For a better tomorrow

Annual Report 2023

Downer

Acknowledgement of Country

Downer acknowledges Aboriginal and Torres Strait Islander peoples as the First Australians and the Traditional Custodians across Australia.

We would like to acknowledge and pay our respects to the Elders of the past, present and future in maintaining the culture, country and their spiritual connection to the land.

Whakataukī

Ko te whānau, ko te manaaki,
ko te kairangatira,
ko te ngākau pono ngā tikanga
tuku iho hei
korowai mo tatou.
Ko te Kauri i whakawhiwhi
haumaru, ko te Rimu i
whakawhiwhi taonga,
ko te Tōtara i whakawhiwhi
whanaungatanga,
ko te Kahikatea i whakawhiwhi
whakaaro matakite.
Ngā pou e wha i aumangea
ai te whakatauki
'Mā te whanaungatanga ka angitū'.
Hui e! Taiki e!

We are held together
by our closely held values
of family and relationships,
care and respect,
excellence and integrity.
The Kauri connects
us to Safety, the Rimu
connects us to Delivery,
the Tōtara connects us
to Relationships and the
Kahikatea connects us
to Thought Leadership.
These are our four Pillars
upon which we build
'Relationships creating success'.
United and ready to move forward!

In this report

A message from the Chairman, Mark Menhinnitt

I would like to begin by acknowledging the significant challenges Downer faced in FY23 and reiterating the commitment of the Board and management team to transform the company and to deliver sustainable value for shareholders.

We are united on the imperative for cultural change, simplification of the business and a focus on operational excellence and risk management, and we have taken decisive action to improve Downer's resilience and position the company for long-term success.

Board evolution and focus

Over the past 12 months, Downer's Board of Directors has evolved significantly.

Following the retirement of Mark Chellew as Independent Non-executive Chairman, I was honoured to be elected Acting Chairman before being appointed Chairman on 9 March 2023. Since taking the Chair, my principal focus has been to ensure the appropriate governance structures are in place and to drive risk management accountability and performance across the business.

In December 2022, Downer announced that Grant Fenn would retire from his role of Chief Executive Officer after 12-and-a-half years in the role, handing the reins to Chief Operating Officer, Peter Tompkins, who was appointed an Executive Director on 1 February 2023.

Non-executive Director, Mark Binns, retired from the Board in January 2023 due to conflicts of interest that became increasingly complex to manage given Downer's broad customer base in New Zealand. Independent Non-executive Director, Peter Watson, will retire from his role effective 30 September 2023.

Steven MacDonald has been appointed Non-executive Director, effective 1 September 2023. Steven is an experienced public company director and senior executive with extensive expertise in the water, power and transport sectors. He has overseen engineering maintenance, services and major infrastructure projects covering power generation, transmission, transport and rail.

Steven's diverse experience and expertise in both the Australia and New Zealand markets will add significant value to the Board.

Board renewal remains an important priority for the company, and we will continue to be diligent in assessing the capability of our Board. To this end, we are actively recruiting for a New Zealand based Director.

Along with changes to the Board's composition, we have also reviewed the remit of two Board Committees with a focus on strengthening our oversight of governance and performance.

From 1 July 2023, the Tender Risk Evaluation Committee has evolved into the Project Governance Committee. This committee's responsibilities have expanded from approving tender submissions to a broader project governance remit. Opportunities of a certain size and/or risk profile are considered at defined stage gates – pursue, prepare, submit tender and execute contract – with portfolio performance to be monitored throughout the project lifecycle.

The Board also determined it appropriate for the Remuneration Committee's remit to broaden and to dedicate greater attention to leadership capability and depth, talent management, employee attraction and retention and workplace culture. Accordingly, it has been renamed the People and Culture Committee.

We often hear from our shareholders that Directors need to be more aligned and to have 'skin in the game'. In response, the Board has sought to reinforce Director alignment with shareholder interests by introducing a minimum security holding policy for Non-executive Directors, effective from 1 July 2023. Under the policy, each Director is required to establish and maintain a minimum security holding equal to or greater than 100 percent of their annual base fee.

ICAC inquiry

Downer's reputation is one of our most important assets and the integrity of our people is critical to our ongoing business success. For Downer, it is imperative that all of our employees uphold the values and behaviours set out in our Standards of Business Conduct and demonstrate the highest level of integrity. On 20 March 2023, the Independent Commission Against Corruption (ICAC) commenced a public inquiry into the conduct of employees of Inner West Council, Transport for NSW (TfNSW), and others including some Downer employees. Downer has a zero-tolerance policy in respect of any dishonest or corrupt conduct. Those individuals who Counsel Assisting referred to in his opening statement as facing specific allegations are no longer employed by Downer.

Downer is taking the ICAC enquiry very seriously and has commissioned a review, with the assistance of advice from external independent procurement and probity experts, into the relevant control environment with an emphasis on corruption and fraud prevention. The first phase of the review is already complete. Downer is presently considering areas for continuous improvement and the implementation of appropriate measures to strengthen the control environment. Downer will also consider any recommendations from the ICAC findings, when made available.

A bright future

Downer's FY23 full year results were below our expectations, but we are encouraged by our improvement in the second half and the good momentum we are carrying into FY24.

As a Board, we are committed to working collaboratively with our CEO Peter Tompkins and the Executive Leadership Team to improve contract performance, enhance Downer's risk management framework, and improve margins to our target of at least 4.5% EBITA margin in FY25. The Board strongly supports Peter's vision and strategy to transform the company.

Downer's foundations are strong. We are leaders in attractive markets leveraged to structural growth opportunities. We have a talented team, an enviable pipeline with $36.3 billion work-in-hand and a strategy we believe will deliver significant long-term value for our people, customers and shareholders.

I believe in Downer, our management team and our people. This is an iconic trans-Tasman organisation with a great history and a bright future, and I look forward to reporting back on our progress to shareholders over the next 12 months.

Mark Menhinnitt
Downer Chairman

A message from the CEO, Peter Tompkins

Financial Year 2023 has involved significant change for the Downer Group.

On Monday, 27 February 2023, I had the proud honour of taking over as Chief Executive Officer and Managing Director from Grant Fenn, who had served in that role for more than 12 years.

I have enormous faith in Downer, our strategy and our people. Downer has a portfolio of outstanding businesses with market leading positions and exposure to economic and social trends including decarbonisation, urbanisation, national security, the reinvigoration of Australia and New Zealand's local industrial base, population growth and government outsourcing.

However, our FY23 performance did not reflect the potential of our organisation, nor did it meet our expectations.

Since taking over as Chief Executive Officer, I have worked closely with our Board and Executive Leadership Team to understand the factors that led to these results and develop solutions to improve our performance.

We are united in our commitment to make the operational and cultural change necessary to drive value for our people, customers and shareholders.

Transforming Downer

On 27 February 2023, I announced a new Executive Leadership Team and a Group-wide transformation program. The transformation is driven by three key focus areas, which I believe will position the company for long-term sustainable success.

These areas of focus are to:

- Reset Downer's operating model by integrating our Australian and New Zealand businesses to be sector-led, to enable better customer solutions and reduce our cost base
- Simplify Downer's portfolio to create a business with a narrower focus on core markets
- Improve margins and enhance our focus on risk management.

We have already made considerable progress. In July we implemented our new operating model, creating five trans-Tasman Business Units of scale, focused on the Transport, Facilities and Utilities sectors. This new structure will improve efficiency and accountability, reduce complexity and duplication, and enable further portfolio simplification.

Our transformation program is a multi-year journey to drive higher performance and unlock our potential. We know that we must convert our pipeline of opportunities and enviable market positions to become an organisation that is more resilient to external factors, more disciplined in our delivery, and ultimately more profitable.

Updating our Purpose

As we embark on this phase of transformational change, our Purpose, Promise and Pillars will be crucial in guiding our people and setting a vision for our organisation that they connect with.

With that in mind, our original Purpose, which was 'to create and sustain the modern environment', has been updated to articulate a higher ambition and emphasise the vital role that Downer plays in society.

We influence our communities in a profound way, delivering essential services and infrastructure that will leave a lasting legacy for our communities and future generations. We enable communities to thrive – this is our new and enduring Purpose.

FY23 performance

Downer's financial performance in FY23 was mixed. After a disappointing first half result with significant parts of the organisation impacted by weather and labour productivity, there were encouraging signs of recovery in H2.

For the year, revenue was up 5.4% to $12.6 billion. Underlying NPATA was $174.2 million, and our Underlying EBITA was $323.4 million. Our cashflow performance recovered well after a challenging H1, with underlying cash conversion of 110% in H2 and full year conversion of 64.9%. The Group is in a strong financial position with net debt to EBITDA of 2.0x. The Board declared a final unfranked dividend of 8.0 cents per share.

Our focus is on selecting the right jobs, improving the underperforming contracts and driving a culture of accountability that permeates throughout the entire organisation.

In FY23, Downer continued to focus on the divestment of non-core businesses to shape a portfolio that is less capital intensive and with a reduced risk profile. On 20 June 2023, Downer announced we had completed the sale of the Australian Transport Projects business to DT Infrastructure Pty Ltd, a Gamuda Berhad company. The sale price represents an enterprise value of $212 million, and is an important milestone in our portfolio simplification strategy. Downer's focus in the transport sector will now be to concentrate on enhancing its market leading positions in rollingstock, road maintenance and New Zealand infrastructure delivery.

Protecting our people

While there have been significant changes at Downer over the past 12 months, one thing that has not changed is our steadfast commitment to Zero Harm. Protecting our people, communities and environments will always be Downer's number one priority. Downer's Total Recordable Injury Frequency Rate for FY23 was below target at 2.66, however, our Lost Time Injury Frequency Rate (LTIFR) was at target at 0.90. Downer's performance remains superior to industry benchmarks published by Safe Work Australia for all industries in which Downer operates. Sadly, Downer recorded two workplace fatalities in FY23.

An employee in our Utilities business died in December 2022 while undertaking meter reading duties on a property south of Brisbane, and a long-term Downer employee in New Zealand died in August 2022 following a motor vehicle event. Downer has extended our sincerest condolences to the employees' families and colleagues and continues to support them following these tragic incidents.

Progress on climate

In FY23 we continued to focus on our decarbonisation pathway. While our absolute carbon emissions increased by 2%, our Scope 1 and 2 GHG emissions intensity reduced from 31.11 tCO_2-e/AUD$m in FY22 to 30.0 tCO_2-e/AUD$m in FY23. We are committed to our operational emissions as per Downer's transition pathway to being Net Zero by 2050. An important step to reaffirm Downer's commitment to being industry leaders in environmental sustainability was the production of our first Climate Change Report, which was released in November 2022 and is available on our website. The report outlines Downer's response to the risks that climate change poses and the opportunities that addressing climate change presents, and covers our decarbonisation journey to date, our pathway to net zero and the pivotal role Downer has the opportunity to play in the energy transition.

I want to thank our people, customers and shareholders for your support over the past 12 months. I am very confident that the changes we have implemented in FY23 will start delivering positive results for all of Downer's stakeholders in FY24 and beyond.

Peter Tompkins
Chief Executive Officer

Highlights

FY23 was a challenging year for Downer. After a disappointing first half result impacted by weather, difficult market conditions and contract losses in Utilities and New Zealand, there were encouraging signs of stabilisation and recovery in the second half with an improvement in margins and cash conversion.

The Group's portfolio simplification is progressing well, with the sale of the Australian Transport Projects business a key milestone achieved during the period.

Downer reported a statutory net loss after tax of $385.7 million and an underlying NPATA of $174.2 million.

The statutory loss was impacted by $541.5 million (after-tax) of impairment charges primarily relating to impairment of goodwill in the Utilities and Facilities businesses. Downer's revenue grew by 5.4% to $12.6 billion, and the cash conversion after a difficult first half improved to 64.9%.

The stabilisation of performance and underlying strength of the balance sheet enabled the Board to declare a final dividend of 8 cents per share, taking total dividends for the year to 13 cents per share unfranked.

The Downer Portfolio

Transport

Road Services

Rail and Transit Systems

Projects

Utilities

Telecommunications

Water

Power and Gas

Facilities

Government

Health and Education

Defence

Industrial and Energy

2023 in numbers

Downer's Board has endorsed commitments and targets.
Our performance for FY23 against these is as follows:

Total Revenue[1]

$12.6bn

Statutory EBITA (loss)

($227.3m)

Underlying[2] EBITA

$323.4m

Statutory net loss after tax

($385.7m)

Underlying[2] NPATA

$174.2m

Operating cash flow

$318.2m

Underlying cash conversion

64.9%

1. Total revenue is a non-statutory disclosure and includes revenue from joint ventures, other alliances and other income.
2. Underlying EBITA and NPATA are non-IFRS measures that are used by management to assess the performance of the business. They have been calculated from the statutory measures and underlying EBITA is reconciled to statutory NPAT in the Directors' Report Group Financial Performance section on pages 13 and 14.

Directors' Report

for the year ended 30 June 2023

The Directors of Downer EDI Limited submit the Annual Financial Report of the Company for the financial year ended 30 June 2023. In compliance with the provisions of the *Corporations Act 2001* (Cth), the Directors' Report is set out below.

Board of Directors

Mark John Menhinnitt (58)

Chairman since March 2023

Independent Non-executive Director since March 2022

Mr Menhinnitt is an experienced Non-executive Director and senior executive with extensive domestic and international experience in large infrastructure development and urban regeneration, investment management, construction, asset services, operations and maintenance.

Mr Menhinnitt held several senior roles over a 30-year career with Lendlease, including as Chief Executive Officer of Lendlease Australia.

Mr Menhinnitt is currently a Non-executive Director of The GPT Group, a Non-executive Director of Sunshine Coast Airport Pty Ltd (retiring 18 August 2023) and Chairman of Fluent Property Pty Ltd.

Mr Menhinnitt holds a Bachelor of Engineering (Mechanical) and Master of Business (Applied Finance), both from the Queensland University of Technology. He is a member of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.

Mr Menhinnitt lives on the Sunshine Coast.

Peter John Tompkins (44)

Managing Director and Chief Executive Officer since February 2023

Mr Tompkins was formerly Chief Operating Officer of Downer and prior to that was CEO and Managing Director of Spotless Group Holdings Limited.

Mr Tompkins joined Downer in 2008 and was appointed General Counsel in 2010.

Mr Tompkins has represented Downer on numerous Boards including Keolis Downer, Evolution Rail and Reliance Rail.

Mr Tompkins has qualifications in law and commerce from Deakin University.

Mr Tompkins lives in Sydney.

Teresa Gayle Handicott (60)

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 the Chairman of listed company PWR Holdings and the State President of the Queensland Division of the Australian Institute of Company Directors.

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

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

Ms Handicott lives in Brisbane.

Nicole Maree Hollows (52)

Independent Non-executive Director since June 2018

Ms Hollows has 25 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, mine development, people and culture, accounting and finance, mergers and acquisitions, capital management and corporate governance.

Ms Hollows is the Non-executive Chairman of Jameson Resources Limited, a Non-executive Director of Qube Holdings Limited, and Director, Chairman of the Membership Committee and Chairman of the Finance Audit Risk Committee of Chief Executive Women.

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

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

Ms Hollows lives in Brisbane.

Dr Adelle Maree Howse (53)

Independent Non-executive Director since April 2022

Dr Howse has extensive senior executive and non-executive experience in the infrastructure, energy and resources, construction, data centres, telecommunication and property sectors.

Dr Howse held several senior roles with CIMIC, including Chief Strategy Officer.

Dr Howse is currently a Non-executive Director of Macquarie Telecom Group, Sydney Desalination Plant Pty Limited and Frequency Infrastructure Australia Holdings Pty Limited.

Dr Howse has previously served on the boards of Devine Group, Design Studio Group, Ventia, Nextgen Holdings and Manila North Tollroads Corporation.

Dr Howse holds a Bachelor of Science and Doctor of Philosophy (Mathematics) from the University of Queensland, an executive MBA from IMD, Switzerland and a Graduate Diploma of Applied Finance and Investment. She is a member of the Australian Institute of Company Directors.

Dr Howse lives in Sydney.

Peter Lawrence Watson (66)

Independent Non-executive Director since May 2019

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

Mr Watson is currently the Non-executive Chairman of BG&E Group Limited.

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

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

Mr Watson lives on the Sunshine Coast.

Retired Directors

Mark Peter Chellew

Independent Non-executive Director from 1 September 2021, Chairman from 1 October 2021. Retired 3 March 2023.

Mark James Binns

Independent Non-executive Director
from 1 March 2022 to 31 January 2023.

Grant Anthony Fenn

Managing Director and Chief Executive Officer
from 1 July 2010 to 27 February 2023.

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
M J Menhinnitt	71,748	–	–
P J Tompkins[1]	286,004	239,758	
T G Handicott	31,000	–	–
N M Hollows	40,538	–	–
A M Howse	5,000	–	–
P L Watson	17,933	–	–

1. Performance rights granted to Mr Tompkins are subject to performance and/or service period conditions over the period 2020 to 2025. Further details regarding the conditions relating to these restricted shares and performance rights are outlined in sections 6.4 and 9.2 of the Remuneration Report.

Company Secretary

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

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

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

Review of Operations

Principal Activities

Downer EDI Limited (Downer) is a leading provider of integrated services in Australia and New Zealand. Downer employs approximately 32,000 people, mostly in Australia and New Zealand.

Downer operates in sectors that are closely connected to the investment that is being driven by population growth and urbanisation. These sectors include roads, rail, light rail, other public transport, power, gas, water, telecommunications, health, education, defence and other government sectors.

These sectors are served by Transport, Utilities and Facilities.

Divestments during the reporting period

In the year ended 30 June 2023, Downer completed the divestment of the Australian Transport Projects business to a wholly owned subsidiary of Gamuda Berhad, a large engineering and construction company listed in Malaysia. There remains a number of customer consents outstanding at the date of completion, some of which remain outstanding as at the date of this report. These contracts will remain with Downer until the consents are received, which is expected by the end of calendar year 2023.

The Australian Transport Projects business financials are reported under the Transport segment for the period.

Refer to note F6 for further detail on divestments.

Sustainability

At Downer, sustainability means being environmentally sustainable as well as prioritising the safety of our people, achieving sustainable growth, building trusted relationships and ensuring we have a diverse and inclusive workforce. Downer's commitments to sustainability are outlined in its policies, which are accessible from the Downer website (**www.downergroup.com**). The Group's 2023 Sustainability Report details Downer's sustainability related performance for the financial year ended 30 June 2023 and can be found on the Company website (**www.downergroup.com/2023sustainabilityreport**).

As Downer embarks on a phase of change through the transformation program, Downer's Purpose, Promise and Pillars will be pivotal in setting a vision for the organisation and its people. With that in mind, we have evolved our Purpose and Promise and updated our Pillars. In FY23, Downer changed its Purpose to articulate a higher ambition. With sustainability at the forefront of how organisations build strategy, allocate capital and contribute to activities that support energy transition, it was important for Downer to articulate our ambition in a way that resonates more meaningfully with all stakeholders.

Downer embeds sustainability in the way we deliver our services and operate our business across the Tasman. Downer's new Purpose is: 'Enabling communities to thrive'. With Downer's services impacting millions of lives every day, the sustainability of the Group's operations is paramount – for its people, partners, shareholders, customers and their customers. Downer delivers these services while managing the impacts of its activities on people, the environment and the communities in which the Group operates whilst working collaboratively with its supply chain. Downer's capability is well placed for the energy transition and decarbonisation effort that is required to meet Australia and New Zealand's net zero emissions target. For further information please refer to **Downer's 2022 Climate Change Report**. The Climate Change Report has been prepared to provide shareholders and potential shareholders with information on Downer's net zero targets, approach to climate risks and opportunities as well as our climate-related plans, activities, and disclosures in accordance with the Taskforce for Climate related Financial Disclosures (TCFD).

Group Financial Performance

The main features of the result for the 12 months ended 30 June 2023 were:

- Total revenue[1] of $12.6 billion, up 5.4%
- Statutory EBITA[2] loss of $227.3 million, down from earnings of $341.3 million at 30 June 2022[3]
- Underlying[4] EBITA earnings of $323.4 million, down 15.5% from $382.5 million
- Underlying EBITA margin of 2.6%, down from 3.2% at 30 June 2022
- Statutory loss before interest and tax (EBIT) of $253.5 million, down from earnings of $306.5 million at 30 June 2022
- Statutory net loss after tax and before amortisation of acquired intangible assets (NPATA) of $367.3 million, down from $164.8 million profit,
- Statutory net loss after tax (NPAT) of $385.7 million, down from profit of $140.4 million.

Total revenue, excluding contribution from divested Mining and Hospitality businesses in FY22, increased by 9.0%. This was led by Rail and Transit Systems in the Transport segment, Telecommunications in the Utilities segment and Government and Health & Education in the Facilities segment.

Despite the strong revenue growth, underlying EBITA has been negatively impacted by losses in the Utilities business.

Underlying Cash conversion for the period was 64.9%, attributable to weak cash conversion in the first half, driven primarily by timing of supplier payments on the completion of the Sydney Growth Trains (SGT) project and settlement of prior period project claims. Cash conversion in the second half improved meaningfully to 110%. Weak operating cash flow performance and the statutory loss were the primary drivers for the increase in gearing, up 5.3% to 23.1% since June 2022.

Net finance costs increased by $2.6 million or, 3.0%, to $88.0 million driven by an increase in average debt drawn as a result of lower operating cash flows.

The underlying effective tax rate of 25.5% is lower than the statutory corporate tax rate of 30.0% primarily due to the impact of non-taxable distributions from joint ventures and lower tax rates in overseas jurisdictions (e.g. New Zealand).

Individually Significant Items (ISIs) totalled a $550.7 million loss before interest and tax for the year, ($541.5 million loss after-tax). Additional information is provided on the following pages of the Review of Operations and in Note B3 to the Financial Report.

Power maintenance contract

On 8 December 2022, Downer announced that it had identified the historical misreporting of revenues and work in progress in one of its maintenance contracts in its Australian Utilities business.

The contract is for the supply and maintenance, new connections, faults and capital works services.

As a result of the historical misreporting, post-tax earnings were overstated by a total of $22.2 million between April 2020 and 30 June 2022, of which $1.7 million relates to FY20, $8.9 million relates to FY21 and $11.6 million relates to FY22. Downer is working on a number of initiatives to return the contract to an overall profitable position by the end of the contractual term.

1 Total revenue is a non-statutory disclosure and includes revenue, other income and notional revenue from joint ventures and other alliances not proportionately consolidated.
2 Earnings before interest, tax and amortisation of acquired intangibles (EBITA).
3 FY22 have been restated following certain accounting adjustments identified as described in Note A to the Financial Report.
4 The underlying result is a non-IFRS measure that is used by management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.

Changes to segment reporting

Following the restructure of the Group and the creation of a Trans-Tasman operating model, the Hawkins building business in New Zealand has transitioned from the Facilities segment to the Transport segment to align with how the businesses are managed and reported internally to the Group CEO.

Power Systems transitioned from the Transport segment to the Utilities segment as reported at 31 December 2022 following a change in internal management structure.

Underlying EBITA and reconciliation to Statutory NPAT

The table below provides a comparison of the underlying[1] earnings for FY23 versus the results for FY22 and a reconciliation to statutory NPAT.

Underlying[1] EBITA (A$m)	Reporting Segment	FY23	FY22[6]	Variance (%)
Transport[2,3]	Transport	288.9	269.4	7.2%
Utilities[2]	Utilities	(10.3)	59.9	>(100%)
Facilities[2]	Facilities	162.1	162.1	–
Urban Services Businesses		**440.7**	**491.4**	**(10.3%)**
Business disposed[4]	Facilities/All other segments	–	(8.4)	100.0%
Corporate	Unallocated	(117.3)	(100.5)	(16.7%)
Group Underlying EBITA[5]		**323.4**	**382.5**	**(15.5%)**
Amortisation of acquired intangibles (pre-tax)		(26.2)	(34.8)	24.7%
Underlying EBIT		**297.2**	**347.7**	**(14.5%)**
Net interest expense		(88.0)	(85.4)	(3.0%)
Tax expense		(53.4)	(73.0)	26.8%
Underlying NPAT		**155.8**	**189.3**	**(17.7%)**
Amortisation of acquired intangibles (post tax)		18.4	24.4	(24.6%)
Underlying NPATA[5]		**174.2**	**213.7**	**(18.5%)**
Items outside of underlying NPATA		(550.7)	(41.2)	>(100)%
Tax effect on items outside underlying NPATA		9.2	(7.7)	>100%
Statutory NPATA		**(367.3)**	**164.8**	**>(100%)**
Amortisation of acquired intangibles (post tax)		(18.4)	(24.4)	24.6%
Statutory NPAT		**(385.7)**	**140.4**	**>(100%)**

1. The underlying result is a non-IFRS measure that is used by Management to assess the performance of the business. Non-IFRS measures have not been subject to audit or review.
2. FY22 Transport, Utilities and Facilities contribution have been restated as a result of the change in operating segments (refer to Note B1).
3. The Australian Transport Projects business disposed during the period is included in the Transport segment.
4. Represents the contribution of Mining ($8.1 million) and Hospitality (loss $16.5 million) businesses disposed in prior period.
5. Downer calculates EBITA and NPATA by adjusting EBIT and NPAT to add back acquired intangible assets amortisation expense.
6. FY22 results have been restated (refer to Note A for further details).

Statutory Earnings

Statutory loss before interest and tax (EBIT) of $253.5 million, down from a profit of $306.5 million.

Statutory EBITA loss of $227.3 million, down from a profit of $341.3 million.

Underlying EBITA of $323.4 million, down 15.5% from $382.5 million

A reconciliation of the FY23 underlying result to the statutory result is provided in the table below:

A$m	EBITA	Net Interest expense	Tax expense	NPATA	Amortisation of acquired intangibles (post-tax)	NPAT
Underlying result	**323.4**	**(88.0)**	**(61.2)**	**174.2**	**(18.4)**	**155.8**
Fair value on Downer Contingent Share Options (DCSO)[1]	10.0	–	–	10.0	–	10.0
Divestments and exit costs	20.8	–	(18.6)	2.2	–	2.2
Portfolio restructure costs	(25.4)	–	7.6	(17.8)	–	(17.8)
Regulatory reviews and shareholder class action related costs	(6.5)	–	1.9	(4.6)	–	(4.6)
Impairment and other asset write-downs	(549.6)	–	18.3	(531.3)	–	(531.3)
Total items outside underlying results	**(550.7)**	**–**	**9.2**	**(541.5)**	**–**	**(541.5)**
Statutory result – loss	**(227.3)**	**(88.0)**	**(52.0)**	**(367.3)**	**(18.4)**	**(385.7)**

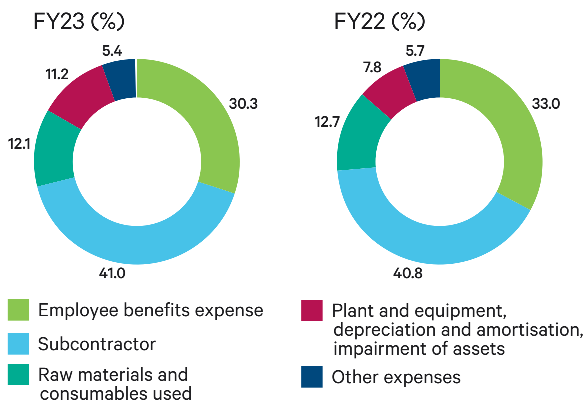
1 The Downer Contingent Share Options (DCSO) issued as part of the acquisition of the minority interest in Spotless in August 2020 are required to be recorded at fair value with changes in fair value recorded through profit or loss. Since 30 June 2022, the fair value of the DCSO has decreased by $10.0 million, which has been recognised in 'Other income' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the year. This income is driven by the decrease in Downer's share price from $5.05 at 30 June 2022 to $4.11 at 30 June 2023.

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

Expenses

Total expenses increased by 10.6%, or $1.2 billion, compared to the prior corresponding period (pcp). Included in total expenses is $605.1 million of ISIs ($153.7 million in pcp). Excluding the impact of ISIs, total expenses increased by 6.5%, or $699.9 million.

Downer's cost base (including ISIs) by type of expense compared to the pcp is as follows:



Employee benefits expenses increased by 1.6%, or $58.8 million, to $3.6 billion and represents 30.3% of Downer's cost base. Subcontractor costs increased by 11.0%, or $487.3 million, to $4.9 billion and represents 41.0% of Downer's cost base. Labour market conditions have resulted in increased reliance on subcontractor labour, increasing the mix in total personnel costs. Compounding this, was the exit of Mining and Hospitality in the comparative period which had a relatively low reliance on subcontractor labour.

Raw materials and consumables costs increased by 5.6%, or $76.9 million, to $1.5 billion and represents 12.1% of Downer's cost base. The increase is mainly due to mix of raw materials used in line with increased activities in Projects (Transport segment), and in Water (Utilities segment) together with increase in Bitumen prices impacting the Road Services (Transport segment).

Plant and equipment costs remained stable at $0.5 billion and represents 3.9% of Downer's cost base. Total depreciation and amortisation decreased by 1.8%, or $6.0 million, to $0.3 billion and represents 2.8% of Downer's cost base.

Impairment of non-current assets of $539.5 million represents $483.0 million impairment of goodwill and $56.5 million of other non-current assets. Refer to Note B3 for additional information.

Other expenses from ordinary activities, which includes communication, travel, professional fees and occupancy costs, increased by 6.0% or $36.7 million and represents 5.4% of Downer's cost base. This was primarily due to $40.5 million of individually significant items (pre-tax) as described in Note B3 of the Financial Report.

Cash Flow

Operating Cash Flow

Operating cash flow of $318.2 million represents an underlying cash conversion of 64.9% of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA). Weak cash conversion in the first half offset strong second half performance.

The softer cash conversion and decrease in operating cash flow was predominantly driven by timing of supplier payments on the completion of the SGT project and settlement of prior period project claims.

Investing Cash Flow

Total investing cash outflow of $86.7 million includes $160.5 million proceeds from the disposal of Australian Transport Projects during the year net of cash disposed.

Excluding proceeds from the disposal of businesses, investing cash outflow would have increased by 19.4% or $40.2 million to $247.2 million largely due to lower proceeds from disposals of PP&E in the period ended 30 June 2023 compared to the prior period.

Debt and bonding

The Group's performance bonding facilities totalled $2,244.5 million at 30 June 2023 with $727.3 million undrawn. There is sufficient available capacity to support the ongoing operations of the Group.

As at 30 June 2023, the Group had liquidity of $1.9 billion comprising cash balances of $889.1 million and undrawn committed debt facilities of $1.0 billion.

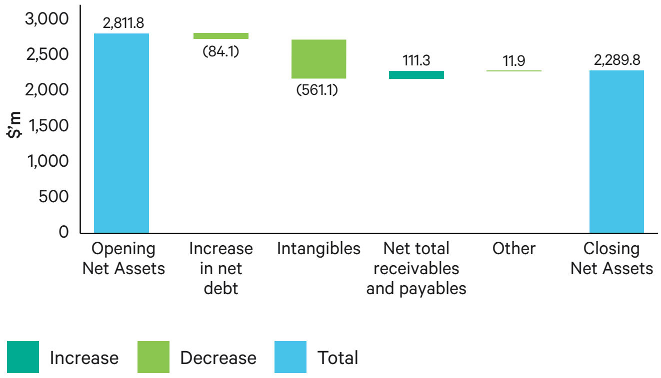
During the period, a total of 3.8 million shares were purchased as part of the share buyback programme, for a total consideration of $17.8 million. The purchase of these shares occurred in the period between September and November 2022.

The outlook on the Group's BBB credit rating was revised from Stable to Negative by Fitch in December 2022.

Balance sheet

Since 30 June 2022, the net assets of the Group decreased by $522.0 million.

Movement in Net Assets



Net debt is calculated as borrowings (excluding lease liabilities) less cash and cash equivalents. Net debt has increased by $84.1 million mainly driven by $234.7 million higher borrowings since 30 June 2022 as a result of lower operating cash flows in the period.

