

B Business performance

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

B1. Segment information

Identification of reportable segments

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

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

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

The reportable segments identified within the Group are outlined below:

Service line	Segment description
Transport	Comprises the Group's road, rail infrastructure, bridge, airport and port businesses and provides a broad range of transport infrastructure services including: earthworks; civil construction; asset management; maintenance; surfacing and stabilisation; supply of bituminous products and logistics; open space and facilities management; and rail track signalling and electrification works.
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 pipeline bursting and civil maintenance; and design, build and maintenance services for wind farms, wind turbine sites and solar farms; as well as feasibility, design, civil construction, network construction, commissioning, testing, operations and maintenance across fibre, copper and radio networks as well as data centre services, automated ticketing and intelligent transport technology solutions.
Rail	Provides total rail asset solutions including passenger build, operations and maintenance, component overhauls and after-market services.
Engineering, Construction and Maintenance (EC&M)	Provides design, engineering, construction and maintenance services for greenfield and brownfield projects across a range of sectors and all stages of the project lifecycle including: feasibility studies; engineering design; civil works; structural, mechanical and piping; electrical and instrumentation; mineral process equipment design and manufacture; commissioning; operations maintenance; shutdowns, turnarounds and outages; strategic asset management; and decommissioning.
Mining	Provides services across all stages of the mining lifecycle including: asset management; blasting services, explosive supply; civil projects; crushing; exploration drilling; mine closure and mine site rehabilitation; mobile plant maintenance; open cut mining; training and development for ATSI employees; tyre management; and underground mining.
Spotless	Spotless operates in Australia and New Zealand and provides outsourced facility services, catering and laundry services, technical and engineering services, maintenance and asset management services and refrigeration solutions to various industries.

B1. Segment information – continued

2018 $'m	Transport	Utilities	Spotless	Rail	EC&M	Mining	Un-allocated	Total
Revenue	**2,743.2**	**1,783.0**	**3,093.7**	**732.0**	**2,382.9**	**1,309.4**	**22.9**	**12,067.1**
Inter-segment sales	**–**	**–**	**–**	**–**	**–**	**–**	**(36.2)**	**(36.2)**
Total segment revenue	**2,743.2**	**1,783.0**	**3,093.7**	**732.0**	**2,382.9**	**1,309.4**	**(13.3)**	**12,030.9**
Share of sales revenue from joint ventures and associates(i)	**73.8**	**–**	**8.1**	**437.2**	**21.2**	**49.0**	**–**	**589.3**
Total revenue including joint ventures and other income(i)	**2,817.0**	**1,783.0**	**3,101.8**	**1,169.2**	**2,404.1**	**1,358.4**	**(13.3)**	**12,620.2**
Share of net profit of joint ventures and associates	**9.7**	**–**	**0.4**	**13.7**	**(1.3)**	**2.6**	**–**	**25.1**
Depreciation and amortisation	**44.6**	**22.3**	**94.9**	**9.9**	**18.5**	**126.6**	**53.4**	**370.2**
EBIT before amortisation of acquired intangibles (EBITA)	**142.9**	**94.8**	**167.7**	**39.2**	**70.6**	**50.4**	**(294.1)**	**271.5**
Amortisation of acquired intangibles	**(0.4)**	**(2.1)**	**(11.0)**	**–**	**(5.0)**	**–**	**(48.2)**	**(66.7)**
Total reported segment results (EBIT)	**142.5**	**92.7**	**156.7**	**39.2**	**65.6**	**50.4**	**(342.3)**	**204.8**
Net finance costs								**(81.1)**
Total profit before tax								**123.7**
Acquisition of segment assets	**74.0**	**34.1**	**134.2**	**83.7**	**105.3**	**134.3**	**20.7**	**586.3**
Segment assets	**1,203.2**	**797.8**	**2,754.3**	**686.0**	**950.1**	**804.8**	**592.0**	**7,788.2**
Segment liabilities	**530.8**	**422.0**	**1,399.7**	**402.3**	**553.5**	**271.7**	**1,003.1**	**4,583.1**
Carrying value of equity accounted investees	**11.9**	**–**	**1.5**	**71.2**	**4.0**	**7.4**	**–**	**96.0**

2017 $'m	Transport	Utilities	Spotless	Rail	EC&M	Mining	Un-allocated	Total
Revenue	2,091.1	1,517.3	–	467.1	1,974.2	1,250.8	19.8	7,320.3
Inter-segment sales	–	–	–	–	–	–	(32.9)	(32.9)
Total segment revenue	2,091.1	1,517.3	–	467.1	1,974.2	1,250.8	(13.1)	7,287.4
Share of sales revenue from joint ventures and associates(i)	62.3	–	–	383.1	30.1	49.4	–	524.9
Total revenue including joint ventures and other income(i)	2,153.4	1,517.3	–	850.2	2,004.3	1,300.2	(13.1)	7,812.3
Share of net profit of joint ventures and associates	8.5	–	–	11.7	(0.6)	2.9	–	22.5
Depreciation and amortisation	40.6	21.6	–	10.9	15.3	116.4	15.4	220.2
EBIT before amortisation of acquired intangibles (EBITA)	124.9	84.1	–	30.3	52.6	83.4	(90.1)	285.2
Amortisation of acquired intangibles	(0.3)	–	–	–	(0.3)	–	(6.8)	(7.4)
Total reported segment results (EBIT)	124.6	84.1	–	30.3	52.3	83.4	(96.9)	277.8
Net finance costs								(26.8)
Total profit before tax								251.0
Acquisition of segment assets	114.9	55.2	2,137.2	51.9	95.5	102.2	37.0	2,593.9
Segment assets	1,080.3	746.7	2,715.5	572.1	719.1	836.3	914.6	7,584.6
Segment liabilities	391.5	404.6	1,410.1	141.3	413.4	264.5	972.7	3,998.1
Carrying value of equity accounted investees	10.0	–	1.8	64.5	5.3	6.4	–	88.0

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

B1. Segment information – continued

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

	Note	Segment results 2018 $'m	Segment results 2017 $'m
Segment net operating profit		**547.1**	374.7
Unallocated:			
Mining goodwill impairment	B2(b)	**(76.4)**	–
Divestment of Freight Rail	B2(b)	**(50.2)**	–
Auburn Rail claim	B2(b)	**(25.0)**	–
Divisional merger costs	B2(b)	**(28.5)**	–
Spotless management redundancies and integration costs	B2(b)	**(9.4)**	–
Spotless residual strategy reset costs	B2(b)	**(11.3)**	–
Spotless integration costs	B2(b)	**(7.3)**	–
Spotless transaction costs(i)	B2(b)	**–**	4.6
Bid costs written off(ii)	B2(b)	**–**	(13.0)
Amortisation of Spotless and Tenix acquired intangible assets		**(48.2)**	(6.8)
Settlement of contractual claims		**–**	(5.0)
Corporate costs		**(86.0)**	(76.7)
Total unallocated		**(342.3)**	(96.9)
Earnings before interest and tax		**204.8**	277.8
Net finance costs		**(81.1)**	(26.8)
Profit before income tax		**123.7**	251.0
Income tax expense	B4(a)	**(52.6)**	(69.5)
Profit after income tax		**71.1**	181.5

(i) Represents the net of costs incurred as a result of the Spotless takeover offer, offset by other income and revaluation of initial 19.99% investment in Spotless at $1.15 per share.

(ii) Downer was a member of the Constellation Rail consortium. On 18 August 2016, the consortium was advised that it had not been successful in its bid to deliver and maintain the New Intercity Fleet (NIF) for Transport for NSW. Accordingly, an amount of $10.0 million, referable to Downer's share of pre-tax bid costs, has been expensed.
Downer was also a member of the Creative Learning consortium. On 17 January 2017, the consortium was advised that it had not been successful in its bid to design, construct and maintain the NZ Schools PPP project for the Ministry of Education. Accordingly, an amount of $3.0 million, referable to Downer's share of pre-tax bid costs, has been expensed.

	Total revenue(i) 2018 $'m	Total revenue(i) 2017 $'m	Segment assets 2018 $'m	Segment assets 2017 $'m	Acquisition of segment assets 2018 $'m	Acquisition of segment assets 2017 $'m
By geographic location(ii)						
Australia	**9,517.2**	5,704.8	**6,779.7**	6,730.4	**538.0**	2,462.4
New Zealand and Pacific	**2,444.9**	1,538.7	**946.1**	794.7	**47.1**	128.9
Asia	**–**	–	**2.7**	7.5	**0.1**	–
Africa	**50.9**	29.2	**42.8**	36.4	**0.8**	1.2
South America	**14.5**	12.6	**14.0**	13.4	**0.2**	1.4
Other	**3.4**	2.1	**2.9**	2.2	**0.1**	–
Total	**12,030.9**	7,287.4	**7,788.2**	7,584.6	**586.3**	2,593.9

(i) Total revenue includes other income and inter-segment sales, recorded at amounts equal to competitive market prices charged to external customers for similar goods or services.

(ii) Revenue and assets are allocated based on geographical location of the legal entity.

B2. Profit from ordinary activities

a) Revenue and other income

	2018 $'m	2017 $'m
Sales revenue		
Rendering of services	**8,896.3**	5,773.5
Construction contracts	**2,788.9**	1,250.9
Sale of goods	**291.2**	220.1
Other revenue	**40.2**	22.6
Total revenue from ordinary activities	**12,016.6**	7,267.1
Fair value gain on available-for-sale asset(i)	**–**	19.1
Other income on available-for-sale asset(i)	**–**	0.7
Other	**14.3**	0.5
Other income	**14.3**	20.3
Total revenue and other income	**12,030.9**	7,287.4
Share of sales revenue from joint ventures and associates(ii)	**589.3**	524.9
Total revenue including joint ventures and associates and other income(ii)	**12,620.2**	7,812.3

(i) For 30 June 2017, this relates to other income and revaluation of initial 19.99% investment in Spotless at $1.15 per share. Refer to Note B2(b).

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

Recognition and measurement

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised if it meets the criteria below.

(i) Rendering of services

The Group primarily generates service revenue from the following activities:

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

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

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

(ii) Construction contracts

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

(iii) Sale of goods

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

(iv) Other revenue

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

Key estimate and judgement: Revenue recognition

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

B2. Profit from ordinary activities – continued

b) Individually significant items

2018

The following material items are relevant to an understanding of the Group's financial performance:

	Divestment of freight rail	Mining goodwill impairment	Auburn rail claim	Divisional merger costs	Spotless transaction related	2018 $'m
Employee benefit expense	–	–	–	(12.7)	(10.7)	(23.4)
Other expenses from ordinary activities	(50.2)	(76.4)	(25.0)	(15.8)	(17.3)	(184.7)
Loss before interest and tax	**(50.2)**	**(76.4)**	**(25.0)**	**(28.5)**	**(28.0)**	**(208.1)**
Net finance expense	–	–	–	–	(4.8)	(4.8)
Income tax benefit	9.6	–	7.5	8.5	8.7	34.3
Loss after income tax	**(40.6)**	**(76.4)**	**(17.5)**	**(20.0)**	**(24.1)**	**(178.6)**

Divestment of freight rail

On 21 November 2017, Downer entered an agreement to sell its freight rail business to Progress Rail for $109 million ($122.7 million after adjusting for working capital movements). As a result of the transaction, Downer recognised a non-cash pre-tax write down of assets held for sale of $50.2 million ($40.6 million after tax). Refer to Note F3 for further details.

Mining goodwill impairment

Following the identification of possible impairment indicators, the Group undertook an assessment of the carrying value of the Mining business. As a result of this assessment, a goodwill impairment of $76.4 million was recognised as at 31 December 2017. Refer to Note C7 for further details.

Auburn rail claim

Downer was unsuccessful in its claim against John Holland Pty Ltd and others in relation to ground subsidence at some locations within the Waratah Train Maintenance Centre located at Auburn. This claim was previously disclosed as a contingent liability.
The Auburn Rail claim costs represent legal and other costs incurred which were expected to be recovered as part of the proceedings. As a result of the unsuccessful claim, these costs were expensed.

Divisional merger costs

Divisional merger costs incurred across the Group following the creation of Mining, Energy & Industrial (MEI) and Transport and Infrastructure (TI) divisions. These costs include redundancies, onerous lease provision and asset write-offs.

Spotless transaction

Spotless transaction related costs are classified in the statement of profit or loss as at 30 June 2018 as follows:

2018 $'m	Earnings before interest and tax	Net Interest Expense	Income tax benefit	Profit after income tax
Spotless integration costs	**(7.3)**	–	**2.0**	**(5.3)**
Management redundancies and integration costs	**(9.4)**	**(3.3)**	**3.0**	**(9.7)**
Residual strategy reset costs	**(11.3)**	**(1.5)**	**3.7**	**(9.1)**
	(28.0)	**(4.8)**	**8.7**	**(24.1)**

For 30 June 2018, Spotless related transaction costs of $28.0 million includes $11.3 million of costs incurred in exiting contracts as part of Spotless' strategy reset; $7.3 million of integration costs incurred during the period and $9.4 million Spotless' management redundancies and other integration costs.

B2. Profit from ordinary activities – continued

b) Individually significant items – continued

2017

Spotless transaction

2017 $'m	Note	Earnings before interest and tax	Net finance income [iii]	Income tax expense	Profit after income tax
Spotless transaction costs[i]		(15.2)	–	–	(15.2)
Fair value gain on available-for-sale asset[ii]		19.1	–	(5.5)	13.6
Other income on available-for-sale asset[ii]		0.7	–	(0.2)	0.5
Net finance income on Spotless takeover bid and capital raising[iii]		–	1.7	(0.5)	1.2
	B1	4.6	1.7	(6.2)	0.1

(i) Transaction costs incurred in relation to the takeover of Spotless. The expenses are classified as "Other expenses from ordinary activities" in the statement of profit or loss for the year ended 30 June 2017.

(ii) Referable to the other income and revaluation of the initial 19.99% interest equivalent in Spotless (economic interest of 4.99% pursuant to a cash settled total return equity swap and 15.0% shareholding acquired immediately prior to the takeover bid) based on the offer share price of $1.15. The fair value gain is transferred from the available-for-sale reserve to profit or loss on obtaining control and is classified as "Other income" in the statement of profit or loss for the year ended 30 June 2017.

(iii) Net interest income from the capital raising proceeds received in relation to the Spotless acquisition. The net interest income is classified as part of "Net finance costs" in the statement of profit or loss for the year ended 30 June 2017.

Bid costs written-off

	2018 $'m	2017 $'m
New Intercity Fleet rail project[i]	–	(10.0)
NZ Schools PPP project[ii]	–	(3.0)
	–	(13.0)

(i) Downer was a member of the Constellation Rail consortium. On 18 August 2016, the consortium was advised that it had not been successful in its bid to deliver and maintain the New Intercity Fleet (NIF) for Transport for NSW. Accordingly, an amount of $10.0 million, referable to Downer's share of pre-tax bid costs, has been expensed and classified as "Other expenses from ordinary activities" in the statement of profit or loss for the year ended 30 June 2017.

(ii) Downer was a member of the Creative Learning consortium. On 17 January 2017, the consortium was advised that it had not been successful in its bid to design, construct and maintain the NZ Schools PPP project for the Ministry of Education. Accordingly, an amount of $3.0 million, referable to Downer's share of pre-tax bid costs, has been expensed and classified as "Other expenses from ordinary activities" in the statement of profit or loss for the year ended 30 June 2017.

B3. Earnings per share

Basic earnings per share

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

	2018	2017
Profit attributable to members of the parent entity ($'m)	**71.4**	181.5
Adjustment to reflect ROADS dividends paid ($'m)	**(8.0)**	(8.6)
Profit attributable to members of the parent entity used in calculating EPS ($'m)	**63.4**	172.9
Weighted average number of ordinary shares (WANOS) on issue (m's)	**590.5**	483.6
Basic earnings per share (cents per share)	**10.7**	35.8

B3. Earnings per share – continued

Diluted earnings per share

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

	2018	2017
Profit attributable to members of the parent entity ($'m)	**71.4**	181.5
Weighted average number of ordinary shares		
– Weighted average number of ordinary shares (WANOS) on issue (m's)(i)	**590.5**	483.6
– WANOS adjustment to reflect potential dilution for ROADS (m's)(ii)	**27.8**	35.3
WANOS used in the calculation of diluted EPS (m's)	**618.3**	518.9
Diluted earnings per share (cents per share)(iii)	**10.7**	35.0

(i) For diluted EPS, the WANOS has been further adjusted by the potential vesting of executive incentive shares.

(ii) 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 $183.4 million (2017: $190.5 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2017 to 30 June 2018 discounted by 2.5% according to the ROADS contract terms, which was $6.60 (2017: $5.40).

(iii) At 30 June 2018, the ROADS are deemed anti-dilutive and consequently, diluted EPS remained at 10.7 cents per share.

B4. Taxation

a) Reconciliation of income tax expense

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

	2018 $'m	2017 $'m
Profit before income tax	**123.7**	251.0
Tax using the Company's statutory tax rate	**37.1**	75.3
Effect of tax rates in foreign jurisdictions	**(1.3)**	(1.3)
Non-deductible expenses	**1.0**	6.2
Profits and franked distributions from joint ventures and associates	**(5.6)**	(5.1)
Non-taxable government grant	**(2.6)**	(2.6)
Impairment of goodwill	**22.9**	–
Non-taxable gains / losses	**(1.8)**	–
Other items	**1.2**	(0.8)
Under / (over) provision of income tax in previous year	**1.7**	(2.2)
Total income tax expense	**52.6**	69.5
Current tax expense	**49.2**	68.7
Deferred tax expense	**3.4**	0.8

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

B4. Taxation – continued

Recognition and measurement

Current tax

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

Deferred tax

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

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

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

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

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

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

Offsetting deferred tax balances

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

Tax consolidation

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

Key estimate and judgement: Recovery of deferred tax assets

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

Key estimate and judgement: Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Judgement is required 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.

B4. Taxation – continued

b) Movement in deferred tax balances

2018 $'m	Restated Net balance at 1 July	Charged to income statement	Charged to comprehensive income and equity	Net foreign currency exchange differences	Acquisition and disposal	Net balance at 30 June	Deferred tax assets	Deferred tax liabilities
Trade and other receivables	(103.0)	1.6	–	0.8	0.1	(100.5)	–	(100.5)
Inventories	(9.8)	9.8	–	–	–	–	–	–
Joint ventures and associates	(1.1)	0.2	–	–	–	(0.9)	–	(0.9)
Property, plant and equipment	(12.9)	(19.3)	–	–	–	(32.2)	–	(32.2)
Intangible assets	(166.6)	19.0	–	–	(16.5)	(164.1)	–	(164.1)
Income tax losses	25.1	7.4	–	–	–	32.5	32.5	–
Trade and other payables	20.8	12.9	–	0.3	0.5	34.5	34.5	–
Provisions	156.5	(33.2)	–	(0.2)	6.3	129.4	129.4	–
Other	5.0	(1.8)	1.6	0.1	1.7	6.6	6.6	–
Tax assets / (liabilities) before set-off	**(86.0)**	**(3.4)**	**1.6**	**1.0**	**(7.9)**	**(94.7)**	**203.0**	**(297.7)**
Set-off of DTA against DTL	–					–	(127.5)	127.5
Net tax assets / (liabilities)	**(86.0)**					**(94.7)**	**75.5**	**(170.2)**

2017 $'m	Net balance at 1 July	Charged to income statement	Charged to comprehensive income and equity	Net foreign currency exchange differences	Acquisition and disposal	Net balance at 30 June	Adjustment to opening balances	Restated Net balance at 1 July[i]	Deferred tax assets[i]	Deferred tax liabilities[i]
Trade and other receivables	(121.0)	3.6	–	–	1.1	(116.3)	13.3	(103.0)	–	(103.0)
Inventories	(3.7)	(6.2)	–	–	0.1	(9.8)	–	(9.8)	–	(9.8)
Joint ventures and associates	(1.3)	0.2	–	–	–	(1.1)	–	(1.1)	–	(1.1)
Property, plant and equipment	(21.7)	(7.2)	–	–	12.9	(16.0)	3.1	(12.9)	–	(12.9)
Intangible assets	(18.2)	1.8	–	–	(24.6)	(41.0)	(125.6)	(166.6)	–	(166.6)
Income tax losses	–	–	–	–	25.1	25.1	–	25.1	25.1	–
Trade and other payables	8.4	11.5	–	–	0.9	20.8	–	20.8	20.8	–
Provisions	99.6	1.0	–	–	56.6	157.2	(0.7)	156.5	156.5	–
Other	0.2	(5.5)	6.0	–	(16.4)	(15.7)	20.7	5.0	5.0	–
Tax assets / (liabilities) before set-off	(57.7)	(0.8)	6.0	–	55.7	3.2	(89.2)	(86.0)	207.4	(293.4)
Set-off of DTA against DTL	–					–		–	(111.6)	111.6
Net tax assets / (liabilities)	(57.7)					3.2		(86.0)	95.8	(181.8)

(i) June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances.

B5. Remuneration of auditors

	2018 $	2017 $
Audit or review of financial reports:		
Auditor of the Group – KPMG		
Australia	**3,929,000**	2,546,000
Overseas	**721,000**	667,000
	4,650,000	3,213,000
Auditor review of financial reports – Ernst & Young(i)	**–**	1,600,000
	4,650,000	4,813,000
Non-audit services – KPMG		
Tax services	**556,106**	719,955
Sustainability assurance	**278,634**	217,000
Due diligence and other non-audit services	**950,457**	1,066,814
	1,785,197	2,003,769

(i) In 2017, audit fees were paid by Spotless Group Holdings Limited for the full year audit, which includes the period prior to Downer taking control of Spotless.

B6. Subsequent events

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

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

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

c) The Group's state of affairs in future financial years.

C
Operating assets and liabilities

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

C1. Reconciliation of cash and cash equivalents

(a) Reconciliation of cash flows from operating activities

	Note	2018 $'m	2017 $'m
Profit after tax for the year		**71.1**	181.5
Adjustments for:			
Share of joint ventures and associates' profits net of distributions		**(8.2)**	(4.6)
Depreciation and amortisation of non-current assets	C6,C7	**370.2**	220.2
Amortisation of deferred costs		**5.7**	3.0
Net (gain) / loss on sale of property, plant and equipment		**(14.2)**	1.2
Loss on disposal of business	B2(b)	**40.6**	–
Impairment of intangibles	B2(b)	**76.4**	–
Research and development incentives		**(8.7)**	(8.5)
Foreign exchange gains		**(0.1)**	(0.5)
Movement in current tax balances		**(7.5)**	19.7
Movement in deferred tax balances		**13.7**	0.8
Share-based employee benefits expense	D1	**2.8**	5.6
Fair value gain on available-for-sale assets	B2(b)	**–**	(19.1)
Bid costs written off	B2(b)	**–**	13.0
Other		**0.7**	2.7
		471.4	233.5
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase) / decrease in assets:			
Current trade and other receivables		**(479.1)**	(159.8)
Current inventories		**(17.2)**	38.7
Other current assets		**6.3**	0.2
Non-current trade and other receivables		**(53.8)**	(5.1)
Other non-current assets		**12.1**	(0.4)
Increase / (decrease) in liabilities:			
Current trade and other payables		**607.7**	160.7
Current financial liabilities		**21.2**	3.3
Current provisions		**(41.8)**	(4.8)
Non-current trade and other payables		**(13.9)**	(10.2)
Non-current financial liabilities		**10.2**	16.9
Non-current provisions		**(10.9)**	(12.9)
		40.8	26.6
Net cash generated by operating activities		**583.3**	441.6

C1. Reconciliation of cash and cash equivalents – continued

(b) Reconciliation of liabilities arising from financing activities

$'m	1 July 2017	Net cash flows	Amortisation and foreign exchange movement	30 June 2018
Interest bearing loans	1,409.2	87.6	7.9	**1,504.7**
Finance lease liabilities	35.8	(18.4)	(0.9)	**16.5**
Total liabilities from financing activities	1,445.0	69.2	7.0	**1,521.2**

(c) Cash and cash equivalents

	2018 $'m	2017 $'m
For the purpose of the statement of cash flows, cash and cash equivalents comprises:		
Cash(i)	**321.4**	784.5
Short-term deposits	**284.8**	60.1
	606.2	844.6

(i) As at 30 June 2017, in accordance with the Business Sale Agreement, the completion payment for the assets of Cabrini Health Limited ($20.0 million) was held on trust for Spotless (restricted cash) and released to Cabrini Health Limited on 1 July 2017.

C2. Trade and other receivables

	Note	2018 $'m	2017(i) $'m
Current			
Trade receivables		**842.0**	757.1
Allowance for doubtful debts		**(15.3)**	(7.1)
		826.7	750.0
Amounts due from customers under contracts and rendering of services	C3	**1,203.4**	908.3
Other receivables		**91.8**	63.7
		2,121.9	1,722.0
Ageing profile of trade receivables			
Neither past due nor impaired		**702.0**	675.1
Past due but not impaired		**124.7**	74.9
Impaired		**15.3**	7.1
		842.0	757.1

(i) June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances.

Recognition and measurement

Trade receivables

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

Fair value

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

Impairment of trade receivables

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

Capitalisation of tender / bid costs

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

Key estimate and judgement: Capitalisation of tender / bid costs

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

C3. Rendering of services and construction contracts

	Note	2018 $'m	2017 $'m
Cumulative contracts in progress as at reporting date:			
Cumulative costs incurred plus recognised profits less recognised losses to date		**5,019.9**	7,361.4
Less: progress billings		**(4,226.7)**	(6,741.3)
Net amount		**793.2**	620.1
Recognised and included in the financial statements as amounts due:			
From customers under contracts	C2	**1,203.4**	908.3
To customers under contracts	C5	**(410.2)**	(288.2)
Net amount		**793.2**	620.1

Recognition and measurement

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

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

C4. Inventories

	2018 $'m	2017 $'m
Current		
Raw materials	**176.9**	187.8
Work in progress	**0.2**	0.1
Finished goods	**47.6**	66.5
Components and spare parts	**44.1**	47.3
	268.8	301.7

Recognition and measurement

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

C5. Trade and other payables

	Note	2018 $'m	2017 $'m
Current			
Trade payables		**674.2**	527.6
Amounts due to customers under contracts and rendering of services	C3	**410.2**	288.2
Amounts owing in relation to Spotless shares acceptance	F2	**–**	110.8
Accruals		**1,084.4**	732.8
Other		**112.8**	101.6
		2,281.6	1,761.0

Recognition and measurement

Trade and other payables

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

Fair value

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

C6. Property, plant and equipment

2018 $'m	Freehold land and buildings	Plant, equipment and leasehold improve-ments	Equipment under finance lease	Laundries rental stock	Total
Carrying amount as at 1 July 2017 (restated)(iii)	**129.4**	**1,061.2**	**52.3**	**37.5**	**1,280.4**
Additions	**0.5**	**322.9**	**7.9**	**36.2**	**367.5**
Disposals at net book value	**(5.6)**	**(14.9)**	**(14.4)**	**–**	**(34.9)**
Acquisition of businesses(i)	**–**	**3.2**	**7.6**	**1.5**	**12.3**
Disposal of business at net book value	**–**	**(60.0)**	**–**	**–**	**(60.0)**
Depreciation expense	**(5.1)**	**(229.5)**	**(10.3)**	**(33.4)**	**(278.3)**
Reclassifications at net book value	**–**	**26.5**	**(29.1)**	**2.6**	**–**
Reclassified as intangible assets(ii)	**–**	**(0.3)**	**–**	**–**	**(0.3)**
Net foreign currency exchange differences at net book value	**(0.4)**	**(2.8)**	**0.1**	**(3.2)**	**(6.3)**
Closing net book value as at 30 June 2018	**118.8**	**1,106.3**	**14.1**	**41.2**	**1,280.4**
Cost	**155.1**	**2,488.7**	**34.1**	**74.0**	**2,751.9**
Accumulated depreciation	**(36.3)**	**(1,382.4)**	**(20.0)**	**(32.8)**	**(1,471.5)**
2017					
Carrying amount as at 1 July 2016	68.5	859.9	59.9	–	988.3
Additions	7.4	212.7	2.2	–	222.3
Disposals at net book value	(0.1)	(17.6)	(0.2)	–	(17.9)
Acquisition of businesses (restated)(iii)	57.4	180.2	17.5	37.5	292.6
Depreciation expense	(4.7)	(182.3)	(6.2)	–	(193.2)
Reclassifications at net book value	1.0	18.7	(19.7)	–	–
Reclassified as intangible assets(ii)	–	(7.2)	–	–	(7.2)
Net foreign currency exchange differences at net book value	(0.1)	(3.2)	(1.2)	–	(4.5)
Closing net book value as at 30 June 2017 (restated)(iii)	**129.4**	**1,061.2**	**52.3**	**37.5**	**1,280.4**
Cost (restated)(iii)	160.9	2,355.4	92.7	37.5	2,646.5
Accumulated depreciation	(31.5)	(1,294.2)	(40.4)	–	(1,366.1)

(i) The values recognised are based on the fair value of assets acquired from the business acquisitions made during the year ended 30 June 2018, for which the accounting on certain transactions remains provisional. Refer to Note F2.

(ii) Refers to the reclassification of software from Capital work in progress to Intangible assets.

(iii) June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances. Refer to Note F2.

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	20-50 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	3-25 years	Straight-line
Equipment under finance lease	5-15 years	Straight-line – lease term
Laundries rental stock	18 months-5 years	Straight-line

Key estimate and judgement: Useful lives and residual values

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

C7. Intangible assets

2018 $'m	Goodwill	Customer contracts and relationships	Brand names on acquisition	Intellectual property on acquisition	Software and system development	Total
Carrying amount as at 1 July 2017 (restated)(iii)	**2,341.1**	**409.1**	**56.9**	**3.5**	**220.6**	**3,031.2**
Additions	**–**	**–**	**–**	**–**	**46.4**	**46.4**
Disposals at net book value	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Acquisition of businesses(i)	**105.0**	**34.5**	**21.7**	**(1.1)**	**–**	**160.1**
Disposal of business at net book value	**(14.2)**	**–**	**–**	**–**	**–**	**(14.2)**
Reclassifications at net book value(ii)	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Amortisation expense	**–**	**(62.6)**	**(3.9)**	**(0.2)**	**(25.2)**	**(91.9)**
Impairment of goodwill	**(76.4)**	**–**	**–**	**–**	**–**	**(76.4)**
Net foreign currency exchange differences at net book value	**(4.0)**	**0.1**	**–**	**–**	**(0.7)**	**(4.6)**
Closing net book value as at 30 June 2018	**2,351.5**	**381.1**	**74.7**	**2.2**	**241.2**	**3,050.7**
Cost	**2,503.9**	**463.8**	**78.7**	**2.4**	**394.9**	**3,443.7**
Accumulated amortisation and impairment	**(152.4)**	**(82.7)**	**(4.0)**	**(0.2)**	**(153.7)**	**(393.0)**
2017						
Carrying amount as at 1 July 2016	805.3	37.1	–	–	127.5	969.9
Additions	–	–	–	–	38.5	38.5
Acquisition of businesses (restated)(iii)	1,533.0	379.2	57.1	3.5	67.7	2,040.5
Disposals of business at net book value	–	–	–	–	(0.7)	(0.7)
Reclassifications at net book value(ii)	–	–	–	–	7.2	7.2
Amortisation expense	–	(7.2)	(0.2)	–	(19.6)	(27.0)
Net foreign currency exchange differences at net book value	2.8	–	–	–	–	2.8
Closing net book value as at 30 June 2017 (restated)(iii)	**2,341.1**	**409.1**	**56.9**	**3.5**	**220.6**	**3,031.2**
Cost (restated)(iii)	2,417.1	429.3	57.1	3.5	359.2	3,266.2
Accumulated amortisation and impairment	(76.0)	(20.2)	(0.2)	–	(138.6)	(235.0)

(i) The values recognised are based on the fair value of assets acquired from the business acquisitions made during the year ended 30 June 2018, for which the accounting on certain transactions remains provisional. Refer to Note F2.

(ii) Refers to the reclassification of software from Capital work in progress to Intangible assets.

(iii) June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances. Refer to Note F2.

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

Amortisation

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

Item	Useful Life
Software and system development	5-15 years
Brand names	20 years
Customer contracts and relationships	1-20 years
Intellectual property acquired	15-20 years
Other intangible assets (other than indefinite useful life intangible assets)	20 years

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

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

		Carrying value of consolidated goodwill	
	Note	2018 $'m	2017 $'m
Transport(i)		**253.8**	251.0
Utilities(iv)		**348.4**	322.9
Rail(ii)		**55.3**	69.5
EC&M(i)		**281.9**	239.2
Mining(iii)	B2(b)	**–**	76.4
Spotless(iv)		**1,412.1**	1,382.1
		2,351.5	2,341.1

(i) Included in this amount is the goodwill for certain acquisitions made during the year ended 30 June 2018, for which the accounting remains provisional.

(ii) Rail CGU goodwill reduced following disposal of the Freight Rail business during the period. Refer to Note F3.

(iii) The goodwill of the Mining CGU was fully impaired following an assessment of the carrying value of the CGU.

(iv) June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances.

Key estimate and judgement: Impairment of assets

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

C7. Intangible assets – continued

Recoverable amount testing – key assumptions

The carrying value of Transport, Utilities, EC&M and Rail CGUs has been completed using a "value in use" model, consistent with prior periods. Following the impairment of the goodwill allocated to the Mining CGU as at 31 December 2017, the Mining CGU no longer carries an indefinite useful life intangible asset and therefore, impairment assessment is required only when an indicator of impairment exists. There were no indicators of impairment for the Mining CGU as at 30 June 2018.

The recoverable amount of the Spotless CGU is assessed as the fair value less costs of disposal ("FVLCOD") estimated using discounted cash flows. The table below shows the key assumptions utilised in the "value in use" and FVLCOD calculations.

	Budgeted EBITDA(i)	Long-term growth rate	Discount rate
Transport	1.9%	2.5%	9.8%
Utilities	0.3%	2.5%	9.8%
Rail	5.5%	2.5%	10.3%
EC&M	9.4%	2.5%	9.8%
Mining	7.3%	2.5%	11.0%
Spotless	7.3%	2.5%	8.5%

(i) Budgeted EBITDA used for impairment testing is expressed as the compound annual growth rates from FY18 to terminal year based on the CGUs business plan.

(i) Projected cash flows

Value in use calculation

The Group determines the value in use calculations recoverable amount, using three year cash flow projections based on the FY19 budget for the year ending 30 June 2019 and the business plan for the subsequent financial years ending 30 June 2020 and 2021 (as discussed with the Board). For FY22 onwards, the Group assumes a long-term growth rate to allow for organic growth on the existing asset base.

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

Budgeted EBITDA has been based on past experience and the Group's assessment of economic and regulatory factors affecting the industry within which the Downer businesses operate:

- Transport is expected to benefit from an increase in activity in the transport infrastructure sector;
- Utilities is expected to benefit from an increase in activity across the electricity, water and renewables sectors partially offset by the potential reduction in revenue from its existing significant telecommunication contracts;
- Rail is expected to benefit from the two major projects (High Capacity Metro Trains and Sydney Growth Trains) in both the construction and long-term maintenance phases. In addition, closer integration with strategic partners is expected to continue to contribute to revenue and EBITDA growth; and
- EC&M's revenue and EBITDA include assumptions that take into account the cyclical nature of the resources industry and various growth opportunities.

FVLCOD calculations

As mentioned above, the Group determines the recoverable amount of the Spotless CGU using a FVLCOD calculation which is estimated using discounted cash flows. Key assumptions used in the estimation of the recoverable amount are described in the table above.

Similarly to the other CGUs, a three-year cash flow projection, based on the EBITDA as per the FY19 budget and the business plan for FY20 and FY21 was utilised. For FY22 onwards, the Group assumes a long-term growth rate to allow for organic growth on the existing asset base. Adjustments are made to these projections to include assumptions that a market participant would make, such as cash flows relating to restructuring and integration.

The cash flow projection is then adjusted to exclude tax, capital maintenance spending and working capital changes to provide a "free cash flow estimate" which is then discounted to its present value using a post-tax rate that reflects the current assessment of the time value of money.

Spotless' revenue and EBITDA was estimated taking into account contracted work and the expected impact from business improvement initiatives and the expected benefit from growth opportunities in the Government sector.

(ii) Long-term growth rates

The future annual growth rates for FY22 onwards to perpetuity are based on the historical nominal GDP rates for the country of operation.