Intangibles have declined by $561.1 million to $2.2 billion, primarily due to the $483.0 million impairment of goodwill, $41.3 million of goodwill associated with business disposals, together with the net movement associated with amortisation and additions during the period.

Net total receivables and payables, which includes current trade receivables and contract assets, in addition to current trade payables and contract liabilities, increased by $111.3 million mainly driven by increase in contract assets from new projects including QTMP.

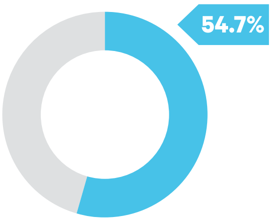
Total Equity decreased by $522.0 million as a result of the statutory loss after tax of $385.7 million, $17.8 million in shares bought back and $125.4 million dividends paid during the period.

Segment financial performance

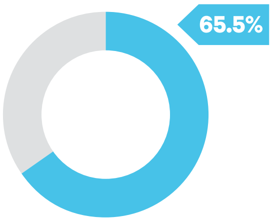
Transport

Transport comprises Downer's Road Services, Rail and Transit Systems and Projects businesses.

Total revenue[1] (FY23)



EBITA[2] (FY23)



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.

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

Transport revenue increased by 10.3%, or $641.5 million, to $6.9 billion, while EBITA increased by 7.2% or $19.5 million to $288.9 million. The Roads Services business continued to be adversely impacted by wet weather (primarily in the first half), labour market challenges and increased transport and logistics costs. This was offset by strong revenue and margin performance on long-term Rail maintenance contracts and an uplift in Transport Projects margin in Australia.

Road Services

Downer manages and maintains road networks across Australia and New Zealand and manufactures and supplies products and services to create safe, efficient and reliable journeys. Downer offers one of the largest non-government owned road infrastructure services businesses in Australia and New Zealand, maintaining more than 50,000 kilometres of roads in Australia and in New Zealand.

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

Rail and Transit Systems

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

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

Projects

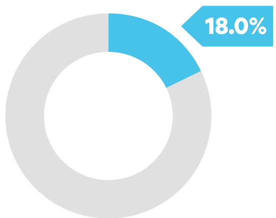
Downer delivers multi-disciplined infrastructure solutions through services such as, the design and construction of light rail, heavy rail, signalling, track and station works, rail safety technology, bridges, roads and vertical construction (through Downer's Hawkins business in New Zealand). Downer has a long history of delivering infrastructure projects under a variety of contracting models. Downer's integrated capabilities enable intelligent transport solutions, road network management and maintenance.

In the year ended 30 June 2023, Downer completed the divestment of the Australian Transport Projects business to a wholly owned subsidiary of Gamuda Berhad, a large engineering and construction company listed in Malaysia. Downer retains a strong presence in New Zealand in infrastructure project services, in both transport and vertical construction.

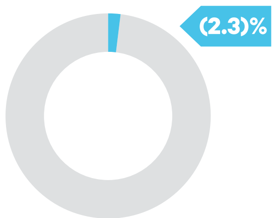
Utilities

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

Total revenue[1] (FY23)



EBITA[2] (FY23)



Utilities

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

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

Utilities revenue increased by 11.2%, or $227.9 million, to $2.3 billion, while EBITA decreased $70.2 million to a loss of $10.3 million. Despite the Telecommunications business in both Australia and New Zealand performing well (both revenue and EBITA), the Utilities segment EBITA was heavily impacted by losses in a Power Maintenance contract, underperformance across the portfolio of Water construction projects and in a renewable windfarm project in New Zealand together with losses in the meter reading business associated with labour availability, productivity and weather-related challenges.

Power and Gas

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

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

Water

Downer is dedicated to delivering complete water lifecycle solutions for municipal and industrial water users.

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

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

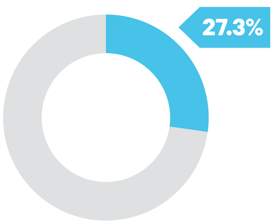
Telecommunications

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

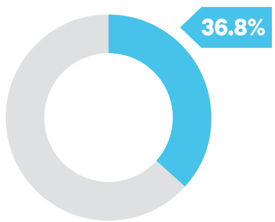
Facilities

The Facilities segment operates in Australia and New Zealand across a range of industry sectors including education, health, government, defence and industrial and energy.

Total revenue[1] (FY23)



EBITA[2] (FY23)



Facilities

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

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

Facilities revenue increased by 0.5%, or $18.4 million, to $3.4 billion, with an increase in EBITA of 11.3% to $162.1 million. The increase in EBITA was primarily driven by the non-recurring impact of Hospitality losses in the prior period, with this business exited during FY22. Excluding the impact of losses from businesses disposed, EBITA was flat year on year. Solid growth in Government and Health & Education (including the reset of the reviewable services at Royal Adelaide Hospital and Bendigo Hospital on 1 July 2022) was offset by softer earnings in the Defence business as a result of a slowdown in Defence spending on minor capital works and from a contract loss in Industrial & Energy due to a subcontractor default.

Government and Health & Education

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

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

Defence

Downer provides a broad range of professional services, base and estate management and estate development and base upgrade services to the Australian Defence Force, the New Zealand Defence Force and other government agencies.

We have a whole of Defence Capability Life Cycle offering and mindset. Our Sovereign Industry Capability delivers to the needs of Defence, National Security organisations, the major primes and other government agencies.

Industrial & Energy

Downer is a leading provider of asset maintenance and specialist services to Australia's critical economic infrastructure including the oil and gas, power generation and industrial sectors. As a trusted partner with a leading safety record, Downer optimises the reliability, efficiency and whole-of-life costs of its customers' assets through long-term relationship-based contracts. Through its Mineral Technologies business, Downer is the world leader in fine physical mineral separation solutions, including spiral gravity concentrators and magnetic and electrostatic separation technology.

All other segments

All other segments reflect the contribution of divested business units of Mining and Hospitality in the prior corresponding period. As these divestments were completed in FY22, there was no contribution to the Group results during the period ended 30 June 2023.

Dividends

The Downer Board resolved to pay a final dividend of 8.0 cents per share, unfranked, payable on 21 September 2023 to shareholders on the register at 24 August 2023. The portion of the unfranked dividend amount that will be paid out of Conduit Foreign Income (CFI) is 17%.[1]

The Board also determined to continue to pay a fully imputed dividend on the ROADS security, which having been reset on 15 June 2023 has a yield of 9.81% per annum payable quarterly in arrears, with the next payment due on 15 September 2023. As this dividend is fully imputed (the New Zealand equivalent of being fully franked), the actual cash yield paid by Downer will be 7.06% per annum until the next reset date.

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

Zero harm

Downer's Lost Time Injury Frequency Rate (LTIFR) increased to 0.90 from 0.82 and its Total Recordable Injury Frequency Rate (TRIFR) increased to 2.68 from 2.35 per million hours worked.[2] The decline in the performance of these lagging indicators in FY23 is due to an overall increase in injuries that required time off work of one or more shifts, primarily in our Facilities and Asset Services business and in the Australian Road Services business, relative to the hours worked compared to FY22. In addition, our New Zealand Transport, Australian Road Services and Utilities businesses had increases in injuries requiring medical treatment which impacted the TRIFR performance. Incidents are investigated with actions to prevent recurrence identified and tracked to closure. Relevant lessons are shared across Business Units. Trends are reviewed and addressed at Business Unit level and are considered by Communities of Practice, as relevant.

Tragically, there were two workplace fatalities this year.

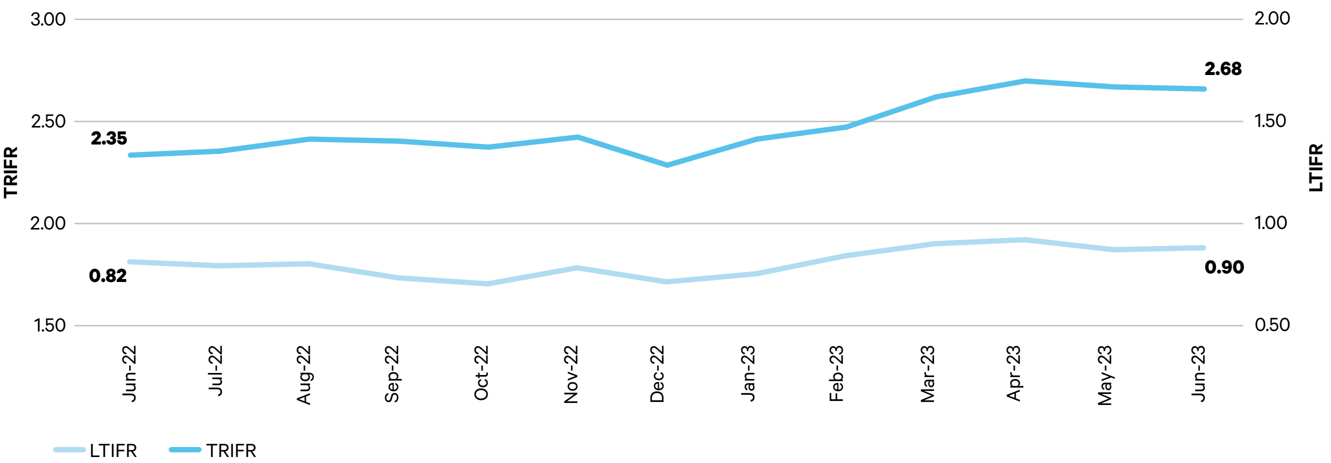
A long-term Downer employee in New Zealand died in August 2022 when he was struck by a motor vehicle while assisting a member of the public on a arterial road. Downer is treating this as a workplace fatality, although the employee was assisting a member of the public at the time. This event is an unfortunate reminder of the need to remain strongly focused on risk management during any activities that may lead to harm.

In December 2022, an employee from Downer's Utilities business was undertaking meter reading duties on a property in Greenbank, south of Brisbane, when fatally attacked by dogs on the property.

Downer extends its sincere condolences to both workers' families and colleagues, and continues to support them following these tragic incidents.

In FY22, Downer disclosed a reportable fatality in its New Zealand business following an unfortunate fall from height incident. At the time, the cause of death was unconfirmed, and Downer treated this event as a workplace fatality. With the fullness of time, we understand the cause to relate to an unexpected medical event. Therefore, Downer has restated its FY22 safety performance to record zero fatalities.

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



1 This is relevant only for non-resident shareholders. The effect is that the portion of the unfranked dividend paid out of CFI is not subject to Australian dividend withholding tax.

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

Group Business Strategic objectives and prospects for future Financial Years

Downer's core Transport, Utilities and Facilities businesses are diversified across capabilities, markets and geography, and are underpinned by Downer's strong market position across all categories.

Strategies to realise value for shareholders

As part of the half-year 2023 financial results, Downer announced its strategies to realise value for shareholders. These strategies and current focus of the business are enablers in achieving Downer's target EBITA margin of at least 4.5% in FY25. These strategies fell under three focus areas:

- Reset operating model and cost base;
- Continue to simplify current portfolio; and
- Operational excellence and risk management.

Key components of the above include:

- Targeting benefits of at least $100 million per annum in FY25, through the merging of Australian and New Zealand operating units to establish sector led, stand-alone, Trans-Tasman businesses, operating model optimisation, and through systems, fleet and property rationalisation and other cost-out initiatives;
- Simplification of the Downer portfolio to focus on businesses which align with the Group's strategic objectives;
- Disciplined approach to risk management through adherence to The Downer Standard and Downer's Delivery Management Methodology, defining risk appetite via the 5 C's (Capacity, Capability, Counterparty, Contract & Compensation) and establishing effective organisational accountability and monitoring through the three lines of defence; and
- Structural and cultural reset on performance accountability, enhanced by the new organisational design to drive a focus on operational excellence.

Downer's Purpose, Promise and Pillars Our Purpose, Promise and Pillars reflect our commitment to do the right thing for our customers, our people and our shareholders.

Downer's **Purpose** is Enabling Communities to Thrive.

Our **Promise** is that our customers' success is our success.

Alongside our Purpose and Promise, our **Pillars** represent the way we do things and underpin everything we do:

- **Sustainability**: Safety is our first priority. Zero Harm to our people, communities and environment is embedded in our culture. We will leave a positive legacy for future generations.
- **Delivery**: We build trust by delivering on our promises with excellence while focusing on safety, value for money and efficiency.
- **Relationships**: We collaborate to build and sustain enduring relationships with our customers, our people and our communities, based on trust and integrity.
- **Thought leadership**: We remain at the forefront of our industry by employing the best people and having the courage to challenge the status quo.

Downer's strategic objectives and prospects, underpinned by our Purpose, Promise and Pillars, are set out in the table below. Refer to the Principal Business Risks and Risk Management Strategies section for further details on risks associated with the pursuit of Downer's strategic objectives and prospects.

Strategic Objective	Prospects
Sustainability pillar Maintain focus on Zero Harm	Downer believes that a sustainable and embedded Zero Harm culture is fundamental to the Company's ongoing success, and to building trusted relationships with customers and business partners. Downer's approach to Zero Harm enables it to work safely and environmentally responsibly in industry sectors with inherently hazardous environments. Zero Harm at Downer means a work environment that supports the health, including mental health and wellbeing, and safety of its people and allows it to deliver its business activities in an environmentally sustainable manner and advance the communities in which it operates. There is a strong commitment to Downer's Zero Harm objectives across all levels of the business. A core objective of The Downer Standard program is to unify the way Downer manages Zero Harm and performs its work. In an important step, Downer achieved centralised third-party accreditation to the International Standards ISO 45001 (Safety), ISO 9001 (Quality) and ISO 14001 (Environment). This gives Downer a single system of work for safety, quality and environment, and a framework to develop, implement and monitor The Downer Standard. Establishing this consistent single platform means Downer can deliver consistent best practice information and work processes to its frontline employees, helping them to better manage risk and change in their dynamic workplaces.

Strategic Objective	Prospects
Sustainability Pillar Strengthen Downer's position as an employer of choice by fostering a diverse and inclusive workplace culture	For Downer to deliver the best possible outcomes for its customers, it needs a workforce that is diverse, inclusive, capable and engaged. Downer's actions are guided by its Inclusion and Belonging (I&B) Strategy, which promotes a culture where employees feel a sense of belonging. Downer's talent attraction and retention strategy focuses on providing opportunities for employees to grow their careers, offering benefits that are competitive with the market, and creating channels for engagement and feedback. Downer is focused on maintaining the work-life balance of its people and supports flexible working arrangements, where possible, to meet the growing expectations of its current and future workforce. Downer also understands that mental health is a growing societal issue and has developed and implemented its accredited Mental Health First Aid program to arm its people with the knowledge and skills to support their own mental health as well as the mental health of their friends and family.
Sustainability Pillar Mitigate climate-related risks and capture growth opportunities presented by decarbonisation	As society shifts towards a net zero emissions future, Downer is seeing increasing interest in decarbonisation across its customer base. Downer is uniquely positioned with its skills, experience and technical capabilities to play a pivotal role in the energy transition. Downer believes its own pathway to net zero is essential in adding credibility to the services it delivers to help customers decarbonise their own operations. Downer has committed to an absolute near-term target of 50% reduction of its Scope 1 and 2 GHG emissions by 2032 and an absolute near-term target of 30% reduction of its Scope 3 emissions by 2032. Downer has set a long-term target to be net zero in Scope 1, 2 and 3 GHG emissions by 2050, subject to future available technologies. Both the near-term and the long-term targets have a base year of 2020. In FY22, Downer completed a detailed review of its most material climate-related risks and opportunities in line with the Taskforce for Climate-related Financial Disclosures (TCFD), utilising Scenario Analysis. This work built on Downer's previous TCFD analysis in 2019 and reaffirmed that climate change presents considerable opportunities for Downer, if appropriately acted upon. The analysis determined that Downer's material exposures to transition risk are its asphalt plants as well as its light and heavy vehicle fleet. Downer has decarbonisation strategies and plans to minimise exposure to transition risks. For further information refer to Downer's 2022 Climate Change Report and 2023 Sustainability Report. In addition, Downer has undertaken a review of its capital allocation process to integrate climate thinking and considerations. This led to the creation of a centralised decarbonisation fund to support initiatives that will help achieve Downer's net zero commitments.
Delivery Pillar Embed asset management and standardisation	The expectations of Downer's customers, and their customers, continue to grow with regards to reliable, intuitive, and cost-effective assets and services. Downer has invested in capability and talent to improve asset management through standardised processes, data analytics and lifecycle performance analytics. A number of these investments have Group-wide application in addition to their bespoke customer benefits. Downer has developed extensive asset management knowledge and expertise and also adopts and implements world-leading insights and solutions. Downer strives for standardisation in its risk management and project delivery to ensure consistent quality outcomes for its customers.
Relationships Pillar Focus on engagement with customers and suppliers	*Relationships creating success* continues to underpin Downer's approach to customer relationships and philosophy that drives delivery of projects and services. It helps to ensure investment as initiatives and activities are focused on helping Downer's customers to succeed. Providing valuable and reliable products and services to customers, and their customers, is at the heart of Downer's culture. It enables Downer's customers to focus more on their core expertise while Downer delivers non-core operational services. Through ongoing analysis of markets, customers and competitors, Downer is well positioned to improve value and service for its customers and their customers.
Thought Leadership Pillar Utilise technology in core service offerings	Technology is an inherent feature of today's world and there is therefore greater demand for provision of cyber secure technology in the services Downer provides. Customer operations are growing in complexity in an ever-changing threat landscape, and this creates opportunities for Downer to connect securely, manage, monitor and report on core services and infrastructure. Downer invests in a range of technology platforms and partnerships to meet customer needs. Downer focuses on selecting the right investments, for example those that can be leveraged across a number of service lines to maximise value for the greatest number of customers. Downer remains firmly focused on continuously protecting against evolving cyber risks and threats, demonstrating credibility and trust through secure cyber stewardship and custody.

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

Service line	Prospects	Downer's response
Transport	The multi-billion dollar market for transport services continues to grow in both Australia and New Zealand. Governments in both countries continue to invest in a range of projects to reduce congestion, improve mobility and provide better linkages between communities.	Downer is a market leader in road services in both Australia and New Zealand. The Group is well positioned through its integrated national asset footprints to be a trusted service provider to local, state and national customers in maintaining and providing pavement products for road networks. With increasing customer focus on sustainability objectives, Downer is seeing increased demand for its circular economy products like Reconophalt™, a sustainable asphalt product made from up to 100% recycled materials. Downer also maintains strong strategic partnerships with leading global transport solutions providers and, through this model, is pursuing opportunities in rollingstock manufacture and maintenance, and transport network operations and maintenance. Downer has a breadth of capabilities covering rollingstock design, manufacturing and through-life-support allowing Downer to provide trusted support to critical passenger train assets across Australia. More extreme weather events and their damaging impacts on infrastructure assets present opportunities for Downer to assist in recovery and rebuilding efforts. This includes road and pavement repairs across both Australia and New Zealand. Downer has also formed an Alliance to support the rebuilding of critical infrastructure across the east coast of New Zealand's North Island, following extensive damage caused by Cyclone Gabrielle.
Utilities	Growth across utility markets is multi-faceted with a good pipeline of prospects in both Australia and New Zealand. Downer's customers are actively investing in decarbonisation projects.	Downer has market leading positions in the power, gas, water and telecommunications sectors in both Australia and New Zealand. We are strongly positioned to take advantage of the growth opportunities available in these sectors. Downer is also one of the largest and most experienced providers in the renewable energy market and power systems sectors. Downer has strong technical capabilities in installation of commercial scale solar panels and transmission line construction, meaning the Group is well placed to assist our customers with their decarbonisation journey. In all these areas, Downer is focusing its effort on customers and project types where we can add value through its whole of life approach to asset development and sustainment with a balanced approach to risk sharing.
Facilities	The facilities management market is characterised by long-term contracts which are tendered infrequently. However, as property and facilities owners look to decarbonise their assets, this is expected to form a growth market in coming years. In the Industrial & Energy market portfolio there is a strong pipeline of opportunities on the short-to-medium-term horizon as Downer's customers actively invest in decommissioning and decarbonisation projects.	Downer is a major player in facilities management across both Australia and New Zealand with leading positions in key sectors including defence, health, education and government. The Group's scale enables us to invest in class leading asset management capability, build new positions in front line services and leverage upside in procurement and asset optimisation. Downer also has strong market positions across the industrial, energy and future energy areas and is a trusted partner to some of Australia's most important and largest industrial customers. Our technical capability and delivery reliability enables us to differentiate our offering through focus on value delivered. Downer is investing in its expertise and capability in anticipation of clean hydrogen becoming a key energy source for our customers and has also supported customers in delivering carbon capture underground storage systems.

Material risks and risk management strategy

Downer actively manages a range of principal risks which have the potential to materially impact on the Group and its ability to achieve its strategic objectives and opportunities. We apply a robust risk management framework to identify, assess and manage risks which could adversely impact the future performance of the Group. Downer's material risks, which include both risks specific to the Group as well as general business and macroeconomic risks, are outlined below in no particular order.

Overview of risk and potential impact	Risk mitigation and management strategies
Key contracts, competition and customer retention	
There is a risk that material contracts that Downer enters may not be renewed, renewed on less favourable terms or cancelled. Furthermore, some of the markets in which Downer operates are highly competitive. Increased competition and/or market changes can impact on Downer's ability to renew and/or win new contracts. If such events take place this may lead to a decrease in work-in-hand, profitability and earnings. In addition, some of the contracts that Downer enters have pricing that is 'fixed' or 'not to exceed'. To the extent that the cost of delivering on its contractual obligations exceeds the estimated price, Downer could incur losses that are not recoverable from its customers.	▪ Downer maintains its focus on forming strong relationships with customers across a range of different markets and delivering successful outcomes for its customers, strategic partnerships and joint ventures with leading technology and knowledge providers and a strong focus on its Customer Relationship Management (CRM) system. ▪ To address competition risk, Downer collaborates with customers to understand and meet their evolving needs. Downer focuses on the delivery of high-quality services and thought leadership to support recontracting of existing key customers. ▪ Downer undertakes thorough bid governance processes to ensure that projects within risk appetite parameters are appropriately estimated and there is a strong focus on costs, supply chain management and project management controls. ▪ Downer's focus on risk management and operational excellence is looking to address performance issues which have occurred in FY23. The strategies to improve this focus will look to improve delivery of tendered margin and tighten the bell curve of project outcomes and reduce variability.
Brand and reputation	
Downer relies on its reputation to win and retain work, attract and retain employees, secure ongoing access to capital markets and maintain our social license to operate. Building trust among stakeholders and maintaining our reputation is critical for our business operations. Failing to maintain this trust could lead to negative media attention, which might damage our reputation and adversely impact the support of our stakeholders. The negative media attention associated with the ICAC inquiry into conduct of employees of Downer during the period highlights the risk of brand and reputation damage. This could impact on Downer's perception among customers and require additional disclosure and comfort to be provided in tenders and rebid processes. There is a risk that reputational impacts could lead to loss of contract renewals and participation in new tenders for Downer.	▪ Significant engagement, correspondence and outreach to key customers to update them on issues and provide assurance on Downer's commitment to the highest standards of conduct. ▪ Recurring/coordinated internal communication and employee webcasts to bring Downer team members together and unify them under our common Purpose and Promise. ▪ In response to public and regulatory scrutiny during the period, Downer deemed it important to strengthen our mechanisms to measure, monitor and protect its corporate image. Downer engaged an external corporate reputation research expert to conduct a diagnostic review of Downer's brand and reputation among customers. This research, and subsequent strategic interpretation and advice, will seek to protect Downer's reputation and strengthen its position in the marketplace.
Project management and bid governance	
The nature of the industries in which Downer operates and the size of some of Downer's contracts mean there is the possibility that material losses could be incurred if project management and bid governance processes are not followed correctly. Project losses incurred in FY23, particularly in the Utilities business, highlight the potential impact of poorly applied project management and bid governance process.	▪ Downer has sought to implement robust project risk management processes and systems across its business, as well as additional bid governance relating to tenders for large projects. ▪ Downer's integrated management system, known as The Downer Standard, provides policy framework, governance and consistency in our approach to risk and opportunity management. ▪ Downer's Tenders and Contracts Committee and Tender Risk Evaluation Committee provide bid governance oversight. ▪ Downer's Delivery Management Methodology guides all stages of the delivery lifecycle.

Overview of risk and potential impact	Risk mitigation and management strategies
Key suppliers, subcontractors and partners	
Where Downer is reliant on one or a small set of specialist suppliers or subcontractors to provide goods and services, the performance of these suppliers or subcontractors may impact Downer's ability to achieve budgeted project outcomes. Where suppliers or subcontractors do not fulfil contractual obligations or do not renew existing contracts, the ability of Downer to complete projects and win new work may be adversely affected. There are particular suppliers with whom Downer has a long-term relationship which support Downer's business activities. A change in relationship with these suppliers and partners could negatively impact Downer's financial performance. In addition, instances of conflicts of interest, fraud or corruption may be present within the operations of suppliers, subcontractors or partners which may adversely impact Downer.	▪ Downer works closely with key suppliers to assess and manage supply chain resilience. ▪ Downer's standardised Procurement Framework is closely aligned to the principles of ISO 20400 – Sustainable Procurement and is supported by a range of tools and platforms. The framework is designed to ensure we are engaging with the right suppliers and subcontractors to achieve our business, ethical, environmental, safety and social objectives. ▪ In FY23, Downer commissioned a review, with the assistance of advice from external independent procurement and probity experts, into the relevant control environment with an emphasis on corruption and fraud prevention. The first phase of the review is already complete and, while it identifies several areas for improvement, the independent advice that Downer has received to date is that the relevant procurement control environment is generally comprehensive and supported by well-considered policies and procedures promoting business integrity and supported by training. Downer is currently considering the areas for continuous improvement which have been identified, and their implementation.
Macroeconomic conditions including level of government spending	
Downer is susceptible to major changes in macroeconomic conditions through sudden and/or prolonged deterioration in the economy, which may impact the industries on which Downer is dependent and could have a material negative impact on operational and financial performance. Public authorities and Government departments in Australia and New Zealand are major customers of Downer. Changes in prioritisation of government spending, or restrictions on the level of spending undertaken by governments, could impact the level of earnings generated by Downer. For example, in relation to the most recent Defence Strategic Review, it is anticipated that Government spending will be focused on expansion of capability and a reduction in spend on sustainment.	▪ Downer has a large and diversified book of secured work with long-term contracts. The long-term nature of these contracts underpins earnings from these projects. ▪ Downer delivers essential maintenance services to critical infrastructure assets. The essential nature of these services helps mitigate both the impact of changing government spending priorities and the duration of any decline in spending. ▪ Downer's operations are diversified across end-markets and government department customers. This diversification assists in mitigating the impact of a reduction in budget or spend from changes in spending profile from individual customers.
Cost escalation	
Downer is exposed to cost escalation and inflationary pressures which may be above budgeted levels across all elements of our cost base. If Downer is not able to offset these cost pressures through contractual inflation recovery mechanisms or planned cost out, this could adversely impact Downer's profitability and financial performance.	▪ Escalation clauses in customer contracts provide a degree of protection against increasing costs of service delivery through indexation for example, CPI and WPI) or other cost escalation mechanisms. Pain/gain share clauses are another form of contractual term, which Downer includes where possible in customer contracts to offset the risk of cost escalation above what has been budgeted. ▪ Commercial management reviews our contracts for appropriateness given prevailing market conditions, including inflation pressures, supply shortages and other potentially disruptive events which may increase cost to serve. ▪ Downer employs disciplined cost management of both project and overhead costs.

Overview of risk and potential impact	Risk mitigation and management strategies
Talent, labour availability/productivity and employee relations	
Attracting and retaining talent and engaging our workforce underpins successful delivery of Downer's strategic objectives. Downer's growth and profitability may be limited by the loss of key management, the inability to attract new suitably qualified personnel, a decline in labour productivity or by increases in remuneration costs associated with attracting and retaining personnel. Downer is dependent on the availability of suitably skilled personnel to provide its services and, therefore, access to labour can sometimes represent a risk in some parts of the business.	▪ Downer is committed to fostering a workplace environment that prioritises inclusion and belonging, supports the health and wellbeing of our people, and provides opportunities for their professional growth and development. ▪ Initiatives that Downer has in place to foster a positive workplace include our Own Different (Inclusion & Belonging), Own Respect (Standard of Business Conduct and Workplace Behaviours), THRIVE (Diversity and equity) and Indigenous inclusion and awareness programs. ▪ Downer has in place talent attraction and retention strategies which include career progression pathways, remuneration and other incentives, and through investment in learning and internal development opportunities. ▪ Further details relating to Downer's management of Talent, labour availability and employee relation risks, and its performance are outlined in Downer's 2023 Sustainability Report.
Environment, climate and weather	
Downer is committed to developing solutions to reduce its energy consumption and greenhouse gas emissions and is supporting the transition to a low carbon economy. There is a risk that these strategies cause increases to Downer's cost structure or that Downer will be unable to satisfy future regulatory requirements relating to these matters. There is a risk that Downer's business operations may incur liability under applicable environmental laws and regulations that could result in fines, penalties and/or compensation to those affected being payable. There is also a risk that any such event may have adverse impacts on project completions and result in reputational damage to Downer. Periods of extreme weather have the potential to adversely impact Downer's performance through interruption to operations, disruption to the workforce with associated declines in productivity, increase in costs to serve and lower fixed cost recovery.	▪ Downer has undertaken climate scenario analysis in accordance with the TCFD incorporating transition and physical risks to inform and stress test the resilience of Downer's strategy. ▪ To mitigate the potential impact of identified transition risks, Downer has set a science based aligned GHG emissions reduction target across Scopes 1, 2 and 3, with the aim of Net Zero by 2050. This target is supported by a detailed decarbonisation plan across Downer's key emissions sources. ▪ Downer's risk mitigation and management strategies relating to physical risk include: – Integrating physical risk factors into business decisions. – Ensuring appropriate commercial terms and pricing mechanisms, taking into consideration insurance policy limitations. This includes, where possible, implementing pain/gain share arrangements in contracts to help mitigate Downer's cost to serve and fixed cost recovery in the event of extreme weather adversely impacting operations. – Adhering to environmental and land use planning approvals to mitigate location specific risks and hazards (for example, bushfire buffer zones). – Monitoring weather forecasts and conditions for potential extreme weather events and, where necessary, implementing appropriate resilience measures to limit risks to employees' health and safety, delivery disruption and asset or site damage. – Implementing Zero Harm policies, standards and procedures including the modification or suspension of work regimes where there is risk of harm from extreme weather events or natural disaster. ▪ Further details relating to Downer's assessment of environment, climate and weather risks are outlined in Downer's 2022 Climate Change Report and 2023 Sustainability Report.