C7. Intangible assets – continued

Recoverable amount testing – key assumptions – continued

(iii) Discount rates

Post-tax discount rates of between 8.5% and 11.0% reflect the Group's estimate of the time value of money and risks specific to each CGU. In determining the appropriate discount rate for each CGU, consideration has been given to the estimated weighted average cost of capital (WACC) for the Group adjusted for country and business risks specific to that CGU, including benchmarking against relevant peer group companies. The post-tax discount rate is applied to post-tax cash flows that include an allowance for tax based on the respective jurisdiction's tax rate. This method is used to approximate the requirement of the accounting standards to apply a pre-tax discount rate to pre-tax cash flows.

(iv) Budgeted capital expenditure

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

(v) Budgeted working capital

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

Sensitivities

The Group believes that for all CGUs, any reasonably possible change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amounts.

C8. Provisions

2018 $'m	Decommissioning and restoration	Warranties and contract claims	Onerous contracts and other	Total
At 1 July 2017[i]	41.6	17.4	64.3	123.3
Additional provisions recognised	3.6	7.2	17.2	28.0
Unused provision reversed	(7.3)	(2.4)	(10.6)	(20.3)
Utilisation of provision	(5.5)	(5.1)	(26.8)	(37.4)
Acquisition of businesses	0.8	2.8	23.1	26.7
Disposal of business	–	–	(4.4)	(4.4)
Net foreign currency exchange differences	(0.1)	(0.1)	0.1	(0.1)
At 30 June 2018	33.1	19.8	62.9	115.8
Current	11.8	18.1	20.8	50.7
Non-current	21.3	1.7	42.1	65.1

(i) June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances. Refer to Note F2.

Recognition and measurement

Provisions

Provisions are recognised when:

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

(i) Decommissioning and restoration

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

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

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

C8. Provisions – continued

(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 customers, supply contracts, surplus lease contracts and return conditions provisions for leased assets. The Group has leases that require the leased asset to be returned to the lessor in a certain condition.

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

Key estimate and judgement: Provisions

(i) Decommissioning and restoration

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

(ii) Warranties and contract claims

The provision is estimated having regard to previous claims experience.

(iii) 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.

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

C9. Contingent liabilities

Bonding	Note	2018 $'m	2017 $'m
The Group has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for wholly-owned controlled entities	E2	**1,341.6**	1,185.5

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

C9. Contingent liabilities – continued

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

vi) Ground subsidence at the Waratah Train Maintenance Centre, located on Manchester Road, Auburn ("AMC") has been identified. The design and construction of the AMC formed part of the Waratah Train Project, with Reliance Rail contracting Downer to design and build the AMC. In turn, Downer subcontracted this work to John Holland Pty Ltd. The design and construction of the areas in which subsidence has been observed formed part of the subcontractor's design and construct obligations. On 20 March 2018, Downer received the decision of the NSW Supreme Court in respect of the AMC claim. Downer's claim was not successful. Downer has recognised $25 million in relation to rectification, legal and other costs which were expected to be recovered as part of the proceedings, which are disclosed as Individually Significant Items (refer to Note B2(b)). Downer has filed a Notice of Appeal in relation to aspects of the decision.

vii) On 16 September 2015, the Group announced that it had terminated a contract with Tecnicas Reunidas S.A. ("TR") following TR's failure to remedy a substantial breach of the contract and that the Group was pursuing a claim against TR in the order of $65 million. Downer has since demobilised from the site and has commenced a claim that will be determined via an arbitration process, with a hearing date currently scheduled to commence in February 2019. TR has initiated a counter-claim, which is being defended by Downer. The Directors are of the opinion that disclosure of any further information relating to this matter would be prejudicial to the interests of the Group.

viii) In September 2017 Spotless commenced a Facilities Management Subcontract ('Subcontract') at the new Royal Adelaide Hospital ('nRAH'). Spotless' Subcontract is with Celsus, which has a head contract with the South Australian Government under a Public Private Partnership model.

Spotless has previously announced that the Subcontract is a cash negative underperforming contract and that Spotless is working to resolve various commercial and operational issues which include significant preliminary claims and counter claims (including the application of some abatements, which are disputed by Spotless). Discussions between Spotless, Celsus and the South Australian Government are ongoing and most recently, a formal process has commenced (as set out in a Process Suspension Deed dated 20 June 2018) to enable the parties to address the various commercial and operational issues affecting the delivery of services at the nRAH ('Standstill Discussions').

In the event that Spotless is not successful in either reaching agreement as part of the Standstill Discussions or via arbitration proceedings then Spotless is likely to incur operating losses up until September 2022 being the five year anniversary of the Subcontract term, at which point Spotless has the ability to trigger a re-pricing process. In this scenario, the estimated present value of the losses would be $93.8 million (after tax) as at 30 June 2018, excluding abatements that are disputed by Spotless which the Company does not consider to be probable.

ix) On 25 May 2017, Alison Court, as applicant, filed a representative proceeding in the Federal Court of Australia on behalf of shareholders who acquired Spotless shares from 25 August 2015 to 1 December 2015. The applicant under this proceeding alleges that Spotless engaged in misleading or deceptive conduct and/or breached its continuous disclosure obligations in relation to Spotless financial results for the financial year ended 30 June 2015 and in its conduct following the release of those financial results until Spotless issued its trading update of 2 December 2015. The applicant seeks damages, declarations, interest and costs. Spotless is vigorously defending the proceeding. No provision has been recognised at 30 June 2018 in respect of the representative proceedings.

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

	2018 $'m	2017 $'m
Employee benefits provision:		
– Current	**336.7**	365.4
– Non-current	**38.0**	38.2
Total	**374.7**	403.6

Recognition and measurement

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

Key estimate and judgement: Annual leave and long service leave

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

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

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

	2018 $'m	2017 $'m
Employee benefits expense:		
– Defined contribution plans	**219.2**	170.5
– Shared-based employee benefits expense	**2.8**	5.6
– Employee benefits	**3,812.2**	2,611.2
Total	**4,034.2**	2,787.3

D2. Key management personnel compensation

	2018 $	2017 $
Short-term employee benefits	**14,236,432**	13,742,489
Post-employment benefits	**310,779**	836,489
Share-based payments	**2,841,759**	2,929,596
Total	**17,388,970**	17,508,574

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 the profit or loss and credited to equity over the vesting period. At each balance sheet date, the Group revises its estimates of the number of rights that are expected to vest for service and non-market performance conditions. The expense recognised each year takes into account the most recent estimate.

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

Cash-settled transactions

The amount payable to employees in respect of cash-settled share-based payments is recognised as an expense, with a corresponding increase in liabilities, over the period 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.

D3. Employee discount share plan

No shares were issued under the Employee Discount Share Plan during the years ended 30 June 2018 and 30 June 2017.

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

	Note	2018 $'m	2017 $'m
Current			
Secured:			
– Finance lease liabilities	E3(d)	**5.1**	20.4
– Hire purchase liabilities	E3(e)	**0.2**	0.4
		5.3	20.8
Unsecured:			
– Bank loans		**2.1**	836.4
– Medium term notes		**150.0**	13.3
– Deferred finance charges		**(3.7)**	(7.3)
		148.4	842.4
Total current borrowings		**153.7**	863.2
Non-current			
Secured:			
– Finance lease liabilities	E3(d)	**11.2**	14.8
– Hire purchase liabilities	E3(e)	**–**	0.2
		11.2	15.0
Unsecured:			
– Bank loans		**817.7**	2.1
– USD private placement notes		**144.7**	139.1
– AUD private placement notes		**30.0**	30.0
– Medium term notes		**372.2**	400.0
– Deferred finance charges		**(8.3)**	(4.4)
		1,356.3	566.8
Total non-current borrowings		**1,367.5**	581.8
Total borrowings		**1,521.2**	1,445.0
Fair value of total borrowings(i)		**1,561.8**	1,466.0

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

E1. Borrowings – continued

Recognition and measurement

Borrowings

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

Fair value

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

E2. Financing facilities

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

	2018 $'m	2017 $'m
Syndicated bank bridge loan facility	–	500.0
Syndicated bank loan facilities	**780.0**	500.0
Bilateral bank loan facilities	**145.0**	190.0
Total unutilised bank loan facilities	**925.0**	1,190.0
Syndicated and bilateral bank and bilateral insurance bonding facilities	**574.3**	738.3
Total unutilised bonding facilities	**574.3**	738.3

Summary of borrowing arrangements

Bank loan facilities

Bilateral bank loan facilities:

- A total of $245.0 million in bilateral bank loan facilities are committed and unsecured facilities with maturities in calendar years 2019, 2020 and 2021.

Syndicated bank bridge loan facility:

- The syndicated bank bridge loan facility limit of $500.0 million was terminated in February 2018 at the election of Downer.

Syndicated loan facilities:

During the financial year, Downer terminated a $200.0 million tranche of an existing $400.0 million syndicated bank loan facility and $400.0 million of new syndicated bank loan facilities were established in May 2018. The $600.0 million of syndicated bank loan facilities are unsecured, revolving committed facilities and comprise the following tranches:

- $200 million maturing April 2021;
- $200 million maturing May 2022; and
- $200 million maturing May 2023.

Spotless' bank loan facilities were refinanced in full in May 2018. Given that Downer's interest in Spotless remains below 90%, the new facilities were established on a standalone basis. The syndicated loan facilities are on an unsecured, committed basis and comprise Australian Dollar and New Zealand Dollar tranches as follows:

- $280 million revolving tranche maturing May 2021;
- NZD75 million revolving tranche maturing May 2021;
- NZD75 million term tranche maturing May 2021;
- $280 million revolving tranche maturing May 2022; and
- $200 million term tranche maturing May 2022.

USD private placement notes

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

- $150.0 million maturing November 2018;
- $250.0 million maturing March 2022; and
- JPY10.0 billion maturing May 2033.

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

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

E2. Financing facilities – continued

Summary of borrowing arrangements – continued

Finance lease / Hire purchase facilities

The Group has certain secured facilities of these types which are for an aggregate amount of $16.5 million and which amortise over different periods of up to five years.

Covenants on financing facilities

Downer Group's financing facilities contain undertakings to comply with financial covenants. These require that the Group operates within certain financial ratios and ensure that Group guarantors of these facilities collectively meet the minimum threshold amounts of Group EBIT and Group Total Tangible Assets.

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

Financial covenants testing is undertaken and reported to the Downer Board on a monthly basis. Reporting of financial covenants to financiers occurs semi-annually for the rolling 12-month periods to 30 June and 31 December. The Downer Group was in compliance with all its financial covenants as at 30 June 2018.

Spotless' financing facilities contain undertakings to comply with financial covenants. The main financial covenants that Spotless is subject to are Net Leverage (Net Debt to EBITDA) and Interest Service Coverage (rolling 12-month EBITDA to Net Total Cash Interest) as well as ensuring that the guarantors under various facilities collectively meet the minimum threshold amounts of Group EBITDA and Group Total Assets.

Financial covenants are reviewed by the Spotless Board and reported to financiers on a semi-annual basis. Spotless was in compliance with all its financial covenants as at 30 June 2018.

Bonding

The Group has $1,915.9 million of bank guarantee and insurance bond facilities to support its contracting activities. $1,032.5 million of these facilities are provided to the Group on a committed basis and $883.4 million on an uncommitted basis. Included in these facilities is a syndicated $210.0 million committed revolving bank guarantee facility for the specific purpose of a passenger rail manufacturing contract and of which $142.9 million is utilised and $67.1 million is unutilised.

The Group's bonding facilities are provided by a number of banks and insurance companies on an unsecured and revolving basis. These facilities are supported by Group guarantees representing certain minimum threshold amounts of Group EBIT and Group Total Tangible Assets (for Downer) and Group EBITDA and Group Total Assets (for Spotless). $1,341.6 million (refer to Note C9) of these facilities were utilised as at 30 June 2018 with $574.3 million unutilised. These facilities have varying maturity dates between calendar years 2018 and 2020.

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

The Group has the flexibility in respect of certain committed facility amounts (shown as part of the unutilised bilateral bank loan facilities) which can at the election of the Group be utilised for bonding purposes.

Refinancing requirements

Where existing facilities approach maturity, the Group will negotiate with existing and, where required, with new financiers to extend the maturity date of or refinance these facilities. The Group's financial metrics and credit rating as well as conditions in financial markets and other factors may influence the outcome of these negotiations.

Credit ratings

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

E3. Commitments

	Note	2018 $'m	2017 $'m
a) Capital expenditure commitments			
Plant and equipment and other			
Within one year		**60.3**	74.2
Between one and five years		**14.4**	14.0
		74.7	88.2
b) Operating lease commitments			
Non-cancellable operating leases relate to premises with lease terms of between one to 20 years.			
Within one year		**79.3**	79.0
Between one and five years		**225.4**	201.9
Greater than five years		**148.8**	157.1
		453.5	438.0
Non-cancellable operating leases relate to plant and equipment with lease terms of between one to ten years.			
Within one year		**65.2**	71.8
Between one and five years		**84.8**	91.9
Greater than five years		**7.2**	6.9
		157.2	170.6
c) Catering rights			
Catering rights relates to exclusive secured catering rights arrangements with customers.			
Within one year		**26.9**	28.7
Between one and five years		**81.8**	92.8
Greater than five years		**12.0**	9.1
		120.7	130.6
d) Finance lease commitments			
Finance leases relate to plant and equipment with lease terms of between one to five years.			
Within one year		**6.1**	21.5
Between one and five years		**11.6**	15.3
Minimum finance lease payments		**17.7**	36.8
Future finance charges		**(1.4)**	(1.6)
Finance lease liabilities		**16.3**	35.2
Included in the financial statements as:			
Current borrowings	E1	**5.1**	20.4
Non-current borrowings	E1	**11.2**	14.8
		16.3	35.2
e) Hire purchase liabilities			
Within one year		**0.2**	0.4
Between one and five years		**–**	0.2
Minimum hire purchase payments		**0.2**	0.6
Hire purchase liabilities		**0.2**	0.6
Included in the financial statements as:			
Current borrowings	E1	**0.2**	0.4
Non-current borrowings	E1	**–**	0.2
		0.2	0.6
f) Operating lease expenses			
Operating lease expenses relating to land and buildings		**81.8**	70.2
Operating lease expenses relating to plant and equipment		**121.1**	92.9
Total operating lease expenses		**202.9**	163.1

E3. Commitments – continued

Recognition and measurement

Leases

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

(i) Operating leases

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

(ii) Finance leases

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

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

E4. Issued capital

	2018 $'m	2017 $'m
Ordinary shares		
594,702,512 ordinary shares (2017: 594,702,512)	**2,263.1**	2,263.2
Unvested executive incentive shares		
4,207,358 ordinary shares (2017: 4,257,373)	**(19.8)**	(20.0)
200,000,000 Redeemable Optionally Adjustable Distributing Securities (ROADS) (2017: 200,000,000)	**178.6**	178.6
	2,421.9	2,421.8

a) Fully paid ordinary share capital

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

	2018		2017	
	m's	$'m	m's	$'m
Fully paid ordinary share capital				
Balance at the beginning of the financial year	**594.7**	**2,263.2**	424.8	1,270.2
Capital raising(i)	**–**	**–**	169.9	1,011.0
Capital raising costs net of tax	**–**	**(0.1)**	–	(18.0)
Balance at the end of the financial year	**594.7**	**2,263.1**	594.7	2,263.2
b) Unvested executive incentive shares				
Balance at the beginning of the financial year	**4.3**	**(20.0)**	4.5	(21.0)
Vested executive incentive share transactions(ii)	**(0.1)**	**0.2**	(0.2)	1.0
Balance at the end of the financial year	**4.2**	**(19.8)**	4.3	(20.0)

(i) Relates to 169.9 million shares issued from capital raising as part of the Spotless takeover offer where two new shares for every five outstanding shares were issued at a discounted price of $5.95 per share.

(ii) June 2018 figures referable to the second deferred component of the 2015 STI award and the first deferred component of the 2016 STI award totalling 50,015 vested shares for a value of $192,660.

June 2017 figures referable to the second deferred component of the 2014 STI award and the first deferred component of the 2015 STI award totalling 196,083 vested shares for a value of $955,174.

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust. Dividends are retained in the trust to be used by the Company to acquire additional shares on the market for employee equity plans.

E4. Issued capital – continued

	2018		2017	
	m's	$'m	m's	$'m
c) Redeemable Optionally Adjustable Distributing Securities (ROADS)				
Balance at the beginning and at the end of the financial year	**200.0**	**178.6**	200.0	178.6

ROADS are perpetual, redeemable, exchangeable preference shares. In accordance with the terms of the ROADS preference shares, the dividend rate for the one year commencing 15 June 2018 is 6.15% per annum (2017: 6.05% per annum) which is equivalent to the one year swap rate on 15 June 2018 plus the Step-up margin of 4.05% per annum.

Share options and performance rights

During the financial year 1,078,912 performance rights (2017: 1,608,887) in relation to unissued shares were granted to senior executives of the Group under the LTI plan. Further details of the Key Management Personnel (KMP) LTI plan are contained in the Remuneration Report.

Recognition and measurement

Ordinary shares

Incremental costs directly attributed to the issue of ordinary shares are accounted for as a deduction from equity, net of any tax effects.

Executive incentive shares

When executive incentive shares subsequently vest to employees under the Downer employee share plans, the carrying value of the vested shares is transferred from issued capital to the employee benefits reserve.

E5. Reserves

2018 $'m	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Available-for-sale revaluation reserve	Total attributable to the members of the Parent
Balance at 1 July 2017	**(6.2)**	**(18.0)**	**14.1**	**(0.8)**	**(10.9)**
Foreign currency translation difference	**–**	**(8.8)**	**–**	**–**	**(8.8)**
Change in fair value of cash flow hedges (net of tax)	**(6.8)**	**–**	**–**	**–**	**(6.8)**
Change in fair value of available-for-sale assets	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Available-for-sale reserve transferred to profit or loss	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Total comprehensive income for the year	**(6.8)**	**(8.8)**	**–**	**(1.8)**	**(17.4)**
Vested executive incentive share transactions	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Share-based employee benefits expense	**–**	**–**	**2.8**	**–**	**2.8**
Income tax relating to share-based transactions during the year	**–**	**–**	**(1.2)**	**–**	**(1.2)**
Balance at 30 June 2018	**(13.0)**	**(26.8)**	**15.5**	**(2.6)**	**(26.9)**
2017					
Balance at 1 July 2016	(2.6)	(18.4)	12.2	–	**(8.8)**
Foreign currency translation difference	–	0.4	–	–	**0.4**
Change in fair value of cash flow hedges (net of tax)	(3.6)	–	–	–	**(3.6)**
Change in fair value of available-for-sale assets	–	–	–	18.3	**18.3**
Available-for-sale reserve transferred to profit or loss	–	–	–	(19.1)	**(19.1)**
Total comprehensive income for the year	(3.6)	0.4	–	(0.8)	**(4.0)**
Vested executive incentive share transactions	–	–	(1.0)	–	**(1.0)**
Share-based employee benefits expense	–	–	5.6	–	**5.6**
Income tax relating to share-based transactions during the year	–	–	(2.7)	–	**(2.7)**
Balance at 30 June 2017	**(6.2)**	**(18.0)**	**14.1**	**(0.8)**	**(10.9)**

E5. Reserves – continued

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value 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.