Overview of risk and potential impact	Risk mitigation and management strategies
Workplace health and safety	
Downer recognises that its activities can result in harm to its people with the risk of serious injury or death. A workplace fatality has significant negative impacts on Downer's operations, employees and the communities in which we operate. In addition, in the event Downer is found to have failed to comply with applicable health or safety legislative requirements, fines, penalties and/or compensation to those affected may be payable.	▪ Downer's commitment to the safety, health and wellbeing of our people and our communities is expressed in strong leadership, engagement with our workforce and stakeholders, and a continual focus on identifying and managing risks. ▪ Downer maintains a rigorous focus on Zero Harm to its people, communities and environment. We focus on understanding, controlling and verifying to effectively manage risks that have the potential to cause serious harm to our people, the environment or the communities in which we operate. We are committed to rethinking and improving our processes, continuously improving our management systems, applying lessons learnt, and adopting and adapting practices that aim to achieve zero work-related injuries and unintentional harm to the environment. ▪ To drive consistency and efficiency, Downer has integrated our ISO 45001 certified health and safety management system into The Downer Standard, which also meets Office of the Federal Safety Commissioner requirements, and maintenance audits. ▪ Downer maintains a rigorous focus on Zero Harm to its people, communities and environment. As part of this focus, Downer seeks to assess, understand and mitigate the critical risks facing Downer and implementing 'Cardinal Rules' which provide direction and guidance on these critical risks and high potential incidents. ▪ Downer promotes consistency of approach to Zero Harm across its lines of business through our integrated management system, 'The Downer Standard'. ▪ Downer upholds third-party certifications to internationally recognised standards such as ISO 45001 (Safety), as well as other accreditations including the Office of the Federal Safety Commissioner. ▪ Further details relating to Downer's management of Health and Safety risks, and its performance are outlined in Downer's 2023 Sustainability Report.
Cyber security and reliance on information technology	
Downer relies on IT infrastructure and systems, and the efficient and uninterrupted operation of core technologies. Downer's core technologies and other systems and operations could be exposed to damage or interruption from system failures, computer viruses, cyberattacks, power or telecommunication provider's failure, or human error. Any interruptions to these operations would impact Downer's ability to operate and could result in business interruption, loss of customers and revenue, reputational damage and weakening of competitive position. In the event of a cyberattack, there is a risk that any data security breaches or Downer's inadvertent failure to protect confidential information could result in a loss of information integrity, breaches of Downer's obligations under applicable laws or customer arrangements, system outages and the hacking of Downer systems. Each of these has the potential to have a materially adverse impact on Downer's reputation and financial performance.	▪ Downer has established Technology and Cyber Risk management practices and has a framework in place to mitigate and reduce the negative impact of information security and technology risks. ▪ Downer maintains an ISO 27001:2013 certified Information Security Management System describing the standards, controls and procedures in place to ensure the confidentiality, integrity and availability of critical information assets. ▪ Key controls include: Threat and vulnerability management identification and remediation; Security Operations Centre with a focus on security incident response and planning; User awareness and simulation; management and mitigation of third-party risk brought on by vendors and business partners; continuous improvement and ongoing control maturity and uplift with priority on Essential 8 controls; back-ups and resilience for key systems; and internal and external audit and assurance regimes. ▪ Further details relating to Downer's management of Cyber security risks, and its performance are outlined in Downer's 2023 Sustainability Report.

Overview of risk and potential impact	Risk mitigation and management strategies
Guarantees, indemnity and liability	
Downer and certain of its controlled entities are called upon to give guarantees and indemnities in respect of the performance by counterparties, including controlled entities and related parties, of their contractual and financial obligations. There is a risk that Downer may fail to fulfil its statutory and contractual obligations in relation to the quality of its products or services, which could give rise to contractual damages claims or statutory penalties. Some entities in the Downer Group are subject to normal design liability in relation to completed design and construction projects. The liability may include claims, disputes and/or litigation against Downer Group companies and/or joint venture arrangements in which the Downer Group has an interest. The liabilities may also include an obligation on Downer to rectify the design defects at its own cost.	▪ Downer has in place diversified bonding facilities for when guarantees are required to be provided in respect of performance to address underlying customer credit risk. ▪ The Group has in place insurance policies to cover potential liabilities. However, the availability of insurance at an appropriate term and price is not guaranteed and it is possible that the occurrence of an event may not be fully covered, or covered at all, by insurance. ▪ Downer takes legal advice in respect of claims and where relevant makes provisions for such claims in its financial statements. ▪ Processes are in place to ensure Downer is fulfilling its statutory and contractual obligations. The Group has in place standards, management reviews and verification processes to address this risk.
Regulation and compliance	
Downer's business is affected by a range of industry specific and general legal and regulatory controls. Changes in these types of controls can have an adverse effect on Downer's financial performance. Further, any major shift in regulatory policy may impact on the profitability of Downer and its customers.	▪ Downer has compliance frameworks, operational compliance plans and assurance programs in place which support and monitor conformity with relevant regulatory requirements. ▪ Dedicated Legal and Compliance teams partner with the business to advise on and monitor legal, regulatory and public policy changes, in addition to legal issues and claims. ▪ Standards of Business Conduct and associated policies. ▪ Downer also has a formal 'whistleblower' policy in place to report breaches of the Standards of Business Conduct including any inappropriate, unethical, corrupt or illegal behaviour, misconduct, or any other improper state of affairs or circumstances. Downer has both internal and external processes that allow for the reporting of breaches, including 'Our Voice', which is an external and independent service that allows employees to anonymously report such potential breaches. Downer encourages its employees, subcontractors and partners to voice their concerns if they identify potentially unethical practices. Downer will not tolerate victimisation of a whistleblower and is committed to providing support and protection against any reprisal for reporting a breach or potential breach. Any employee found to have victimised another will be subject to disciplinary action. ▪ New starter and regular employee compliance training programs.

Overview of risk and potential impact	Risk mitigation and management strategies
Financial markets and treasury	
Downer is subject to various forms of financial market risk including liquidity risk, interest rate risk and foreign exchange risk. To the extent that additional equity or debt funding is not available from time to time on acceptable terms, Downer may not be able to operate its business in the ordinary course, take advantage of acquisition and other growth opportunities, develop new business or respond to competitive pressures. Rising interest rates may adversely impact Downer's interest payments on its floating rate borrowings. Disruptions in financial markets may affect the availability and cost of hedging, which may have a material adverse impact on the financial performance and position of Downer. Downer operates internationally and faces foreign exchange rate risks associated with foreign currency denominated debt, input costs and offshore earnings.	▪ Financial markets risk is governed by a Board-approved Treasury Policy, which sets strict parameters governing all such risks including liquidity risk, interest rate risk and foreign exchange risk. ▪ Funding risk is managed by maintaining and ensuring continued access to a diverse array of funding sources including the domestic and international debt capital and bank loan markets. ▪ Funding risk is further mitigated by establishing committed term funding from investment grade rated banks that is spread over a variety of tenors to minimise refinancing risk. ▪ The Treasury Policy stipulates minimum and maximum hedging requirements for floating rate borrowings that reduce the Group's exposure to interest rate volatility. Interest rate hedge counterparties are selected based on their credit strength and markets capability to ensure continued availability of efficient hedging sources. ▪ The Treasury Policy stipulates minimum and maximum hedging requirements for foreign exchange exposures that reduce the Group's exposure to foreign exchange rate risks.
Transformation	
Downer is currently undergoing an enterprise-wide transformation program, driven by three areas of focus, to position the company for long-term sustainable success. These areas of focus are to: ▪ Reset Downer's operating model by integrating our Australian and New Zealand operations ▪ Simplify Downer's portfolio to create a business with a narrower focus on core markets ▪ Improve margins and enhance our focus on risk management. Failure to successfully manage, execute and deliver on the initiatives identified as a part of this transformation program could adversely impact Downer's business operations, strategic objectives, profitability, returns to shareholders, credit rating and market confidence.	▪ Downer worked with external business transformation experts to help design, implement and embed the transformation model. ▪ Downer has established a Transformation Office, to orchestrate, coordinate and support delivery of the transformation ambition and targets, as outlined, and ensure these capabilities are built and embedded within Downer. ▪ Ownership and accountability for the execution of transformation initiatives sits with the relevant individual functions and business units. Each function and business unit has allocated dedicated Transformation Leads to oversee the delivery of improvement initiatives. ▪ Downer is enabling effective change delivery by building transformation capabilities across the business, fostering Group-wide learning and shared accountability. ▪ Further details relating to Downer's Transformation are outlined in Downer's 2023 Sustainability Report.

Outlook

FY24 is an important transition year in our turn-around program as we address areas of underperformance, stabilise and reposition the business for future profitable growth. The external market conditions remain challenging for Downer in areas including ongoing cost escalation, labour availability and productivity issues, however we are observing signs of stabilisation.

In relation to our FY24 performance we note the following:

- We start the year with a high percentage of secure revenue and are targeting continued improvement in EBITA margin for FY24
- Downer's 1H24 will be affected by the run-off of existing low margin contracts and the timing of our Utilities recovery, with stronger earnings targeted in the 2H24
- Confidence in achieving $100 million of cost out, with full run rate into FY25.

We will give a further update at the AGM in November 2023.

Subsequent events

As communicated at Downer's Investor Day in April, a review of Downer's Australian Mechanical and Electrical Commercial Projects business (Business) and other businesses that do not match Downer's preferred sector and customer characteristics has been completed. Downer announced on 10 August 2023 it has entered into an agreement to sell the remaining part of the Business.

The Business (which was part of the Facilities CGU) has been wound down progressively since Downer announced its exit from the Australian commercial construction and projects market in 2020. The Business generated revenue of approximately $200 million and a small EBIT loss in FY23.

The transaction, purchased by existing managers of the business, is at an agreed purchase price of $10.5 million and approximately cash neutral after net debt and working capital adjustments, and will result in a pre-tax loss of approximately $14 million in FY24. This transaction now completes Downer's exit from the Australian commercial Projects (construction) market.

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

Changes in state of affairs

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

Environmental management

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

Effectively managing its environmental aspects and impacts is fundamental to Downer's approach to delivering its services in an environmentally responsible manner. Downer puts significant emphasis on its critical risk program ensuring effective controls are implemented and continuous improvement through lessons learned. Downer's 10 Environmental Principles are critical to ensuring its employees and broader stakeholder groups are engaged and aware of its environmental commitments, including meeting and exceeding its environmental obligations.

Downer's environmental management system is accredited to AS/NZ ISO14001:2015 and is integrated into its Group-wide management system, known as The Downer Standard. The Downer Standard ensures a consistent approach to identifying and controlling environmental aspects and impacts, and managing the Company's environmental performance across the organisation. The environment management system is audited, both internally and externally by independent third parties.

Downer's ability to manage the impacts of its activities on the natural and built environment is fundamental to its long-term success.

Downer is conscious of its social licence to operate – and responds to this by improving the sustainability of its operations, aiming to achieve Zero Harm to its people, minimising harm to the environment, and always striving to enhance Downer's reputation, business value and ultimately shareholder wealth.

Suitably qualified environment and sustainability professionals support each of the Business Units. Each Business Unit has Sustainability Improvement Plans aligned to specific United Nations Sustainable Development Goals with year-on-year actions and deliverables. In addition, each Business Unit has a customised Climate Change and Decarbonisation Plan. These plans detail the actions and deliverables required to contribute towards Downer's net zero commitments. Progress is monitored and reported throughout the year and assessed as part of the Business Units annual performance, which is linked to the short-term incentive program.

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 2023 or 30 June 2022.

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 2023 financial year and the number of meetings attended by each Director (while they were a Director or Board Committee member). During the year, nine scheduled Board meetings, 18 unscheduled Board meetings, seven Audit and Risk Committee meetings, seven People and Culture Committee meetings, four Zero Harm Committee meetings and two Nominations and Corporate Governance Committee meetings were held in addition to 17 ad hoc meetings attended by various Directors in relation to tender reviews and major projects.

	Board – Scheduled		Board – Unscheduled		Audit and Risk Committee	
Director	**Held[1]**	**Attended**	**Held[1]**	**Attended**	**Held[1]**	**Attended**
M J Menhinnitt	9	9	18	18	–	–
P J Tompkins[2]	5	5	11	10	–	–
M P Chellew[3]	5	5	12	11	–	–
G A Fenn[4]	5	5	12	7	–	–
M J Binns[5]	4	4	7	6	–	–
T G Handicott	9	9	18	16	7	7
N M Hollows	9	9	18	18	7	7
A M Howse	9	9	18	18	7	7
P L Watson	9	9	18	18	7	7

	People and Culture Committee		Zero Harm Committee		Nominations and Corporate Governance Committee	
Director	**Held[1]**	**Attended**	**Held[1]**	**Attended**	**Held[1]**	**Attended**
M J Menhinnitt	7	6[6]	1	1	2	2
P J Tompkins[2]	–	–	1	1	–	–
M P Chellew[3]	3	3	–	–	–	–
G A Fenn[4]	–	–	3	3	–	–
M J Binns[5]	–	–	3	3	–	–
T G Handicott	7	7	–	–	2	2
N M Hollows	7	7	–	–	2	2
A M Howse[7]	7	7	–	–	–	–
P L Watson	–	–	4	4	–	–

1. These columns indicate the number of meetings held during the period each person listed was a Director or member of the relevant Board Committee.
2. Mr Tompkins joined the Board on 1 February 2023.
3. Mr Chellew retired on 3 March 2023.
4. Mr Fenn retired on 27 February 2023. Mr Fenn did not attend unscheduled Board meetings relating to CEO succession matters.
5. Mr Binns retired on 31 January 2023.
6. Mr Menhinnitt was an apology for one unscheduled People and Culture Committee meeting.
7. Ms Howse joined the Nominations and Corporate Governance Committee on 19 April 2023.

Indemnification of officers and auditors

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

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

Downer's Constitution includes indemnities, to the extent permitted by law, for each Director and Company Secretary of Downer and its subsidiaries against liability incurred in the performance of their roles as officers. The Directors and the Company Secretaries listed on pages 8 to 11, individuals who act as a Director or Company Secretary of Downer's subsidiaries and certain individuals who formerly held any of these roles also have the benefit of the indemnity in the Constitution.

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

Corporate Governance

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

Non-audit services

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

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

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

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

A copy of the auditor's independence declaration is set out on page 60 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	2023 $	2022 $
Tax services	24,150	248,596
Advisory services	16,694	96,679
	40,844	345,275

Rounding of amounts

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

Remuneration Report

Chairman's Letter

Dear Shareholders,

Downer's 2023 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 2023 financial year.

At the last Annual General Meeting on 3 November 2022, 55.8% of all votes cast by shareholders were against the 2022 Remuneration Report, resulting in a first strike against the report. As such, we have taken steps to review the effectiveness of the remuneration framework and we outline the Board's response to the strike in section 1.1 of this report.

A year of disappointing Company performance and shareholder returns is reflected in no STI award being made for FY23 and the EPS, relative TSR and Earnings measures being missed in the FY21 LTI plan tested in August 2023, resulting in 83.3% of performance rights being forfeited.

The Board determined during the year that given the criticality of staff retention, engagement and development to the success of the organisation, it was important to broaden the remit of the Remuneration Committee to also oversee people and culture. Adelle Howse was appointed as Chair of the newly formed People & Culture Committee in January 2023.

Overview of the year

The 2023 financial year was challenging for Downer, with significant parts of our business impacted by underperformance of certain contracts in the Australian and New Zealand Utilities businesses, weather, supply chain disruptions and the labour productivity hangover from COVID-19. Downer's Board of Directors and Executive Leadership Team are responding to the current challenges with energy and are committed to improving the company's resilience against external factors.

Against this challenging backdrop, our Executives and broader team have continued to execute our strategy and simplify our portfolio. Our key financial and non-financial highlights for FY23 were:

- Commenced Downer's transformation program, which is a significant Group-wide change designed to position Downer for long-term sustainable success. Key focus areas of the transformation are to: reset Downer's operating model by integrating our Australian and New Zealand businesses; simplify Downer's portfolio to narrow our focus on core markets; and improve margins and enhance our focus on risk management. We have already made considerable progress, with the new trans-Tasman operating model coming into effect on 1 July 2023
- Achieved contractual close on the multi-billion dollar Queensland Train Manufacturing Program (QTMP). Under the contract, Downer will design, manufacture and commission 65 passenger trains and simulators with our key subcontractor, Hyundai Rotem. We will design, construct and commission a train manufacturing facility on the Fraser Coast and a maintenance facility on the Gold Coast. We will also deliver through-life-support and maintenance of the new fleet for an initial term of 15 years up to a potential term of 35 years. This is a significant contract for Downer, which will cement our position as the largest passenger rollingstock maintainer in Australia for the next 30 years
- Continued to simplify our portfolio with the sale of the Australian Transport Projects business to Gamuda Berhad on 20 June 2023. The sale price represents an enterprise value of $212 million, and is an important milestone in our portfolio simplification strategy. Downer's focus in the transport sector will now be to concentrate on enhancing its market leading positions in rollingstock, road maintenance and New Zealand infrastructure delivery.

Executive KMP changes

After an extensive succession process, Peter Tompkins was appointed as Executive Director effective 1 February and Chief Executive Officer (CEO) and Managing Director (MD) effective 27 February 2023, following the retirement of Grant Fenn, who held the position of CEO since 2010. Mr Tompkins joined Downer in 2008, having served as Downer's Chief Operating Officer (COO) since 2021.

On 1 December 2022, the Board announced Mr Tompkins' service agreement with the following key terms:

- Ongoing agreement with no fixed term
- Fixed remuneration of $1.55 million
- Maximum annual STI opportunity of 100% of fixed remuneration
- Maximum annual LTI opportunity of 130% of fixed remuneration, with his first LTI grant being put to shareholders at the 2023 AGM.

Remuneration was benchmarked against ASX 51-150 companies with comparable scale and complexity. Mr Tompkins was benchmarked at the 60th percentile.

Malcolm Ashcroft commenced with Downer on 1 June 2023 as Chief Financial Officer Elect and effective 1 July 2023 was appointed as Chief Financial Officer (CFO), following the resignation of Michael Ferguson. Mr Ashcroft is an accomplished leader with significant financial and senior executive experience in publicly listed entities covering the infrastructure services, construction, health, and education sectors.

Summary of FY23 remuneration outcomes

Short-term incentive (STI) outcomes

Downer's STI plan requires that a minimum level of earnings performance is required in order for Executives to receive an award assessed against the balanced scorecard.

In FY23, this minimum performance level was not met and accordingly there were no STI awards for KMP.

Under the terms of the plan, each year the Board considers whether deferred awards made in prior periods should be paid.

Prior to the Board considering the Deferred STI, the current CEO requested that the Board not consider his entitlement to payment of deferred components under the FY22 plan and has voluntarily forgone these components as demonstration of alignment between shareholders and management on performance outcomes.

In assessing deferred awards from FY21 and FY22 that were eligible to vest this year, the Board considered:

- The performance of the Company across FY21, FY22 and FY23
- The events that have come to light subsequent to the exercise of its discretion for the FY22 STI award
- That part of the FY21 and FY22 STI awards have already been paid to the former CEO and former CFO.

The Board has determined that for the former CEO and former CFO:

- The second tranche of the FY21 Deferred STI be reduced by 12% being the reduction under the plan based on the restated FY21 accounts
- No payment of deferred components be made for the first deferred component of the FY22 plan.

In accordance with the terms of the plan, the Board will consider the second deferred component of the FY22 Deferred STI when it becomes eligible for consideration.

Long-term incentive (LTI) outcomes

During the year testing of the 2020 LTI Plan was performed. Downer's performance against the relative Total Shareholder Return (TSR), Earnings per Share (EPS), Earnings and Free Cash Flow (FFO) did not meet the targets. Accordingly, no vesting occurred.

The 2021 Plan has now been tested. The TSR, EPS and Earnings measures were not met however the FFO performance was strong at 118.2% of target, meaning 16.7% of rights granted under the plan are eligible for vesting subject to satisfaction of the remaining additional service period and Board approval.

Further detail can be found at section 7.3.4.

Non-executive Director (NED) shareholding requirement and remuneration

As detailed in section 11.2 the Board has introduced, from 1 July 2023, a minimum security holding policy for non-executive directors of equal to or greater than 100 percent of their annual base fee. This requirement is to be met within four years of their appointment or the commencement of the policy.

In 2021 Downer embarked on a Board renewal program. Under the leadership of former Chairman Mark Chellew several new Directors were appointed during 2022 and the program will continue throughout 2023.

To ensure that Downer remains competitive to attract and retain suitably qualified NEDs to oversee the Company's strategic objectives and transformation, and to support the board renewal process, an external benchmarking review of fees paid to NEDs was undertaken. As a result of the review, increases to base fees and committee fees for the Chair and NEDs applied from 1 July 2022 (refer to section 11.1 for detail).

Response to first strike against the 2022 Remuneration Report

Following the strike against our 2022 Remuneration Report, the Board engaged extensively with major shareholders and proxy advisors to understand key concerns with our remuneration framework and its application.

The primary areas of concern identified by external stakeholders included the following:

- The Board's exercise of discretion to make FY22 STI awards was misaligned with shareholder outcomes
- Inadequate disclosure of STI targets for individual KMP
- The former MD/CEO's deferred STI award was made in cash
- The former MD/CEO's fixed remuneration was high.

With support from external advisors, the Board conducted a robust review of Downer's remuneration frameworks and disclosures with a view to addressing the key concerns holistically within the context of our broader strategy and operating context. Section 1.1 details the primary concerns raised by stakeholders and how we have responded to them, including the exercise of discretion in relation to the remuneration scheme for the Executive KMP, deferred payments for FY21 and FY22 STI plans where relevant.

Looking ahead to FY24

Since the 2022 AGM, the Board has undertaken a comprehensive review of the existing remuneration framework to ensure that it:

- Considers feedback and expectations of key stakeholders
- Continues to align with our strategy, including our multi-year Transformation program
- Remains aligned to the long-term interests of shareholders.

As a result of the review, the Board has introduced the following remuneration changes for FY24:

- Introduction of an additional Portfolio & Performance measure in the STI focused on net financial benefits derived from measurable transformation initiatives, to complement existing NPATA and FFO metrics.
- Increasing the weighting of the Employee Engagement measure from 5% to 10% in the STI with the 5% Learning and Development measure removed.
- The NPATA and FFO scorecard measure of the LTI (Balanced Scorecard) to be enhanced with a requirement to achieve a minimum EBITA Margin.
- A positive TSR gateway to apply to Relative TSR metric in the LTI.

The Board remains committed to a remuneration framework that supports Downer's long-term strategic objectives, effectively aligns pay with performance, reflects good governance and risk management, and fairly rewards and retains key executive talent to execute our transformation.

We highly value the feedback of our shareholders and other key stakeholders, and we look forward to ongoing dialogue with you. We thank you for your support and welcome your feedback at the AGM.

M J Menhinnitt
Chairman

A M Howse
People and Culture Committee Chairman

Remuneration Report – AUDITED

The Remuneration Report provides information about the remuneration arrangements for key management personnel (KMP), which means Non-executive Directors and the Group's most senior executives, for the year to 30 June 2023. The term 'executive' in this Report means KMPs who are not Non-executive Directors.

The Report covers the following matters:

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

1. Year in Review

1.1 Key issues raised regarding the 2022 Remuneration Report

The Board has considered feedback from shareholders. Set out below is a summary of the Board's responses to the key issues raised by some shareholders in relation to the 2022 Remuneration Report.

Feedback	Response
Discretionary Short-term incentive (STI) plan awards The Board's exercise of upwards discretion to make FY22 STI awards was misaligned with shareholder outcomes.	Whilst stakeholders generally acknowledged that the 2022 financial year was challenging with severe weather events, the coronavirus pandemic and ongoing supply chain disruption, the exercise of upwards discretion to make STI awards was misaligned with shareholder outcomes. Several stakeholders were supportive of making STI awards however considered that there was inadequate disclosure of STI targets to provide better understanding of the level of discretion exercised or preferred that they be targeted at retention with a focus on deferred equity-based reward. No discretionary awards have been made in 2023, however the feedback of stakeholders will inform any consideration of future decisions and disclosure of the exercise of discretion. The Board has exercised discretion in relation to the remuneration scheme for the Executive KMP. Further detail on deferred STI outcomes is at section 7.3.3.
Incentive plan targets plan There could be more detail disclosed in relation to the STI targets for individual KMP.	While acknowledging that disclosure in relation to the STI plan is comprehensive, it was noted by some stakeholders that specific financial and commercial targets at Divisional and Corporate levels were not disclosed due to commercial sensitivity. Additional disclosure of Group level targets for FY23 has been included in this year's report.
Form of deferred STI awards The former Managing Director's deferred STI award was made in cash.	Under Downer's Deferred STI plan, the Board determines whether deferred awards are paid in equity or cash, in its sole and absolute discretion. In making its determination on the form of payment the Board: ▪ Considered the level of the former Managing Director's shareholding, which at the time was 5 times the value of his minimum shareholding requirement of 12 months' fixed remuneration ▪ Recognised that the former Managing Director was generally in possession of price sensitive information and therefore generally unable to sell shares to cover tax liabilities ▪ Recognised that in the event the former Managing Director was able to sell an award made in shares, there could be an unwarranted negative market perception should he do so. Due to the value of the Managing Director's shareholding in Downer significantly exceeding the minimum shareholding requirement of 12 months' fixed remuneration, the Board determined it was appropriate to pay the award in cash. While the Board determines whether deferred awards are paid in equity or cash, in its sole and absolute discretion, the default position absent special circumstances will continue to be that deferred STI awards for the Managing Director and Executive KMP will be delivered in equity. Payment of deferred awards if achieved at the end of FY24 will be made in equity.
Long-term incentive (LTI) plan The relative TSR measure can be achieved with a negative TSR result.	For the 2024 LTI Plan onwards, a positive TSR requirement has been added to the relative TSR measure. This means that irrespective of the relative TSR result, the tranche will only vest where Downer's TSR over the period is positive and the relative performance level is achieved. This aims to increase alignment between long-term executive reward and the experience of our shareholders, whom we acknowledge have seen an erosion in shareholder value in FY23.

Feedback	Response
Managing Director's remuneration The Managing Director's fixed remuneration is high.	Grant Fenn was appointed as Managing Director in June 2010. The total remuneration package at the time of appointment was 23% lower than the remuneration paid to his predecessor and remained unchanged from 2012 up to his retirement as Managing Director in February 2023. Peter Tompkins was appointed as Managing Director in February 2023. Mr Tompkins fixed remuneration was benchmarked against ASX 51-150 companies with comparable scale and complexity. Mr Tompkins was benchmarked at the 60th percentile. The fixed remuneration for Mr Tompkins is 22.5% lower than the remuneration paid to Mr Fenn and maximum total remuneration is 14.8% lower.

1.2 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 for 2023
Short-term incentive (STI) plan	*Zero Harm measures* The environmental sustainability and critical risk measures for the Zero Harm element have been further refined, building upon previous improvements to move with and support growth in organisational maturity and ensure continual stretch and ongoing Zero Harm improvement, in addition to existing requirements through: ▪ Introducing a requirement to undertake a minimum number of critical risk observations, improve three critical controls and maintain an active audit and inspection program ▪ Including Scope 3 targets and initiatives into decarbonisation plans ▪ Achieving greenhouse gas emission intensity targets. *People measure* FY23 introduced a Learning and Development measure that required the achievement of minimum completion rates of training in Downer's project delivery and governance methodology. The measure reflected the significant focus of the Company on delivery management and project governance as a driver of improved project performance and contract margins. The Learning and Development measure has been removed in FY24 and the Employee Engagement measure has been increased from 5% to 10%. Further detail on the measures for the STI plan are set out at section 6.4.1.

Policy	Enhancements for 2024
Short-term incentive (STI) plan	The overall structure of the STI plan will continue with some changes to relative weightings and the introduction of an additional Financial measure. ▪ Allocation to Portfolio and Performance (financial) measures will be increased from 60% to 70% for the FY24 year. This will allow the inclusion of an additional Portfolio and Performance measure focused on net financial benefits derived from measurable transformation initiatives. This measure will form 20% of the scorecard alongside the profitability measure (NPATA) of 25% and a Cash measure of 25%. ▪ The transformation incentive will be calculated as the financial benefit in FY24 less costs incurred. The purpose of driving in year benefits is to incentivise savings to be taken as early as possible to maximise the benefit in the year, and to support the cost out target. For the measure to be achieved, the expected FY25 impact will be considered to ensure transformation net benefits are sustainable beyond FY24. ▪ The Zero Harm measure will be reduced in weighting to 20% from 30% of the STI Scorecard and will cover both safety and sustainability. ▪ The Learning and Development measure will be replaced with an increased focus on Employee Engagement with the people measure of 10% based on the Employee Engagement survey to drive a focus that seeks to achieve a high performance culture. ▪ Financial and Zero Harm gateways will remain unchanged.

Policy	Enhancements for 2024
Long-term incentive (LTI) plan	The overall structure of the LTI plan will continue with some changes to the performance hurdles. ▪ The relative TSR measure will require the absolute TSR to be positive. ▪ The EPS growth baseline will be adjusted to take account of elements of underperformance in FY23. ▪ The balanced scorecard measure will be enhanced with the inclusion of a minimum EBITA margin measure from FY25 onwards in order to be eligible for any vesting under the Scorecard condition.

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
M J Menhinnitt	Chairman, Independent Non-executive Director (commenced as Acting Chairman 3 March 2023, Chairman from 9 March 2023)
M P Chellew	Chairman, Independent Non-executive Director (retired 3 March 2023)
P J Tompkins	Managing Director and Chief Executive Officer (commenced role on 27 February 2023)
G A Fenn	Managing Director and Chief Executive Officer (retired 27 February 2023)
M J Binns	Independent Non-executive Director (retired 31 January 2023)
T G Handicott	Independent Non-executive Director
N M Hollows	Independent Non-executive Director
A M Howse	Independent Non-executive Director
P L Watson	Independent Non-executive Director (retiring 30 September 2023)

Executive KMP

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

Executive	Role
P J Tompkins	Chief Operating Officer to 26 February 2023, Managing Director and Chief Executive Officer (from 27 February 2023)
M R Ashcroft	Chief Financial Officer Elect (commenced 1 June 2023)
M J Ferguson	Chief Financial Officer (ceased 30 June 2023)

3. Remuneration Policy, Principles and Practices

3.1 Executive remuneration policy

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

Policy	Practices aligned with policy
Retain experienced, proven performers, and those considered to have high potential for succession	▪ Provide remuneration that is internally fair ▪ Ensure remuneration is competitive with the external market ▪ Defer a substantial part of pay contingent on continuing service and sustained performance.
Focus performance	▪ Provide a substantial component of pay contingent on performance against targets ▪ Focus attention on the most important drivers of value by linking pay to their achievement ▪ Require profitability to reach a challenging level before any bonus payments can be made ▪ Provide a LTI plan component that rewards consistent Scorecard performance over multiple years and over which executives have a clear line of sight.
Provide a Zero Harm environment	▪ Incorporate measures that embody Zero Harm for Downer's employees, contractors, communities and the environment as a significant component of reward.
Manage risk	▪ Encourage sustainability by balancing incentives for achieving both short-term and longer-term results, and deferring equity-based reward vesting after performance has been initially tested ▪ Set stretch targets that finely balance returns with reasonable but not excessive risk taking and cap maximum incentive payments ▪ Do not provide excessive 'cliff' reward vesting that may encourage excessive risk taking as a performance threshold is approached ▪ Diversify risk and limit the prospects of unintended consequences from focusing on just one measure in both short-term and long-term incentive plans ▪ Stagger vesting of deferred short-term incentive payments to encourage retention and allow forfeiture of rewards that are the result of misconduct or material adjustments ▪ Retain full Board discretion to vary incentive payments, including in the event of excessive risk taking ▪ Restrict trading of vested equity rewards to ensure compliance with the Company's Securities Trading Policy.
Align executive interests with those of shareholders	▪ Provide that a significant proportion of pay is delivered as equity so part of executive reward is linked to shareholder value performance ▪ Provide a long-term incentive that is based on consistent Scorecard performance against challenging targets set each year that reflect sector volatility and prevailing economic conditions as well as relative TSR and earnings per share measures directly related to shareholder value ▪ Maintain a guideline minimum shareholding requirement for the Managing Director equal to 12 months fixed remuneration ▪ Exclude the short-term impact of unbudgeted and opportunistic acquisitions and divestments from performance assessment to encourage agility and responsiveness ▪ Encourage holding of shares after vesting via a trading restriction for all executives and payment of LTI components in shares ▪ Prohibit hedging of unvested equity and equity subject to a trading lock to ensure alignment with shareholder outcomes.
Attract experienced, proven performers	▪ Provide a total remuneration opportunity sufficient to attract proven and experienced executives from secure positions in other companies and retain existing executives.

4. Relationship between Remuneration Policy and Company Performance

4.1 Company strategy and remuneration

Downer's business strategy includes:

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

The Company's remuneration policy complements this strategy by:

- Emphasis on Zero Harm measures across safety performance, critical risk and environmental and social sustainability and setting safety and environmental gateways 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
- Incorporating Company-wide performance requirements for both STI and LTI reward vesting for earnings (NPATA), Free Cash Flow (FFO) and People measures to encourage cross-divisional collaboration
- Incorporating performance metrics that focus on cash flow to reduce working capital and debt exposure
- Incorporating performance metrics that focus on reducing overhead costs and drive efficiencies in the business model
- 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
- 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 reward for executives is made
- Applying further Zero Harm gateways to be achieved before calculating any reward for safety or environmental performance
- Applying challenging financial and non-financial measures to assess performance
- Ensuring that these measures focus management on strategic business objectives that create shareholder value
- Delivering a significant proportion of payment in equity for alignment with shareholder interests.

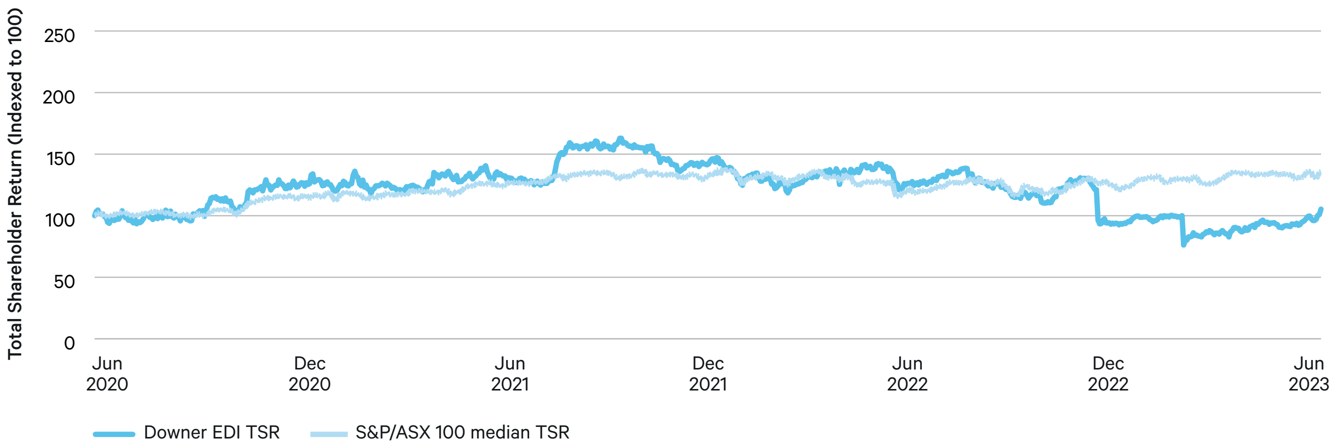
Downer measures performance on the following key corporate measures:

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

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

The following graph shows the Company's performance compared to the median performance of the ASX 100 over the three-year period to 30 June 2023. Relative TSR is a measure in Downer's LTI plan. Performance is reflected in TSR outcomes of the 2020 and 2021 LTI plans, where this measure was not achieved. Further detail is at section 7.3.4.

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

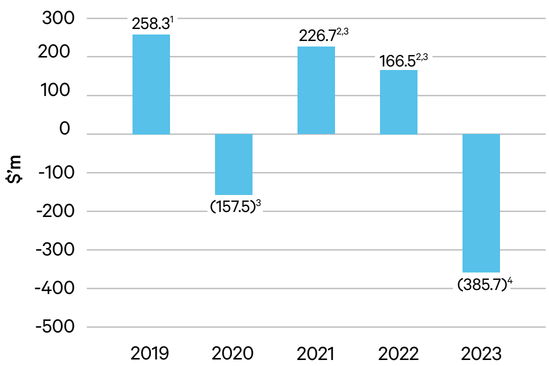


* S&P/ASX 100 companies as at 30/06/2020

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

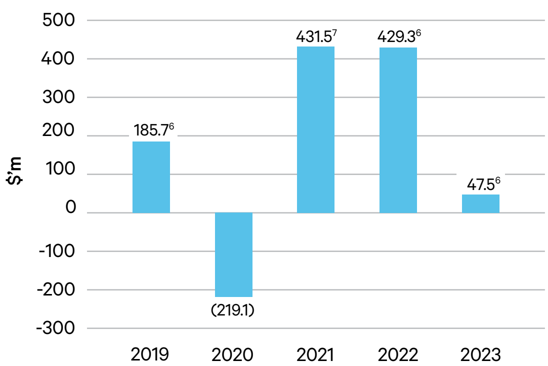
Downer has identified certain accounting adjustments in its Australian Utilities business involving historical misreporting of revenue and contract assets in one of Downer's maintenance contracts. As a consequence, the Group identified accounting adjustments to prior periods, including financial years 2020, 2021 and 2022 in relation to the measure of progress. The adjustments have been corrected by restating each of the affected financial statement line items for prior periods.

Net profit after tax



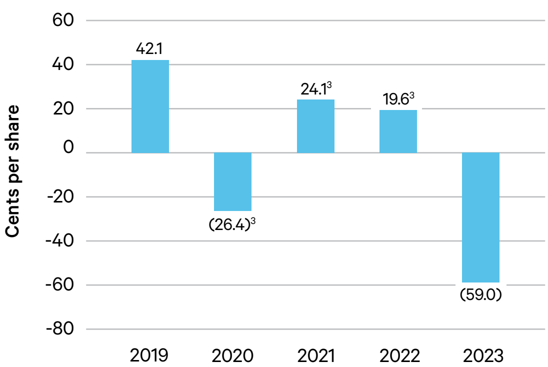
1. Adjusted for material unbudgeted transactions by $18.0 million net decrease.
2. Adjusted for material unbudgeted transactions and individually significant items. 2021: $51.8 million net increase, 2022: $26.1 million net increase.
3. Restated for certain accounting adjustment in its Australian Utilities business (refer to Note A to the consolidated financial statements).
4. Represents statutory NPAT.

Free cash flow[5]



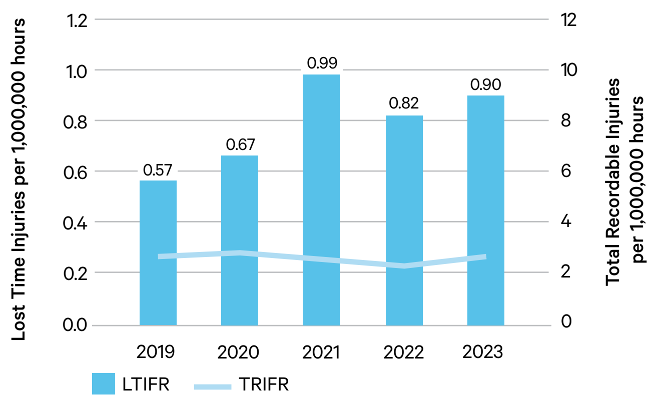
5. Following the adoption of AASB 16 *Leases* which resulted in a change in accounting policy from FY20, historical Free Cash Flow was not restated.
6. Adjusted for material unbudgeted transactions. 2019: $65.2 million net increase, 2022: $104.5 million net decrease and 2023: $184.0 million net decrease related to the divestment of the Australian Transport Project Business.
7. Adjusted for material unbudgeted transactions, including the payment for Spotless shares. 2021: $313.1 million net decrease.

Basic earnings per share[8]



8. Historical basic earnings per share for 2019 were restated as a result of 106.6 million shares issued from the capital raising as part of the acquisition of the remaining shares in Spotless. The weighted average number of shares (WANOS) to calculate EPS was adjusted by an adjustment factor of 0.9817.

Safety



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 People and Culture Committee previously the Remuneration Committee and the Nominations and Corporate Governance Committee.

The interaction with the Board, other committees, management, and other stakeholders is shown in the diagram below.

Consultation with shareholders and other stakeholders

- Management may seek its own independent advice with respect to information and recommendations relevant to remuneration

Management

- Provides information relevant to the remuneration decisions and makes recommendations to the PCC
- Obtains remuneration information from external advisors to assist the PCC (i.e. market data, legal, tax and accounting advice)

Board

The Board is responsible for:

- Approving Downer's remuneration strategy
- Determining the quantum of remuneration for Non-executive Director and MD & CEO

The Board has overarching discretion with respect to any awards made under the Company's incentive plans.

People and Culture Committee (PCC)

The PCC is delegated responsibility by the Board to review and, where relevant, make recommendations on:

- 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 plans
- Superannuation arrangements
- Recruitment, retention, performance and termination policies and procedures for all Key Management Personnel and senior executives reporting directly to the Managing Director
- Disclosure of remuneration in the Company's public materials including ASX filings and the Annual Report
- Retirement payments for all key Management Personnel and senior executives reporting directly to the Managing Director

During the period, the PCC retained Guerdon Associates, Morrow Sodali and SW Corporate as its advisors. Guerdon Associates and SW Corporate do not provide services to management and are considered to be independent.

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

Remuneration consultants and other external advisors

- Provide independent advice, information and recommendations relevant to remuneration decisions.
- The PCC may seek independent advice from external advisors on various remuneration related matters.
- Any advice provided by external advisors is used to assist the Board – it is not a substitute for the Board and PCC procedures.
- Each Committee has the authority to engage external professional advisors without seeking approval of the Board or management.

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 – Peter Tompkins	75	100	130	230
Former Managing Director – Grant Fenn	75	100	100	200
Other Executive KMP	56.25	75	50	125

The proportions of STI to LTI take into account:

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

6.2 Remuneration benchmarking

Remuneration is benchmarked against roles of similar scope and complexity in relevant industries, using independently obtained market data. This market data is regularly updated and reviewed. The benchmarking approach is designed to consider the size and nature of Downer's businesses and will take into account global markets for talent where appropriate for key roles, as well as individual factors, such as location, economic environment and remuneration trends. This enables Downer to remain competitive in setting remuneration for executives.

Downer is a diverse Company operating in many market sectors. This means that identifying a select group of peers of comparable size and nature is challenging. The TSR comparator group under the LTI plan includes the companies, excluding financial services companies, in the ASX 100 index. Consideration has been given to using a smaller group of direct competitors for comparison, however:

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

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

6.3 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.

Peter Tompkins commenced as Managing Director on 27 February 2023. Mr Tompkins fixed annual remuneration of $1,550,000 was benchmarked against ASX 51-150 companies of comparable scale and complexity. Mr Tompkins was benchmarked at the 60th percentile.

The fixed remuneration for Mr Tompkins is 22.5% lower than the remuneration paid to former CEO Mr Fenn and maximum total remuneration is 14.8% lower.

6.4 Short-term Incentive

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 2023.

The basis of the plan is designed to align STI outcomes with financial results.

6.4.1 STI tabular summary

The following table outlines the major features of the 2023 STI plan.

Purpose of STI plan	▪ Focus performance on drivers of shareholder value over a 12-month period ▪ Improve Zero Harm and people related results ▪ Ensure a part of remuneration varies with the Company's 12-month performance.
Minimum performance 'gateways' before any payments can be made	Achievement of a gateway based on 90% of budgeted Group NPATA for corporate executives and Divisional EBITA for divisional heads. This minimum is set 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. Further independent gateways apply to the Zero Harm element. Should a workplace fatality or serious environmental incident occur, 50% of the Zero Harm element is foregone, with 100% foregone should both occur.
Maximum STI that can be earned	▪ Managing Director: up to 100% of fixed remuneration ▪ KMP: 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 no greater than 1 across all participants ▪ Application of an IPM cannot result in an award greater than the maximum STI% level set out in section 6.1.
Performance period	1 July 2022 to 30 June 2023.
Performance assessed	August 2023, following audit of accounts.
STI Deferral	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 subject to the satisfaction of a continued employment condition. This requires the executive to remain employed at the time of payment.
Payment timing	September 2023 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 shares or cash, net of personal tax. Deferred components will generally be settled in shares. 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. An eligible leaver's deferred components will be settled in shares or in cash in the sole and absolute discretion of the Board.
Dividend equivalent payments	No dividend entitlements are attached to the deferred components during the vesting period.
Board discretion	The Board may exercise 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 ▪ Reduce partly or fully the value of the deferred components that are due to vest in certain circumstances, including where an executive has acted inappropriately or where the Board considers that the financial results against which the STI performance measures were tested were incorrect in a material respect or have been reversed or restated ▪ Settle deferred components in shares or cash, with the intended default approach being shares ▪ Vary from policy in exceptional circumstances. However, any variation from policy and the reasons for it will be disclosed.
Malus and clawback	All or part of the deferred components that are due to vest may be reduced in value 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.
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.

Performance requirements	Zero Harm, People and Portfolio and Financial measures
Zero Harm	Zero Harm reflects Downer's commitment to safety, environment, social and governance matters. The Zero Harm element underscores Downer's commitment to customers, employees, regulators and the communities in which it operates. Performance is assessed on the following measures: ***Safety*** Total Recordable Injury Frequency Rate (TRIFR): the number of recordable injuries per million hours calculated over 12 months. Lost Time Injury Frequency Rate (LTIFR): the number of lost time injuries per million hours calculated over 12 months. *Critical Risk* Completion of all actions arising from high potential incidents within a defined timeframe. Lead and finalise a Group-wide Community of Practice (CoP) focusing on better control of one critical risk. The CoP must deliver a set of minimum deliverables identified in the STI Guide. The CoP must conduct a Downer Standard gap analysis, identify practice guidance and control standard requirements, define master risks and controls and produce a training package. Undertake detailed analysis to understand the top three controls requiring improvement within an area of responsibility and completion of projects to improve them. ***Sustainability*** Review of the Sustainable Development Goal Improvement Plans developed in 2021 and revised in 2022, and achievement of the final year goals from those plans. Incorporate Scope 3 initiatives and targets into decarbonisation plans. Achievement of a set percentage of FY23 GHG emissions intensity targets.
People	Performance is assessed on measures of employee engagement, and learning and development. Employee engagement requires the achievement of an overall engagement score against a defined range in the annual group-wide employee engagement survey. Learning and development requires the achievement of minimum completion rates of training in Downer's project delivery and governance methodology. This measure was selected due to the significant focus of the Company on delivery management and project governance as a driver of improved project performance and contract margins.
Financial	Performance is assessed on Group NPATA, Divisional EBITA and FFO performance against the budget. NPATA and EBITA provide transparency on operational business performance, align with how Downer presents its results to the market and allow for easier understanding of alignment between performance and remuneration outcomes. The Board considers this approach to be appropriate as: ▪ The Board is the ultimate decision maker for transactions that give rise to acquired intangibles that result in the amortisation expense ▪ The impact of amortisation of acquired intangibles, which in nature relate to long-term strategic decisions, remains reflected in incentive outcomes through the EPS measure in the LTI plan. FFO is defined as net cash from operating activities less investing cash flow.
STI plan incentive calculation	Fixed remuneration x Maximum STI opportunity x Scorecard result x Individual Performance Modifier = STI payment

Weightings applied to the 2023 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)

6.5 Long-term Incentive

6.5.1 LTI tabular summary

The following table outlines the major features of the 2023 LTI plan.

Purpose of LTI plan	▪ Focus performance on drivers of shareholder value over a three-year period ▪ Manage risk by countering any tendency to over-emphasise short-term performance to the detriment of longer-term growth and sustainability ▪ Ensure a part of remuneration varies with the Company's longer-term performance.
Maximum value of equity that can be granted	▪ Managing Director: 130% of fixed remuneration ▪ Former Managing Director 100% of fixed remuneration ▪ KMP: 50% of fixed remuneration.
Performance period	1 July 2022 to 30 June 2025. Performance assessed August 2025.
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 2026.
Performance rights vest	July 2026.
Form of award and payment	Performance rights.
Performance conditions	There are three performance conditions. Each applies to one-third of the performance rights granted to each executive. **Relative TSR** The relative TSR performance condition is based on the Company's TSR performance relative to the TSR of companies comprising the ASX 100 index, excluding financial services companies, at the start of the performance period on 1 July 2022, measured over the three years to 30 June 2025. The performance vesting scale that will apply to the performance rights subject to the relative TSR test is shown in the table below:

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

Performance conditions	**EPS growth** The EPS growth performance condition is based on the Company's compound annual EPS growth over the three years to 30 June 2025. The performance vesting scale that will apply to the performance rights subject to the EPS growth test is shown in the table below:

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

Scorecard

The Scorecard performance condition is based on the Group's NPATA and FFO for each of the three years to 30 June 2025. These measures are considered to be key drivers of shareholder value. Accordingly, they have been included in the LTI plan to reward sustainable financial performance.

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

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

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

The Scorecard condition is designed to:

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

How performance rights and shares are acquired	The rights are issued by the Company and held by the participant subject to the satisfaction of the vesting conditions. The number of rights held may be adjusted pro-rata, consistent with ASX adjustment factors, for any capital restructures. If the rights vest, executives can exercise them to receive shares that are normally acquired on-market. The Board retains the discretion to vest awards in the form of cash.
Treatment of dividends and voting rights on performance rights	Performance rights do not have voting rights or accrue dividends.
Restriction on hedging	Hedging of entitlements under the plan by executives is not permitted.
Restriction on trading	After vesting, any shares will remain subject to a trading restriction that is governed by the Company's Securities Trading Policy.

New participants	New executives (either new starters or promoted employees) are eligible to participate in the LTI on the first grant date applicable to all executives after they commence in their position. An additional pro-rata entitlement if their employment commenced after the grant date in the prior calendar year may be made on a discretionary basis.
Ceasing executives	Where an executive ceases employment with the Group prior to the vesting date, the rights will be forfeited. However, the Board will retain the discretion to retain executives in the plan in certain circumstances including the death, total and permanent disability or retirement of an executive. In these circumstances, the Board will also retain the discretion to vest awards in the form of cash.
Change of control	On the occurrence of a change of control event and providing at least 12 months of the grants' performance period have elapsed, unvested performance rights pro-rated with the elapsed service period are tested for vesting with performance against the relevant relative TSR, EPS growth or Scorecard requirements for that relevant period. Vesting will occur to the extent the performance conditions are met. Performance rights that have already been tested, have met performance requirements and are subject to the completion of the service condition, fully vest.
Malus and clawback	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.

6.5.2 Post-vesting shareholding guideline

The Managing Director is required to continue to hold shares after they have vested until the shareholding guideline has been attained. This guideline requires that the Managing Director holds vested long-term incentive shares equal in value to 100% of his fixed remuneration. The current Managing Director's shareholding is approximately 76% of the guideline level.

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

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

6.6 Treatment of major transactions

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

The Board considers this approach to be appropriate as it:

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

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

6.7 Treatment of significant items

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

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

7. Details of Executive Remuneration

7.1 Remuneration received in relation to the 2023 financial year

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

The table below lists the remuneration actually received in relation to the 2023 financial year, comprising fixed remuneration, cash STIs relating to 2023, deferred STIs payable in 2023 in respect of prior years and the value of LTI grants that vested during the 2023 financial year. This information differs to that provided in the statutory remuneration table at section 7.2 which shows the share based payment accounting expense for LTIs and deferred STIs determined in accordance with accounting standards rather than the value of LTI grants that vested during the year.

	Fixed Remuneration[1] $	Cash Bonus paid or payable in respect of current year[2] $	Deferred Bonus paid or payable in respect of prior years[4] $	Other Benefits[5] $	Total payments $	Equity that vested during 2023[3] $	Total remuneration received $
P J Tompkins	1,346,666	–	155,737	268,391	1,770,794	–	1,770,794
G A Fenn[6]	1,379,578	–	378,750	(37,945)	1,720,383	–	1,720,383
M R Ashcroft[6]	84,647	–	–	6,610	91,257	–	91,257
M J Ferguson	1,024,840	–	142,031	38,736	1,205,607	–	1,205,607
	3,835,731	**–**	**676,518**	**275,792**	**4,788,041**	**–**	**4,788,041**

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 2023 financial year.
3. Represents the value of performance rights granted in previous years that vested during the year, calculated as the number of performance rights that vested multiplied by the closing market prices of Downer shares on the vesting date.
4. Deferred Bonus represents the deferred bonus amount to be paid in September 2023, being the second deferred component of the 2021 award, adjusted as set out in section 7.3.3. This represents a reduction in the award of $52,000 for G A Fenn, $19,500 for M J Ferguson and $4,875 for P J Tompkins. The first deferred component of the 2022 award was reduced to nil from $325,000 for G A Fenn and $121,875 for M J Ferguson. P J Tompkins chose to voluntarily forgo his 2022 deferred components, each of which is valued at $121,875.
5. Negative movement in other benefits indicates leave taken during the year exceeded leave accrued during the current year.
6. Amounts represent the payments relating to the period during which the individuals were Key Management Personnel (KMP). G A Fenn ceased as a member of the KMP on 27 February 2023. M R Ashcroft became a member of the KMP on 1 June 2023.

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

2023	Short-term employee benefits				Long-term employee benefit	Post-employment benefits					
	Salary and fees $	Cash Bonus paid or payable in respect of current year[2] $	Deferred Bonus paid or payable[4] $	Non-monetary $	Other long-term benefits[5] $	Super-annuation $	Other benefits $	Term-ination benefits $	Subtotal $	Share-based payment transac-tions[3] $	Total $
P J Tompkins	1,166,842	–	48,663	154,532	153,487	25,292	–	–	1,548,816	97,004	1,645,820
G A Fenn[1]	1,308,244	–	60,721	52,365	21,646	18,969	–	–	1,461,945	(323,499)	1,138,446
M R Ashcroft[1]	72,892	–	–	5,432	1,178	6,323	–	–	85,825	–	85,825
M J Ferguson	961,645	–	34,344	37,903	16,243	25,292	–	–	1,075,427	(497,988)	577,439
	3,509,623	**–**	**143,728**	**250,232**	**192,554**	**75,876**	**–**	**–**	**4,172,013**	**(724,483)**	**3,447,530**

1. Amounts represent the payments relating to the period during which the individuals were Key Management Personnel (KMP). G A Fenn ceased as a member of the KMP on 27 February 2023. M R Ashcroft became a member of the KMP on 1 June 2023.
2. Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2023 financial year. These comprise the 50% cash component of the award.
3. Represents the value of vested and unvested equity expensed during the period including reversal for forfeited equity incentives and the probability of the incentives vesting, in accordance with AASB 2 *Share-based Payment*, related to grants made to the executive, as outlined in section 8.2 and an estimate of the fair value of the grant to be made to P J Tompkins in respect of the 2023 financial year attributable to the period. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in section 6.5.
4. Deferred Bonus represents the value of deferred components attributable to the 2023 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. This includes the net movement in Long Service Leave provision over the reporting period.

2022	Short-term employee benefits				Post-employment benefits					
	Salary and fees $	Cash Bonus paid or payable in respect of current year[1] $	Deferred Bonus paid or payable[3] $	Non-monetary $	Super-annuation $	Other benefits $	Term-ination Benefits $	Subtotal $	Share-based payment transac-tions[2] $	Total $
G A Fenn	1,691,432	650,000	629,792	376,147	23,568	–	–	3,370,939	395,888	3,766,827
M J Ferguson	964,390	243,750	236,172	12,042	23,568	–	–	1,479,922	110,153	1,590,075
P J Tompkins	952,209	243,750	235,406	20,295	27,496	–	–	1,479,156	98,974	1,578,130
	3,608,031	**1,137,500**	**1,101,370**	**408,484**	**74,632**	**–**	**–**	**6,330,017**	**605,015**	**6,935,032**

1. Cash Bonus paid or payable in respect of current year represents cash payments in relation to the 2022 financial year. These comprise the 50% cash component of the award.
2. Represents the value of vested and unvested equity expensed during the period including reversal for forfeited equity incentives and the probability of the incentives vesting, in accordance with AASB 2 *Share-based Payment*, related to grants made to the executive, as outlined in section 8.2. Vesting of the majority of securities remains subject to significant performance and service conditions as outlined in section 6.5.
3. Deferred Bonus represents the value of deferred components attributable to the 2022 financial year based on amortisation of deferred components over the period from the commencement of the relevant performance year to the end of financial year to which payment of the relevant deferred component relates.

7.3 Performance related remuneration

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

The table below lists the proportions of remuneration paid during the year ended 30 June 2023 that are performance and non-performance related and the proportion of STIs that were earned during the year ended 30 June 2023 due to the achievement of the relevant performance targets.

	Proportion of 2023 remuneration		2023 Short-term incentive	
	Performance Related[1] %	Non-performance Related %	Paid %	Forfeited %
P J Tompkins	9	91	0	100
G A Fenn	0	100	0	100
M R Ashcroft[2]	N/A	N/A	N/A	N/A
M J Ferguson	0	100	0	100

1. Performance related portion includes the reversal of expense for forfeited equity incentives described in section 6.5.
2. M R Ashcroft did not participate in the 2023 incentive plans.

7.3.2 2023 Group STI Scorecard and Outcomes

Performance is assessed for each scorecard measure based on the actual outcomes compared to the performance levels defined below.

The scorecard measures are Downer's priorities and performance requirements are set at challenging levels to drive organisational performance and continued improvement of the business.

Whilst the minimum performance gateway was not achieved by KMP, meaning no STI awards were made for FY23, the actual performance achieved for each measure is set out in the table below.

Element	Measure	Description	Weighting %	Min Target Max	Outcome
Zero Harm	Total Recordable Injury Frequency Rate (TRIFR)	Achieve TRIFR below 3.5	2.5		50%
	Lost Time Injury Frequency Rate (LTIFR)	Achieve TRIFR below 0.9	2.5		50%
	Critical risk	High Potential Incident action closure Critical risk observations Audit and inspection program Critical control improvement	10		50%
	Sustainability	Sustainable Development Goals Greenhouse gas emission intensity reduction Including Scope 3 targets and initiatives into decarbonisation plans	15		50%
People	Employee engagement	Achieve an overall Employee Engagement Score between 68 and 72	5		0%
	Learning and development	Achieve minimum completion rates for training on Downer's project delivery methodology and governance	5		100%
Portfolio and Performance	Net Profit After Tax and before Amortisation of acquired intangibles	Achieve budget of $240.0 million to $265.0 million	30		0%
	Free cash flow	Achieve budget of $205.0 million to $230.0 million	30		0%

For 2023, the IPM was not applied to the members of the KMP as no STI awards were made.

7.3.3 Deferred STI Outcomes

Under the terms of the plan, each year the Board considers whether deferred awards made in prior periods should be paid.

Prior to the Board considering the Deferred STI, the current CEO requested that the Board not consider his entitlement to payment of deferred components under the FY22 plan and has voluntarily forgone these components as demonstration of alignment between shareholders and management on performance outcomes.

In assessing deferred awards from FY21 and FY22 that were eligible to vest this year, the Board considered:

- The performance of the Company across FY21, FY22 and FY23
- The events that have come to light subsequent to the exercise of its discretion for the FY22 STI award
- That part of the FY21 and FY22 STI awards have already been paid to the former CEO and former CFO.

The Board has determined that for the former CEO and former CFO:

- The second tranche of the FY21 Deferred STI be reduced by 12% being the reduction under the plan based on the restated FY21 accounts
- No payment of deferred components be made for the first deferred component of the FY22 plan.

In accordance with the terms of the plan, the Board will consider the second deferred component of the FY22 Deferred STI when it becomes eligible for consideration.

7.3.4 LTI performance outcomes

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

Relevant executives[1]	Relevant LTI measure	Performance outcome	% LTI tranche that vested
G A Fenn, M J Ferguson, P J Tompkins	**2020 plan – performance period 1 July 2019 to 30 June 2022**		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a three-year period.	Actual performance ranked at the 26th percentile based on a TSR result of –18.3%.	0% became provisionally qualified. 100% were forfeited.
	EPS tranche – compound annual earnings per share growth against absolute targets over a three-year period.	Actual performance was –4.1%.	0% became provisionally qualified. 100% were forfeited.
	Scorecard tranche – sustained NPAT and FFO performance against budget over a three-year period.	Actual performance was 57.6% for NPAT and 62.9% for FFO.	0% became provisionally qualified. 100% were forfeited.
G A Fenn, M J Ferguson, P J Tompkins	**2021 plan – performance period 1 July 2020 to 30 June 2023[2]**		
	TSR tranche – percentile ranking of Downer's TSR relative to the constituents of the ASX 100 over a three-year period.	Actual performance ranked at the 15th percentile based on a TSR result of –5.03%.	0% became provisionally qualified. 100% were forfeited.
	EPS tranche – compound annual earnings per share growth against absolute targets over a three-year period.	Actual performance was –9.88%	0% became provisionally qualified. 100% were forfeited.
	Scorecard tranche – sustained NPATA and FFO performance against budget over a three-year period.	Actual performance was 84.4% for NPATA and 118.2% for FFO.	16.7% became provisionally qualified and remain subject to Board approval. 83.3% were forfeited.

1. Relevant executives refers to members of the KMP who are participants in the plan tested.
2. Test outcomes for the 2021 plan are provisional and will be confirmed following release of the Company's audited 2023 results. Accordingly, the outcomes are not reflected in the disclosures in section 8.

7.4 Major transactions and significant items

In 2023 there were two major unbudgeted transactions and four unbudgeted significant items. Each of these items is described below at sections 7.4.1 and 7.4.2 of this report.

7.4.1 Major transactions

In 2023 Downer continued to optimise its portfolio in keeping with its Urban Services strategy through restructuring, partnering, acquisition and divestment.

Downer undertook two major unbudgeted transactions during 2023. These transactions were the divestments of the Australian Transport Projects business and the Asset & Development Services (ADS) business being held for sale.

Downer's approach to adjustments for major transactions is disclosed in section 6.6.

In FY23, as the profit gateway for the STI was not met and no award was made, no adjustments were made to the STI. There were no adjustments made in relation to the LTI either.

Where adjustments are made in future years, these will be disclosed in the relevant remuneration report.

7.4.2 Significant items

During the year, five unbudgeted items had a significant impact. These items were the fair value adjustment on the Downer Contingent Share Options, portfolio restructure costs, regulatory review and shareholder class action related costs, goodwill impairment and other assets impairment.

Downer's approach to adjustments for major transactions is disclosed in section 6.7.

In FY23, as the profit gateway for the STI was not met and no award was made, no adjustments were made to the STI. There were no adjustments made in relation to the LTI either.

Where adjustments are made in future years, these will be disclosed in the relevant remuneration report.

7.4.3 Future periods

For major transactions completed in 2023, the impact on operational performance is included in the 2024 budget and accordingly no adjustments are expected in respect of FY24 operational performance.

7.5 Variations from policy

There were no variations from policy in 2023.

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 2022 No.	Net Change No.	Balance at 30 June 2023 No.	Balance at 1 July 2022 No.	Net Change No.	Balance at 30 June 2023 No.
P J Tompkins	286,004	–	286,004	225,622	14,136	239,758
G A Fenn[1]	2,049,772	–	2,049,772	902,492	56,539	959,031
M R Ashcroft	–	–	–	–	–	–
M J Ferguson	103,973	(103,973)	–	225,622	(225,622)	–

1. G A Fenn. The balance of equity holdings at 30 June 2023 represents the balance held at the date of cessation as a KMP on 27 February 2023.

8.2 Options and rights

No performance options were granted by Downer EDI Limited or exercised during the 2023 financial year.

As outlined in section 6.5.1, the LTI plan for the 2023 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 2022 financial year.

A grant of performance rights has not been made to Mr Tompkins in respect of the 2023 financial year. It is expected that a resolution will be put to shareholders at the 2023 Annual General Meeting to make a grant to Mr Tompkins.

Consistent with the ASX Listing Rules for the adjustment of the quantity of rights and options on issue at the time of new share issues, the quantity of unlapsed rights granted to executives under the 2020 plan was adjusted by the ASX Adjustment Factor of 0.9812 in respect of the bonus element of the accelerated non-renounceable entitlement offer made during the 2021 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.