Available-for-sale revaluation reserve

The fair value reserve includes the cumulative net movement above cost of the fair value of available-for-sale investment until the asset is realised or impaired or control of an acquiree is obtained at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the profit or loss.

E6. Dividends

a) Ordinary shares

	2018 Final	2018 Interim	2017 Final	2017 Interim
Dividend per share (in Australian cents)	**14.0**	**13.0**	12.0	12.0
Franking percentage	**50%**	**50%**	100%	100%
Cost (in $'m)	**83.3**	**77.3**	71.4	51.0
Dividend record date	**30/8/18**	**7/3/18**	12/9/17	16/2/17
Payment date	**27/9/18**	**4/4/18**	10/10/17	16/3/17

Recognition and measurement

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

The final 2018 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)

2018	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	**1.00**	**0.99**	**1.02**	**1.00**	**4.01**
New Zealand imputation credit percentage	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'m)	**2.0**	**2.0**	**2.0**	**2.0**	**8.0**
Payment date	**15/9/17**	**15/12/17**	**15/3/18**	**15/6/18**	

2017	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	1.08	1.09	1.03	1.08	4.28
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'m)	2.1	2.2	2.1	2.2	8.6
Payment date	15/9/16	15/12/16	15/3/17	15/6/17	

c) Franking credits

The franking account balance as at 30 June 2018 is nil (2017: 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	2018 $'m	2017 $'m
Interest in joint ventures at the beginning of the financial year		**19.0**	17.3
Share of net profit		**15.9**	15.8
Share of distributions		**(13.5)**	(15.9)
Acquisition of businesses	F2	**–**	1.8
Foreign currency exchange differences		**(0.2)**	–
Interest in joint ventures at the end of the financial year		**21.2**	19.0
Interest in associates at the beginning of the financial year		**69.0**	64.3
Share of net profit		**9.2**	6.7
Share of distributions		**(3.4)**	(2.0)
Interest in associates at the end of the financial year		**74.8**	69.0
Interest in joint ventures and associates		**96.0**	88.0

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 2018 %	Ownership interest 2017 %
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**	50
EDI Rail-Bombardier Transportation Pty Ltd	Sale and maintenance of railway rolling stock	Australia	**50**	50
Emulco Limited	Emulsion plant	New Zealand	**50**	50
Isaac Asphalt Limited	Manufacture and supply of asphalt	New Zealand	**50**	50
RTL Mining and Earthworks Pty Ltd	Contract mining; civil works and plant hire	Australia	**44**	44
VEC Shaw Joint Venture	Road construction	Australia	**50**	50
ZFS Functions (Pty) Ltd(i)	Catering for functions at Federation Square	Australia	**50**	50
Associates				
MHPS Plant Services Pty Ltd	Refurbishment, construction and maintenance of boilers	Australia	**27**	27
Keolis Downer Pty Ltd	Operation and maintenance of Gold Coast light rail, Melbourne tram network and bus operation	Australia	**49**	49
Reliance Rail Pty Ltd	Rail manufacturing and maintenance	Australia	**–**	49

(i) Spotless joint ventures acquired as part of the Spotless Group Holdings Limited acquisition. Refer to Note F2.

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

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

Recognition and measurement

Equity accounting

(i) Investments in joint ventures

Investments in joint ventures are accounted for using the equity method of accounting.

(ii) Investments in associates

Investments in entities over which the Group has the ability to exercise significant influence, but not control, are accounted for using 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.

F1. Joint arrangements and associate entities – continued

b) Interest in joint operations

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

Name of joint operation	Principal activity	Country of operation	Ownership interest 2018 %	Ownership interest 2017 %
Ausenco Downer Joint Venture	Enabling works for Carrapateena Project	Australia	**50**	–
BPL Downer Joint Venture	Building construction	Singapore	**50**	50
CDJV Construction Pty Ltd(v)	Employment of labour force deployed in Clough Downer	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
Clough Downer Joint Venture(v)	Gas compression facilities and pipelines	Australia	**50**	50
CMC and Downer Joint Venture(v)	Road construction	Australia	**–**	50
Concrete Paving Recycling Pty Ltd	Road maintenance	Australia	**49**	49
Dampier Highway Joint Venture	Highway construction and design	Australia	**50**	50
DM Roads Services Pty Ltd	Employment of labour force deployed in DM in New South Wales	Australia	**50**	50
Downer-Carey Mining JV	Management of run of mine and ore rehandling services	Australia	**46**	46
Downer Clough Joint Venture(iv)	Ammonium nitrate production	Australia	**–**	50
Downer Daracon Joint Venture	Construction	Australia	**50**	50
Downer EDI Works Pty Ltd & Leighton Contractors Pty Ltd	Design and construction of rail works	Australia	**50**	50
Downer Electrical GHD JV(i)	Traffic control infrastructure	Australia	**90**	90
Downer FKG JV	Major civil and roadworks	Australia	**50**	–
Downer HEB Joint Venture	Design and build of the New Zealand National War Memorial Park	New Zealand	**50**	50
DownerMouchel(ii)	Road maintenance	Australia	**60**	60
Downer Seymour Whyte JV	Construct of an urban operations training facility	Australia	**50**	–
Downer York Joint Venture	Tramline extension	Australia	**50**	50
Hatch Downer JV	Design and construction of solvent extraction plant	Australia	**50**	50
HCMT Supplier JV	Rail build supplier	Australia	**50**	50
John Holland EDI Joint Venture	Research reactor	Australia	**40**	40
John Holland Pty Ltd & Downer Utilities Australia Pty Ltd Partnership	Operation of water recycling plant at Mackay	Australia	**50**	50
Karlayura ReGen Joint Venture	Road construction	Australia	**50**	50
Landloch Project JV	Rehabilitation works, earthworks and plant monitoring and maintenance	Australia	**(iii)**	(iii)
LD&C Joint Venture(iv)	Design and construction of pipes and structures	Australia	**–**	37.5
Leighton Works Joint Venture	Road construction	New Zealand	**50**	50
Macdow Downer Joint Venture (Russley Road)	Road construction	New Zealand	**50**	50
Macdow Downer Joint Venture (Connectus)	Rail construction	New Zealand	**50**	50
Macdow Downer Joint Venture (CSM2)	Road construction	New Zealand	**50**	50

F1. Joint arrangements and associate entities – continued

b) Interest in joint operations – continued

Name of joint operation	Principal activity	Country of operation	Ownership interest 2018 %	Ownership interest 2017 %
Organic Water Joint Venture	Design, construction and operation of water recycling plant	Australia	**50**	50
Synergy Joint Venture(iv)	Road and pavement construction	Australia	**–**	33
Thiess Downer EDI Works JV(iv)	Construction of coast to coast railway	Australia	**–**	25
Thiess VEC Joint Venture	Highway construction	Australia	**50**	50
Utilita Water JV	Plant maintenance	Australia	**50**	50
Waanyi Downer JV Pty Ltd	Contract mining services	Australia	**50**	–
Waanyi ReGen JV	Rehab contract services	Australia	**50**	50
WDJV Unit Trust	Contract mining services	Australia	**50**	–
Wiri Train Depot Joint Venture	Construction of the Wiri train depot	New Zealand	**50**	50

(i) Contractual arrangement prevents control despite ownership of more than 50% of these joint ventures.
(ii) The joint arrangement specifies 50% interest, except where an Integrated Service Arrangement (ISA) obligation is in place, whereby Downer EDI Limited has a 60% interest.
(iii) Joint control is effected through unanimous vote by joint venture partners to direct the joint arrangement's relevant activities; however, the Group's interest may vary based on discrete phases of works performed.
(iv) Downer's interest in the joint operation was disposed of/ceased during the financial year ended 30 June 2018.
(v) Entity commenced voluntary de-registration/wind up as at 30 June 2018.

F2. Acquisition of businesses

2018

Cash outflow on acquisitions

The total net cash outflow as a result of the acquisitions made during the financial year ended 30 June 2018 is as follows:

	Note	Spotless $'m	Other(i) $'m	Total $'m
Further NCI acquired(ii)		281.0	–	**281.0**
Consideration payable during the year	C5	110.8	–	**110.8**
Gross purchase consideration		–	119.3	**119.3**
Deferred consideration paid during the year		–	1.3	**1.3**
Less: Net cash acquired		–	(1.3)	**(1.3)**
Less: Contingent consideration		–	(35.2)	**(35.2)**
Total cash consideration		**391.8**	**84.1**	**475.9**

(i) Other includes the acquisition of UrbanGrid, Envista, Integrated Services, Cabrini, ITS Pipetech, Hawkins and AGIS.
(ii) Represents the cash consideration paid during the year for 22.15% additional interest obtained in Spotless and $0.4 million of additional NCI obtained and paid during the year.

Spotless

On 27 June 2017, the Group obtained a controlling interest in Spotless Group Holdings Limited (Spotless). During the 2018 financial year, the Group commissioned an independent valuation of the identifiable assets acquired and liabilities assumed in the Spotless acquisition. The valuation determined the net identifiable assets / (liabilities) as being $269.2 million higher than previously reported. As a consequence, the goodwill acquired as part of the Spotless acquisition has decreased by this amount resulting in the previously reported Spotless goodwill of $1,651.3 million reducing to $1,382.1 million. The comparative information shown in the financial statements has been restated to include the adjusted fair values. There has been no impact to the comparative profit or loss as a result of these restatements.

F2. Acquisition of businesses – continued

Details of the identified adjustments are as follows:

	Provisional amount disclosed at 30 Jun 2017 $'m	Acquisition adjustments $'m	Restated[(i)] balance at 30 Jun 2017 $'m
Cash and other cash equivalents	66.0	–	**66.0**
Trade and other receivables	412.7	(3.7)	**409.0**
Inventories	32.0	–	**32.0**
Other current assets	11.3	–	**11.3**
Equity accounted investments	1.8	–	**1.8**
Property, plant and equipment	281.2	(14.8)	**266.4**
Intangibles	65.9	422.8	**488.7**
Non-current trade and other receivables	73.4	(41.0)	**32.4**
Net deferred tax asset / (liability)	59.4	(90.5)	**(31.1)**
Other non-current assets	25.8	–	**25.8**
Trade and other payables	(381.6)	–	**(381.6)**
Provisions	(162.7)	(3.5)	**(166.2)**
Borrowings	(848.3)	–	**(848.3)**
Financial liabilities	(2.3)	–	**(2.3)**
Current tax payable	(7.2)	–	**(7.2)**
Non-current trade and other payables	(11.5)	(0.1)	**(11.6)**
Net identifiable (liabilities) / assets acquired	**(384.1)**	**269.2**	**(114.9)**

(i) June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances.

Spotless non-controlling interest (NCI)

During the year, the Group acquired an additional 22.15% interest in Spotless for $281.0 million. The consideration paid was equal to the carrying amount of the NCI and as a consequence, there was no change in the equity attributable to the owners of the Company from the acquisition of the NCI.

The following table summarises the NCI in relation to the Spotless acquisition:

	2018 $'m	Restated[(i)] 2017 $'m
Current assets	**529.1**	518.3
Non-current assets	**2,272.8**	2,292.9
Current liabilities	**(521.1)**	(1,348.2)
Non-current liabilities	**(1,009.9)**	(195.8)
Net assets	**1,270.9**	**1,267.2**
NCI percentage	**12.198%**	34.343%
Net assets attributable to NCI	**155.0**	**435.2**

(i) 30 June 2017 balances were restated to reflect the impact of acquisition accounting adjustments made during the period on opening balances.

Other acquisitions

The goodwill arising from other individually immaterial acquisitions made during the financial year ended 30 June 2018 is as follows:

	Note	Total $'m
Cash		**84.1**
Deferred consideration and contingent consideration		**35.2**
		119.3
Less: Net identifiable assets acquired		**14.3**
Goodwill arising from acquisitions	**C7**	**105.0**

F2. Acquisition of businesses – continued

UrbanGrid

On 1 July 2017, Downer acquired the net assets of UrbanGrid Australia (UrbanGrid). UrbanGrid provides a wide range of specialist services to develop, operate and maintain Western Australia's essential water, energy and communications networks as well as civil projects.

The Group has concluded the acquisition accounting process for this acquisition.

Cabrini

On 1 July 2017, Spotless Facility Services Pty Ltd acquired the customer contracts and associated assets and liabilities of Cabrini Linen Service (referred to as "Cabrini") from Cabrini Health Limited. The primary purpose of this acquisition is to strengthen Spotless' linen capabilities, enhance customer service offerings and maintain Spotless' market-leading position in the Victorian health sector.

The Group has concluded the acquisition accounting process for this acquisition.

Envista

On 2 March 2018, the Group acquired 100% of Envista Pty Ltd and Smarter Contracting Pty Ltd ("Envista"). Envista provides strategy, architecture and delivery services in complex and sensitive environments. The acquisition enhances Downer's services to customers in the Defence and National Security sectors.

The acquisition accounting for Envista will remain provisionally accounted for as at 30 June 2018.

Integrated Services

On 31 January 2018, the Group acquired the net assets of Integrated Services. The business provides traffic infrastructure electrics related works and complements the existing Transport business capabilities.

The acquisition accounting for Integrated Services will remain provisionally accounted for as at 30 June 2018.

2017

Hawkins

On 31 March 2017, the Group acquired the business of Hawkins. The principal activities of Hawkins include construction, infrastructure development and project management throughout New Zealand. The Hawkins acquisition will complement existing engineering, construction and maintenance capabilities in New Zealand.

The Group has concluded the acquisition accounting process for this acquisition.

ITS PipeTech

On 31 March 2017, the Group acquired 100% of ITS PipeTech Pty Ltd (ITS). The principal activities of ITS include pipe bursting, civil maintenance and robotics. ITS complements, grows and broadens existing pipeline capabilities in the Utilities business.

The Group has concluded the acquisition accounting process for this acquisition.

RPQ Group

On 30 September 2016, the Group acquired 100% of RPQ Group (RPQ). The principal activities of RPQ include the supply of asphalt, bitumen spray sealing, road milling and profiling, road maintenance, foam bitumen stabilisation, mobile asphalt production, mobile crushing and equipment hire.

The Group has concluded the acquisition accounting process for this acquisition.

AGIS

On 1 July 2016, the Group acquired 100% of AGIS Group Pty Limited (AGIS). AGIS provides project management, systems engineering and integration, and capability development advice to a range of government agencies including the Department of Defence, Australian Defence Forces and the Department of Foreign Affairs and Trade. The AGIS acquisition expands the Group's footprint in the Defence sector.

The Group has concluded the acquisition accounting process for this acquisition.

F2. Acquisition of businesses – continued

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Asset acquired	Valuation technique
Trade and other receivables	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 and other payables	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 the 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. None of the goodwill arising from these acquisitions is expected to be deductible for tax purposes.

Recognition and measurement

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value. Acquisition-related costs are expensed as incurred in profit or loss.

(i) Acquisition achieved in stages

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of or control of the acquiree obtained.

(ii) Contingent consideration

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

(iii) Non-controlling interest

The Group can elect, on an acquisition by acquisition basis, to recognise non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's share of the acquired entity's net identifiable assets / (liabilities).

Key estimate and judgement: Accounting for acquisition of businesses

Accounting for acquisition of businesses requires judgement and estimates in determining the fair value of acquired assets and liabilities. The relevant accounting standard allows the fair value of assets acquired to be refined in a window of a year after the acquisition date and judgement is required to ensure that the adjustments made reflect new information obtained about facts and circumstances that existed as of the acquisition date. The adjustments made to the fair value of assets are retrospective in nature and have an impact on goodwill recognised on acquisition.

F3. Disposal of business

2018

On 21 November 2017, Downer entered an agreement to sell its Freight Rail business to Progress Rail for $109 million ($122.7 million after adjusting for working capital movements), with a completion date of 2 January 2018. The following disposal entries were recorded in the financial year:

	Note	2018 $'m
Proceeds on disposal		**129.6**
Less: working capital adjustments		(6.9)
Disposal costs incurred		(4.3)
Proceeds net of disposal costs		**118.4**
Trade and other receivables		30.0
Amounts due from customers under contracts		33.5
Inventory		49.4
Other assets		0.1
Intangibles (goodwill)	C7	14.2
Property, plant and equipment	C6	60.0
Assets disposed		**187.2**
Trade and other payables		(3.7)
Amounts due to customers under contracts		(1.9)
Employee benefits provisions		(8.6)
Provisions	C8	(4.4)
Liabilities disposed		**(18.6)**
Net assets disposed		**168.6**
Loss on disposal pre-tax	B2(b)	**(50.2)**
Income tax benefit		9.6
Total loss on disposal after tax	B2(b)	**(40.6)**

2017

The Group did not dispose of any business during the period ended 30 June 2017.