	2020 Plan			2021 Plan		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %
P J Tompkins	79,543	–	100	146,079	–	83.3
G A Fenn	318,175	–	100	584,317	–	83.3
M J Ferguson	79,543	–	100	146,079	–	100

1. Grant date 21 October 2020. Expiry date is 1 July 2023. The fair value of shares granted was $4.36 per share for the EPS and Scorecard tranches and $1.14 per share for the TSR tranche.
2. Grant date 30 September 2021. Expiry date is 1 July 2024. The fair value of shares granted was $5.73 per share for the EPS and Scorecard tranches and $3.86 per share for the TSR tranche.

	2022 Plan			2023 Plan		
	Number of performance rights[1]	Vested %	Forfeited %	Number of performance rights[2]	Vested %	Forfeited %
P J Tompkins[3]	93,679	–	–	541,837	–	–
G A Fenn	374,714	–	–	466,625	–	–
M J Ferguson[4]	93,679	–	100	–	–	–

1. Grant date 30 September 2022. Expiry date is 1 July 2025. The fair value of shares granted was $3.85 per share for the EPS and Scorecard tranches and $1.80 per share for the TSR tranche.
2. Grant date 31 May 2023. Expiry date is 1 July 2026. The fair value of shares granted was $5.73 per share for the EPS and Scorecard tranches and $3.86 per share for the TSR tranche.
3. A grant has not been made to P J Tompkins under the 2023 Plan. It is expected that a resolution will be put to shareholders at the 2023 Annual General Meeting to make a grant to Mr Tompkins.
4. A grant has not been made to M J Ferguson under the 2023 Plan as Mr Ferguson ceased employment with the Company on 30 June 2023.

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

	2024	2025	2026
P J Tompkins	24,347	93,679	541,837
G A Fenn	97,387	374,714	466,625
M J Ferguson	–	–	–

The maximum expense for performance options and rights that may vest in future years that will be recognised as share-based payments in future years is set out in the table below. The amount reported is the value of share-based payments calculated in accordance with AASB 2 *Share-based Payment* over the vesting period. In respect of the 2023 plan an estimated expense has been recognised for P J Tompkins that will be trued up following formal valuation after the grants have been made.

	2024	2025	2026
P J Tompkins	402,183	320,318	291,238
G A Fenn	755,767	–	–
M J Ferguson	–	–	–

8.3 Remuneration consultants

Guerdon Associates, Morrow Sodali and SW Corporate were engaged by the Board's People and Culture Committee to provide remuneration advice in relation to KMP, but did not provide the Board's People and Culture Committee with remuneration recommendations as defined under Division 1, Part 1.2, 9B (1) of the *Corporations Act 2001* (Cth).

The Board was satisfied that advice received was free from any undue influence by KMP to whom the advice may relate, because strict protocols were observed and complied with regarding any interaction between the advisors and management, and because all remuneration advice was provided to the Board Chairman or People and Culture Committee Chairman.

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	12 months	12 months
Other Executives	6 months	6 months	6 months

Downer can elect to either require executives to provide service during their notice period or make a payment in lieu.

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

P J Tompkins

Mr Tompkins was appointed as the Managing Director of Downer commencing on 27 February 2023. The following table sets out the key terms of the Managing Director's employment agreement.

Term	Until terminated by either party.
Fixed remuneration	$1.55 million per annum. Fixed remuneration includes superannuation and non-cash benefits.
STI opportunity	Mr Tompkins 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 Tompkins 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 Tompkins. 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 Tompkins is eligible to participate in the annual LTI plan and the value of the award is 130% of fixed remuneration. Mr Tompkins' performance requirements have been described in section 6.5. 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 Tompkins can resign: (a) By providing twelve months' written notice; or (b) By providing thirty days' written notice in circumstances where there is a fundamental change in his role or responsibilities. In these circumstances, Mr Tompkins is entitled to a payment in lieu of 12 months' notice. Downer can terminate Mr Tompkins's employment: (a) Immediately for misconduct or other circumstances justifying summary dismissal; or (b) By providing 12 months' written notice. When notice is required, Downer can make a payment in lieu of notice of all or part of any notice period (calculated based on Mr Tompkins fixed annual remuneration). If Mr Tompkins resigns he will be subject to a twelve-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 Tompkins.

G A Fenn

Mr Fenn was appointed as the Managing Director of Downer commencing on 30 July 2010 and retired as Managing Director and Chief Executive Officer on 27 February 2023. The following table sets out the key terms of Mr Fenn's employment agreement.

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 was eligible to receive an annual STI and the maximum STI opportunity is 100% of fixed remuneration. No STI was awarded in respect of FY23. Mr Fenn is not eligible to receive a STI in FY24.
LTI opportunity	Mr Fenn was 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 is not eligible to receive a LTI in FY24. Mr Fenn's performance requirements have been described in section 6.5. In the event of a change of control, providing at least 12 months of a grant's performance period have elapsed, unvested shares and performance rights pro-rated with the elapsed service period are tested for vesting with performance against the relevant hurdles for that period and vest, as appropriate. Shares that have already been tested, have met performance requirements, and are subject to the completion of the service condition, fully vest.
Termination	Mr Fenn can resign: (a) By providing six months' written notice; or (b) Immediately in circumstances where there is a fundamental change in his role or responsibilities. In these circumstances, Mr Fenn is entitled to a payment in lieu of 12 months' notice. Downer can terminate Mr Fenn's employment: (a) Immediately for misconduct or other circumstances justifying summary dismissal; or (b) By providing 12 months' written notice. When notice is required, Downer can make a payment in lieu of notice of all or part of any notice period (calculated based on Mr Fenn's fixed annual remuneration). If Mr Fenn resigns because ill health prevents him from continuing his duties, he will receive a payment in recognition of his past services equivalent to 12 months' fixed remuneration. At the discretion of the Board, his shares under the LTI plan may also vest. If Downer terminates Mr Fenn's employment on account of redundancy, in addition to the notice (or payment in lieu of notice) required to be given by Downer, Mr Fenn will receive a payment in recognition of his past services equivalent to 12 months' fixed remuneration. If Mr Fenn resigns he will be subject to a six-month post-employment restraint in certain areas where the Downer Group operates, where he is restricted from working for competitive businesses.
Other	The agreement contains provisions regarding leave entitlements, duties, confidentiality, intellectual property, moral rights and other facilitative and ancillary clauses. It also contains provisions regarding corporate governance and a provision dealing with the *Corporations Act 2001* (Cth) limits on termination benefits to be made to Mr Fenn.

Separation Arrangements	Grant Fenn stood down as Group Chief Executive and Managing Director on 27 February 2023 and by mutual agreement will cease employment with the Group on 27 February 2024. He will be paid his contractual 12 months' notice through that period. During the notice period Mr Fenn is available to assist the Board and the new Group Chief Executive as required in relation to the affairs of the Group's business. Having served as Managing Director and Chief Executive Officer for the majority of the year Mr Fenn remained available for an FY23 STI. No STI awards for the FY23 year were made as set out in section 7.3 of this report. As mentioned earlier in this report, the Board has exercised discretion in relation to the 2021 and 2022 Deferred STI Plan rights due to vest at the end of FY23. Details of the relevant awards and the discretion exercised are set out in section 7.3.3 of the report. The 584,317 rights Mr Fenn holds under the 2021 LTI grant were provisionally tested following the end of the financial year, 16.7% of the grant being provisionally qualified and remain subject to Board approval in 2024. The 374,714 rights he holds under the 2022 LTI grant and the 466,625 rights he holds under the 2023 LTI grant will be tested at the end of the 2024 and 2025 financial years respectively. The maximum amount of termination benefits that Mr Fenn may receive in connection with ceasing employment, including rights under LTI grants that vest, is limited to the maximum amount that can be provided pursuant to the Corporations Act and any benefits that might have otherwise accrued to Mr Fenn in excess of that limit will be forfeited.

10. Related Party Information

10.1 Transactions with other related parties

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

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

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

11. Description of Non-executive Director Remuneration

11.1 Non-executive Director remuneration policy

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

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

Non-executive Directors are not entitled to retirement benefits. Shareholders approved an annual aggregate cap of $2.4 million for Non-executive Director fees at the 2022 AGM, an increase from the $2.0 million cap approved 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 total fees paid in FY23 was $1.7 million (FY22: $1.4 million).

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 fee of $454,000 per annum (inclusive of all Committee fees). The other Non-executive Directors each receive a base fee of $180,000 per annum.

Additional fees are paid for Committee duties:

- $43,500 for the chairman of the Audit and Risk Committee; and $35,000 for the chairman of each of the People and Culture Committee, Tender Risk Evaluation Committee and Zero Harm Committee
- $20,000 for members of the Audit and Risk Committee; and $17,500 for the members of each of the People and Culture Committee, Tender Risk Evaluation Committee and Zero Harm Committee.

The former Chairman, Mike Harding, initiated a review of Non-Executive Director fees in advance of a Board renewal process, which included appointment of a new Chairman, to test the market competitiveness of Director fees and to ensure that Downer attract the best candidates for future appointments. The review found that base fees paid to the Chairman and Non-executive Directors remained appropriate however fees paid for chairing or serving as a member of a committee were well below market levels an inconsistent with market practice. Accordingly, as foreshadowed in the 2021 Remuneration Report, the following changes in fees were applied from 1 July 2021:

- Fees were calculated to a fixed value inclusive of superannuation, rather than a fee plus superannuation at the superannuation guarantee rate. There was no change to total base remuneration before Committee fees as a result of this change.
- Increase in the annual Chairman fees for the Zero Harm and People and Culture Committee to $27,000 from $16,425
- Increase in the annual Chairman fees for the Zero Harm Committee to $27,000 from $16,425
- Increase in the annual Chairman fees for the Tender Risk Evaluation Committee to $17,000 from $16,425
- Introduction of fees for committee members at the rate of 50% of the respective committee Chairman fee.

In 2021 Downer embarked on a Board renewal program. Under the leadership of former Chairman Mark Chellew several new Directors were appointed during 2022 and the program will continue throughout 2023. To ensure that Downer remains competitive to attract and retain suitably qualified NEDs to oversee the Company's strategic objectives and transformation, an external benchmarking review of fees paid to NEDs was undertaken in FY22.

The review was conducted through benchmarking by Guerdon Associates against 15 comparable ASX-listed companies. The review considered the size and complexity of the Company through factors of revenue, market capitalisation, total assets and number of employees. As a result of the review, the following changes were applied from 1 July 2022:

- Increase in annual fees for the role of Chairman to $454,000 from $410,625 and Non-executive Directors to $180,000 from $164,250
- Increase in the annual Chairman fees for the Audit and Risk Committee to $43,500 from $38,325 and member fees to $20,000 from $19,163.
- Increase in the annual Chairman fees for the Zero Harm and People and Culture Committees to $35,000 from $27,000 and member fees to $17,500 from $13,500.
- Increase in the annual Chairman fees for the Tender Risk Evaluation Committee to $35,000 from $17,000 and member fees to $17,500 from $8,500.

11.2 Non-executive Director minimum securityholding policy

The Board has introduced a minimum securityholding policy for non-executive directors, effective from 1 July 2023.

Under the policy, each non-executive director is required to establish and maintain a minimum security holding equal to or greater than 100 percent of their annual base fee. The requirement is to be met within four years after the latter of the date of their appointment or the commencement of the Policy.

The guideline requirement has been developed to reinforce alignment with shareholder interests.

The Board retains the right to vary from policy in exceptional circumstances.

11.3 Non-executive Directors' remuneration

The table below sets out the remuneration paid to Non-executive Directors for the 2023 and 2022 financial years.

		Short-term benefits			Post-employment benefits		
	Year	Board fee $	Committee fee $	Total fees $	Super-annuation $	Termination benefits $	Total $
M J Menhinnitt	2023	252,853	22,834	275,687	22,861	–	298,548
	2022	49,773	4,017	53,790	5,379	–	59,169
M P Chellew[1]	2023	290,465	–	290,465	18,969	–	309,434
	2022	302,736	–	302,736	18,920	–	321,656
R M Harding[1]	2023	–	–	–	–	–	–
	2022	93,324	–	93,324	9,332	–	102,656
M J Binns[1]	2023	95,023	20,765	115,788	2,694	–	118,482
	2022	53,640	2,348	55,988	1,345	–	57,333
P S Garling[1]	2023	–	–	–	–	–	–
	2022	149,318	22,500	171,818	17,182	–	189,000
T G Handicott	2023	162,896	43,175	206,071	21,637	–	227,708
	2022	149,318	41,966	191,284	19,128	–	210,412
N M Hollows	2023	162,896	71,041	233,937	24,563	–	258,500
	2022	149,318	54,841	204,159	20,416	–	224,575
A M Howse	2023	162,896	40,535	203,431	21,360	–	224,791
	2022	37,330	3,617	40,947	4,095	–	45,042
P L Watson	2023	162,896	76,587	239,483	24,945	–	264,428
	2022	149,318	57,421	206,739	20,674	–	227,413

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

11.4 Equity held by Non-executive Directors

The table below sets out the equity in Downer held by Non-executive Directors for the 2023 and 2022 financial years.

	2023			2022		
	Balance at 1 July 2022	Net change	Balance at 30 June 2023[1]	Balance at 1 July 2021	Net change	Balance at 30 June 2022
M J Menhinnitt	21,748	50,000	71,748	–	21,748	21,748
M P Chellew	18,000	–	18,000	–	18,000	18,000
M J Binns	–	–	–	–	–	–
T G Handicott	21,100	9,900	31,000	20,047	1,053	21,100
N M Hollows	25,538	15,000	40,538	15,538	10,000	25,538
A M Howse	5,000	–	5,000	–	5,000	5,000
P L Watson	17,933	–	17,933	17,933	–	17,933

1. Balance at 30 June 2023 for M P Chellew and M J Binns represents the number of shares held as at retirement date.

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.

M J Menhinnitt
Chairman

Sydney, 10 August 2023

Auditor's Independence Declaration

for the year ended 30 June 2023

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

To the Directors of Downer EDI Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Downer EDI Limited for the financial year ended 30 June 2023 there have been:

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

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

KPMG

Nigel Virgo
Partner

Sydney

10 August 2023

Independent Auditor's Report

for the year ended 30 June 2023

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 2023 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 2023
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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

Independent Auditor's Report – continued

for the year ended 30 June 2023

KPMG

Key Audit Matters

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

- Recognition of revenue
- Goodwill impairment

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

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

Recognition of revenue

Refer to Note B2 'Revenue' to the Financial Report ($11,640.4m) and Note A 'Restatement of comparative balances'

The key audit matter	How the matter was addressed in our audit
Recognition of revenue is a key audit matter due to the: • Significance of revenue to the financial statements; • Large number of contracts with numerous estimation events potentially occurring over the course of the contract's life. This results in complex and judgemental revenue recognition from rendering of services and construction contracts and therefore significant audit effort is required to gather evidence; and • Significant impact of the restatement of prior year amounts using AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, which we consider to be fundamental to users understanding of the financial report. We focused on the Group's assessment of the following elements of revenue recognition for rendering of services and construction contracts, as applicable: • The Group's assessment of the contract accounting adjustments required in its Australian Utilities business and the restatement of comparative balances due to the reassessment of the measure of progress. We increased our focus on the risk of management bias, fraud or error in	Our procedures included: • We obtained an understanding of the Group's process of accounting for rendering of services and construction contract revenues and recognition of contract assets; • We assessed the Group's accounting policy for rendering of services and construction contract revenues, including variations and claims and variable consideration, and recognition of contract assets against the requirements of the accounting standards; • 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 and to understand the variety of risk elements of the contracts; • We tested key controls such as: o Management's approval of information underlying key bids, including estimated project milestones, projected Earnings Before Interest and Tax (EBIT), Net Present Value (NPV), Return On Funds Employed (ROFE), and potential legal risks; and o Evidence of customer acceptance prior to issuing an invoice.

the measure of progress applied to contract accounting, in our identification of higher risk contracts for testing, and in challenging the Group’s significant judgements; • Estimating total expected costs to complete at initiation of the contract, including cost contingencies for contracting risks, which have a high level of estimation uncertainty; • Revisions to total expected costs for certain events or conditions occurring during the performance of the contract, or that are expected to occur to complete the contract, which are difficult to estimate; • When a modification to the contract scope and/or price for variations and claims is approved and enforceable. The Group’s consideration of the enforceability or approval may include evidence which is written, oral or implied by customary business practice and therefore requires a degree of judgement. The Group’s assessment of the enforceability of variations and claims can drive different accounting treatments, increasing the risk of inappropriately recognising revenue; and • The Group’s policy for the determination of the amount of revenue recognised from variable consideration which is highly probable of not reversing. Variable consideration is contingent on the Group’s performance and includes key performance payments, abatements offsetting revenue under the contract and liquidated damages. The Group's determination that variable consideration is highly probable requires a degree of estimation and judgement. This increased the audit effort we applied to gather evidence. We involved senior team members including our technical accounting specialists.	• Using the results from relevant design and effectiveness testing of key controls we selected a statistical sample of revenue recognised and checked to evidence of the service being performed; • We used data analytic routines to assist in selecting a sample of higher risk contracts for testing based on a number of quantitative and qualitative factors identified from our risk assessment procedures. In addition to the features from the Utilities contract adjustments matter, these factors included contracts with significant deterioration in margin, significant variations and claims or variable consideration. We also included factors which indicated to us a greater level of judgement was required by the Group based on the estimates developed for current and forecast contract performance. For the samples selected, where relevant: o we read the selected contract terms and conditions to evaluate the individual characteristics of each contract reflected in the Group’s estimate of revenue; o we assessed the estimation of total expected costs, including cost contingencies for contracting risks, by challenging the Group’s project and finance managers on their estimations. We checked key forecast cost assumptions to sources and underlying documentation such as inflation, Enterprise Bargaining Agreements for wage rates, salary costs and agreements with subcontractors; o we assessed the measure of progress chosen for each contract against the Group’s performance in delivering value to the customer. We did this by challenging the nature of the good or service that the Group has promised to transfer to the customer and assessing whether the most relevant and reliable measure of progress had been used, and challenging the Group where differences existed; o for the Utilities contract adjustments matter we challenged the Group’s investigation scope and findings. We

Independent Auditor's Report – continued

for the year ended 30 June 2023

	tested completeness through interrogating the work order management system used across the relevant time periods, and re-performing a sample of evaluations of the measure of progress; o we evaluated the Group's assessment of when a modification to the contract scope and/or price for variations and claims is approved or enforceable. This included assessing the underlying records, legal documents, customer correspondence and contracts. We recalculated the amount of revenue using the modified features of the contract. We compared the recalculated amounts against the amounts recorded; o we evaluated the Group's legal experts' reports received on contentious matters to identify conditions indicating inappropriate recognition of variations and claims. We checked the consistency of this to the inclusion or not of an amount in the estimates used for revenue recognition; and o we assessed the scope, competency and objectivity of the legal experts engaged by the Group. • We evaluated the method applied by the Group to estimate the highly probable amount of the key performance payments, liquidated damages and abatements against the specific contract terms. This included gathering underlying evidence in relation to the Group's performance against the terms of the contract. We then recalculated the amount of variable consideration. We compared the recalculated amounts to the amounts recorded by the Group as offsets to revenue; and • We assessed the Group's disclosures to our understanding obtained from our testing and the requirements of the accounting standards, including AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors for the restatement of prior year amounts.

KPMG

Goodwill impairment	
Refer to Note C7 'Intangible assets' to the Financial Report ($1,762.8m)	
The key audit matter	**How the matter was addressed in our audit**
The goodwill and associated impairment is a key audit matter due to the significant size of the balance and the impairments booked, and the audit effort arising from: • The Group having multiple groups of Cash Generating Units (CGUs) for which the impairment of goodwill was assessed using both Fair Value Less Cost of Disposal (FVLCOD) and Value in Use (VIU) models; • The Group reorganising its internal reporting structure from 1 July 2023, necessitating the performance of additional impairment modelling on the reorganised Groups of CGUs. These changes to the Group's organisational reporting structure and composition of the Group's CGUs increased our testing with a specific focus on unbiased outcomes for FY23 results; • The Group recorded an impairment charge of $350.0m against goodwill in the Social Infrastructure & Citizen Services CGU and $133.0m in the Utilities CGU, increasing the sensitivity of the Group's models to small changes in key assumptions; and • the total enterprise value of all CGUs in the Group initially exceeded its market capitalisation at year end. This increased our audit effort in this area. We focused on the following key forward looking assumptions in the Group's FVLCOD and VIU models: • Forecast cash flows including revenue growth rate and EBIT margin, with greater focus on the EBIT margin in the Utilities and Social Infrastructure & Citizen Services CGUs. The Utilities CGU has not met prior year forecast, raising our concern over the reliability of the Group's current forecasts including revenue and improvement in EBIT margin in forecast years. The Social Infrastructure & Citizen Services CGU has a challenge in achieving successful	Our procedures included: • Working with our valuation specialists, we evaluated and challenged the Group's external expert's report on the valuation of the Group's CGUs prepared using both FVLCOD and VIU methodologies on the existing and reorganised reporting structures against the requirements in the accounting standard. • We obtained an understanding of the Group's goodwill impairment assessment process and tested key controls such as the review and approval of the budget by management and the Board. • We considered the Group's determination of their CGUs based on our understanding of the operations of the Group and how independent cash inflows were generated, against the requirements of the accounting standards. • We analysed the Group's existing and reorganised reporting structure, and the Group's internal reporting to assess the Group's monitoring and management of activities, and the allocation of goodwill to Groups of CGUs. • We obtained the Group's FVLCOD and Value In Use models and checked amounts to the Board approved FY24 budget. We challenged the Group's projected cash flows by comparing the budget against our understanding of the business. We also compared the compound annual revenue growth rate in the models between FY23 and the terminal year to publicly available industry growth rates. • We assessed the accuracy of previous Group forecasting by comparing the Group's actual performance for the year to the Board approved budget for the year. This assisted to inform our evaluation of forecasts included in the FVLCOD and VIU models. We applied increased scepticism to current period forecasts in areas where previous forecasts

Independent Auditor's Report – continued

for the year ended 30 June 2023

conversion of tenders and contract renewals. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for revenue growth assumptions along with those relevant to represent a market participant; • Discount rates – these are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time; and • Long-term growth rates – certain valuations for CGUs of the Group are highly sensitive to changes in this assumption. Using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	were not achieved. • We assessed the revenue growth rate and EBIT margin assumptions used by the Group in both the FVLCOD and VIU models to external information, such as publicly available industry trends. • For the Utilities CGU, we performed a range of sensitivity analyses to identify those assumptions with higher risk of bias or inconsistency in application. This included the Group's assumption of the return in EBIT margin from the downturn in business performance in the year, the ability to secure new business and the cash flow opportunities a market participant would expect to generate. • For the Social Infrastructure & Citizen Services CGU, we performed a range of sensitivity analyses to identify those assumptions with higher risk of bias or inconsistency in application. This included the ability to secure new business opportunities and retain key contracts. • We compared cost savings included in the Group's models to the Group's Board approved restructuring plans. • Working with our valuation specialists we: o assessed the Group's external expert's analysis of the market capitalisation shortfall versus the total recoverable amount of CGUs. This included consideration of the market capitalisation range implied by recent share price trading ranges and broker target valuation ranges, to the Group's latest internal enterprise valuation model. EBITDA multiples were also assessed against comparable companies; o independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in; and o assessed the long-term growth rate for each of the CGUs against publicly available market data, such as published studies of industry trends and independent macroeconmic information, and compared this to the Group's

	assumption. • For the Social Infrastructure & Citizen Services and Utilities CGU we checked the impairment charge against the recorded amount. • We assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the valuation of goodwill, by comparing these disclosures to our understanding from our testing against the requirements of the accounting standards.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Independent Auditor's Report – continued

for the year ended 30 June 2023

KPMG

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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Downer EDI Limited for the year ended 30 June 2023, 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 34 to 59 of the Directors' report for the year ended 30 June 2023.

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

KPMG

KPMG

Nigel Virgo
Partner

Stephen Isaac
Partner

Sydney

10 August 2023

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Financial Statements
for the year ended 30 June 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2023

	Note	2023 $'m	Restated[(i)] 2022 $'m
Revenue	B2	**11,640.4**	10,972.3
Other income	B2	**88.6**	165.5
Total revenue and other income		**11,729.0**	11,137.8
Employee benefits expense	D1	**(3,640.0)**	(3,581.2)
Subcontractor costs		**(4,917.8)**	(4,430.5)
Raw materials and consumables used		**(1,458.2)**	(1,381.3)
Plant and equipment costs		**(468.6)**	(468.5)
Depreciation on leased assets	C6	**(154.9)**	(160.3)
Other depreciation and amortisation	C5,C7	**(181.3)**	(181.9)
Impairment of non-current assets	C5,C6,C7	**(539.5)**	(42.0)
Other expenses from ordinary activities		**(652.0)**	(615.3)
Total expenses		**(12,012.3)**	(10,861.0)
Share of net profit of joint ventures and associates	F1(a)	**29.8**	29.7
Earnings before interest and tax		**(253.5)**	306.5
Finance income		**7.8**	2.4
Lease finance costs		**(22.9)**	(22.0)
Other finance costs		**(72.9)**	(65.8)
Net finance costs		**(88.0)**	(85.4)
(Loss)/profit before income tax		**(341.5)**	221.1
Income tax expense	B5(a)	**(44.2)**	(80.7)
(Loss)/profit after income tax		**(385.7)**	140.4
(Loss)/profit for the year is attributable to:			
– Non-controlling interest		**–**	0.4
– Members of the parent entity		**(385.7)**	140.0
(Loss)/profit for the year		**(385.7)**	140.4
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
– Actuarial movement on net defined benefit plan obligations	D2	**2.6**	6.8
– Income tax effect of actuarial movement on defined benefit plan obligations		**(0.8)**	(2.1)
– Change in fair value of unquoted equity investments		**0.2**	0.2
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**8.5**	(16.9)
– Net gain on foreign currency forward contracts taken to equity		**0.3**	2.4
– Net (loss)/gain on cross currency and interest rate swaps taken to equity		**(6.6)**	41.1
– Income tax effect of items above		**1.9**	(13.0)
Other comprehensive income for the year (net of tax)		**6.1**	18.5
Other comprehensive income for the year is attributable to:			
– Non-controlling interest		**–**	(0.3)
– Members of the parent entity		**6.1**	18.8
Other comprehensive income for the year		**6.1**	18.5
Total comprehensive (loss)/income for the year		**(379.6)**	158.9

	Note	2023	Restated[(i)] 2022
Earnings per share (cents)			
Basic earnings per share	B4	**(59.0)**	19.6
Diluted earnings per share[(ii)]	B4	**(59.0)**	19.5

(i) June 2022 results have been restated (Refer to Note A for further details).

(ii) At 30 June 2023, the ROADS are anti-dilutive and consequently, diluted EPS remained at a loss of 59.0 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 75 to 134.

Consolidated Statement of Financial Position

as at 30 June 2023

	Note	30 June 2023 $'m	Restated(i) 30 June 2022 $'m	Restated(i) 1 July 2021 $'m
ASSETS				
Current assets				
Cash and cash equivalents	C1(c)	**889.1**	738.5	811.4
Trade receivables and contract assets	C2	**2,094.2**	1,921.2	2,105.9
Other financial assets	G3	**10.7**	28.2	62.7
Inventories	C3	**234.8**	208.9	254.2
Current tax assets		**7.2**	40.1	48.6
Prepayments and other assets		**68.9**	59.3	63.8
Assets classified as held for sale	F7	**92.2**	–	41.5
Total current assets		**3,397.1**	2,996.2	3,388.1
Non-current assets				
Trade receivables and contract assets	C2	**138.8**	121.6	109.2
Equity accounted investments	F1(a)	**159.2**	162.8	155.1
Property, plant and equipment	C5	**934.7**	924.4	994.7
Right-of-use assets	C6	**428.5**	436.2	546.5
Intangible assets	C7	**2,180.3**	2,741.4	2,782.9
Other financial assets	G3	**51.5**	32.7	7.8
Deferred tax assets	B5(b)	**3.3**	3.8	69.8
Prepayments and other assets		**20.9**	10.1	7.4
Total non-current assets		**3,917.2**	4,433.0	4,673.4
Total assets		**7,314.3**	7,429.2	8,061.5
LIABILITIES				
Current liabilities				
Trade payables and contract liabilities	C4	**2,272.4**	2,208.1	2,363.0
Borrowings	E1	**–**	–	296.2
Lease liabilities	E3	**135.2**	132.4	157.7
Other financial liabilities	G3	**15.0**	26.4	49.0
Current tax liabilities		**2.6**	5.2	7.9
Employee benefits provision	D1	**268.2**	303.5	353.6
Other provisions	C8	**66.3**	54.5	64.4
Liabilities associated with assets classified as held for sale	F7	**112.9**	–	17.2
Total current liabilities		**2,872.6**	2,730.1	3,309.0
Non-current liabilities				
Trade payables and contract liabilities	C4	**61.1**	46.5	34.2
Borrowings	E1	**1,596.4**	1,361.7	1,185.4
Lease liabilities	E3	**402.0**	411.5	505.1
Other financial liabilities	G3	**5.7**	5.0	18.3
Deferred tax liabilities	B5(b)	**36.7**	25.1	5.8
Employee benefits provision	D1	**22.7**	18.7	35.3
Other provisions	C8	**27.3**	18.8	21.6
Total non-current liabilities		**2,151.9**	1,887.3	1,805.7
Total liabilities		**5,024.5**	4,617.4	5,114.7
Net assets		**2,289.8**	2,811.8	2,946.8
EQUITY				
Issued capital	E5	**2,642.4**	2,660.2	2,802.6
Reserves	E6	**19.0**	12.1	(31.2)
(Accumulated losses)/retained earnings		**(371.6)**	139.5	170.9
Parent interests		**2,289.8**	2,811.8	2,942.3
Non-controlling interest		**–**	–	4.5
Total equity		**2,289.8**	2,811.8	2,946.8

(i) Balances have been restated (Refer to Note A for further details).

The consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 75 to 134.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2023

2023 $'m	Issued capital	Reserves	(Accumulated losses)/ retained earnings	Total
Restated balance at 30 June 2022	2,660.2	12.1	139.5	2,811.8
Loss after income tax	–	–	(385.7)	(385.7)
Other comprehensive income for the year (net of tax)	–	6.1	–	6.1
Total comprehensive income for the year	–	6.1	(385.7)	(379.6)
Share-based employee benefits income	–	(0.8)	–	(0.8)
Income tax relating to share-based transactions during the year	–	1.6	–	1.6
Group on-market share buy-back	(17.8)	–	–	(17.8)
Payment of dividends[(i)]	–	–	(125.4)	(125.4)
Balance at 30 June 2023	2,642.4	19.0	(371.6)	2,289.8

(i) Relates to the 2022 final dividend, 2023 interim dividend and $10.7 million ROADS dividends paid during the financial year.

2022 $'m	Issued capital	Reserves	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total
Balance at 1 July 2021	2,802.6	(31.2)	181.5	**2,952.9**	4.5	**2,957.4**
Prior period restatement in relation to revenue recognition[(i)]	–	–	(10.6)	**(10.6)**	–	**(10.6)**
Restated balance at 1 July 2021	2,802.6	(31.2)	170.9	**2,942.3**	4.5	**2,946.8**
Profit after income tax[(i)]	–	–	140.0	**140.0**	0.4	**140.4**
Other comprehensive income for the year (net of tax)	–	18.8	–	**18.8**	(0.3)	**18.5**
Total comprehensive income for the year	–	18.8	140.0	**158.8**	0.1	**158.9**
Vested executive incentive share transactions	0.2	(0.2)	–	**–**	–	**–**
Vested Downer Contingent Share Options[(ii)]	–	16.0	–	**16.0**	–	**16.0**
Share-based employee benefits expense	–	4.2	–	**4.2**	–	**4.2**
Income tax relating to share-based transactions during the year	–	(2.7)	–	**(2.7)**	–	**(2.7)**
Group on-market share buy-back	(142.6)	–	–	**(142.6)**	–	**(142.6)**
Disposal of business	–	7.2	–	**7.2**	(4.6)	**2.6**
Payment of dividends[(iii)]	–	–	(171.4)	**(171.4)**	–	**(171.4)**
Restated balance at 30 June 2022	2,660.2	12.1	139.5	**2,811.8**	–	**2,811.8**

(i) Balances have been restated (refer to Note A for further details).