F4. Controlled entities

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

Australia

AGIS Group Pty Ltd
ASPIC Infrastructure Pty Ltd
Dean Adams Consulting Pty Ltd
Downer Australia Pty Ltd
Downer EDI Associated Investments Pty Ltd
Downer EDI Engineering Company Pty Limited
Downer EDI Engineering CWH Pty Limited
Downer EDI Engineering Electrical Pty Ltd
Downer EDI Engineering Group Pty Limited
Downer EDI Engineering Holdings Pty Ltd
Downer EDI Engineering Power Pty Ltd
Downer EDI Engineering Pty Limited
Downer EDI Engineering Transmission Pty Ltd(iv)
Downer EDI Limited Tax Deferred Employee Share Plan
Downer EDI Mining Pty Ltd
Downer EDI Mining-Blasting Services Pty Ltd
Downer EDI Mining-Minerals Exploration Pty Ltd
Downer EDI Rail Pty Ltd
Downer EDI Services Pty Ltd
Downer EDI Works Pty Ltd
Downer Energy Systems Pty Limited
Downer Group Finance Pty Limited
Downer Holdings Pty Limited
Downer Investment Holdings Pty Ltd
Downer Mining Regional NSW Pty Ltd
Downer PipeTech Pty Limited
Downer PPP Investments Pty Ltd
Downer Utilities Australia Pty Ltd
Downer Utilities Holdings Australia Pty Ltd
Downer Utilities Networks Pty Ltd
Downer Utilities New Zealand Pty Ltd
Downer Utilities Projects Pty Ltd
Downer Utilities SDR Australia Pty Ltd
Downer Utilities SDR Pty Ltd
Downer Victoria PPP Maintenance Pty Ltd
EDI Rail PPP Maintenance Pty Ltd
EDICO Pty Ltd
Emoleum Partnership
Emoleum Road Services Pty Ltd
Emoleum Roads Group Pty Ltd
Emoleum Services Pty Limited
Envista Pty Limited(iii)
Evans Deakin Industries Pty Ltd
Faxgroove Pty. Limited(iv)
LNK Group Pty Ltd
Locomotive Demand Power Pty Ltd(viii)
Lowan (Management) Pty. Ltd.
Maclab Services Pty Ltd
Mineral Technologies (Holdings) Pty Ltd
Mineral Technologies Pty Ltd
New South Wales Spray Seal Pty Ltd
Otraco International Pty Ltd
Otracom Pty Ltd
Primary Producers Improvers Pty Ltd
QCC Resources Pty Ltd
Rail Services Victoria Pty Ltd
REJV Services Pty Ltd
Reussi Pty Ltd(iv)
Roche Bros. Superannuation Pty. Ltd.
Roche Services Pty Ltd
RPC Roads Pty Ltd
RPQ Asphalt Pty Ltd
RPQ North Coast Pty Ltd
RPQ Pty Ltd
RPQ Services Pty Ltd
RPQ Spray Seal Pty Ltd
SACH Infrastructure Pty Ltd
Smarter Contracting Pty Ltd(iii)
Snowden Holdings Pty Ltd
Snowden Mining Industry Consultants Pty Ltd
Snowden Technologies Pty Ltd
Southern Asphalters Pty Ltd
Trico Asphlat Pty Ltd
VEC Civil Engineering Pty Ltd
VEC Plant and Equipment Pty Ltd

New Zealand and Pacific

A F Downer memorial Scholarship Trust
DGL Investments Limited
Downer Construction (Fiji) Limited
Downer Construction (New Zealand) Limited
Downer Construction PNG Limited(iv)
Downer EDI Engineering PNG Limited
Downer EDI Engineering Power Limited
Downer EDI Mining NZ Limited(iv)
Downer EDI Works Vanuatu Limited
Downer New Zealand Limited
Downer New Zealand Projects 1 Ltd
Downer New Zealand Projects 2 Ltd
Downer New Zealand Projects 3 Ltd
Downer Utilities Alliance New Zealand Limited
Downer Utilities New Zealand Limited
Downer Utilities PNG Limited
Green Vision Recycling Limited
Hawkins 2017 Limited
Hawkins Project 1 Limited
ITS Pipetech (Fiji) Limited
Richter Drilling (PNG) Limited
Techtel Training & Development Limited
Underground Locators Limited
Waste Solutions Limited
Works Finance (NZ) Limited

F4. Controlled entities – continued

Africa

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

Asia

Chan Lian Construction Pte Ltd(iv)
Chang Chun Ao Da Technical Consulting Co Ltd(ii)
ChangChun 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
Duffill Watts Pte Ltd(iv)
MD Mineral Technologies Private Limited
PT Duffill Watts Indonesia
PT Otraco Indonesia

Americas

DBS Chile SpA
Mineral Technologies Comercio de Equipamentos para Processamento de Minerais LTD
Mineral Technologies, Inc.
Otraco Brasil Gerenciamento de Pneus Ltda
Otraco Chile SA
Snowden Consultoria do Brasil Limitada
Snowden Mining Industry Consultants Inc.(ii)

United Kingdom

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

Spotless(vi)

AE Smith & Son (NQ) Pty Ltd
AE Smith & Son (SEQ) Pty Ltd
AE Smith & Son Proprietary Ltd
AE Smith Building Technologies Pty Ltd
AE Smith Service (SEQ) Pty Ltd
AE Smith Service Holdings Pty Ltd
AE Smith Service Pty Ltd
Aladdin Group Services Pty Limited(vii)
Aladdin 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 Ltd(vii)
Cleandomain Proprietary Limited(vii)
Cleanevent Australia Pty Ltd(vii)
Cleanevent Holdings Pty Ltd(vii)
Cleanevent International Pty Ltd(vii)
Cleanevent Middle East FZ LLC(ii)
Cleanevent Technology Pty Ltd(vii)
Emerald ESP Pty Ltd
Ensign Services (Aust) Pty Ltd(vii)
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(ii)
Nationwide Venue Management Pty Ltd(vii)
NG-Serv Pty Ltd(vii)
Nuvogroup (Australia) Pty Ltd(vii)
Pacific Industrial Services BidCo Pty Limited(vii)
Pacific Industrial Services FinCo Pty Limited(vii)
Riley Shelley Services Pty Ltd(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)

F4. Controlled entities – continued

Spotless(vi) (continued)

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 Ltd(vii)
SSL Asset Services (Management) Pty Ltd(vii)
SSL Facilities Management Real Estate Services Pty Ltd(vii)
SSL Security Services Pty Ltd(vii)
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) Entity currently undergoing liquidation/dissolution.
(iii) Entity acquired during the financial year ended 30 June 2018.
(iv) Entity liquidated during the financial year ended 30 June 2018.
(v) Entity incorporated during the financial year ended 30 June 2018.
(vi) Entity acquired as part of the Spotless Group Holdings Limited acquisition. The ownership interest in Spotless described is 87.8% as at 30 June 2018.
(vii) These Spotless controlled entities all form part of the tax-consolidated group of which Spotless Group Holdings Limited is the head entity.
(viii) Entity disposed during the financial year ended 30 June 2018.

F5. Related party information

a) Transactions with controlled entities

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

Other transactions 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 F4.

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.

F6. Parent entity disclosures

a) Financial position

	Company	
	2018 $'m	2017 $'m
Assets		
Current assets	**970.4**	1,108.8
Non-current assets	**1,500.3**	1,305.2
Total assets	**2,470.7**	2,414.0
Liabilities		
Current liabilities	**39.4**	29.9
Non-current liabilities	**15.3**	6.4
Total liabilities	**54.7**	36.3
Net assets	**2,416.0**	2,377.7
Equity		
Issued capital	**2,243.3**	2,243.2
Retained earnings	**157.2**	120.4
Reserves		
Employee benefits reserve	**15.5**	14.1
Total equity	**2,416.0**	2,377.7
b) Financial performance		
Profit for the year	**185.5**	117.6
Total comprehensive income	**185.5**	117.6

c) Guarantees entered into by the parent entity in relation to debts of its subsidiaries

The parent entity has, in the normal course of business, entered into guarantees in relation to the debts of its subsidiaries during the financial year.

d) Contingent liabilities of the parent entity

The parent entity has no contingent liabilities as at 30 June 2018 (2017: nil) other than those disclosed in Note C9.

The parent entity does not have any commitments for acquisition of property, plant and equipment as at 30 June 2018 (2017: nil).

G Other

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements including the Group's capital and financial risk management disclosure. This disclosure provides information around the Group's risk management policies and how Downer uses derivatives to hedge the underlying exposure to changes in interest rates and to foreign exchange rate fluctuations.

G1. New accounting standards

a) New and amended accounting standards adopted by the Group

In the current period, 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 2017, as follows:

- *AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112);*
- *AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107;* and
- *AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle.*

Adoption of these standards has not resulted in any material changes to the Group's financial statements.

b) New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this Financial Report.

AASB 9 – *Financial Instruments*

AASB 9 replaces AASB 139 *Financial instruments: Recognition and Measurement* and addresses the classification and measurement of financial assets and financial liabilities, including a new expected credit loss model for calculation of impairment on financial assets, and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139. The Group has adopted AASB 9 from 1 July 2018 and has elected not to restate comparative information for prior periods.

Classification and measurement – financial assets and liabilities

AASB 9 contains a new 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). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale, while the existing requirements for the classification of financial liabilities in AASB 139 is retained. Based on its assessment, the Group does not believe that the new classification requirements will have a material impact.

The unquoted equity investment disclosed in Note G3 is classified as available-for-sale investments carried at fair value under AASB 139. Under AASB 9, the Group has designated this investment as measured at FVOCI. Consequently, all fair value gains and losses will be reported in the OCI and no impairment losses nor gains or losses (when the investment is derecognised) will be recognised in the statement of profit or loss.

Impairment

AASB 9 replaces the 'incurred loss" model in AASB 139 with a forward looking "expected credit loss" (ECL) model. This requires considerate judgement about how changes in economic factors affect ECL, which is determined on a probability-weighted basis. There is consideration around the probability of default upon initial recognition and subsequent assessment as to whether there has been a significant increase in credit risk at each reporting period.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI except for investment in equity instruments.

G1. New accounting standards – continued

b) New accounting standards and interpretations not yet adopted – continued

AASB 9 – *Financial Instruments* – continued

Impairment – continued

Under AASB 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: where there are ECLs that result from possible default events within 12 months from the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for trade receivables and finance lease receivables as permitted by AASB 9.

In general, the Group anticipates that the application of the expected credit loss model of AASB 9 will result in the earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items. While the Group is finalising the impairment assessment utilising the simplified expected loss approach, it is anticipated that the impact on transition will not be material.

Hedge accounting

AASB 9 will align the accounting for hedging instruments more closely with the Group's risk management objectives and strategy and apply a more qualitative and forward-looking approach to assessing hedge effectiveness. AASB 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

An assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of AASB 9. Similar to the Group's current hedge accounting policy, management do not intend to exclude the forward element of foreign currency forward contracts from designated hedging relationships. Moreover, the Group has already elected to adjust non-financial hedged items with gains/losses arising from effective cash flow hedges under AASB 139, which is mandatory under AASB 9.

Management do not anticipate that the application of AASB 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

AASB 15 – *Revenue from Contracts with Customers*

AASB 15 changes the manner in which revenue is recognised and provides for a significant increase in the disclosure requirements for the business.

The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred rather than on transfer of risks and rewards.

During the current period, the Group made significant progress toward completing the evaluation of potential changes from adopting the new standard on future financial reporting and disclosures. The Group has completed material contract reviews and detailed policy drafting. The evaluation has included consultation between Group and Divisional Finance Teams, Commercial and Group Legal functions. The implementation project is ongoing and therefore all amounts are current estimates which are subject to finalisation prior to final implementation.

The Group has adopted AASB 15 from 1 July 2018 using the cumulative approach method on initial application. This means that the cumulative impact of adoption is recognised in the opening retained earnings at 1 July 2018 with no restatement of comparatives.

G1. New accounting standards – continued

b) New accounting standards and interpretations not yet adopted – continued

AASB 15 – *Revenue from Contracts with Customers* – continued

Rendering of Services

Services revenue is primarily generated from maintenance and other services supplied to infrastructure assets and facilities across different sectors as well as from contract mining services, mining assets maintenance services, tyre management, blasting, catering and laundry services. The service contracts that have been determined to have one performance obligation which are significantly integrated or highly inter-related and are fulfilled over time and therefore there is no change to the current revenue recognition methodology.

However, the new standard provides a higher threshold for recognition of variations, claims and incentives which only allows revenue from variations and claims to be 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 happen.

Construction Revenue

The contractual terms and the way in which the Group operates its construction contracts is predominantly derived from projects containing one performance obligation. Contracted revenue will continue to be recognised over time based on stage of completion of contract. As with services revenue the new standard provides higher thresholds for variable consideration, as well as accounting for claims and variations as contract modifications requiring recognition only to the extent that they are approved or enforceable under the contract. The amount of revenue is then recognised to the extent that it is highly probable that a significant reversal of revenue will not happen.

The Group has identified the following differences between current accounting standards (AASB 118 *Revenue and AASB 111 Construction Contracts*) and AASB 15:

Current Accounting	Future Accounting
Contract claims and variations – now referred to as contract modifications	
Estimates of revenue include: – claims from customers where negotiations have reached an advanced stage and it is probable that the customer will accept the claim and the amount can be measured reliably and – variations when it is probable that the customer will approve the variation and the amount can be measured reliably.	Revenue in relation to variations, 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, the variation is enforceable and the amount becomes highly probable. Variations will be recognised when client instruction has been received in line with customary business practice in the sector. Revenue in relation to claims, where the Group has an enforceable right between the parties, is only included in the transaction price when the amount claimable becomes highly probable. This is a higher threshold than is required by current accounting standards. In making this assessment, Downer 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, legal opinion on the enforceability of the claim under the contract, or the historical outcome of similar claims to determine whether the "highly probable" threshold has been met. ***Impact on transition*** As a result of the change to a higher threshold of approval of claims or variations and the highly probable threshold for the estimation of the amount to be recognised as revenue, it is estimated that revenue recognised prior to 30 June 2018 will be deferred to later years resulting in a corresponding adjustment to opening retained earnings at 1 July 2018 of $198.9 million after tax. The above adjustment includes claims and variations in relation to the Tan Burrup and nRAH contracts. Refer to Note C9 Contingent Liabilities for further details.
Contract costs (Tender costs)	
Costs incurred during the tender/bid process are capitalised within amounts due from customers under contracts when it is probable that the contract will be awarded. If the contracts are not subsequently awarded the amounts capitalised are expensed to profit or loss.	Costs incurred during the tender/bid process will be 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. ***Impact on transition*** Tender costs on contracts of $23.9 million after tax currently capitalised will be required to be written off through opening retained earnings at 1 July 2018.

G1. New accounting standards – continued

b) New accounting standards and interpretations not yet adopted – continued

AASB 15 – *Revenue from Contracts with Customers* – continued

Current Accounting	Future Accounting
Performance obligations and contract duration	
Under AASB 111 Construction Contracts revenue is recognised over the stated term of the contract.	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 more 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. 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 for convenience without a substantive penalty, the contract term and related revenue is limited to the termination period. ***Impact on transition*** The contract review performed by the Group identified some contracts with additional performance obligations. This has resulted in an adjustment to opening retained earnings at 1 July 2018 of $26.8 million after tax.
Measure of progress	
Contract revenue and contract costs are recognised as revenue and expenses by reference to the stage of completion of the contract at the end of the reporting period.	The Group will measure 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. ***Impact on transition*** In relation to particular Rail maintenance contracts, it was identified that the input method would better reflect the measure of progress rather than the billing method currently used. Based on this analysis the adjustment to opening retained earnings at 1 July 2018 is $2.5 million after tax.
Variable consideration	
Estimates of revenue include incentive payments such as payments for meeting certain performance criteria when it is probable that the criteria will be met and can be measured reliably. Liquidated damages or abatements that are probable and can be measured reliably are included in contract costs.	Variable consideration that is contingent on the Group's performance, including key performance payments, liquidated damages and abatements that offset revenue under the contract, are recognised such that only revenue that is highly probable, and that a reversal of that revenue will not occur, is recognised. This is a higher recognition threshold than the one required by the current accounting standards. 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 (e.g. maintenance services); variable consideration is recognised in the period which the performance obligation subject to the variable consideration is completed, rather than being recognised according to the percentage of completion of the performance obligation. ***Impact on transition*** No significant adjustment to opening retained earnings is expected as a result of this change.

G1. New accounting standards – continued

b) New accounting standards and interpretations not yet adopted – continued

AASB 15 – *Revenue from Contracts with Customers* – continued

Current Accounting	Future Accounting
Loss-making contracts	
For contracts under the percentage of completion method the expected loss on a contract is recognised immediately when it is probable that total contract costs will exceed total contract revenue.	These loss-making contracts will now be recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as onerous contracts.

In summary, based on the current assessment, an adjustment of $252.1 million after tax is expected to be recognised in opening retained earnings of the Group at 1 July 2018 on adoption of AASB 15.

AASB 16 – *Leases*

AASB 16 will replace the current leasing standard AASB 117, and contains significant changes to the accounting treatment of leases around how to recognise, measure and disclose leases. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, with the exception of short-term (less than 12 months) and low value leases. AASB 16 applies to annual reporting periods beginning on or after 1 July 2019.

The Group manages its owned and leased assets to ensure there is an appropriate level of equipment to meet its current obligations and to tender for new work. The decision as to whether to lease or purchase an asset is dependent on the finance available at the time and the residual risk of ownership following the anticipated completion of the project.

As at reporting date, the Group has non-cancellable operating lease commitments of $610.7 million (refer to Note E3 Commitments).

To date, management has focused on the identification of the provisions of the standard which will most impact the Group and is in the process of determining whether any additional arrangements in excess of the current portfolio will be considered as a lease, together with a review of the lease contracts and financial reporting systems in place. As such, the Group has not yet quantified the effect of the new standard, however; the following impacts are expected on implementation date:

- Total assets and total liabilities will increase, due to the recognition of a "Right of Use Asset" and a "Lease Liability" grossing up the assets and liabilities in the Consolidated Statement of Financial Position;
- Interest expense will increase due to the effective interest rate implicit in the lease, where the interest expense component is higher on early years of the lease;
- Depreciation charge will increase as the right of use asset is recognised;
- Lease rental expenses will decrease due to the recognition of interest and depreciation noted above; and
- Operating cash flows will be higher as repayment of the principal portion of all lease liabilities will be classified as financing activities.

AASB 16 needs to be implemented retrospectively, either with the restatement of comparatives or with the cumulative impact of application recognised as at 1 July 2019 under the modified retrospective approach. The Group is in the process of assessing the available options for transition.

Other

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- *AASB 17 Insurance Contracts;*
- *AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration;*
- *AASB 1059 Service Concession Arrangements Grantor;*
- *AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- *AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions;*
- *AASB 2017-4 Amendments to Australian Accounting Standards, – Uncertainty over Income Tax Treatments;*
- *AASB 2017-7 Amendments to Australian Accounting Standards – Long term interest in Associates and JVs; and*
- *AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement.*

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

i) Forward foreign exchange contracts to hedge the exchange rate risk arising from cross-border trade flows, foreign income and debt service obligations;

ii) Cross-currency interest rate swaps to manage the interest rate and currency risk associated with foreign currency denominated borrowings; and

iii) Interest rate swaps to manage interest rate risk.

The Group does not enter into or trade derivative financial instruments for speculative purposes.

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. No material amounts with a right to offset were identified in the 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 material unhedged foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

	Financial assets[(i)]		Financial liabilities[(i)]	
	2018 $'m	2017 $'m	2018 $'m	2017 $'m
US dollar (USD)	**1.4**	1.9	**6.3**	11.8

(i) The above table shows foreign currency financial assets and liabilities in Australian dollar equivalent.