(ii) On 24 August 2021, the Target Price Condition of Tranche 1 of the Downer Contingent Share Options (DCSO) was satisfied resulting in 2,499,264 shares exercised at $6.382 per share.

(iii) Relates to the 2021 final dividend, 2022 interim dividend and $5.9 million ROADS dividends paid during the financial year.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 75 to 134.

Consolidated Statement of Cash Flows
for the year ended 30 June 2023

	Note	2023 $'m	2022 $'m
Cash flows from operating activities			
Receipts from customers		**12,687.4**	12,416.3
Payments to suppliers and employees		**(12,333.3)**	(11,845.2)
GST proceeds on disposal of business[(i)]		**23.5**	–
Distributions from equity accounted investees	F1(a)	**33.4**	21.9
Net cash generated by operating cash flow before interest and tax		**411.0**	593.0
Interest received		**7.1**	2.2
Interest paid on lease liabilities		**(22.9)**	(22.0)
Interest and other costs of finance paid		**(70.0)**	(61.9)
Income tax paid		**(7.0)**	(15.9)
Net cash generated by operating activities	C1(a)	**318.2**	495.4
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**25.2**	99.6
Payments for property, plant and equipment		**(230.6)**	(243.3)
Payments for intangible assets		**(32.4)**	(36.5)
Payments of deferred consideration on acquisition of businesses		**–**	(0.1)
Payments for acquisition of businesses (net of cash acquired)	F5	**(0.1)**	(24.0)
Proceeds from sale of business (net of cash disposed)	F6	**160.5**	245.4
Payments for investments	G3	**(8.1)**	(7.5)
Advances (to)/from equity accounted investments		**(1.2)**	4.8
Net cash (used in)/generated by investing activities		**(86.7)**	38.4
Cash flows from financing activities			
Group on-market share buy-back	E5	**(17.8)**	(142.6)
Proceeds from borrowings		**16,118.0**	11,413.0
Repayments of borrowings		**(15,890.5)**	(11,535.6)
Payment of principal of lease liabilities	C1(b)	**(165.0)**	(163.6)
Dividends paid		**(125.4)**	(171.4)
Net cash used in financing activities		**(80.7)**	(600.2)
Net increase/(decrease) in cash and cash equivalents		**150.8**	(66.4)
Cash and cash equivalents at the beginning of the year		**738.5**	811.4
Effect of exchange rate changes		**(0.2)**	(6.5)
Cash and cash equivalents at the end of the year	C1(c)	**889.1**	738.5

(i) $23.5m GST proceeds on the disposal of the Australian Transport Project business were subsequently remitted to the Australian Taxation Office in July 2023.

The consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 75 to 134.

Notes to the consolidated financial statements

for the year ended 30 June 2023

A About this report

Statement of compliance

These financial statements represent the consolidated results of Downer EDI Limited (ABN 97 003 872 848).

The consolidated Financial Report (Financial Report) is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth). The Financial Report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Financial Report was authorised for issue by the Board of Directors on 10 August 2023.

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 measured at fair value, assets held for sale and non-current assets measured at the lower of carrying value and fair value less costs to sell and defined benefit plans measured at fair value. 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.

Certain comparative balances have been reclassified to ensure consistency with the classification in the 30 June 2022 Financial Report.

The accounting policies used in the preparation of the Financial Report are consistent with those adopted and disclosed in Downer's Annual Report for the financial year ended 30 June 2022, except in relation to the relevant new and amended accounting standards adopted by the Group and their effects on the current period or prior periods as described in Note G1.

Accounting estimates and judgements

The preparation of the Financial Report requires management to make judgements, estimates and assumptions about future events which may differ from the actual results while also needing to exercise judgement in applying the Group's accounting policies.

The following table provides an overview of the areas that involved a higher degree of judgement or complexity. Detailed information about each of these judgements are included in the following notes:

Accounting judgements	Note	Page
Revenue recognition	B2	84
Income taxes	B5	88
Useful lives of right-of-use assets	C6	97
Impairment of assets	C7	99
Other provisions	C8	104
Employee benefits obligations	D1	106
Lease liabilities	E3	111

Information about assumptions and estimation uncertainty at the reporting date that has a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year are included in the following notes:

Accounting estimates	Note	Page
Revenue recognition	B2	84
Recognition of deferred tax assets	B5	88
Credit risk	C2	94
Useful lives	C5 to C7	95, 97, 99
Recoverable value of right-of-use assets	C6	97
Impairment of assets	C7	99
Other provisions	C8	104
Employee benefits obligations	D1	106
Lease liabilities	E3	111

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 date as control of the subsidiary ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

(ii) Foreign currency

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

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

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

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

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

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

(iii) Finance and borrowing costs

Finance costs comprise interest expense on borrowings, unwind of discounts on provisions, 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.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

Restatement of comparative balances

Downer has identified certain accounting adjustments in its Australian Utilities business involving historical misreporting of revenue and contract assets in one of Downer's maintenance contracts. As a consequence, the Group identified accounting adjustments to prior periods in relation to the measure of progress. The adjustments have been corrected by restating each of the affected financial statement line items of the corresponding prior periods.

The following tables summarises the impacts on the Group's Consolidated financial statements.

i. Impact on Consolidated Statement of Financial Position

	Note	30-Jun-22 Reported $'m	Adjustment $'m	30-Jun-22 Restated $'m	1-Jul-21 Reported $'m	Adjustment $'m	1-Jul-21 Restated $'m
Trade receivables and contract assets (Current)	C2	1,953.0	(31.8)	1,921.2	2,121.0	(15.1)	2,105.9
Deferred tax assets	B5(b)	3.8	–	3.8	65.3	4.5	69.8
Other assets		5,504.2	–	5,504.2	5,885.8	–	5,885.8
Total assets		**7,461.0**	**(31.8)**	**7,429.2**	**8,072.1**	**(10.6)**	**8,061.5**
Deferred tax liabilities	B5(b)	34.7	(9.6)	25.1	5.8	–	5.8
Other liabilities		4,592.3	–	4,592.3	5,108.9	–	5,108.9
Total liabilities		**4,627.0**	**(9.6)**	**4,617.4**	**5,114.7**	**–**	**5,114.7**
Net assets		**2,834.0**	**(22.2)**	**2,811.8**	**2,957.4**	**(10.6)**	**2,946.8**
Retained earnings		161.7	(22.2)	139.5	181.5	(10.6)	170.9
Other equity		2,672.3	–	2,672.3	2,775.9	–	2,775.9
Total equity		**2,834.0**	**(22.2)**	**2,811.8**	**2,957.4**	**(10.6)**	**2,946.8**

ii. Impact on Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	30-Jun-22 Reported $'m	Adjustment $'m	30-Jun-22 Restated $'m
Revenue		10,989.0	(16.7)	10,972.3
Other income		165.5	–	165.5
Total revenue and other income	B2	**11,154.5**	**(16.7)**	**11,137.8**
Total expenses		**(10,861.0)**	**–**	**(10,861.0)**
Share of net profit of joint ventures and associates		29.7	–	29.7
Earnings before interest and tax		**323.2**	**(16.7)**	**306.5**
Net finance cost		(85.4)	–	(85.4)
Profit before income tax		**237.8**	**(16.7)**	**221.1**
Income tax expense	B5(a)	(85.8)	5.1	(80.7)
Profit after income tax		**152.0**	**(11.6)**	**140.4**
Other comprehensive income for the year		18.5	–	18.5
Total comprehensive income for the year		**170.5**	**(11.6)**	**158.9**

iii. Impact on total earnings per share

	Note	30-Jun-22 Reported	Adjustment	30-Jun-22 Restated
Basic earnings per share (cents)	B4	21.3	(1.7)	19.6
Diluted earnings per share (cents)	B4	21.2	(1.7)	19.5

There is no impact on the total operating, investing or financing cash flows.

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, the sources of the Group's major risks that could therefore have the greatest effect on the rates of return and their quantitative contribution to the Group's results. The Power Systems business unit transitioned to the Utilities Division to consolidate Utilities work under a single division creating synergies and further opportunities in the Power, Water and Renewables sectors. Consequently, Power Systems now forms part of the Utilities segment (previously reported as part of the Transport segment).

Following the restructure of the Group and the creation of a Trans-Tasman operating model, the Hawkins building business has transitioned from the Facilities segment to the Transport segment. This restatement has been made to align with how the businesses are reported internally to the Group CEO.

As a result, prior year comparative segment information has been restated.

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

Segment	Segment description
Transport	Comprises the Group's road services, transport infrastructure and rail businesses. Downer's road and transport infrastructure services include: road network management; routine road maintenance; asset management systems; spray sealing; asphalt laying; manufacture and supply of bitumen-based products and asphalt products; the use of recycled products and environmentally sustainable methods to produce asphalt; landfill diversion solutions; intelligent transport systems; design and construction of light rail and heavy rail networks; signalling; track and station works; rail safety technology; and bridges. The Rail business spans all light rail and heavy rail sectors, from rollingstock to infrastructure; from design and manufacture to through-life-support including fleet maintenance, operations and comprehensive overhaul of assets. Transport also provides building and construction solutions across a variety of sectors in New Zealand.
Utilities	Comprises the Group's power, gas, water and telecommunications businesses. This includes: planning, designing, constructing, operating, maintaining, managing and decommissioning power and gas network assets; providing complete water lifecycle solutions for municipal and industrial water users including water and wastewater treatment, network construction and rehabilitation; and end-to-end technology and communications solutions including design, civil construction, network construction, operations and maintenance across fibre, copper and radio networks.

Segment	Segment description
Facilities	Facilities provides outsourced facility services to customers across a diverse range of industry sectors including: defence; education; government; healthcare; resources; leisure; assets services and hospitality. Facilities provides technical and engineering services; maintenance and asset management services including shutdowns, turnaround and outage delivery; operations maintenance, refrigeration solutions and ongoing management of strategic assets across a range of sectors. It also provides feasibility studies; engineering design; procurement and construction; commissioning and decommissioning services; and design and manufacture of mineral process equipment.
All other segments	Prior year comprises of the Group's Mining operating segment. The Mining divestment was completed with Otraco and Open Cut Mining East disposed of during the financial year ended 30 June 2022.

2023 $'m	Transport	Utilities	Facilities	All other segments	Unallocated	Total
Segment revenue and other income	**6,050.1**	**2,258.2**	**3,413.0**	**–**	**7.7**	**11,729.0**
Share of sales revenue from joint ventures and associates[(i)]	**802.4**	**–**	**–**	**–**	**88.3**	**890.7**
Total revenue including joint ventures and other income[(i)]	**6,852.5**	**2,258.2**	**3,413.0**	**–**	**96.0**	**12,619.7**
Share of net profit from joint ventures and associates	**29.4**	**–**	**–**	**–**	**0.4**	**29.8**
Depreciation and amortisation	**217.4**	**30.7**	**41.6**	**–**	**46.5**	**336.2**
Total reported segment results – EBIT before amortisation of acquired intangibles (EBITA)	**288.9**	**(10.3)**	**162.1**	**–**	**(668.0)**	**(227.3)**
Amortisation of acquired intangibles	**(4.5)**	**(0.3)**	**(5.0)**	**–**	**(16.4)**	**(26.2)**
Earnings before interest and tax (EBIT)	**284.4**	**(10.6)**	**157.1**	**–**	**(684.4)**	**(253.5)**
Net finance costs						**(88.0)**
Total loss before income tax						**(341.5)**
Acquisition of segment assets	**205.7**	**13.6**	**17.9**	**–**	**32.5**	**269.7**
Segment assets	**3,518.5**	**1,179.9**	**2,019.1**	**–**	**596.8**	**7,314.3**
Segment liabilities	**1,680.5**	**575.1**	**792.1**	**–**	**1,976.8**	**5,024.5**
Carrying value of equity accounted investees	**130.4**	**–**	**–**	**–**	**28.8**	**159.2**

2022 Restated[(ii)] $'m	Transport	Utilities	Facilities	All other segments	Unallocated	Total
Segment revenue and other income	5,448.9	2,030.3	3,393.0	248.2	17.4	11,137.8
Share of sales revenue from joint ventures and associates[(i)]	762.1	–	1.6	–	68.9	832.6
Total revenue including joint ventures and other income[(i)]	6,211.0	2,030.3	3,394.6	248.2	86.3	11,970.4
Share of net profit from joint ventures and associates	34.6	–	0.1	–	(5.0)	29.7
Depreciation and amortisation	190.3	28.2	51.5	19.7	52.5	342.2
Total reported segment results – EBIT before amortisation of acquired intangibles (EBITA)	269.4	59.9	145.6	8.1	(141.7)	341.3
Amortisation of acquired intangibles	(5.1)	(0.3)	(5.0)	–	(24.4)	(34.8)
Earnings before interest and tax (EBIT)	264.3	59.6	140.6	8.1	(166.1)	306.5
Net finance costs						(85.4)
Total profit before income tax						221.1
Acquisition of segment assets	249.8	8.3	12.2	7.6	32.5	310.4
Segment assets	3,305.4	978.0	2,552.6	5.5	587.7	7,429.2
Segment liabilities	1,471.7	529.8	862.9	12.8	1,740.2	4,617.4
Carrying value of equity accounted investees	134.4	–	–	–	28.4	162.8

(i) This is a non-statutory disclosure as it relates to Downer's share of revenue from equity accounted joint ventures and associates.
(ii) Restated to reflect the changes in operating segments described above and to include the accounting adjustment as described in Note A.

B1. Segment information – continued

Reconciliation of segment EBIT to net profit after tax:

	Note	Segment results 2023 $'m	Segment results Restated[i] 2022 $'m
Segment EBIT		**430.9**	472.6
Unallocated:			
Fair value movement on DCSO liability	B3	**10.0**	3.7
Divestments and exit costs	B3	**20.8**	(75.8)
Portfolio restructure costs	B3	**(25.4)**	(7.6)
Regulatory reviews and shareholder class action related costs	B3	**(6.5)**	–
Impairment and other assets write-downs	B3	**(549.6)**	–
Probuild credit loss	B3	**–**	(34.6)
Bid costs	B3	**–**	(12.7)
Gain on sale of property, plant and equipment	B3	**–**	85.8
Amortisation of Spotless and Tenix acquired intangible assets		**(16.4)**	(24.4)
Corporate costs		**(117.3)**	(100.5)
Total unallocated		**(684.4)**	(166.1)
Earnings before interest and tax		**(253.5)**	306.5
Net finance costs		**(88.0)**	(85.4)
(Loss)/profit before income tax		**(341.5)**	221.1
Income tax expense	B5(a)	**(44.2)**	(80.7)
(Loss)/profit after income tax		**(385.7)**	140.4

(i) June 2022 results have been restated (refer to Note A for further details).

Segment assets by geographical location

	Segment assets Non-current[ii]		Acquisition of segment assets Non-current	
	2023 $'m	2022 $'m	2023 $'m	2022 $'m
Geographical location[i]				
Australia	**3,147.4**	3,747.2	**197.7**	255.6
New Zealand and Pacific	**566.9**	521.8	**71.5**	54.3
Rest of the world	**0.9**	0.5	**0.5**	0.5
Total	**3,715.2**	4,269.5	**269.7**	310.4

(i) Assets are allocated based on the geographical location of the legal entity.

(ii) Total of non-current assets other than deferred tax assets, financial instruments, post-employment benefit assets and trade and other receivables.

B2. Revenue

Revenue and other income

2023 $'m	Transport	Utilities	Facilities	All other segments	Unallocated	Total
Rendering of services	**3,240.6**	**1,892.4**	**3,383.5**	**–**	**–**	**8,516.5**
Construction contracts	**2,456.9**	**358.1**	**–**	**–**	**–**	**2,815.0**
Sale of goods	**268.6**	**6.8**	**28.6**	**–**	**–**	**304.0**
Total revenue from contracts with customers	**5,966.1**	**2,257.3**	**3,412.1**	**–**	**–**	**11,635.5**
Other revenue	**7.2**	**0.1**	**–**	**–**	**(2.4)**	**4.9**
Total revenue	**5,973.3**	**2,257.4**	**3,412.1**	**–**	**(2.4)**	**11,640.4**
Government grants(i)	**0.5**	**0.4**	**0.1**	**–**	**–**	**1.0**
Insurance recoveries	**13.1**	**–**	**–**	**–**	**0.1**	**13.2**
Gain on sale of property, plant and equipment	**19.2**	**0.3**	**0.7**	**–**	**–**	**20.2**
Gain on disposal of business	**44.4**	**–**	**–**	**–**	**–**	**44.4**
Other	**(0.4)**	**0.1**	**0.1**	**–**	**10.0**	**9.8**
Other income	**76.8**	**0.8**	**0.9**	**–**	**10.1**	**88.6**
Total revenue and other income	**6,050.1**	**2,258.2**	**3,413.0**	**–**	**7.7**	**11,729.0**
Share of sales revenue from joint ventures and associates(ii)	**802.4**	**–**	**–**	**–**	**88.3**	**890.7**
Total revenue including joint ventures and other income(ii)	**6,852.5**	**2,258.2**	**3,413.0**	**–**	**96.0**	**12,619.7**

2022 Restated(iv) $'m	Transport	Utilities	Facilities	All other segments	Unallocated	Total
Rendering of services	2,797.9	1,708.6	3,367.5	241.9	–	8,115.9
Construction contracts	2,286.3	309.5	–	–	–	2,595.8
Sale of goods	213.5	4.0	19.1	0.7	–	237.3
Total revenue from contracts with customers	5,297.7	2,022.1	3,386.6	242.6	–	10,949.0
Other revenue	6.7	0.7	0.7	6.2	9.0	23.3
Total revenue	5,304.4	2,022.8	3,387.3	248.8	9.0	10,972.3
Government grants(iii)	9.9	6.0	2.3	–	–	18.2
Insurance recoveries	9.6	–	–	–	3.3	12.9
Gain/(loss) on sale of property, plant and equipment	120.0	1.1	0.3	(0.5)	1.2	122.1
Other	5.0	0.4	3.1	(0.1)	3.9	12.3
Other income	144.5	7.5	5.7	(0.6)	8.4	165.5
Total revenue and other income	5,448.9	2,030.3	3,393.0	248.2	17.4	11,137.8
Share of sales revenue from joint ventures and associates(ii)	762.1	–	1.6	–	68.9	832.6
Total revenue including joint ventures and other income(ii)	6,211.0	2,030.3	3,394.6	248.2	86.3	11,970.4

(i) Government grants represents incentives received under the New Zealand Government's COVID leave support scheme available to eligible businesses impacted by the COVID-19 pandemic, as well as in relation to the New Zealand Government's apprentice boost scheme.

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

(iii) Government grants represents incentives received under the New Zealand Government's wage subsidy scheme, COVID leave support scheme available to eligible businesses impacted by the COVID-19 pandemic as well as in relation to the New Zealand Government's apprentice boost scheme.

(iv) Revenue disclosures have been restated to reflect the changes in operating segments described in Note B1 and to include the accounting adjustment as described in Note A.

B2. Revenue – continued

Revenue from contracts with customers by geographical location

2023 $'m	Transport	Utilities	Facilities	All other segments	Unallocated	Total
Geographical location(i)						
Australia	**3,590.5**	**1,732.9**	**3,031.2**	**–**	**–**	**8,354.6**
New Zealand and Pacific	**2,375.6**	**524.4**	**342.8**	**–**	**–**	**3,242.8**
Rest of the world	**–**	**–**	**38.1**	**–**	**–**	**38.1**
Total revenue from contracts with customers	**5,966.1**	**2,257.3**	**3,412.1**	**–**	**–**	**11,635.5**

2022 Restated(ii) $'m	Transport	Utilities	Facilities	All other segments	Unallocated	Total
Geographical location(i)						
Australia	3,297.1	1,524.8	3,065.3	229.0	–	8,116.2
New Zealand and Pacific	2,000.6	497.3	295.0	–	–	2,792.9
Rest of the world	–	–	26.3	13.6	–	39.9
Total revenue from contracts with customers	5,297.7	2,022.1	3,386.6	242.6	–	10,949.0

(i) Revenue is allocated based on the geographical location of the legal entity.
(ii) Revenue disclosures have been restated to reflect the changes in operating segments described in Note B1 and to include the accounting adjustment as described in Note A.

Recognition and measurement

Revenue

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

(i) Rendering of services

The Group primarily generates service revenue from the following activities:

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

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

(ii) Construction contracts

The contractual terms and the way in which the Group operates its construction contracts are predominantly derived from projects containing one performance obligation. Under these performance obligations, performance creates or enhances an asset that the customer controls as the asset is created, or performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Therefore, revenue is recognised over time based on stage of completion of the contract.

(iii) Sale of goods

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

(iv) Other revenue

Other revenue primarily includes rental income.

(v) Other income

Other income primarily includes insurance recoveries, government grants, gains on sale of property, plant and equipment, and gain on disposal of business.

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

Government grants relate to income received under the New Zealand Government's COVID leave support scheme available to eligible businesses that were adversely impacted by the COVID-19 pandemic as well as in relation to the New Zealand Government's apprentice boost scheme, while the prior year government grants additionally includes the New Zealand Government's Wage Subsidy Scheme. The Group elects to present these subsidies in 'Other income' as allowed under AASB 120 *Accounting for Government grants and disclosure of Government assistance.*

The gain on sale of property, plant and equipment in the prior year primarily relates to the compulsory acquisition of Downer's land at Rosehill.

Gain on disposal of business relates to the divestment of Transport Projects. For more details see Note B3.

Contract modifications

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

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

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

Contract costs (tender costs)

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

Performance obligations and contract duration

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

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

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

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

Measure of progress

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

As a practical expedient where the Group has a right to invoice the customer at an amount that corresponds directly with its performance to date, then the Group recognises revenue at that amount.

Remaining performance obligations

As of 30 June 2023, the aggregate amount of the transaction price allocated to the remaining performance obligations is $19,458.2 million (2022: $15,973.1 million). The Group will recognise this revenue when the performance obligations are satisfied. Approximately ~45% of remaining performance obligations are expected to occur within the next five years; with the remaining ~55% related to long-term service/maintenance contracts ranging up to 39 years.

The remaining performance obligations balances for both 30 June 2023 and 30 June 2022 presented above relate to the revenue expected to be recognised from ongoing contracts with an expected duration of more than 12 months.

During the current financial year revenue of $2,682.9 million has been recognised in relation to performance obligations satisfied or partially satisfied in previous periods.

Variable consideration

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

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

Loss-making contracts

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

In making this assessment, the Group considers the performance of a contract cumulatively life to date, in the most recent reporting period, and updates the final forecast at completion.

In circumstances where contracts have incurred losses, either cumulatively life to date or in the reporting period, and the final forecast margin anticipates improvements in contract performance to deliver an overall profitable outcome on the contract, detailed reviews are completed to assess the basis and reasonableness of the expected turnaround. In these circumstances an onerous contract is not recognised.

B2. Revenue – continued

Key estimate and judgement: Revenue recognition

Measure of Progress

Management uses judgement in selecting an appropriate measure of progress towards completing satisfaction of an obligation. The selected method considers the nature of the good or service that the Group has promised to transfer to the customer.

Stage of completion

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

Modifications

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

Variable consideration

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

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

B3. Individually significant items

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

2023 $'m	Fair value movement on DCSO liability	Divest-ments and exit costs	Portfolio restructure costs	Regulatory reviews and shareholder class action related costs	Impairment and other assets write-downs	Total
Other income	(10.0)	–	–	–	–	(10.0)
Gain on disposal of business	–	(44.4)	–	–	–	(44.4)
Impairment of non-current assets	–	0.7	-	–	538.8	539.5
Employee benefits expense	–	10.4	9.7	–	–	20.1
Raw materials and consumables used	–	–	–	–	5.0	5.0
Other expenses from ordinary activities	–	12.5	15.7	6.5	5.8	40.5
Loss/(profit) before interest and tax	(10.0)	(20.8)	25.4	6.5	549.6	550.7
Income tax expense/(benefit)	–	18.6	(7.6)	(1.9)	(18.3)	(9.2)
Loss/(profit) after income tax	(10.0)	(2.2)	17.8	4.6	531.3	541.5

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

As part of the consideration to acquire the shares in Spotless that it did not already own, in 2020 the Group granted three tranches of 2.5 million share options to the previous minority interest shareholders which are exercisable within four years of issue on achievement of three prescribed share price targets (the Downer Contingent Share Options or DCSO). The fair value at issue date of these options was recognised as a liability arising on the acquisition of the shares. The DCSO are classified as a liability, with subsequent changes in the fair value recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Since 30 June 2022, the fair value of the DCSO has decreased by $10.0 million, which has been recognised through 'Other income' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the year. This income is driven by the decrease in Downer's share price from $5.05 at 30 June 2022 to $4.11 at 30 June 2023.

Divestments and exit costs

During the year, divestment and exit costs were recognised in relation to Australian Transport Projects – On 20 June 2023, Downer completed the sale of its Australian Transport Projects business to DT Infrastructure Pty Ltd, a Gamuda Berhad group company (Gamuda). There remains a number of customer consents outstanding at the date of completion, some of which remain outstanding as at the date of this report. These contracts will remain with Downer until the consents are received.

In addition to transaction related costs incurred during the period, assets previously utilised by the business which will no longer be required by the Group have been written off. The material elements of divestment and exit costs include:

- $44.4 million pre-tax gain (including disposal costs) from the disposal of the Australian Transport Project business. Refer to Note F6.
- $23.6 million pre-tax exit costs, relating to impairments of IT infrastructure and applications, transaction-related employee benefit expenses, costs provision for defect liability periods and other exit costs.
- A net income tax expense of $18.6 million mainly arising on the gain on divestments and includes the tax impact of non-deductible goodwill disposed.

Portfolio restructure costs

Represents restructuring costs incurred during the year following Downer's commencement of the Transformation program to restructure its operating model and includes restructuring expenses, redundancy and costs associated with establishing and running the Transformation program.

Regulatory reviews and shareholder class action related costs

Regulatory review and shareholder class action related costs of $6.5 million were incurred in relation to:

- Responding to regulatory reviews by certain regulatory authorities;
- The review of the Australian Utilities maintenance contract; and
- Defending the shareholder class actions filed against Downer during the financial year. These claims have been disclosed as a contingent liability. Refer to Note C9.

Impairment and other assets write-downs

Following the identification of possible impairment indicators, the Group undertook an assessment of the carrying value of the Utilities Australia and Facilities Group of CGUs. As a result of this assessment, a goodwill impairment of $483.0 million ($133.0 million related to Utilities Australia and $350.0 million related to Facilities) was recognised as at 30 June 2023. Refer to Note C7 for further details.

Impairment of assets by $66.6 million (pre-tax) relates to adjustment in the carrying value of:

- Carrying value of fixed assets and inventory in the Rail business;
- Shut down, relocation and consolidation of asphalt plants in Australia;
- IT and other assets that will no longer be utilised or provide future economic benefit as a result of business restructuring, divestments and transformation; and
- Office space being surplus to requirements and vacated as a result of business restructuring, divestments and transformation.

Prior Year

The Group recognised the following items as individually significant items as at 30 June 2022:

2022 $'m	Fair value movement on DCSO liability	Divest–ments and exit costs	Portfolio restructure costs	Probuild credit loss	Bid costs	Gain on sale of PP&E	Total
Revenue and other income	(3.7)	–	–	–	(4.0)	(104.8)	(112.5)
Loss on disposal of businesses	–	17.3	–	–	–	–	17.3
Impairment of non-current assets	–	38.8	–	–	–	–	38.8
Employee benefits expense	–	6.8	7.6	–	4.3	–	18.7
Subcontractors costs	–	–	–	–	12.2	–	12.2
Other expenses from ordinary activities	–	12.9	–	34.6	0.2	19.0	66.7
Loss/(profit) before interest and tax	(3.7)	75.8	7.6	34.6	12.7	(85.8)	41.2
Income tax expense	–	(5.0)	(2.3)	(6.9)	(3.8)	25.7	7.7
Loss/(profit) after income tax	(3.7)	70.8	5.3	27.7	8.9	(60.1)	48.9

B3. Individually significant items – continued

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

Since 30 June 2021, and primarily driven by the movement in Downer's share price from $5.59 at 30 June 2021 to $5.05 at 30 June 2022, the fair value of the DCSO decreased by $3.7 million, which has been recognised in 'Other income' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the year.

Divestments and exit costs

The divestment program was completed following the disposal of Otraco on 1 December 2021, the sale of Open Cut Mining East (OCE) on 17 December 2021, and the exit from a number of Hospitality contracts. Assets previously utilised by those businesses which will no longer be utilised by the Group have been written off. The material elements of divestment and exit costs include:

- $17.3 million net pre-tax loss (including disposal costs) from the disposal of Otraco and OCE. Refer to Note F6.
- $58.5 million pre-tax exit costs, relating to impairments of IT infrastructure and applications ($25.5 million); impairment of right-of-use assets and leasehold improvements for leased properties ($13.3 million); and inventory write-offs and other exit costs totalling $19.7 million.
- A net income tax benefit of $5.0 million arising on divestment and exit costs. This is comprised of an income tax benefit of $22.6 million on divestment costs offset in part by income tax expense of $17.6 million on derecognition of deferred tax balances in the AE Smith Construction tax-consolidated group due to a change in strategic direction of these companies.

Portfolio restructure costs

As a result of the divestment program, Downer has reduced management overhead with restructuring costs of $7.6 million expensed.

Probuild credit loss

In November 2018, the Group entered into contracts with Probuild Constructions (Australia) Pty Ltd (Probuild) as a subcontractor for the provision of mechanical and electrical services for the new Victoria Police building in Melbourne. On 23 February 2022 Probuild entered into voluntary administration and appointed an Administrator. The Practical Completion of services was achieved on 9 July 2020.

Outstanding claims which are unpaid by Probuild, of approximately $29.4 million, had previously been recognised as a contract asset by the Group. Recovery became subject to risk due to the administration. The total expense recognised in the prior year of $34.6 million includes the impairment of this contract asset, trade receivables balances as well as legal costs incurred.

The net income tax benefit arising on the Probuild credit loss is $6.9 million. No income tax benefit has been recognised on unrecoverable Probuild costs in the AE Smith Construction tax-consolidated group as a consequence of the change in strategic direction of these companies.

Bid costs

In the process of tendering for the State of Queensland Train Manufacturing Program, Downer incurred a net of $12.7 million in bid costs.

Gain on sale of Property, Plant and Equipment

Downer received notice from Sydney Metro of its intention to compulsorily acquire Downer's land at 1A Unwin Street, Rosehill for the purposes of the Sydney Metro West project.

The site was used to operate Downer's primary Asphalt and recycling operations in Sydney.

Sydney Metro and Downer reached agreement under the Land Acquisition (Just Terms Compensation) Act on the compensation payable to Downer for the acquisition.

The transaction has resulted in Sydney Metro reimbursing Downer, on a like-for-like basis, for the actual costs incurred on the construction and commissioning of a replacement facility.

Downer completed the construction of a replacement facility, also in Rosehill, without any disruptions to its operations.

The difference between the historical written-down book value of the existing facility, the reimbursement of costs for the replacement facility and relocation costs has been recognised as a $60.1 million after-tax gain for the year ended 30 June 2022.

B4. Earnings per share

Basic earnings per share

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

	2023	Restated[(i)] 2022
(Loss)/profit attributable to members of the parent entity ($'m)	**(385.7)**	140.0
Adjustment to reflect ROADS dividends paid ($'m)	**(10.7)**	(5.9)
(Loss)/profit attributable to members of the parent entity used in calculating basic EPS ($'m)	**(396.4)**	134.1
Weighted average number of ordinary shares (WANOS) on issue (m's)[(ii)]	**671.5**	684.2
Basic earnings per share (cents)	**(59.0)**	19.6

Diluted earnings per share

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

	2023	Restated[(i)] 2022
(Loss)/profit attributable to members of the parent entity used in calculating basic EPS ($'m)	**(385.7)**	140.0
Weighted average number of ordinary shares		
– Weighted average number of ordinary shares (WANOS) on issue (m's)[(ii)]	**671.5**	684.2
– WANOS adjustment to reflect potential dilution for ROADS (m's)[(iii)]	**44.3**	32.2
WANOS used in the calculation of diluted EPS (m's)	**715.8**	716.4
Diluted earnings per share (cents)[(iv)]	**(59.0)**	19.5

(i) June 2022 results have been restated (refer to Note A for further details).
(ii) The WANOS on issue has been adjusted by the weighted average effect of on-market share buy-back and the unvested executive incentive shares.
(iii) The WANOS adjustment is the value of ROADS that could potentially be converted into ordinary shares at the reporting date. It is calculated based on the issued value of ROADS in New Zealand dollars converted to Australian dollars at the spot rate prevailing at the reporting date, which was $183.8 million (2022: $180.4 million), divided by the average market price of the Company's ordinary shares for the period 1 July 2022 to 30 June 2023 discounted by 2.5% according to the ROADS contract terms, which was $4.15 (2022: $5.60).
(iv) At 30 June 2023 the ROADS were deemed anti-dilutive and consequently, diluted EPS remained at a loss of 59.0 cents per share.

B5. Taxation

(a) Reconciliation of income tax expense

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

	2023 $'m	Restated[(i)] 2022 $'m
(Loss)/Profit before income tax[(i)]	**(341.5)**	221.1
Tax using the Company's statutory tax rate[(i)]	**(102.5)**	66.2
Effect of tax rates in foreign jurisdictions	**(0.9)**	(1.8)
Non-deductible expenses	**0.7**	4.1
Profits and franked distributions from joint ventures and associates	**(7.3)**	(6.8)
Non-assessable income	**(3.0)**	(3.9)
Impairment of goodwill	**144.9**	-
Tax effect of divestments	**14.0**	-
Tax effect of previously unrecognised capital losses	**(2.3)**	(2.6)
(Benefit)/expense of unrecognised temporary differences	**(0.5)**	17.6
Other items	**3.3**	3.7
(Over)/under provision of income tax in previous year	**(2.2)**	4.2
Total income tax expense	**44.2**	80.7
Current tax expense	**35.9**	23.9
Deferred tax expense	**8.3**	56.8

(i) June 2022 results have been restated (refer to Note A for further details).

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

B5. Taxation – continued

(a) Reconciliation of income tax expense – continued

Recognition and measurement

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, unused tax and capital 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:

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

An estimated capital loss of $101.0 million is expected to arise on an asset held for sale for which a deferred tax asset has not been recognised as it is not probable that a future capital gain will arise.

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

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

Offsetting deferred tax balances

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

Tax consolidation

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

Key estimates and judgements:

Recognition of deferred tax assets

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

Income taxes

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

(b) Movement in deferred tax balances

2023 $'m	At 30 June 2022 (Restated)[i]	Recognised in profit or loss	Recognised in other comprehensive income and equity	Net foreign currency exchange differences	Acquisition and disposal	Assets held for sale	Net balance at 30 June 2023	Deferred tax assets	Deferred tax liabilities
Trade receivables and contract assets	(122.3)	(11.8)	–	(0.4)	–	–	(134.5)	–	(134.5)
Property, plant and equipment, Right-of-use assets and Lease liabilities	(28.9)	27.4	0.1	0.2	–	0.2	(1.0)	–	(1.0)
Intangible assets	(76.0)	8.2	–	(0.1)	–	–	(67.9)	–	(67.9)
Tax losses and other attributes	50.4	(36.8)	–	–	–	–	13.6	13.6	–
Trade payables and contract liabilities	13.4	5.7	–	(0.2)	–	(1.1)	17.8	17.8	–
Employee benefits and other provisions	150.8	(12.8)	(0.8)	0.3	(3.5)	(1.9)	132.1	132.1	–
Other	(8.7)	11.8	3.4	–	–	–	6.5	6.5	–
Net deferred tax assets/(liabilities)	**(21.3)**	**(8.3)**	**2.7**	**(0.2)**	**(3.5)**	**(2.8)**	**(33.4)**	**170.0**	**(203.4)**
Set-off of DTA against DTL								(166.7)	166.7
Net tax assets/(liabilities)							**(33.4)**	**3.3**	**(36.7)**

2022 $'m	At 30 June 2021	Adjustment in respect of prior years[i]	At 1 July 2021 (Restated)[i]	Recognised in profit or loss	Recognised in other comprehensive income and equity	Net foreign currency exchange differences	Acquisition and disposal	Net balance at 30 June 2022 (Restated)[i]	Deferred tax assets	Deferred tax liabilities
Trade receivables and contract assets	(129.5)	4.5	(125.0)	2.0	–	0.6	0.1	(122.3)	–	(122.3)
Property, plant and equipment, Right-of-use assets and Lease liabilities	(36.5)	–	(36.5)	8.0	–	(0.3)	(0.1)	(28.9)	–	(28.9)
Intangible assets	(83.9)	–	(83.9)	7.8	–	0.1	–	(76.0)	–	(76.0)
Tax losses and other attributes	87.5	–	87.5	(37.1)	–	–	–	50.4	50.4	–
Trade payables and contract liabilities	15.1	–	15.1	(1.9)	–	0.2	–	13.4	13.4	–
Employee benefits and other provisions	182.1	–	182.1	(16.4)	(4.1)	(0.5)	(10.3)	150.8	150.8	–
Other	24.7	–	24.7	(19.2)	(14.3)	–	0.1	(8.7)	–	(8.7)
Net deferred tax assets/(liabilities)	59.5	4.5	64.0	(56.8)	(18.4)	0.1	(10.2)	(21.3)	214.6	(235.9)
Set-off of DTA against DTL									(210.8)	210.8
Net tax assets/(liabilities)								(21.3)	3.8	(25.1)

(i) Balances have been restated (refer to Note A for further details).

B6. Remuneration of auditor

	2023 $	2022 $
Audit and review of financial statements	**5,218,698**	4,938,095
Assurance services:		
Regulatory assurance services	**65,500**	20,000
Other assurance services	**253,702**	445,278
Total assurance services	**319,202**	465,278
Other services:		
Tax services	**24,150**	248,596
Advisory services	**16,694**	96,679
Total other services	**40,844**	345,275

The auditor of the Group is KPMG.

B7. Subsequent events

As communicated at Downer's Investor Day in April, a review of Downer's Australian Mechanical and Electrical Commercial Projects business (Business) and other businesses that do not match Downer's preferred sector and customer characteristics has been completed. Downer announced on 10 August 2023 it has entered into an agreement to sell the remaining part of the Business.

The Business (which was part of the Facilities CGU) has been wound down progressively since Downer announced its exit from the Australian commercial construction and projects market in 2020. The Business generated revenue of approximately $200 million and a small EBIT loss in FY23.

The transaction, purchased by existing managers of the business, is at an agreed purchase price of $10.5 million and approximately cash neutral after net debt and working capital adjustments, and will result in a pre-tax loss of approximately $14 million in FY24. This transaction now completes Downer's exit from the Australian commercial Projects (construction) market.

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

C Operating assets and liabilities

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

C1. Reconciliation of cash and cash equivalents

(a) Reconciliation of cash flows from operating activities

	Note	2023 $'m	Restated(i) 2022 $'m
(Loss)/Profit after tax for the year(i)		**(385.7)**	140.4
Adjustments for:			
Share of joint ventures and associates' profits net of distributions	F1(a)	**3.6**	(7.8)
Depreciation on leased assets	C6	**154.9**	160.3
Depreciation and amortisation of other non-current assets	C5,C7	**181.3**	181.9
Impairment of other non-current assets		**539.5**	42.0
Amortisation of deferred borrowing costs		**3.9**	4.4
Net (gain)/loss on sale of property, plant and equipment		**(20.2)**	4.1
Net (gain)/loss on disposal of businesses	F6	**(44.4)**	17.3
Movement in current tax balances		**28.7**	6.1
Movement in deferred tax balances(i)		**8.3**	56.8
Movements on net defined benefit plan obligation	D2	**1.5**	1.6
Share-based employee benefits (income)/expense	D1	**(0.8)**	4.2
Other		**1.0**	–
		857.3	470.9
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase)/decrease in assets:			
Current trade receivables and contract assets(i)		**(289.4)**	78.6
Current inventories		**(26.6)**	2.8
Other current assets		**(10.6)**	3.5
Non-current trade receivables and contract assets		**(17.1)**	(13.7)
Other non-current assets		**(10.7)**	(3.6)
Increase/(decrease) in liabilities:			
Current trade payables and contract liabilities		**186.3**	(172.7)
Current financial liabilities		**(14.4)**	34.9
Current provisions		**(2.1)**	(27.5)
Non-current trade payables and contract liabilities		**15.4**	11.8
Non-current financial liabilities		**0.8**	(13.4)
Non-current provisions		**15.0**	(16.6)
		(153.4)	(115.9)
Net cash generated by operating activities		**318.2**	495.4

(i) Balances have been restated (refer to Note A for further details).

C1. Reconciliation of cash and cash equivalents – continued

(b) Reconciliation of liabilities arising from financing activities

2023 $'m	1 July 2022	Net cash flows	Lease net additions and remeasure	Other non-cash changes	Disposal of businesses and held for sale	30 June 2023
Interest bearing loans	**1,361.7**	**227.5**	**–**	**7.2**	**–**	**1,596.4**
Lease liabilities	**543.9**	**(165.0)**	**159.4**	**3.8**	**(4.9)**	**537.2**
Total liabilities from financing activities	**1,905.6**	**62.5**	**159.4**	**11.0**	**(4.9)**	**2,133.6**

2022 $'m	1 July 2021	Net cash flows	Lease net additions and remeasure	Other non-cash changes	Disposal of businesses	30 June 2022
Interest bearing loans	1,481.6	(122.6)	–	2.7	–	1,361.7
Lease liabilities	662.8	(163.6)	107.2	(21.7)	(40.8)	543.9
Total liabilities from financing activities	2,144.4	(286.2)	107.2	(19.0)	(40.8)	1,905.6

(c) Cash and cash equivalents

	2023 $'m	2022 $'m
For the purpose of the statement of cash flows, cash and cash equivalents comprises:		
Cash	**861.9**	716.2
Short-term deposits	**27.2**	22.3
Total cash and cash equivalents	**889.1**	738.5

C2. Trade receivables and contract assets

	2023 $'m	Restated(i) 2022 $'m
Trade receivables	**677.8**	682.9
Contract assets(ii)	**1,474.6**	1,351.8
	2,152.4	2,034.7
Other receivables	**113.8**	40.5
Loss allowance on trade receivables and contract assets arising from contracts with customers	**(33.2)**	(32.4)
Total trade receivables and contract assets	**2,233.0**	2,042.8
Included in the financial statements as:		
Current(ii)	**2,094.2**	1,921.2
Non-current	**138.8**	121.6

(i) Balances have been restated (refer to Note A for further details).
(ii) Current contract assets: $1,336.5 million (2022: $1,231.2 million).

Allowance for credit losses:

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

	2023 $'m	Restated[(i)] 2022 $'m
Government – not due	**894.2**	831.2
Government – less than 90 days past due	**30.5**	29.8
Government – more than 90 days past due	**7.8**	23.8
Private – not due	**1,157.6**	1,064.8
Private – less than 90 days past due	**44.5**	62.4
Private – more than 90 days past due	**17.8**	22.7
Total Gross Carrying Amount	**2,152.4**	2,034.7
Credit impaired – specific allowance	**29.0**	29.8
Not credit impaired – lifetime expected credit loss	**4.2**	2.6
Loss allowance on trade receivables and contract assets arising from contracts with customers	**33.2**	32.4

(i) Balances have been restated (refer to Note A for further details).

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

In assessing lifetime expected credit losses (ECL) as at 30 June 2023, the Group has considered the risk arising from the general economic environment such as persistent inflation, rising interest rates, economic impacts of COVID-19 and potential defaults occurring within the construction environment in which Downer partially operates. The Group has assessed ECLs by segmenting the portfolio of trade receivables and contract assets by customer (i.e. Government and Private) as well as by geography to better assess inherent credit risk. The Company defines counterparties as 'Government' if the contract is with a Federal, State or Local Government body. Any counterparties other than those defined as 'Government', are classified as 'Private', and includes sectors heavily regulated by Government organisations (such as Gas and Electricity), Blue-Chip listed companies, contracts run under the Public-Private-Partnership model ((PPPs) for which Government organisations are often the end customer), large multinational companies, network infrastructure companies, as well as other private sector businesses.

The credit risk associated with Government balances is considered to be negligible (2022: negligible) due to the high creditworthiness of the counterparties. No 'Government' related balances are currently in default.

For 'Private' balances, the Group has assessed the potential credit risk of default on key customers utilising credit ratings provided by financial institutions. For those 'Private' receivables/contract assets that are ultimately backed by the Government or a Government body, the credit risk is considered to be low or negligible. For those counterparties that are currently in default or a risk of default is determined, the Group has recognised specific impairment/credit allowances. As at 30 June 2023, the $33.2 million (2022: $32.4 million) loss allowance includes a specific provision of $28.4 million (2022: $29.4 million) in relation to Probuild Pty Ltd as this customer went into administration in 2022.

Based on the above methodology and in reference to past default experience, the ECLs have increased from $2.6 million at 30 June 2022 to $4.2 million at 30 June 2023.

Credit losses on 'Private' counterparty balances have historically averaged less than 1%. The allowance for credit losses, excluding specific provisions, is 0.3% (2022: 0.2%) of the trade receivables and contract assets.

Recognition and measurement

Trade receivables

Trade receivables and other receivables are held with the objective of collecting contractual cash flows and are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for impairment.

Contract assets

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

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

Costs to obtain or fulfil contracts

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

C2. Trade receivables and contract assets – continued

Financial assets and liabilities

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

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

Fair value

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

Impairment

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

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

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

Key estimate: Credit risk

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

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

C3. Inventories

	2023 $'m	2022 $'m
Current		
Raw materials	**46.1**	39.2
Work in progress	**5.3**	3.9
Finished goods	**59.2**	55.6
Components and spare parts(i)	**124.2**	110.2
Total inventories	**234.8**	208.9

(i) Write-down of inventories to their net realisable value amounted to $5.0 million (2022: nil) at one of Rail & Transit Systems' maintenance facilities. Refer to Note B3.

Recognition and measurement

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

C4. Trade payables and contract liabilities

	2023 $'m	2022 $'m
Trade payables	**817.4**	785.0
Contract liabilities	**359.5**	364.6
Accruals	**931.6**	949.1
Other payables	**225.0**	155.9
Total trade payables and contract liabilities	**2,333.5**	2,254.6
Included in the financial statements as:		
Current	**2,272.4**	2,208.1
Non-current	**61.1**	46.5

Recognition and measurement

Trade payables, accruals and other payables

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

Contract liabilities

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

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

Of the Contract liabilities balance of $364.6 million at 30 June 2022, substantially all of this revenue has been recognised in the current year.

Fair value

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

C5. Property, plant and equipment

2023 $'m	Note	Freehold land and buildings	Plant, equipment and leasehold improvements	Total
Balance as at 1 July 2022		87.5	836.9	924.4
Additions		77.6	151.8	229.4
Disposals at net book value		(25.0)	(6.9)	(31.9)
Disposal of businesses	F6	–	(36.7)	(36.7)
Depreciation expense		(2.2)	(126.1)	(128.3)
Impairment charge(i)	B3	–	(25.2)	(25.2)
Transferred to disposal group assets held for sale	F7	–	(0.4)	(0.4)
Net foreign currency exchange differences at net book value		(0.2)	3.6	3.4
Net book value as at 30 June 2023		137.7	797.0	934.7
Cost		170.8	1,751.7	1,922.5
Accumulated depreciation and impairment		(33.1)	(954.7)	(987.8)

2022 $'m	Note	Freehold land and buildings	Plant, equipment and leasehold improvements	Total
Balance as at 1 July 2021		67.1	927.6	994.7
Additions		29.0	221.5	250.5
Acquisition of businesses		6.3	9.3	15.6
Disposals at net book value		(12.3)	(18.4)	(30.7)
Disposal of businesses	F6	–	(164.7)	(164.7)
Depreciation expense		(2.2)	(122.5)	(124.7)
Impairment charge(ii)	B3	–	(10.4)	(10.4)
Net foreign currency exchange differences at net book value		(0.4)	(5.5)	(5.9)
Net book value as at 30 June 2022		87.5	836.9	924.4
Cost		118.6	1,748.0	1,866.6
Accumulated depreciation and impairment		(31.1)	(911.1)	(942.2)

(i) Impairment relates to the adjustment to the carrying value of assets at one of Rail & Transit Systems' maintenance facilities, and to other assets in Australia following a strategic review. Refer to Note B3.

(ii) Impairment includes $7.2 million in relation to leasehold improvements write-off as a result of divestments (Note B3) and to assets damaged following the flooding/wet weather events in Queensland.

Recognition and measurement

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

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

Item	Useful life	Depreciation method
Freehold land	n/a	No depreciation
Buildings	20 to 50 years	Straight-line
Leasehold improvements	Lease term	Straight-line
Plant and equipment – power and gas	Working hours	Based on hours of use
Plant and equipment – other	3 to 25 years	Straight-line

Key estimate: Useful lives

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

C6. Right-of-use assets

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

2023 $'m	Note	Leasehold property	Motor vehicles	Plant and equipment	Total
Balance as at 1 July 2022		**242.3**	**110.1**	**83.8**	**436.2**
Additions		**23.7**	**67.7**	**30.9**	**122.3**
Remeasure		**25.3**	**(1.3)**	**21.8**	**45.8**
Depreciation expense		**(53.1)**	**(62.1)**	**(39.7)**	**(154.9)**
Impairment charge(i)	B3	**(7.8)**	**–**	**–**	**(7.8)**
Transferred to disposal group assets held for sale	F7	**(1.5)**	**(1.0)**	**(0.1)**	**(2.6)**
Disposals at net book value		**(0.2)**	**(1.3)**	**(10.5)**	**(12.0)**
Disposal of businesses	F6	**(0.3)**	**(1.4)**	**–**	**(1.7)**
Net foreign currency exchange differences at net book value		**1.6**	**0.2**	**1.4**	**3.2**
Net book value as at 30 June 2023		**230.0**	**110.9**	**87.6**	**428.5**
Cost		**453.4**	**283.6**	**204.9**	**941.9**
Accumulated depreciation and impairment		**(223.4)**	**(172.7)**	**(117.3)**	**(513.4)**

2022 $'m	Note	Leasehold property	Motor vehicles	Plant and equipment	Total
Balance as at 1 July 2021		281.6	120.3	144.6	546.5
Additions		17.0	47.3	15.9	80.2
Remeasure		11.2	7.2	8.6	27.0
Depreciation expense		(56.0)	(61.2)	(43.1)	(160.3)
Impairment charge(ii)	B3	(7.0)	–	–	(7.0)
Disposals at net book value		(1.9)	(2.0)	(1.5)	(5.4)
Disposal of businesses	F6	–	(0.7)	(38.8)	(39.5)
Net foreign currency exchange differences at net book value		(2.6)	(0.8)	(1.9)	(5.3)
Net book value as at 30 June 2022		242.3	110.1	83.8	436.2
Cost		418.0	258.8	177.2	854.0
Accumulated depreciation and impairment		(175.7)	(148.7)	(93.4)	(417.8)

(i) Impairment recognised largely as a result of consolidating the Group's property footprint. Refer to Note B3.
(ii) Impairment relates to Property rationalisation as a result of divestments.

Recognition and measurement

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

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

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

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

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

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

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

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

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

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

For surplus and vacated right-of-use assets an impairment test is performed for the individual right-of-use asset, including consideration of estimated sub-lease income.

C7. Intangible assets

2023 $'m	Note	Goodwill	Customer contracts and relationships	Brand names on acquisition	Intellectual property on acquisition	Software and system development	Total
Balance as at 1 July 2022		**2,285.0**	**172.5**	**58.7**	**1.5**	**223.7**	**2,741.4**
Additions		**–**	**–**	**–**	**–**	**40.3**	**40.3**
Amortisation expense		**–**	**(22.2)**	**(3.9)**	**(0.1)**	**(26.8)**	**(53.0)**
Impairment charge[(i)]	B3	**(483.0)**	**–**	**–**	**–**	**(23.5)**	**(506.5)**
Disposal of businesses	F6	**(41.3)**	**–**	**–**	**–**	**(2.8)**	**(44.1)**
Net foreign currency exchange differences at net book value		**2.1**	**–**	**0.2**	**–**	**(0.1)**	**2.2**
Net book value as at 30 June 2023		**1,762.8**	**150.3**	**55.0**	**1.4**	**210.8**	**2,180.3**
Cost		**2,563.2**	**515.2**	**78.8**	**2.4**	**529.4**	**3,689.0**
Accumulated amortisation and impairment		**(800.4)**	**(364.9)**	**(23.8)**	**(1.0)**	**(318.6)**	**(1,508.7)**

2022 $'m	Note	Goodwill	Customer contracts and relationships	Brand names on acquisition	Intellectual property on acquisition	Software and system development	Total
Balance as at 1 July 2021		2,280.8	203.2	63.0	1.6	234.3	2,782.9
Additions		–	–	–	–	36.5	36.5
Acquisition of businesses	F5	7.8	–	–	–	–	7.8
Amortisation expense		–	(30.7)	(4.0)	(0.1)	(22.4)	(57.2)
Impairment charge[(ii)]		–	–	–	–	(24.6)	(24.6)
Net foreign currency exchange differences at net book value		(3.6)	–	(0.3)	–	(0.1)	(4.0)
Net book value as at 30 June 2022		2,285.0	172.5	58.7	1.5	223.7	2,741.4
Cost		2,602.4	515.1	78.5	2.4	504.6	3,703.0
Accumulated amortisation and impairment		(317.4)	(342.6)	(19.8)	(0.9)	(280.9)	(961.6)

(i) $483.0 million impairment is as a result of assessment of the carrying value of the Group's CGUs. Refer to the recoverable amount section in Note C7 and to Note B3. $23.5 million relates to IT assets that will no longer be utilised or provide future economic benefit as a result of business restructuring, divestments and transformation. Refer to Note B3.

(ii) Impairment relates to ERP systems write-off as a result of divestments. Refer to Note B3.

C7. Intangible assets – continued

Recognition and measurement

Goodwill

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

Customer contracts and relationships on acquisition

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

Brand names on acquisition

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

Intellectual property on acquisition

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

Intellectual property, software and system development

Intangible assets acquired by the Group, including intellectual property (purchased patents and trademarks) and software are initially recognised at cost, and subsequently measured at cost less accumulated amortisation and any impairment losses.

Development costs that are directly attributable to the design and testing of identifiable internally generated intangible asset controlled by the Group are recognised as an intangible asset where the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use
- Management intends to complete the intangible asset and use or sell it
- There is an ability to use or sell the intangible asset
- It can be demonstrated how the internally generated intangible asset will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the intangible asset are available, and
- The expenditure attributable to the intangible asset during its development and testing can be reliably measured.

The costs capitalised include consulting and direct labour costs. Costs incurred in determining project feasibility are expensed as incurred.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Software-as-a-Service (SaaS) arrangements

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

For SaaS arrangements, the Group assesses if the contract will provide a resource that it can 'control' to determine whether an intangible asset is present. If the Group cannot determine control of the software, the arrangement is deemed a service contract and any implementation costs including costs to configure or customise the cloud provider's application software are recognised as operating expenses when incurred.

Amortisation

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

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

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

Impairment of assets

The Group assesses at each reporting date, whether there are any indicators that assets may be impaired. If any indicators exist, the entity shall estimate the recoverable amount of the asset.

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.

In addition to the requirement to test goodwill annually for impairment, management has identified impairment indicators in relation to the increase in discount rates (WACC), Downer's net asset value of the Group exceeding market capitalisation at times during the year, and below budget performance for some CGUs. Further disclosures are provided below in relation to the impairment testing of goodwill.

In relation to the Group's non-current assets, as a result of the Group's Transformation program, a number of impairment indicators were identified prior to the testing of CGUs. These assets were, therefore, tested individually for impairment. The impairment charges recognised are described in Note B3.

Allocation of goodwill to Groups of Cash-Generating Units (CGUs)

Goodwill has been allocated for impairment testing purposes to Groups of CGUs (hereafter 'CGUs') that represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

In February 2023, Downer announced a reorganisation of its business and leadership team, effective from 1 July 2023. The restructure involves a transformation to managing the business into a new sector-led structure simplified for scale, efficiency and growth.

Downer also completed the divestment of the Australian Transport Projects business (presented in Note F6), enabling further operational change.

The reorganisation and divestment impacted the Group's internal reporting structure, and the level at which performance and goodwill is monitored. This resulted in a change in the manner in which impairment testing of goodwill is performed. For the current year impairment testing has been performed on the identified CGUs both prior and subsequent to the reorganisation.

The primary impacts of the reorganisation were in the formation of the Industrial & Energy CGU and the Social Infrastructure & Citizen Services CGU from the former Facilities CGU and the dissolution of the New Zealand CGU.

The Group has reassessed its Groups of CGUs with six CGUs (previously five) identified. The goodwill allocation to each of the Groups of CGUs is presented below:

Previous CGUs	Carrying value of consolidated goodwill 2022 $'m
Transport Australia	435.8
Rail & Transit Systems	55.3
Utilities Australia	294.4
New Zealand	193.1
Facilities	1,306.4
	2,285.0

The goodwill allocation to each of the Groups of CGUs following the reorganisation and impairment charges is presented below:

Current CGUs	Carrying value of consolidated goodwill 2023 $'m
Transport & Infrastructure	327.0
Rail & Transit Systems	55.3
Utilities(i)	350.8
Social Infrastructure & Citizen Services(i)	813.7
Industrial & Energy	154.0
NZ Building	62.0
	1,762.8

(i) The Utilities and Social Infrastructure & Citizen Services CGUs goodwill balances are shown net of impairments of $133.0 million and $350.0 million respectively. Refer to 'results of impairment testing' section below.

Key estimates and judgements:

Impairment of assets

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

Estimation of useful life

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

Recoverable amount testing

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

The recoverable amount of the Transport & Infrastructure, Rail & Transit Systems, Social Infrastructure & Citizen Services, Industrial & Energy and New Zealand Building CGUs have been assessed using a VIU methodology. In 2022, the recoverable amounts of all CGUs were determined on a VIU basis.

The recoverable amount for Utilities been determined based on a FVLCD basis (2022: VIU) as this provided the higher recoverable amount. The recoverable amount for Social Infrastructure & Citizen Services has been determined based on a VIU basis as this provided the higher recoverable amount.

C7. Intangible assets – continued

Value in use calculation

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

The Group determines the recoverable amount, using cash flow projections based on the FY24 budget (as approved by the Board) and business plan for the years ending 30 June 2025 and 2026. For FY27 onwards, the Group assumes a long-term growth rate of 2.5% to reflect the organic growth expectations of the industry.

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

Fair value less costs of disposal

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

Results of impairment testing

All CGUs except the Utilities and Social Infrastructure & Citizen Services CGU

For the Transport & Infrastructure, Rail & Transit Systems, Industrial & Energy and New Zealand Building CGUs, the recoverable values (based on the present value of future cash flows) are greater than the carrying value of the operating assets and no impairment has been identified.

For the Utilities and Social Infrastructure & Citizen Services CGUs, impairments of $133.0 million and $350.0 million respectively have been identified.

Utilities CGU

The forecast cash flows for the Utilities CGU have been adversely impacted by a number of issues including recent underperformance of the business, secured work-in-hand which includes loss-making and low margin projects and a reassessment of the unsecured opportunity pipeline following a reset of Downer's risk appetite in the market. Consequently, the present value of future expected cash flows has reduced and no longer supports the carrying value of the operating assets of the CGU.

The recoverable amount of the Utilities CGU has been determined to be $441.0 million. As a result, an impairment of $133.0 million has been recognised against the goodwill allocated to the CGU. The impairment amount has been recognised in 'Impairment of non-current assets' in the Consolidated statement of profit or loss, and disclosed as an Individually Significant Item in Note B3.

The reduction of the recoverable amount of the Utilities CGU (relative to 30 June 2022) was the result of:

- An increase in the post-tax discount rate from 8.8% to 9.5% applied to forecast cash flows
- Consideration of recent underperformance of the business
- A reduction in the addressable pipeline of tendering opportunities in the short to medium term following a reset of Downer's risk appetite for lump sum capital projects and tightening Downer's minimum commercial parameters associated with renewables opportunities.

Social Infrastructure & Citizen Services CGU

The forecast cash flows for the Social Infrastructure & Citizen Services CGU have been adversely impacted by uncertainties associated with the impact of current market conditions on our secured work-in-hand, our renewal profile of existing contracts and unsecured pipeline forecasts.

One of the impacts has come from recent changes in Defence spending priorities which has impacted our level of programmatic work in the short to medium term. Whilst the Defence Strategic Review will offer Downer opportunity in the future, in the more immediate term there is uncertainty over the impact on expenditure allocation on existing programs and for new programs.

Consequently, the present value of the future expected cash flows has reduced and no longer supports the carrying value of the operating assets of the CGU.

The recoverable amount of the Social Infrastructure & Citizen Services CGU has been determined to be $1,055.2 million. As a result, an impairment of $350.0 million has been recognised against the goodwill allocated to the CGU. The impairment amount has been recognised in 'Impairment of non-current assets' in the Consolidated statement of profit or loss, and disclosed as an Individually Significant Item in Note B3.

The reduction of the recoverable amount of the Social Infrastructure & Citizen Services CGU (relative to 30 June 2022) was the result of:

- An increase in the post-tax discount rate from 8.7% to 9.3% applied to forecast cash flows
- A revised market growth expectation under the prevailing market conditions, including consideration of the trend towards government insourcing of expenditure and recent changes in Defence spending priorities which has impacted and will impact the level of programmatic work in the short to medium term
- Contract extension/renewal risks associated with existing contracts with Defence
- Uncertainties arising from the Defence Strategic Review and the potential for changes/deferrals to expenditure allocation on existing and new programs.

The reorganisation resulted in the transfer of the Industrial & Energy business from the Facilities CGU to a new CGU which reduced its value contribution to the recoverable amount assessment.

Sensitivities

For all CGUs, sensitivities were made around discount rate, long-term growth rate and cash flow assumptions as discussed in the Sensitivity section below.

For all CGUs, except Utilities and Social Infrastructure & Citizen Services, management believes that any reasonable change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable value amount.

For Utilities and Social Infrastructure & Citizen Services CGUs, as impairments have been recognised the recoverable amount is now equal to the carrying amount. Any adverse movement in the key assumptions noted below would lead to further impairment.

The forecast cash flows for the Utilities CGU assume a performance turnaround and return to profitability for the business over the forecast period. This assumes a stabilisation of the underperforming contracts and securing new profitable work over the forecast period.

Within the forecast cash flows for the Social Infrastructure & Citizen Services CGU, Downer has significant existing contracts which will be subject to tender processes where there are contract renewal risks and/or potential risks of scope modification. The loss of these tenders would result in further impairment.

Should the scale of any CGU decline as a result of change in a key assumption, it is likely that the Group would review the corporate and overhead structures to ensure they are appropriate for the scale of business and opportunities available.

Recoverable amount testing – Key assumptions

The table below summarises the key assumptions utilised in the VIU and FVLCD discounted cash flow models.