G2. Capital and financial risk management – continued

c) Foreign currency risk management – continued

Foreign currency forward contracts

The following table summarises by currency, the Australian dollar 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	2018	2017	2018 FC'm	2017 FC'm	2018 $'m	2017 $'m	2018 $'m	2017 $'m
Buy USD / Sell AUD								
Less than 3 months	**0.7540**	0.7165	**20.0**	30.3	**26.6**	42.3	**0.8**	(1.4)
3 to 6 months	**–**	0.7529	**–**	4.1	**–**	5.5	**–**	(0.1)
Later than 6 months	**0.7534**	0.7492	**66.9**	81.8	**88.8**	109.2	**1.5**	(2.3)
			86.9	116.2	**115.4**	157.0	**2.3**	(3.8)
Buy AUD / Sell USD								
Less than 3 months	**0.7617**	0.7294	**5.8**	1.5	**7.6**	2.1	**(0.2)**	0.1
3 to 6 months	**–**	0.7351	**–**	4.9	**–**	6.7	**–**	0.3
Later than 6 months	**0.7613**	0.7628	**7.0**	1.0	**9.2**	1.3	**(0.3)**	–
			12.8	7.4	**16.8**	10.1	**(0.5)**	0.4
Buy EUR / Sell AUD								
Less than 3 months	**0.6366**	0.6818	**8.6**	30.9	**13.5**	45.3	**0.1**	0.7
3 to 6 months	**–**	0.6790	**–**	0.4	**–**	0.6	**–**	0.1
Later than 6 months	**0.6167**	0.6735	**5.4**	0.4	**8.8**	0.6	**(0.1)**	–
			14.0	31.7	**22.3**	46.5	**–**	0.8
Buy AUD / Sell NZD								
Less than 3 months	**1.0812**	1.0542	**5.3**	4.1	**4.9**	3.9	**0.1**	–
3 to 6 months	**1.0814**	1.0547	**11.8**	11.4	**10.9**	10.8	**0.1**	(0.1)
Later than 6 months	**1.0819**	1.0558	**26.9**	28.8	**24.9**	27.2	**0.3**	(0.1)
			44.0	44.3	**40.7**	41.9	**0.5**	(0.2)
Buy CAD / Sell AUD								
Less than 3 months	**1.0181**	–	**24.2**	–	**24.6**	–	**0.3**	–
Sell CAD / Buy AUD								
Less than 3 months	**1.0053**	–	**25.3**	–	**25.4**	–	**(0.6)**	–

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	2018 %	2017 %	2018	2017	2018 $'m	2017 $'m	2018 $'m	2017 $'m
Buy USD / Sell AUD								
1 to 5 years	**7.8**	7.8	**0.7785**	0.7168	**9.8**	9.8	**(0.5)**	(0.9)
5 years or more	**5.9**	5.9	**0.7739**	0.7739	**129.2**	129.2	**(5.4)**	(4.7)
					139.0	139.0	**(5.9)**	(5.6)
Buy JPY / Sell AUD								
5 years or more	**5.2**	–	**83.1220**	–	**120.3**	–	**(6.9)**	–

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

Foreign currency sensitivity analysis

The Group is mainly exposed to the United States dollar (USD), Euro (EUR), Japanese Yen (JPY) and New Zealand dollar (NZD).

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)	
	2018 $'m	2017 $'m	2018 $'m	2017 $'m
USD impact				
- 15% rate change	**(0.9)**	(1.7)	**16.7**	24.9
+ 15% rate change	**0.6**	1.3	**(12.4)**	(18.4)
EUR impact				
- 15% rate change	**–**	(0.2)	**(3.3)**	7.1
+ 15% rate change	**–**	0.1	**3.3**	(7.1)
JPY impact				
- 15% rate change	**–**	–	**5.7**	–
+ 15% rate change	**–**	–	**(4.2)**	–
NZD impact				
- 15% rate change	**(7.6)**	(6.9)	**–**	–
+ 15% rate change	**5.6**	5.1	**–**	–

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

(ii) This is as a result of the changes in the value of forward foreign exchange contracts designated as cash flow hedges.

G2. Capital and financial risk management – continued

d) Interest rate risk management

The Group is exposed to interest rate risk as entities borrow funds at floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and hedging is undertaken through interest rate swap contracts and the issue of long-term fixed rate debt securities.

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the table below:

	Weighted average AUD equivalent interest rate (including credit margin)		Liability / (asset)	
	2018 %	2017 %	2018 $'m	2017 $'m
Floating interest rates – cash flow exposure				
Bank loans	**3.4**	3.3	**202.1**	733.7
Cash and cash equivalents	**1.5**	1.7	**(606.2)**	(844.6)
Total cash flow exposure			**(404.1)**	(110.9)
Fixed interest rates – fair value exposure				
Bank loans(i)	**2.2**	4.0	**617.7**	107.0
USD private placement notes(i)	**6.0**	6.0	**150.6**	144.7
AUD private placement notes	**5.8**	5.8	**30.0**	30.0
Medium term notes (i) (ii) (iii)	**5.2**	5.2	**529.1**	413.6
Finance lease and hire purchase	**4.1**	4.2	**16.5**	35.8
Total fair value exposure			**1,343.9**	731.1

(i) The values of the interest rate and cross-currency swaps have been included in the debt amounts.
(ii) 2017 values include medium term notes issued on a floating rate basis and fixed through interest rate swaps.
(iii) Weighted average interest rate is shown on a yield-to-maturity basis.

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

The table above relates to amounts that are drawn. The Group has a number of undrawn facilities, which if utilised would be on a floating rate basis.

Interest rate swap contracts

The Group uses 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 value of interest rate swaps are based on market values of equivalent instruments at the reporting date.

G2. Capital and financial risk management – continued

d) Interest rate risk management – continued

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	**2018 %**	**2017 %**	**2018 $'m**	**2017 $'m**	**2018 $'m**	**2017 $'m**
AUD interest rate swaps						
Less than 1 year	–	3.8	–	81.8	–	(1.6)
1 to 2 years	**2.1**	5.2	**450.0**	13.3	**(0.2)**	(0.2)
			450.0	95.1	**(0.2)**	(1.8)
NZD interest rate swaps						
Less than 1 year	–	4.7	–	25.2	–	(0.7)
1 to 2 years	**2.2**	–	**100.0**	–	**(0.2)**	–
			100.0	25.2	**(0.2)**	(0.7)

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.

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 points increase or decrease represents the Group's assessment of the possible change in interest rates on variable rate instruments, cross-currency interest rate swaps and interest rate swaps. An increase in interest rates of 100 basis points on the unhedged position (mostly cash and cash equivalents) will generate a profit of $5.6 million to the profit or loss, a similar decrease in interest rates will generate a $5.6 million loss to the profit or loss.

For hedged positions designated as cash flow hedges, an increase and decrease in interest rates of 100 basis points will generate an increase and decrease in equity of $4.8 million and $3.7 million, respectively.

e) Credit risk management

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

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

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

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

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

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

G2. Capital and financial risk management – continued

f) Liquidity risk management

Liquidity risk arises from the possibility that the Group is unable to settle a financial transaction on the due date. Liquidity risk management is ultimately a Board responsibility and is managed within an appropriate risk management framework under the Group's Treasury policy.

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

Liquidity risk tables

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

2018 $'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	**674.2**	–	–	–	–	–
Finance lease and hire purchase liabilities	**12.7**	**8.2**	**3.7**	**0.2**	–	–
Bank loans	**27.0**	**75.7**	**494.5**	**312.6**	–	–
USD notes	**8.5**	**17.7**	**7.9**	**7.9**	**7.9**	**185.1**
AUD notes	**1.7**	**1.7**	**1.7**	**1.7**	**1.7**	**34.4**
Medium term notes	**166.9**	**12.6**	**12.6**	**262.6**	**1.4**	**135.5**
Total borrowings including interest	**204.1**	**107.7**	**516.7**	**584.8**	**11.0**	**355.0**
Cross-currency interest rate swaps[(i)]	**6.5**	**6.7**	**6.4**	**6.3**	**6.3**	**44.8**
Interest rate swaps	**0.3**	**0.1**	–	–	–	–
Foreign currency forward contracts	**2.2**	**0.1**	–	–	–	–
Total derivative instruments[(ii)]	**9.0**	**6.9**	**6.4**	**6.3**	**6.3**	**44.8**
Total	**900.0**	**122.8**	**526.8**	**591.3**	**17.3**	**399.8**
2017						
Trade payables	527.6	–	–	–	–	–
Finance lease and hire purchase liabilities	21.2	9.0	4.9	1.0	–	–
Bank loans	836.6	2.1	–	–	–	–
USD notes	6.5	6.5	15.4	6.0	6.0	151.0
AUD notes	1.7	1.7	1.7	1.7	1.7	36.1
Medium term notes	33.6	165.6	11.3	11.3	261.3	–
Total borrowings including interest	878.4	175.9	28.4	19.0	269.0	187.1
Cross currency interest rate swaps[(i)]	1.9	1.9	2.5	1.7	1.8	5.0
Interest rate swaps	2.2	–	–	–	–	–
Foreign currency forward contracts	2.7	0.2	–	–	–	–
Total derivative instruments[(ii)]	6.8	2.1	2.5	1.7	1.8	5.0
Total	1,434.0	187.0	35.8	21.7	270.8	192.1

(i) Bond basis.
(ii) Includes assets and liabilities.

G2. Capital and financial risk management – continued

Recognition and measurement

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. Any gains or losses arising from changes in fair value of derivatives, except those that qualify as effective hedges, are immediately recognised in profit or loss.

Hedge accounting

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

Fair value hedges

Fair value hedges are used to hedge the exposure to changes in the fair value of a recognised asset, liability or firm commitment. For fair value hedges, changes in the fair value of the derivative, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk, are immediately recorded in profit or loss. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Cash flow hedges

Cash flow hedges are used to hedge risks associated with contracted and highly probable forecast transactions. For cash flow hedges, the effective portion of changes in the fair value of the derivative is deferred in equity and the gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are transferred to profit or loss in the same period the hedged item is recognised in profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred to form part of the initial measurement of the cost of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss. If the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting, any gain or loss deferred in equity remains in equity until the forecast transaction occurs.

G3. Other financial assets and liabilities

2018 $'m	Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current
At amortised cost:				
Other financial assets	10.0	13.5	–	–
Advances to / from joint ventures and associates	5.1	–	11.3	–
Deferred consideration	–	–	8.0	13.3
	15.1	13.5	19.3	13.3
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	3.0	–	1.2	–
Foreign currency forward contracts – Fair value through profit or loss	0.5	–	0.1	–
Cross-currency and interest rate swaps – Cash flow hedge	–	–	6.1	7.1
	3.5	–	7.4	7.1
Level 3				
Unquoted equity investments – Available-for-sale	–	2.0	–	–
Contingent consideration	–	–	16.5	13.8
	–	2.0	16.5	13.8
Total	18.6	15.5	43.2	34.2

2017 $'m	Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current
At amortised cost:				
Other financial assets	9.8	13.4	–	–
Advances to/from joint ventures and associates	1.5	–	13.2	–
	11.3	13.4	13.2	–
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	1.2	–	3.8	0.2
Cross-currency and interest rate swaps – Cash flow hedge	–	–	3.5	4.6
	1.2	–	7.3	4.8
Level 3				
Unquoted equity investments – Available-for-sale	–	3.7	–	–
Contingent consideration	–	–	3.3	16.9
	–	3.7	3.3	16.9
Total	12.5	17.1	23.8	21.7

Reconciliation of Level 3 fair value measurements of financial assets

Level 3 investments decreased by $1.7 million from prior year (2017: $1.4 million decrease) mostly due to revaluation and return on investment.

G3. Other financial assets and liabilities – continued

Recognition and measurement

Fair value measurement

When a derivative is designated as the cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

Valuation of financial instruments

For financial instruments measured and carried at fair value, the Group uses the following to categorise the methods used:

- Level 1: fair value is calculated using quoted prices in active markets for identical assets or liabilities;
- Level 2: fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: fair value is estimated using inputs for the asset or liability that are not based on observable market data.

During the year there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

The following table shows the valuation technique used in measuring Level 2 and 3 fair values, as well as significant unobservable inputs used:

Type	Valuation technique	Significant unobservable input
Cross-currency and interest rate swaps	Calculated using the present value of the estimated future cash flows based on observable yield curves.	Not applicable.
Foreign currency forward contracts	Calculated using forward exchange rates prevailing at the balance sheet date.	Not applicable.
Unquoted equity investments	Calculated based on the Group's interest in the net assets of the unquoted entities.	Assumptions are made with regard to future expected revenues and discount rates. Changing the inputs to the valuations to reasonably possible alternative assumptions would not significantly change the amounts recognised in profit or loss, total assets or total liabilities, or total equity.
Contingent Consideration	Calculated on the amounts expected to be paid based on the probability of contingent events and targets being achieved, determined by reference to forecasts of future performance of the acquired businesses discounted using the market rates prevailing at financial year end.	Assumptions are made with regard to future expected earnings and discount rates on certain of the contingent arrangements.

Directors' Declaration

for the year ended 30 June 2018

In the opinion of the Directors of Downer EDI Limited:

(a) The financial statements and notes set out on pages 62 to 120 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
Chairman

Sydney, 16 August 2018

Downer's approach to sustainability

Sustainability at Downer means environment sustainability, the safety of its people, sustainable growth, sustainable supply chains, and a sustainable diverse inclusive workforce. Downer recognises that sustainability is vital for securing long-term environmental, economic and social viability and understands its role in contributing to a sustainable future for communities to prosper.

Sustainability is intrinsically linked to Downer's business strategy because the sustainability of Downer's activities is fundamental to the Company's future success.

Downer's sustainability strategy is shaped by its four Pillars: Safety, Delivery, Relationships and Thought Leadership. Downer's commitment to sustainability is outlined on the Downer website at **www.downergroup.com**.

As an integrated services company, Downer's contribution to sustainability is also achieved by providing its customers with industry leading solutions that drive and provide efficiency reducing the impact of customers' operations on the environment.

Downer works closely with the local communities in which it operates to achieve better social outcomes, implementing a range of initiatives focusing on social responsibility, local and Indigenous employment, cultural heritage management and stakeholder engagement.

Downer success is a direct result of the experience, capability and engagement of Downer's people. Downer embraces diversity and inclusiveness in the workplace. Downer relies on, and encourages, its people to contribute a diverse range of skills and experiences in order to deliver the best outcomes for its customers. Downer continues to strengthen its focus on recruiting strategically to increase workforce participation across a range of demographics.

Downer's approach to reporting

Downer has prepared 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.

What's new?

Some of the new topics discussed in the Sustainability Report this year include:

- Alignment to the GRI Standards from G4 Guideline;
- Alignment of Case Studies to the UN Sustainable Development Goals;
- Adoption of Task Force on Climate-related Financial Disclosures (TCFD) recommendations;
- Inclusion of Spotless' data (excluding health, safety and environmental data for New Zealand); and
- Inclusion of ESG Sustainability Analyst Rating Scores.

Governance and Risk Management

The Board's Zero Harm Committee oversees the development and implementation of Downer's workplace health and safety and environmental management systems. The effectiveness of these systems is monitored 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 its other corporate governance forums.

The Downer Board has oversight of ensuring Downer duly considers climate-related risks and receives guidance from the Audit and Risk Committee, Zero Harm Committee, Tender Risk Evaluation Committee and Disclosure Committee. Climate related risks and opportunities form part of Downer's broader corporate strategy, planning and risk management.

The Downer Board recognises that an integrated approach to managing climate-related risks and opportunities is essential. This has been reflected in the strengthening of Downer's governance structure and increased focus on this risk in both Board and executive forums throughout the 2018 financial year.

This has included:

- formal updates to the Board on a six-monthly basis and Audit and Risk and Zero Harm Committees on a bi-monthly basis;
- regular updates and stakeholder engagement with the Group Executive Committee;
- amendments to the Audit and Risk Committee Charter to include explicit reference to climate-related risks and opportunities;
- inclusion of climate-related risks and opportunities in the annual Board strategy agenda;
- incorporating additional questions focused on the identification of climate-related risks and opportunities in the bi-annual Financial and Corporate Governance Self-Assessment; and
- incorporating climate-related risk and opportunity discussions in Divisional executive meetings, including climate-related workshops with senior leadership teams of each Division.

Climate-related risks are governed as part of Downer's Group Risk and Opportunity Management Framework and Project Risk Management Framework. Downer identify, manage and disclose 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.

The Audit and Risk Committee Charter explicitly addresses climate-related risk. To further strengthen Downer's risk management framework in line with the range of impacts and considerations associated with climate risk over the short, medium and long-term horizons, the Consequence Rating Table within the Group's Risk and Opportunity Management Framework includes climate change risks and opportunities to enable senior management and employees to understand and assess the potential risks and opportunities arising from various future scenarios when making decisions that affect Downer.

Downer's Zero Harm Management System Framework sets the Company's sustainability governance requirements. Downer uses a Company-wide Risk Management Framework and divisional integrated management systems to identify and manage sustainability issues and opportunities. Downer has been certified (as a minimum) to the following standards: AS/NZS 4801 or OHSAS 18001 (for occupational health and safety management systems); ISO 14001 environmental management systems; and ISO 9001 quality management systems.

The method for measuring the Company's performance is clearly set out in its governance framework. Short-term remuneration incentives are offered to senior managers in relation to the Company's performance against environmental sustainability targets. These targets include the management of critical environmental risks and GHG emissions reduction.

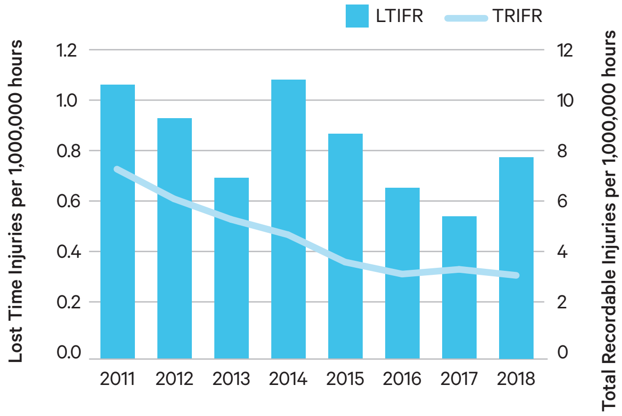
Downer's Zero Harm performance during 2018 is summarised below. More comprehensive information is provided in Downer's 2018 Sustainability Report which will be available on the Downer website.

Health and safety

Health and safety is Downer's highest priority. Downer believe that work can be performed safely and without injury to Downer's people. Downer is committed to the pursuit of Zero Harm to its employees, contractors, and those directly affected by the Company's operations. Downer's commitment is enhanced by strong leadership from senior leaders within the business, who actively engage, enable and empower Downer's people to work safely, and maintain safe working environments for themselves and the community. As Downer's health and safety performance demonstrates, Downer has a mature safety culture, and is proud of its people's support and commitment to Downer's Zero Harm principles and practices.

Downer's strategic plan for critical risk management continues to be a key focus of Downer's Zero Harm program. As the critical risk program has matured within its business, the strategy embraces the identification of opportunities to further harmonise the way that shared critical risks are managed throughout the business. This presents opportunities to increase the consistency and effectiveness of critical risk management within Downer's business, while continuing to focus on evaluation and assurance of critical controls by multiple layers of management and frontline leaders.

Downer continue to focus on investing in the capability of its frontline leaders, and recognise the important role they hold in cultivating a workplace culture focused on prevention of harm. Downer's strategy this year includes enhancement of internal training provided to Downer's leaders and incorporates advancements in learning methodologies.



Environmental sustainability

Downer's environmental sustainability performance is measured against the key areas of risk management, compliance, minimising environmental impact and maximising resource efficiency opportunities in its own and its customers' businesses. Downer's key focus areas during the year were:

- continuing to focus on the resilience and assurance of environmental risk controls;
- incorporating sustainability rating tools and initiatives into major projects;
- improving environmental workforce capability;
- engaging with customers regarding Downer's environmental capability; and
- positioning its businesses for the 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 2018. However, Downer incurred four minor infringement notices totalling NZD$3,000 relating to its New Zealand operations, (further information is available in the 2018 Sustainability Report).

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 there is long-term community irritation leading to disruptive actions and requiring continual management attention.

Achievements for 2018 include:

- Plastiphalt – the launch of a new recycled asphalt product to join the series of Downer's recycled road products. Partnering with Hume City Council, Close the Loop and RED Group, Downer produced and laid a road manufactured using soft plastics and glass, in an Australian first.
- The Rosehill Detritus Plant – Downer opened a repurposing facility which is capable of cost effectively processing, separating and cleaning more than 40,000 tonnes annually from street sweepings and stormwater pits. Approximately 85% of detritus can be converted into meaningful streams of material for reuse such as organic matter, sand, gravel, metals and plastic.
- Smart stormwater drains – working with partners Yarra Valley Rangers Council, Fujitsu and EYEfi, Downer has helped implement a network of sensors, technology and software architecture which monitors water levels and potential flow rates within stormwater drains to reduce the risk of flooding. Regular rising water alerts sent to response and maintenance teams enable faster responses and opportunities for preventative action.

In the renewable energy sector Downer remains one of Australia's largest and most experienced delivery partners offering design, build and maintenance services for wind farms, wind turbine sites and solar farms. Downer has been involved in the construction of approximately half the wind turbines built in Australia and has worked, or is currently working, on 576MW of capacity with the Sunshine Coast, Clare, Beryl and Ross River solar farms and Murra Warra Wind Farm (Stage 1). Downer's experience in the renewables sector led to its work at the Ararat Wind Farm being awarded[4] Australia's first ISCA rating for a renewables project.

Downer's climate risk journey

Downer conducts business in a way that is sustainable. At Downer there are many facets of sustainable operations, including climate change impacts and ultimately this requires making sure that it runs its business as efficiently as possible and by providing innovative solutions to customers that reduce their environmental footprints. Downer recognises that the impact of climate change presents a challenge to business, society and the natural environment. While Downer's business portfolio is diverse, it has limited exposure to the effects of climate change impacts on its business through fixed, long lived capital assets. Downer's diverse portfolio allows it to be flexible and agile to redeploy its assets to high growth areas as markets change. This portfolio diversity strongly positions Downer to mitigate and manage its exposure to climate risks and to maximise the business opportunities it presents.

In this reporting period a detailed assessment against the Task Force on Climate Related Financial Disclosures (TCFD) framework has been conducted and disclosures presented are aligned with the TCFD recommendations. In conducting its assessment, Downer considered the diversity of its operations and portfolio, in the context of transitional, physical and reputational risks as well as considering opportunities particularly in respect of transport, new markets and technological changes. This review did not identify any material short-term risks to the Downer business in respect of climate change, however risks and opportunities across short, medium and long-term horizons were identified and these are outlined below.

Downer's existing Group and Divisional strategy process already considers the key external drivers as mentioned above. Downer has also enhanced its strategy process to more explicitly incorporate climate-related risks and opportunities on an ongoing basis. Downer has already embedded this process in the annual Group strategy session, with the intention of implementing a similar process into the Divisional strategy sessions during the 2019 period.

Outlined below are the key climate-related risks and opportunities. These risks and opportunities are not listed in order of significance and are not intended to be exhaustive. They are a representative sample of the risks identified during the review undertaken in the 2018 financial year. They are informed by a review of Group and Divisional risk registers, interviews and workshops with senior management, and employees.

As indicated below, the majority of Downer's climate-related risks have been deemed to impact the business in the medium to longer term. Opportunities identified relate primarily to leveraging Downer's existing capabilities and business model as a service provider to service new and adjacent emerging markets that arise from the transition to a lower carbon economy.

Downer has made significant progress to date in assessing climate-related risks and opportunities and in the 2019 financial year Downer is committed to exploring further the impacts of these items through analysis and identification of appropriate metrics and targets.

Stemming from the risk and opportunity analysis undertaken already, Downer's focus for scenario analysis will now be in the following areas:

- outlook for metallurgic and thermal coal;
- impact of extreme weather (increase in rainfall and temperature); and
- energy transition, considering both the impact on energy prices and opportunities for alternative generation sources.

4 This award was issued in the 2018 financial year.

Downer FY2018 TCFD

Climate change is a global challenge. As a diverse organisation with operations spanning across the Asia Pacific region, Downer acknowledges that climate change will impact its business, which will present a combination of climate-related risks and opportunities over the medium to long term.

Recognising the need for increased information on climate-related impacts, the TCFD developed voluntary, consistent climate-related financial disclosures for use by investors, lenders, insurers and other stakeholders to inform decision making in relation to climate risk.

The final TCFD report was released in June 2017 and is supported by Downer. This report recommended improved disclosures in relation to the areas of governance, strategy, risk management and metrics and targets relevant to climate risk. The TCFD recognises that meaningful adoption of the report's recommendations will be achieved over a three-year timeframe as both experience and disclosures evolve in response to clearer messaging from financial markets about the information they require to measure and respond to climate-related risks and opportunities.

Downer supports the TCFD objectives. Commencing in the 2018 financial year Downer's climate related disclosures align with the TCFD recommendations and build on Downer's disclosures in the 2017 financial year.

Risk	Description	TCFD Risk Type	Potential Impact to Business	Management Response and Mitigation
Impacts of increasing energy costs	Increased operational costs due to increase in electricity, gaseous and liquid fuel prices, materially impacting high energy consuming service lines	**Transition:** Market and Policy	Decreased profitability from contracts in energy-intensive service lines **Time horizon:** Medium to Long Term	Continue identifying and implementing energy efficiency initiatives
Exposure to extreme weather events	Severe weather events impacting the delivery of contractual obligations. For example, resource mobilisation, health and safety, and security	**Physical:** Acute and Chronic, and Legal	Inability to achieve contractual schedules due to adverse and severe weather events **Time horizon:** Long Term	Continue to assess contractual arrangements with respect to acute and chronic weather events to ensure appropriate mitigation measures are in place
Exposure to thermal coal contracts	Transition to a low carbon economy leads to reduced demand for thermal coal for power generation	**Transition:** Policy, Legal, Technology Changes, Market Changes, Reputation	Reputational risks arise from Downer's continual exposure to the coal sector **Time horizon:** Medium Term	Continue to monitor demand forecasts for thermal coal – particularly local demand driven by power stations that are current customers for existing thermal coal mining services contracts Undertake scenario analysis of Downer's medium to long term exposure to metallurgical and thermal coal When reviewing contract extensions / new contracts, continue to undertake analysis to increase exposure to mines that are expected to maintain competitiveness in light of the transition to a low carbon economy

Risk	Description	TCFD Risk Type	Potential Impact to Business	Management Response and Mitigation
Changing design and construction requirements	Increased climate-related risk requirements relevant to the construction of infrastructure driven by changing customer expectations and increased climate-related design requirements stipulated in EPCM contracts	**Physical and liability:** Acute and Chronic, Policy, Legal and Reputation	Increased cost of EPCM services and challenges to the competitiveness of Downer's services **Time horizon:** Medium to Long Term	Continue to assess contractual arrangements with respect to design and construction events to ensure appropriate mitigation measures are place

Response to climate-related opportunities

Opportunity	Description	TCFD Opportunity Type	Potential Growth to Business	Management Response
Existing renewable energy capability and market presence	Expertise with developing, implementing and maintaining renewable energy assets	Resource efficiency and Products/ Services	Transition to a low carbon economy drives increased demand for renewable energy technology and infrastructure services, as well as broader smart city products and services	– Strengthen existing and establish new relationships with key customers – Leverage Downer's capability and broaden Downer's service offerings
Leverage existing mining capabilities to service new and adjacent markets	Transition to low carbon is driving demand for base (e.g. Copper, Gold) and precious metals (e.g. Lithium, Zinc) critical for this transition	Products/Services and Markets	Opportunity to leverage existing mining capabilities to service new and adjacent markets with products essential for the transition to a low carbon economy	– Strengthen existing and establish new relationships with key customers – Leverage Downer's capability and broaden Downer's service offerings
Response services to extreme weather events	Increased frequency and impacts of extreme weather events drive increase demand for disaster recovery and resilience services	Products/Services, Markets and Resilience	Opportunity to further leverage Downer's existing expertise in responding to asset damage from extreme weather events. Opportunity to also leverage this expertise to improve the resilience of existing assets	– Continue to work with Government customers on emergency response to extreme weather response – Strengthen and leverage existing capability – Incorporate climate change and adaptation into the design of any infrastructure contract

Overview

Downer's corporate governance framework provides the platform from which:

- The Board is accountable to shareholders for the operations, performance and growth of the Company;
- Downer management is accountable to the Board;
- The risks to Downer's business are identified and managed; and
- Downer effectively communicates with its shareholders and the investment community.

Downer continues to enhance its policies and processes to promote leading corporate governance practices.

The Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles).

Principle 1: Lay solid foundations for management and oversight

The Downer Board Charter sets out the functions and responsibilities of the Board and is available on the Downer website at **www.downergroup.com**.

The Board Charter states that the role of the Board is to provide strategic guidance and to effectively oversee management of the Company. Among other things, the Board is responsible for:

- Overseeing the Company, including its control and accountability systems;
- Appointing and removing the Group CEO and senior executives;
- Monitoring performance of the Group CEO and senior executives; and
- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Before appointing a Director, the Board undertakes appropriate checks and provides shareholders with all material information which is relevant to the decision to elect or re-elect a Director.

Directors receive formal letters of engagement setting out the key terms, conditions and expectations of their engagement.

The Board Charter also describes the functions delegated to management, led by the Group CEO.

The primary goal set for management by the Board is to focus on enhancing shareholder value, which includes responsibility for Downer's economic, environmental and social performance.

The Group CEO is responsible for the day-to-day management of Downer and his authority is delegated and authorised by the Board.

Downer has written employment agreements with each of its senior executives and the performance of those senior executives is regularly reviewed against appropriate measures, including performance targets linked to the business plan and overall corporate objectives. In 2018, 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 & Inclusiveness (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 & Inclusiveness Policy is available on the Downer website at **www.downergroup.com**.

ASX diversity recommendations – diversity statement

This diversity statement outlines Downer's performance throughout 2018 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 2018; and
- An outline of Downer's measurable gender diversity objectives for 2019.

Gender representation metrics

As at 30 June 2018, the gender representation metrics were as follows:

- Three of the six Non-executive Directors on the Downer Board are women;
- Women currently make up 21% of Senior Executive[1] roles;
- 17% of Manager[2] roles are held by women; and
- Women constitute approximately 35% of Downer's workforce.

1 For present purposes, "Senior Executive" refers to CEO, KMP and Other Executives/General Managers as defined in the Workplace Gender Equality Agency Reference guide to the workplace profile and reporting questionnaire (WGEA Reference Guide).

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

Looking back: 2018 measurable objectives

Objective	Outcome
Through the Talent Management and Succession Planning process ensure that identified top female talent (across the Divisions) have active performance and development plans that are tracking to plan.	Active performance and development plans are in place for all identified female talent at Downer as part of the annual Performance and Development Review Process.
Develop tools, policies and training in relation to Flexible Work and pilot within the Rail Division to ensure that individual and business needs are met. Set and monitor targets to measure employee engagement in flexible work and report to the GDSC.	In February, a program of work on flexibility was formally launched to Corporate and Rail Division employees based at the North Ryde office. This included supporting resources for managers and employees. Annual measurement of participation in flexible work practices is being managed through Human Resources. Employee attitude and perceptions of flexible work is measured through the annual employee engagement survey.
Review and update Downer's Parental Leave Policy to include employer funded paid parental leave for secondary carers.	A review on Downer's Parental Leave Policy benchmarked against 30+ large Australian based employers was completed. A cost model and recommendations were presented to and endorsed by Divisional Human Resources and Divisional Diversity Steering Committees.
Following the successful delivery of Downers 'Reflect' RAP, draft an 'Innovate' RAP which includes a focus on cultural learning, Aboriginal and Torres Strait Islander employment and supplier diversity.	Downer's second Reconciliation Action Plan (RAP) has been drafted. This RAP is an 'Innovate' RAP and focuses on implementing reconciliation with an emphasises on strengthening relationships.
To continue the association with Jawun in Australia and Māori based leadership programs in New Zealand.	– Seven employees participated in the Jawun secondment program in Cape York, West Kimberley, or Inner Sydney this year. Since the program inception, 37 employees have been on secondment and this represents 222 weeks of secondment placements allowing Indigenous-led organisations to access Downer's talented employees. – 155 employees have participated in our marae-based Maori Leadership program. Through this program Downer continues to see an increase in Maori employees in senior positions.
Establish baseline data on Aboriginal and Torres Strait Islander people working at Downer.	Downer commenced capturing data on Aboriginal and Torres Strait Islander identity when voluntarily provided by new employees. Additionally, Aboriginal and Torres Strait Islander employees have the option to identify their ancestry in the annual employee engagement survey.

Looking ahead: 2019 measurable objectives

Focus Area	Objective	Targets	Initiatives
Brand & Reputation	To enhance the brand and reputation of Downer Group through partnerships related to our diversity focus areas and to ensure Downer Group continues to be viewed as an organisation that is committed to D&I.	Establish two partnerships with reputable diversity agencies.	– Actively consider partnering with the Diversity Council of Australia and/or the Australian Human Rights Commission to strengthen and illustrate Downer's commitment to Diversity and Inclusion. – Build Downer's employee value proposition that builds on employee engagement survey findings – including through regular internal and external messaging focused on an inclusive culture.
Gender Diversity	To improve opportunities for women to reach their potential through an inclusive work environment while positioning Downer Group as a preferred employer for women in our industry.	37% women in the workforce by 2020. 20% women in management by 2020.	– Launch a new Downer paid parental leave policy during the period. – Establish a mentoring program during the period where 15 high performing women are paired with high performing leaders to support their development goals. – Build the executive talent pool of senior females with focused development opportunities including Downer ExeLD program (five places) and targeted external development through Chief Executive Women (three places). – Implementation of a new learning module during the period and to be completed progressively by hiring managers. The module will focus on diversity insights relevant to recruitment processes so that hiring managers are able to apply insights that are focused on achieving improved gender diversity.
Cultural Diversity	To build on Downer Group's commitment to closing the gap by increasing Indigenous workforce participation and developing strategic partnerships with Indigenous organisations and community groups.	3% Aboriginal and Torres Strait Islander employees by 2020.	– Launch Downer Group's second Reconciliation Action Plan during the period to demonstrate the ongoing commitment to reconciliation. – Develop two partnerships with Indigenous pre-employment agencies during the period to support the commitment to closing the gap. – All Supervisors and above will complete cultural awareness training, which will commence during the period.
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.	Build our Linked-In ranking (currently the 12th most sought after business to work for). Maintain or increase the number of graduate employees year-on-year until 2021.	– Build a talent pipeline by investing in youth programs that align to our diversity focus of both female and Aboriginal and Torres Strait Islander priority areas, including: – The Downer Graduate Development Program (continue to unify a one Downer approach to graduate recruitment). – Establish governance structure and a framework for the Downer Apprentice and Trainee Program that supports strategic attraction and selection. – Develop D&I image guidelines to ensure internal and external collateral covers the broad spectrum of diverse employees (with a focus on generational).

Principle 2: Structure the Board to add value

Throughout the 2018 financial year, the Board was comprised of a majority of independent Directors.

The Board is currently comprised of the Chairman (Mike Harding, an independent, Non-executive Director), five other independent, Non-executive Directors and an Executive Director (the Group CEO, Grant Fenn). Details of the members of the Board, including their skills, experience, status and their term of office are set out in the Directors' Report on pages 2 to 3 and are also available on the Downer website at **www.downergroup.com**.

The composition of the Board is reviewed and assessed by the Nominations and Corporate Governance Committee to ensure the Board is of a composition, size and commitment to effectively discharge its responsibilities and duties.

Directors are required to bring their independent judgement to bear on all Board decisions. To facilitate this, it is Downer's policy to provide Directors with access to independent professional advice at the Company's expense in appropriate circumstances.

Downer's Non-executive Directors recognise the benefit of conferring regularly without management present, and they do so at various times throughout the year.

The Board considers that an independent Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could (or could reasonably be perceived to) materially interfere with the independent exercise of their judgement. The Board regularly assesses the independence of each Director to ensure that each Director has the capacity to bring independent judgement to bear on issues before the Board and to act in the best interests of Downer as a whole.

Downer's governance framework requires each Director to promptly disclose actual and possible conflicts of interest, any interests in contracts, other directorships or offices held, related party transactions and any dealing in the Company's securities.

At least one Director must retire from office at each Annual General Meeting (AGM). No Non-executive Director can serve more than three years without offering themselves for re-election.

The Chairman of the Board is an independent, Non-executive Director. He is responsible for the leadership of the Board and for the efficient organisation and functioning of the Board. The Chairman is appointed by the Board to ensure that a high standard of values, governance and constructive interaction is maintained.

The Chairman facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and the Board and management. He also represents the views of the Board to Downer's shareholders and conducts the AGM.

The roles of Chairman and Group CEO are not exercised by the same person and the division of responsibilities between the Chairman and the Group CEO have been agreed by the Board and are set out in the Board Charter and Downer's Delegations Policy.

The Board has established a number of committees to assist the Board to effectively and efficiently execute its responsibilities. A list of the main Board Committees and their current membership is set out in the table below.

Board Committee	Chairman	Members
Audit and Risk	S A Chaplain	P S Garling T G Handicott N M Hollows C G Thorne
Zero Harm	C G Thorne	S A Chaplain G A Fenn
Nominations and Corporate Governance	R M Harding	S A Chaplain T G Handicott
Remuneration	T G Handicott	P S Garling R M Harding
Disclosure	T G Handicott	G A Fenn R M Harding
Rail Projects	P S Garling	G A Fenn T G Handicott R M Harding
Tender Risk Evaluation	C G Thorne	G A Fenn T G Handicott R M Harding

The names of members of each committee, the number of meetings and the attendances by each of the members of the various committees to which they are appointed is set out in the Directors' Report on page 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 five members, including the Group CEO. Meetings of the Tender Risk Evaluation Committee are convened as required to review tender opportunities.

The Board has established the Nominations and Corporate Governance Committee to oversee the practices for selection and appointment of Directors of the Company.

The Nominations and Corporate Governance Committee's primary purpose is to support and advise the Board on fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and leading governance practice.

The Nominations and Corporate Governance Committee has a charter which sets out its roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. The Nominations and Corporate Governance Committee Charter gives the Nominations and Corporate Governance Committee access to internal and external resources, including advice from external consultants and specialists. The Nominations and Corporate Governance Committee Charter is available on the Downer website at **www.downergroup.com**.

The Nominations and Corporate Governance Committee, all members of which are independent Directors, is chaired by an independent Director and has a minimum of three members.

The Committee's responsibilities include:

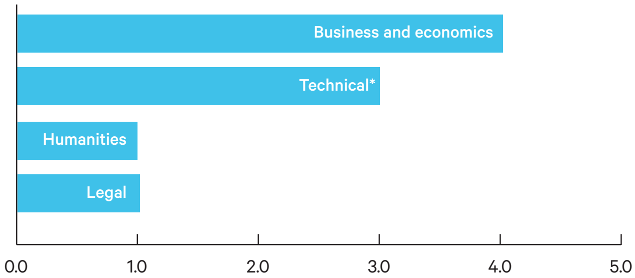
- Assessing the skills and competencies required on the Board;
- Assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual Directors and the Board as a whole;
- Establishing processes for identifying suitable candidates for appointment to the Board (including undertaking a formal due diligence screening process); and
- Recommending the engagement of nominated persons as Directors.

When appointing Directors, the Nominations and Corporate Governance Committee aims to ensure that an appropriate balance of skills, experience, expertise and diversity is represented on the Board. This may result in a non-executive Director with a longer tenure remaining in office to bring that experience and depth of understanding to matters brought before the Board.

Given the breadth of Downer's service offerings across a range of markets, the Board seeks to ensure that it maintains an appropriate range of technical skills across engineering, geology, construction and scientific disciplines as well as professional services when considering the appointment of a new Director. The Board identified that the review of major tender bids and the successful delivery of major projects in an increasingly complex commercial environment required additional Directors with strong financial acumen. It is for this reason that in undertaking the selection process for its most recently appointed Director, the Board selected a candidate with financial and accounting qualifications and experience as a CFO and CEO of an ASX listed company.

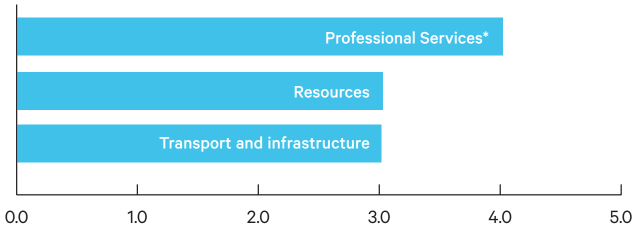
The chart below illustrates the balance achieved with the current Board composition. The Company recognises the value of diversity which has been a component of the appointment process over the past few years.

Professional qualifications



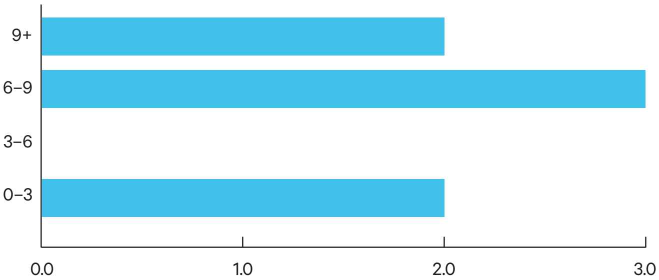
*Comprises construction, engineering, metallurgy and science.

Industry experience

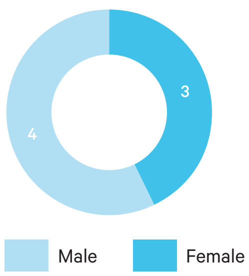


*Includes banking, finance and legal.

Tenure



Gender diversity



From time to time, Downer engages external specialists to assist with the selection process as necessary, and the Chairman, Board and Group CEO meet with candidates as part of the appointment process.

Nominations for re-election of Directors are reviewed by the Nominations and Corporate Governance Committee and Directors are re-elected in accordance with the Downer Constitution and the ASX Listing Rules.

As part of its commitment to leading corporate governance practice, the Board undertakes improvement programs, including externally facilitated periodic reviews of its performance and that of its Committees and Directors. The last review was completed during FY16.

The Company has formal induction procedures for both Directors and senior executives. These induction procedures have been developed to enable new Directors and senior executives to gain an understanding of:

- Downer's financial position, strategies, operations and risk management policies;
- The respective rights, duties and responsibilities and roles of the Board and senior executives; and
- Downer's culture and values.

Directors are given an induction briefing by the Company Secretary and an induction pack containing information about Downer and its business, Board and Committee charters and Downer Group policies. New Directors also meet with key senior executives to gain an insight into the Company's business operations and the Downer Group structure.

Directors are encouraged to continually build on their exposure to the Company's business and a formal program of Director site visits has been in place since 2009. Directors are also encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge and the Company Secretary regularly organises governance and other continuing education sessions for the Board.

The Board is provided with the information it needs to discharge its responsibilities effectively. The Directors also have access to the Company Secretary for all Board and governance-related issues and the appointment and removal of the Company Secretary is determined by the Board. The Company Secretary is accountable to the Board, through the Chair, on all governance matters.

Principle 3: Promote ethical and responsible decision-making

Downer's Purpose, Promise and Pillars define the way Downer 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; and
- Conflicts of interest.

Downer has a formal whistleblower policy and procedures for reporting and investigating breaches of the Standards of Business Conduct. This includes the Our Voice service, an external and independent reporting service which enables employees to anonymously report potential breaches of the Standards of Business Conduct, including misconduct or other unethical behaviour. Reports received through Our Voice are investigated where appropriate, with the Company Secretary overseeing the completion of any remedial action.

The Standards of Business Conduct applies to all officers and employees and is available on the Downer website at **www.downergroup.com**.

Downer endorses leading governance practices and has in place policies setting out the Company's approach to various matters, including:

- Securities trading (stipulating 'closed periods' for designated employees and a formal process which employees must adhere to when dealing in securities);
- The Company's disclosure obligations (including continuous disclosure);
- Communicating with shareholders and the general investment community; and
- Privacy.

Downer has an Anti-Bribery and Corruption Policy which expands upon the prohibition against bribery and corruption currently contained in the Standards of Business Conduct, and which addresses key issues such as working with government, political donations, human rights, conducting business internationally and gifts and benefits. As Downer has operations in foreign jurisdictions, Downer employees are confronted by the challenges of doing business in environments where bribery and corruption are real risks. However, regardless of the country or culture within which its people work, Downer is committed to compliance with the law, as well as maintaining its reputation for ethical practice.

These policies are available on the Downer website at **www.downergroup.com**.

Principle 4: Safeguard integrity in financial reporting

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

The Audit and Risk Committee assists the Board to fulfil its responsibilities relating to:

- The quality and integrity of the accounting, auditing and reporting practices of the Company with a particular focus on the qualitative aspects of financial reporting to shareholders;
- The Company's risk profile and risk policies; and
- The effectiveness of the Company's system of internal control and framework for risk management.

The Audit and Risk Committee is structured so that it:

- Consists of only Non-executive Directors;
- Consists of a majority of independent Directors;
- Is chaired by an independent Chairman (who is not the Chairman of the Board); and
- Has at least three members.

The Audit and Risk Committee 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 FY18, 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**.

Principle 5: Make timely and balanced disclosure

The Company's Disclosure Policy sets out processes which assist the Company to ensure that all investors have equal and timely access to material information about the Company and that Company announcements are factual and presented in a clear and balanced way. A copy of the Disclosure Policy is available on the Downer website at **www.downergroup.com**.

The Disclosure Policy also sets out the procedures for identifying and disclosing material and market-sensitive information in accordance with the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

Downer's Disclosure Committee consists of two independent, Non-executive Directors (one of which is the Chairman of the Board) and the Group CEO. The Disclosure Committee oversees disclosure of information by the Company to the market and the general investment community.

Principle 6: Respect the rights of shareholders

Downer empowers its shareholders by:

- Communicating effectively, openly and honestly with shareholders;
- Giving shareholders ready access to balanced and understandable information about the Company and its governance; and
- Making it easy for shareholders to participate in general meetings.

The Downer Communication Policy sets out the Company's approach to communicating with shareholders and is available on the Downer website at **www.downergroup.com**.

The Company publishes corporate information on its website (**www.downergroup.com**), including Annual and Half Year Reports, ASX announcements, investor updates and media releases.

Downer encourages shareholder participation at AGMs through its use of electronic communication, including by making notices of meetings available on its website and audio casting of general meetings and significant Group presentations.

The Directors and key members of management attend the Company's AGMs and are available to answer questions.

Principle 7: Recognise and manage risk

To mitigate the risks that arise through its activities, Downer has various risk management policies and procedures in place that cover (among other matters) interest rate management, foreign exchange risk management, credit risk management, tendering and contracting risk and project management.

Downer has controls at the Board, executive and business unit levels that are designed to safeguard Downer's interests and ensure the integrity of reporting (including accounting, financial reporting, environment and workplace health and safety policies and procedures). These controls are designed to ensure that Downer complies with legal and regulatory requirements, as well as community standards.

Downer has a Risk Management Framework in place to enable business risks to be identified, evaluated and managed. The Board ratifies Downer's approach to managing risk and oversees Downer's Risk Management Framework, including the Group risk profile and the effectiveness of the systems being implemented to manage risk. The last comprehensive review of the Risk Management Framework was completed in 2016. However, the Board reviews the Group risk profile twice each year, undertakes a facilitated risk workshop annually, and considers other risk matters, such as business resilience, tender review processes, risk appetite, and specific risk areas, on a regular basis, as well as regular reports from senior management, the internal audit team, and the external auditor.

Downer's annual Sustainability Report provides a detailed overview of Downer's approach to managing its environmental sustainability and social sustainability risks. The 2017 Sustainability Report is available on the Downer website at **www.downergroup.com**.

The Company's internal audit function objectively evaluates and reports on the existence, design and operating effectiveness of internal controls. Downer's internal audit team is independent of the external auditor and reports to the Audit and Risk Committee.

Downer's Audit and Risk Committee assists the Board in its oversight of Downer's risk profile and risk policies, the effectiveness of the systems of internal control and Risk Management Framework and Downer's compliance with applicable legal and regulatory obligations. The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

Management reports regularly to the Audit and Risk Committee on the effectiveness of Downer's management of its material business risks and on the progress of mitigation treatments.

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee and has adopted the Remuneration Committee Charter which sets out its role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board about:

- Executive remuneration and incentive policies;
- The remuneration, recruitment, retention, performance measurement and termination policies and procedures for all senior executives reporting directly to the Group CEO;
- Executive and equity-based incentive plans; and
- Superannuation arrangements and retirement payments.

Remuneration of the Group CEO, executive directors and non-executive directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Downer's remuneration policy is designed to motivate senior executives to pursue the long-term growth and success of the Company and prescribes a relationship between the performance and remuneration of senior executives.

The Remuneration Committee is structured so that it:

- Consists of a majority of independent Directors;
- Is chaired by an independent Director; and
- Has at least three members.

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 21.

Retirement benefits are not paid to Non-executive Directors.

Non-executive Directors do not participate in any equity incentive schemes.

The remuneration structure for Executive Directors and senior executives is designed to achieve a balance between fixed and variable remuneration taking into account the performance of the individual and the performance of the Company. Executive Directors receive payment of equity-based remuneration as short and long-term incentives.

Executive Directors and senior executives are prohibited from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any of the Company's equity-based remuneration schemes.

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report at page 21 and details of Downer shares beneficially owned by Directors are provided in the Directors' Report at page 4.

Information for Investors

for the year ended 30 June 2018

Downner shareholders

Downer had 18,599 ordinary shareholders as at 30 June 2018.

The largest shareholder, HSBC Custody Nominees (Australia) Limited, holds 29.49% of the 594,702,512 fully paid ordinary shares issued at that date. Downer has 16,883 shareholders with registered addresses in Australia.

Securities exchange listing

Downer is listed on the Australian Securities Exchange (ASX) under the "Downer EDI" market call code 3965, with ASX code DOW, and is an overseas listed 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.

International shareholders can use Computershare's Global Payments System to receive dividend payments in the currency of their choice at a nominal cost to the shareholder.

Dividend reinvestment plan

Downer's Dividend Reinvestment Plan (DRP) is a mechanism to allow shareholders to increase their shareholding in the Company without the usual costs associated with share acquisitions, such as brokerage. Details of the DRP are available from the Company's website or the Easy Update website at **www.computershare.com.au/easyupdate/dow**.

Share registry

Shareholders and investors seeking information about Downer shareholdings or dividends should contact the Company's share registry, Computershare Investor Services Pty Ltd (Computershare):

Level 5
115 Grenfell Street
Adelaide SA 5000

GPO Box 1903
Adelaide SA 5001

Tel: 1300 556 161 (within Australia)
+61 3 9415 4000 (outside Australia)

Fax: 1300 534 987 (within Australia)
+61 3 9473 2408 (outside Australia)

www.computershare.com

Shareholders must give their holder number (SRN/HIN) when making inquiries. This number is recorded on issuer sponsored and CHESS statements.

Updating your shareholder details

Shareholders can update their details (including bank accounts, DRP elections, tax file numbers and email addresses) online at **www.computershare.com.au/easyupdate/dow**.

Shareholders will require their holder number (SRN/HIN) and postcode to access this site.

Tax file number information

Providing your tax file number to Downer is not compulsory. However, for shareholders who have not supplied their tax file number, Downer is required to deduct tax at the top marginal rate plus Medicare levy from unfranked dividends paid to investors residing in Australia. For more information please contact Computershare.

Lost issuer sponsored statement

You are advised to contact Computershare immediately, in writing, if your issuer sponsored statement has been lost or stolen.

Annual Report mailing list

Shareholders must elect to receive a Downer Annual Report by writing to Computershare Investor Services Pty Ltd at the address provided. Alternatively shareholders may choose to receive this publication electronically.

Change of address

So that we can keep you informed, and protect your interests in Downer, it is important that you inform Computershare of any change of your registered address.

Registered office and principal administration office

Downer EDI Limited
Level 2, Triniti III
Triniti Business Campus
39 Delhi Road
North Ryde NSW 2113

Tel: +61 2 9468 9700
Fax: +61 2 9813 8915

Auditor

KPMG
International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000

Australian securities exchange information as at 30 June 2018

Number of holders of equity securities:

Ordinary share capital

594,702,512 fully paid listed ordinary shares were held by 18,599 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 2018.

Shareholders	Ordinary shares held	% of issued shares
AustralianSuper Pty Ltd	42,508,165	7.15
FIL Limited	37,184,187	6.25
Ausbil Investment Management Limited	29,840,376	5.02

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 30 June 2018 is as follows.

Range of holdings	Number of shareholders	Shareholders %	Ordinary shares held	Shares %
1 – 1,000	10,368	55.75	4,463,959	0.75
1,001 – 5,000	6,360	34.20	14,644,650	2.46
5,001 – 10,000	1,118	6.01	8,029,373	1.35
10,001 – 100,000	690	3.71	14,817,193	2.49
100,001 and over	63	0.34	552,747,337	92.95
Total	18,599		594,702,512	100.00
Holding less than a marketable parcel of shares	832			

Information for Investors – continued

for the year ended 30 June 2018

Twenty largest shareholders

Downer's 20 largest shareholders of ordinary fully paid shares as at 30 June 2018 are as follows.

Shareholders	Shares held	% of issued shares
HSBC Custody Nominees (Australia) Limited	175,370,677	29.49
Chase Manhattan Nominees Limited	157,329,290	26.46
Citicorp Nominees Pty Limited	95,270,613	16.02
National Nominees Limited	50,006,980	8.41
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	15,126,011	2.54
BNP Paribas Noms Pty Ltd <DRP>	15,047,757	2.53
HSBC Custody Nominees (Australia) Limited <NT- Commonwealth Super Corp A/C>	6,386,940	1.07
UBS Nominees Pty Ltd	5,944,471	1.00
CPU Share Plans Pty Limited	5,038,771	0.85
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	4,674,121	0.79
Argo Investments Ltd	2,969,037	0.50
AMP Life Ltd	2,033,448	0.34
Sandhurst Trustees Ltd <Harper Bernays Ltd A/C>	1,894,330	0.32
Equity Trustees Limited <ESF Aust Equity Portfolio>	1,403,475	0.24
Bond Street Custodians Limited	1,312,700	0.22
CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	1,193,885	0.20
EQT Wealth Services Limited <Common Fund 103 A/C>	954,615	0.16
Mr Barry Sydney Patterson + Mrs Glenice Margaret Patterson	891,642	0.15
BNP Paribus Noms (NZ) Ltd <DRP>	889,387	0.15
eCapital Nominees Pty Limited	835,700	0.14
Total for top 20 shareholders	544,573,850	91.58

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North Ryde NSW 2113
Australia

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www.downergroup.com