2022	Revenue Growth[(i)]	EBIT margin[(ii)]	Long-term growth rate	Discount rate (post-tax)
Transport Australia	3.9%	6.3%	2.50%	8.5%
Rail & Transit Systems	8.2%	5.4%	2.50%	8.7%
Utilities Australia	3.7%	4.7%	2.50%	8.8%
New Zealand	2.1%	5.7%	2.50%	8.9%
Facilities	6.4%	5.9%	2.50%	8.7%

2023	Revenue Growth[(iii)]	EBIT margin[(ii)]	Long-term growth rate	Discount rate (post-tax)
Transport & Infrastructure[(a)]	**(0.6%)**	**8.0%**	**2.50%**	**9.0%**
Rail & Transit Systems	**1.8%**	**5.6%**	**2.50%**	**9.1%**
Utilities	**2.9%**	**4.7%**	**2.50%**	**9.5%**
Social Infrastructure & Citizen Services	**2.1%**	**5.1%**	**2.50%**	**9.3%**
Industrial & Energy	**6.3%**	**6.8%**	**2.50%**	**9.3%**
NZ Building[(b)]	**(2.7%)**	**2.1%**	**2.50%**	**9.7%**

(a) Transport & Infrastructure budgeted revenue reduction is driven by lower revenue from the completion of non-recurring contracts.
(b) NZ Building budgeted revenue impacted by large-scale contracts completed not fully replaced.

(i) Revenue growth for 2022 is expressed as the compound annual growth rate (CAGR) from FY22 to terminal year forecast based on the CGUs business plan.
(ii) EBIT margin represents the terminal year forecast margin based on the CGUs business plan. EBIT is calculated prior to the allocation of corporate costs.
(iii) Revenue growth for 2023 is expressed as the compound annual growth rate (CAGR) from FY23 to terminal year forecast based on the CGUs business plan.

(i) Projected cash flows – including budgeted revenue and EBIT margin

Value in use calculations

Cash flow forecasts

The cash flow projections through to the terminal year are based on the Group's past experience and assessment of economic and regulatory factors affecting the business in which the Downer businesses operate.

In preparing the impairment models at 30 June 2023, the Group considered the experience in the last 12 months' results in developing the cash flow forecasts.

C7. Intangible assets – continued

Specifically, for each CGU:

- **Transport & Infrastructure** has been negatively impacted by persistent wet weather caused by La Niña resulting in lower earnings and margins in FY23. The reduction in budgeted revenue is driven by lower revenue following the completion of non-recurring contracts. With the assumption that climatic conditions improve, and easing of bitumen pricing pressures, it is expected to benefit from combined activity/volume growth in road infrastructure as a result of the wet weather events (e.g. from flood recovery work) and from increased Government investment in regional areas across Australia and New Zealand.
- **Rail & Transit Systems** outlook is expected to benefit from a range of opportunities on new rail fleet and associated maintenance contracts (including the award of the QTMP contract), increased opportunities in freight, consulting and digital services, as well as from new opportunities for the maintenance of existing fleets.
- **Social Infrastructure & Citizen Services** is the consolidation of the Health & Education, Government, Defence, New Energy and New Zealand Facilities businesses. Ongoing performance is expected to benefit from a pipeline of opportunities across its operations including:
  - Increased Government spend to fulfil growing structural demand for health and education services as well as from contract renewals/extensions
  - Growth opportunities to service an increasing public sector asset base.

As highlighted above, our Defence business whilst having significant scale, relationships and technical capability will need to navigate changes in Defence spending and renewal extension risks for existing secured contracts.

- **Industrial & Energy** sector is well placed to capitalise on the opportunities the energy transition will bring, such as the decarbonisation of energy generators as well as from a rebound in activity following deferrals of plant shutdowns and maintenance and from opportunities linked to long-term relationships with key customers.
- **New Zealand Building** cash flows forecast reflects the short-term impact of large-scale contracts completed not being fully replaced which is expected to be offset by an increased investment in infrastructure in New Zealand.

Inflation and price escalation

The Group's exposure to inflationary pressures in labour and other costs in its contracts is partially mitigated by contractual mechanisms and allowances for price movements.

Fair value less cost of disposal calculation

In determining FVLCD for the Utilities CGU, a discounted cash flow model was used. Similarly, to the other CGUs, a three-year cash flow projection, based on the EBIT as per the FY24 budget and the business plan for FY25 and FY26, was utilised. For FY24 onwards, the Group assumes a long-term growth rate of 2.5% 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 certain projects with a higher risk associated, that are not aligned with Downer's risk appetite but that a market participant may recognise as value-adding.

Utilities has been negatively impacted in the year by contract performance in a Power maintenance contract, in water construction projects, deferral of transmission line contract awards together with productivity challenges arising from weather, absenteeism and labour shortages. Downer has also reset its risk appetite in some markets which has impacted our work-in-hand and unsecured pipeline forecasts in the short to medium term. Benefits are anticipated from FY24 onwards from an increase in activities in transmission lines as well as in the Water sector; however Downer will be seeking to achieve an improved balance of risk transfer and sustainable commercial terms for service providers.

(ii) Long-term growth rates

The long-term annual growth rates, applicable for the periods after which detailed forecasts have been prepared, are based on the long-term expected GDP rates for the country of operation, adjusted as necessary to reflect industry-specific considerations. The Group assumes a long-term growth rate of 2.50% (FY22: 2.50%) to allow for organic growth on the existing asset base.

(iii) Discount rates

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

Compared to 30 June 2022, WACCs have increased between 40 to 70 basis points for the Australian CGUs and 80 basis points for the New Zealand group of CGUs. This resulted in post-tax discount rates at 30 June 2023 to be between 9.0% and 9.7% (June 2022: between 8.5% and 8.9%). The increase reflects the inflationary Australian/New Zealand environment of the last six months.

(iv) Budgeted capital expenditure

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

(v) Budgeted working capital

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

Impact of climate change

The Group recognises that an integrated approach to managing risks and opportunities is essential. The Downer Board, through its oversight functions, has ensured Downer appropriately considers Environmental, Social and Governance (ESG) risks, including those related to climate change. Climate-related risks and opportunities are incorporated into Downer's broader corporate strategy, planning and risk management processes. This includes through the development of decarbonisation strategies, plans to mitigate exposure to physical and transition risks, and consideration of embedding emissions reduction targets into capital allocation and decision-making processes.

Downer is committed to decarbonising its operations, recognising the need to develop emissions reduction targets that align with the 2015 Paris Agreement goals to pursue efforts to limit the temperature increase to 1.5°C by the end of this century. To guide its ambition, Downer has set an absolute near-term target of 50% reduction of its Scope 1 and 2 GHG emissions by 2032 and an absolute near-term target of 30% reduction of its Scope 3 emissions by 2032. Downer has set a long-term target to be Net Zero[1] in Scope 1, 2 and 3 GHG emissions by 2050. Both the near-term and the long-term targets have a base year of 2020.

In FY22, Downer completed a detailed review of its most material climate-related risks and opportunities in line with the Taskforce for Climate-related Financial Disclosures (TCFD)[4]. Scenario analysis was used to assess and quantify the estimated financial impact of different climate scenarios across Downer's operations and value chain, including potential mitigation costs arising from physical and transitional risks, and the opportunities arising from new and existing business lines.

To assess the physical risks, Downer used a moderate emission scenario (rise between 2°C and 3°C by 2100), and a high emission scenario (rise above 4°C by 2100). To assess the transitional risk, Downer chose two of the Network for Greening the Financial System (NGFS) 1.5°C aligned scenarios consisting of the Net Zero 2050[2] scenario and the Divergent Net Zero[3] scenario. The NGFS climate scenarios have been selected to provide insights into the risks and opportunities of the transition to a low carbon future. The NGFS dataset contains multiple parameters (e.g. emissions trajectory, carbon price and fuel mix) at the sub-sectoral and country levels for each of the geographies being investigated, allowing the comparison of difference across geographies within the same plausible future scenario.

Not all assumptions used in scenario modelling (for TCFD purposes) are appropriate for incorporation in impairment models required by accounting standards. The modelled scenarios set out below were not included in the Group's impairment model assumptions relating to asset values or cash flow. However, the scenario analysis performed considered the following impacts to asset values and cash flows:

- Physical risks to Downer's non-current assets, including key sites and locations, from events such as extreme heat, an increased frequency and severity of bushfires, and extreme weather events. The scenario analysis quantified physical risk is not material to the Group's future cash flows. The analysis also confirmed that the expected useful economic lives of non-current assets remain appropriately disclosed in Note C5. It is noted that a number of significant weather events impacted Downer's financial performance this year, such as Cyclone Gabrielle, and significant wet weather across the east coast of Australia. However, the scenario analysis showed that Downer is resilient to physical risks as potential events are currently incorporated within management systems and covered through insurance and/or contract pass-through mechanisms. Downer's diverse range of services across differing sectors and geographic locations means that the portfolio remains resilient in the event of local acute exposures.
- Transition risks are primarily associated with decarbonising Downer's carbon intensive non-current assets, in the Transport & Infrastructure CGU's asphalt manufacturing process, and transitioning from internal combustion engines to electric engines for the light and heavy vehicle fleets. Transition risks associated with these may include the impact of carbon pricing legislation, direct price increases of equipment and fuel usage. The scenario analysis determined that transition risk is not material to the Group's future cash flows. The analysis also confirmed that the expected useful economic lives of non-current assets remain appropriately disclosed in Note C5.
- Currently, there is no carbon pricing legislation in place, nor is there one that is reasonably expected to be in place, that will materially impact on the Group's future cash flows.
- Alternative fuels to significantly decarbonise the asphalt manufacturing process are not yet available at scale, nor is there any certainty on if/when these will be available.
- Light vehicle fleet replacement from internal combustion engines to electric vehicles is anticipated to occur from 2025 onwards, with heavy vehicle replacements anticipated to commence from 2030 onwards. Management continues to assess options for fleet replacement in the short term; however, any acceleration from these dates is limited by technology and global supply constraints. There is no planned acceleration of fleet replacement to meet our climate change objectives.

The modelled impact on cash flows would not be material to the Group, with the analysis reaffirming that the anticipated response to climate change presents a net opportunity for Downer, if appropriately acted upon. This net opportunity is likely to increase as efforts to decarbonise accelerate, due to the significant opportunities for Downer's business lines to support both new and existing customers' decarbonisation transitions.

1 Net Zero is defined as the mitigation of direct emissions to as low a level as possible and offsetting the remainder through carbon removals. Downer has utilised the Science-Based Target Initiative's threshold of a 90% reduction in its emissions as being 'as low a level as possible'.

2 NGFS Net Zero 2050 is an ambitious scenario that limits global warming to 1.5°C through stringent climate policies and innovation, reaching net zero CO_2 emissions around 2050. This scenario assumes that ambitious climate policies are introduced immediately.

3 NGFS Divergent Net Zero reaches net zero by 2050 but with higher costs due to divergent policies introduced across sectors and a quicker phase-out of fossil fuels. This scenario differentiates itself from Net Zero 2050 by assuming that climate policies are more stringent in the transportation and buildings sectors, while decarbonisation of energy supply and industry is less stringent.

4 Refer to Downer's 2022 Climate Change Report for details of the assessment undertaken and underlying assumptions that form the basis of the statements made in this subsection, *Impact of Climate Change*.

C8. Other provisions

2023 $'m	Note	Decomm-issioning and restoration	Onerous contracts	Warranties and other	Total
Balance as at 1 July 2022		26.2	15.9	31.2	73.3
Additional provisions recognised		1.3	12.4	50.6	64.3
Unused provisions reversed		(0.4)	–	(3.0)	(3.4)
Utilisation of provisions		(3.2)	(12.6)	(23.1)	(38.9)
Transferred to disposal group assets held for sale	F7	(0.7)	–	(1.0)	(1.7)
Balance as at 30 June 2023		23.2	15.7	54.7	93.6
Included in the financial statements as:					
Current		9.3	15.6	41.4	66.3
Non-current		13.9	0.1	13.3	27.3

Recognition and measurement

Provisions

Provisions are recognised when:

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

(i) Decommissioning and restoration

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

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

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

(ii) Onerous contracts

Provisions include amounts recognised in relation to onerous customer contracts.

The onerous contract provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The onerous contract provision is measured using the full cost method, based on incremental costs and an allocation of other direct costs.

(iii) Warranties and other

Provisions primarily includes amounts recognised for warranties and divestment related provisions. Warranties provisions are made for the estimated liability on all products still under warranty and provisions for defect liabilities at balance sheet date.

Key estimates and judgements: Other provisions

(i) Decommissioning and restoration

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

(ii) Onerous contracts

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

(iii) Warranties and other

The provision is estimated having regard to previous claims experience.

C9. Contingent liabilities

Bonding	Note	2023 $'m	2022 $'m
The Group has bid bonds and performance bonds issued in respect of contract performance in the normal course of business for controlled entities	E2	**1,517.2**	1,372.9

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.

(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.

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

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

(v) In the ordinary course of business, contingent liabilities exist in respect of claims and potential claims against entities in the consolidated entity. The consolidated entity does not consider that the outcomes of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position.

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

(vii) In December 2022, Downer received correspondence notifying an alleged stray current defect in the depot constructed by Downer for the High Capacity Metro Trains Project, requiring Downer to advise how it will address the rectification of that issue and alleging that Downer is responsible for the costs of rectification. 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) Four competing shareholder class actions have been filed against Downer following announcements it published with the ASX on 8 December 2022 and 27 February 2023. Each class action alleges a breach of Downer's continuous disclosure obligations and that it engaged in misleading or deceptive conduct by making and/or failing to correct or qualify various statements in connection with a maintenance contract in its Australian Utilities business and Downer's financial performance.

The four class actions are competing and overlapping: they raise similar claims on behalf of shareholders who acquired Downer shares across similar periods of time. The various plaintiff firms have made applications to the Courts to determine which proceeding or proceedings should proceed and in what form. Until that issue is resolved, the Court has formally noted that no orders should be made for the service of a defence by Downer to any of the plaintiffs' claims.

Downer intends to vigorously defend whichever claim or claims proceed.

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

	2023 $'m	2022 $'m
Employee benefits expense:		
– Defined contribution plans costs	**207.3**	200.3
– Share-based employee benefits (income)/expense[(i)]	**(0.8)**	4.2
– Employee benefits	**3,432.0**	3,375.1
– Defined benefit plan costs	**1.5**	1.6
Total employee benefits expense	**3,640.0**	3,581.2
Employee benefits provision:		
– Current	**268.2**	303.5
– Non-current	**22.7**	18.7
Total employee benefits provision	**290.9**	322.2

(i) Share-based payments net benefit for the year includes the reversal for the 2021 and 2022 Long-term Incentive Plan performance rights due to forfeiture.

Recognition and measurement

The employee benefits liability represents accrued wages and salaries, leave entitlements and other incentives recognised in respect of employees' services and redundancy costs 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 estimates and judgements: Annual leave and long service leave

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

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

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

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

D2. Defined benefit plan

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

As at 30 June 2023, the fair value of plan assets (comprising Investment Funds) was $61.8 million. The plan obligation balance was $53.4 million. The net asset of $8.4 million (2022: $5.4 million) is included in Non-current prepayments and other assets. These balances were subject to an independent actuarial review as at 30 June 2023.

The main movements during the year were $1.5 million of services costs expensed to the profit and loss, $0.2 million of net interest, $2.6 million of actuarial gains on the obligation recorded were recorded in equity, and the Group contributions of $1.7 million (all pre-tax amounts).

Key actuarial assumptions used in determining the values were a discount rate of 5.5% and an expected salary increase rate of 3.0%. Sensitivity analysis shows a 0.5 percentage point reduction in the discount rate would increase the obligation by 3.6%, and a 0.5 percentage point increase in the expected salary increase rate would increase the obligation by 3.3%.

D3. Key management personnel compensation

	2023 $	2022 $
Short-term employee benefits	**5,468,445**	7,645,200
Post-employment benefits	**212,905**	191,103
Other long-term benefits	**192,554**	55,895
Share-based payments(i)	**(724,483)**	605,015
Total	**5,149,421**	8,497,213

(i) Share-based payments net benefit for the year includes the reversal for the 2021 and 2022 Long-Term Incentive Plan performance rights due to forfeiture.

Recognition and measurement

Equity-settled transactions

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

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

Cash-settled transactions

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

D4. Employee discount share plan

No shares were issued under the Employee Discount Share Plan during the years ended 30 June 2023 and 30 June 2022.

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

	2023 $'m	2022 $'m
Non-current		
Unsecured:		
– Bank loans	**812.0**	582.0
– USD private placement notes	**150.8**	145.2
– AUD private placement notes	**30.0**	30.0
– AUD medium term notes	**506.4**	508.6
– JPY medium term notes	**104.3**	106.4
– Deferred finance charges	**(7.1)**	(10.5)
Total non-current borrowings	**1,596.4**	1,361.7
Total borrowings	**1,596.4**	1,361.7
Fair value of total borrowings(i)	**1,603.2**	1,384.5

(i) Excludes lease liabilities.

Recognition and measurement

Borrowings

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

Fair value

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

E2. Financing facilities

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

	2023 $'m	2022 $'m
Syndicated loan facilities	**830.0**	1,010.0
Bilateral loan facilities	**145.0**	195.0
Total unutilised loan facilities	**975.0**	1,205.0
Syndicated bank guarantee facilities	**75.1**	61.7
Bilateral bank guarantees and insurance bonding facilities	**652.2**	530.1
Total unutilised bonding facilities	**727.3**	591.8

Summary of borrowing arrangements

The Group's borrowing arrangements are as follows:

Bank loan facilities

Bilateral loan facilities:

The Group has a total of $387.0 million in bilateral loan facilities which are unsecured, committed facilities.

Syndicated loan facilities:

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

USD private placement notes

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

AUD private placement notes

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

Medium Term Notes (MTNs)

The Group has the following unsecured MTNs on issue:

- $500.0 million maturing April 2026
- JPY 10.0 billion maturing May 2033

The carrying value of the AUD MTN maturing April 2026 includes a premium of $6.4 million over the face value owing to the differential between the coupon rate for that instrument and the prevailing market interest rate at the date of issue.

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

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

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

Maturing in the period $'m	Bilateral Loan Facilities	Syndicated Loan Facilities	USD Private Placement Notes	AUD Private Placement Notes	Medium Term Notes	Total
1 July 2024 to 30 June 2025	**245.0**	**500.0**	–	–	–	**745.0**
1 July 2025 to 30 June 2026	**142.0**	–	**150.8**	**30.0**	**500.0**	**822.8**
1 July 2026 to 30 June 2027	–	**600.0**	–	–	–	**600.0**
1 July 2027 to 30 June 2028	–	**300.0**	–	–	–	**300.0**
1 July 2032 to 30 June 2033	–	–	–	–	**104.3**	**104.3**
Total	**387.0**	**1,400.0**	**150.8**	**30.0**	**604.3**	**2,572.1**

E2. Financing facilities – continued

Covenants on financing facilities

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

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

Financial covenants testing is undertaken monthly and reported at the Downer Board meetings. Reporting of financial covenants to financiers occurs semi-annually for the rolling 12-month periods to 30 June and 31 December. Downer Group was in compliance with all its financial covenants as at 30 June 2023.

Bank guarantees and insurance bonds

The Group has $2,244.5 million of bank guarantee and insurance bond facilities to support its contracting activities. $1,341.8 million of these facilities are provided to the Group on a committed basis and $902.7 million on an uncommitted basis.

The Group's facilities are provided by a number of banks and insurance companies on an unsecured and revolving basis. $1,517.2 million (refer to Note C9) of these facilities were utilised as at 30 June 2023 with $727.3 million unutilised. These facilities have varying maturity dates between financial years 2024, 2025 and 2026.

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

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

Refinancing requirements

The Group will negotiate with existing and, where required, new financiers to extend the maturity date or refinance facilities maturing within the next 12 months. The Group's financial metrics and credit rating as well as conditions in financial markets and other factors may influence the outcome of these negotiations. As at 30 June 2023, the Group has no debt facilities maturing within the 12 months to 30 June 2024.

Credit ratings

In December 2022, the outlook on the Group's external credit rating was revised by Fitch Ratings from BBB (Outlook Stable) to BBB (Outlook Negative). The Negative Outlook was affirmed by Fitch in March 2023 following release of the Group's results for the half year ended 31 December 2022. The rating remains Investment Grade. Where the credit rating is lowered or placed on negative watch, customers and suppliers may be less willing to contract with the Group. Furthermore, banks and other lending institutions may demand more stringent terms (including increased pricing, reduced tenors and lower facility limits) on all financing facilities, to reflect the weaker credit risk profile.

E3. Lease liabilities

	2023 $'m	2022 $'m
Contractual undiscounted cash flows		
– Within one year	**156.7**	148.2
– Between one and five years	**309.3**	305.2
– Greater than five years	**156.4**	169.5
Total undiscounted lease liabilities	**622.4**	622.9
– Current	**135.2**	132.4
– Non-current	**402.0**	411.5
Total lease liabilities	**537.2**	543.9

Recognition and measurement

Lease liabilities

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

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

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

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

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

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

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

The expense charged to profit or loss for; low value and short term leases (excluded from lease liabilities and right-of-use assets), and variable lease expenses is outlined below:

	2023 $'m	2022 $'m
Lease expenses		
Land and buildings		
– Low value	**3.2**	2.0
Plant and equipment		
– Low value	**18.6**	20.4
– Short term	**5.2**	3.7
– Variable	**15.9**	19.3
Total lease expenses	**42.9**	45.4

Key estimate and judgement: Lease liabilities

(i) Extension option

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

(ii) Incremental borrowing rate

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

E4. Commitments

	2023 $'m	2022 $'m
Capital expenditure commitments		
Plant and equipment and other		
– Within one year	**30.1**	60.3
– Between one and five years	**3.7**	2.0
Total	**33.8**	62.3
Catering rights		
Catering rights relates to exclusive secured catering rights arrangements with customers.		
– Within one year	**1.7**	2.0
– Between one and five years	**6.9**	6.3
– Greater than five years	**–**	0.8
Total	**8.6**	9.1

E5. Issued capital

	Jun 2023		Jun 2022	
	No.	$'m	No.	$'m
Ordinary shares	**671,573,679**	**2,471.1**	675,425,623	2,488.9
Unvested executive incentive shares	**1,193,978**	**(7.3)**	1,193,978	(7.3)
Redeemable Optionally Adjustable Distributing Securities (ROADS)	**200,000,000**	**178.6**	200,000,000	178.6
Total		**2,642.4**		2,660.2

(a) Fully paid ordinary share capital

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

	2023		2022	
	m's	$'m	m's	$'m
Fully paid ordinary share capital				
Balance at the beginning of the financial year	**675.4**	**2,488.9**	696.9	2,631.5
Group on-market share buy-back	**(3.8)**	**(17.8)**	(24.0)	(142.6)
Vested Downer Contingent Share Options(i)	**–**	**–**	2.5	–
Balance at the end of the financial year	**671.6**	**2,471.1**	675.4	2,488.9

(i) On 24 August 2021, the Target Price Condition of the Tranche 1 Series Downer Contingent Share Options was satisfied resulting in 2,499,264 shares exercised at $6.382 per share. Refer to Note E6.

(b) Unvested executive incentive shares

	2023		2022	
	m's	$'m	m's	$'m
Unvested executive incentive shares				
Balance at the beginning of the financial year	**1.19**	**(7.3)**	1.25	(7.5)
Vested executive incentive share transactions(ii)	**–**	**–**	(0.06)	0.2
Balance at the end of the financial year	**1.19**	**(7.3)**	1.19	(7.3)

(ii) June 2022 figures relate to the second deferred component of the 2019 STI award of 55,277 vested shares for a value of $252,571.

Unvested executive incentive shares are stock market purchases and are held by the Executive Employee Share Plan Trust under the Long-Term Incentive (LTI) plan. From the 2011 LTI plan onwards, no dividends will be distributed on shares held in trust during the performance measurement and service periods. Accumulated dividends will be paid out to executives after all vesting conditions have been met. Otherwise, excess net dividends are retained in the trust to be used by the Company to acquire additional shares on the market for employee equity plans.

(c) Redeemable Optionally Adjustable Distributing Securities (ROADS)

	2023		2022	
	m's	$'m	m's	$'m
Balance at the beginning and at the end of the financial year	**200.0**	**178.6**	200.0	178.6

ROADS are perpetual, redeemable, exchangeable preference shares. In accordance with the terms of the ROADS preference shares, the dividend rate for the one year commencing 15 June 2023 is 9.81% per annum (2022: 8.14% per annum) which is equivalent to the one year swap rate on 15 June 2023 of 5.76% per annum plus the step-up margin of 4.05% per annum.

(d) Share options and performance rights

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. During the financial year 2,711,709 performance rights (2022: 2,585,870) in relation to unissued shares were granted to senior executives of the Group under the LTI plan. There are three performance conditions applicable to the 2021, 2022 and 2023 LTI plan years.

- Total shareholder return (TSR) – this condition is based on the Company's TSR performance relative to the TSR of companies comprising the ASX 100 index, excluding financial services companies, at the start of the performance period, measured over the three years to exercise date. The performance rights 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.
- Earnings per share (EPS) – this condition is based on the Company's compound annual EPS growth over the three years to exercise date. The performance rights 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 10% and 100% at 10% compound annual EPS growth.
- Scorecard – this condition is based on the Group's net profit after tax and amortisation (NPATA) and funds from operations (FFO) for each of the three years to exercise date. The performance rights will vest on a pro-rata basis from 30% upon meeting the minimum three-year average component performance level of 90% to 110% of target and 100% at the capped maximum three-year average component performance level of 110% or more of target.

The variables in the table below are used as inputs into the model to determine the fair value of performance rights.

	2023 Plan	2022 Plan	2021 Plan
Grant date(i)	31 May 2023	30 September 2022	30 September 2021
Performance period	1 July 2022 to 30 June 2025	1 July 2021 to 30 June 2024	1 July 2020 to 30 June 2023
Exercise date	1 July 2026	1 July 2025	1 July 2024
Expected volatility(ii)	30%	30%	27%
Expected dividend yield	6.50%	6.23%	4.35%
Risk-free interest rate	3.71%	3.53%	0.19%
Fair value at grant date	$3.59	$4.57	$6.46

(i) Grant date represents the date of shared understanding of the Option Deed between parties.
(ii) The expected volatility is based on the volatility of Downer's share price calculated based on the historical three year normalised rolling volatility.

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.

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.

Recognition and measurement

Ordinary shares

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

Executive incentive shares

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

E6. Reserves

2023 $'m	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Equity reserve	Fair value through OCI reserve	Total attributable to the members of the Parent
Balance at 1 July 2022	**7.4**	**(39.1)**	**20.7**	**25.5**	**(2.4)**	**12.1**
Foreign currency translation difference	**–**	**8.5**	**–**	**–**	**–**	**8.5**
Actuarial movement on net defined benefit plan obligations	**–**	**–**	**2.6**	**–**	**–**	**2.6**
Income tax effect of actuarial movement on defined benefit plan obligations	**–**	**–**	**(0.8)**	**–**	**–**	**(0.8)**
Change in fair value of cash flow hedges (net of tax)	**(4.4)**	**–**	**–**	**–**	**–**	**(4.4)**
Change in fair value of unquoted equity investments	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Total comprehensive income for the year	**(4.4)**	**8.5**	**1.8**	**–**	**0.2**	**6.1**
Share-based employee benefits income	**–**	**–**	**(0.8)**	**–**	**–**	**(0.8)**
Income tax relating to share-based transactions during the year	**–**	**–**	**1.6**	**–**	**–**	**1.6**
Balance at 30 June 2023	**3.0**	**(30.6)**	**23.3**	**25.5**	**(2.2)**	**19.0**

2022 $'m	Hedge reserve	Foreign currency translation reserve	Employee benefits reserve	Equity reserve	Fair value through OCI reserve	Total attributable to the members of the Parent
Balance at 1 July 2021	(23.1)	(29.7)	14.7	9.5	(2.6)	(31.2)
Foreign currency translation difference	–	(16.6)	–	–	–	(16.6)
Actuarial movement on net defined benefit plan obligations	–	–	6.8	–	–	6.8
Income tax effect of actuarial movement on defined benefit plan obligations	–	–	(2.1)	–	–	(2.1)
Change in fair value of cash flow hedges (net of tax)	30.5	–	–	–	–	30.5
Change in fair value of unquoted equity investments	–	–	–	–	0.2	0.2
Total comprehensive income for the year	30.5	(16.6)	4.7	–	0.2	18.8
Vested executive incentive share transactions	–	–	(0.2)	–	–	(0.2)
Vested Downer Contingent Share Options	–	–	–	16.0	–	16.0
Share-based employee benefits expense	–	–	4.2	–	–	4.2
Income tax relating to share-based transactions during the year	–	–	(2.7)	–	–	(2.7)
Disposal of business	–	7.2	–	–	–	7.2
Balance at 30 June 2022	7.4	(39.1)	20.7	25.5	(2.4)	12.1

Hedge reserve

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

Foreign currency translation reserve

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

Employee benefits reserve

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

Equity reserve

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

Fair value through OCI reserve

The fair value through OCI reserve comprises the cumulative net change in the fair value of equity investments designated as FVOCI.

E7. Dividends

(a) Ordinary shares

	2023 Final	2023 Interim	2022 Final	2022 Interim
Dividend per share (in Australian cents)	**8.0**	**5.0**	12.0	12.0
Franking percentage	**0%**	**0%**	0%	0%
Cost (in $'m)	**53.7**	**33.6**	81.1	81.8
Dividend record date	**24/8/23**	**13/3/23**	31/8/22	24/2/22
Payment date	**21/9/23**	**11/4/23**	28/9/22	24/3/22

Recognition and measurement

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

The final 2023 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)

2023	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	**1.29**	**1.37**	**1.37**	**1.35**	**5.38**
New Zealand imputation credit percentage	**100%**	**100%**	**100%**	**100%**	**100%**
Cost (in A$'m)	**2.6**	**2.7**	**2.7**	**2.7**	**10.7**
Payment date	**15/9/22**	**15/12/22**	**15/3/23**	**15/6/23**	

2022	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Dividend per ROADS (in Australian cents)	0.76	0.75	0.74	0.72	2.97
New Zealand imputation credit percentage	100%	100%	100%	100%	100%
Cost (in A$'m)	1.5	1.5	1.5	1.4	5.9
Payment date	15/9/21	15/12/21	15/3/22	15/6/22	

(c) Franking credits

The franking account balance as at 30 June 2023 is $10.7 million (2022: 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 associate entities

	2023 $'m	2022 $'m
Interest in joint ventures at the beginning of the financial year	**31.9**	24.1
Share of net profit	**20.1**	21.5
Share of distributions	**(12.9)**	(13.6)
Foreign currency exchange differences	**–**	(0.1)
Interest in joint ventures at the end of the financial year	**39.1**	31.9
Interest in associates at the beginning of the financial year	**130.9**	131.0
Share of net profit	**9.7**	8.2
Share of distributions	**(20.5)**	(8.3)
Interest in associates at the end of the financial year	**120.1**	130.9
Total interest in joint ventures and associates	**159.2**	162.8

The Group has interests in the following joint ventures and associates which are equity accounted:

			Ownership interest	
Name of arrangement	**Principal activity**	**Principal place of business**	**2023 %**	**2022 %**
Joint Ventures				
Allied Asphalt Limited	Asphalt plant	New Zealand	**50**	50
Bitumen Importers Australia Joint Venture	Bitumen importer	Australia	**50**	50
Bitumen Importers Australia Pty Ltd	Bitumen importer	Australia	**50**	50
EDI Rail-Alstom Transport Pty Ltd[(i)]	Sale and maintenance of railway rollingstock	Australia	**50**	50
Emulco Limited	Emulsion plant	New Zealand	**50**	50
Isaac Asphalt Limited	Manufacture and supply of asphalt	New Zealand	**50**	50
Repurpose It Holdings Pty Ltd	Waste recycling	Australia	**45**	45
Associates				
Keolis Downer Pty Ltd	Operation and maintenance of Gold Coast light rail, Melbourne tram network, Adelaide metro, and bus operations	Australia	**49**	49
HT HoldCo Pty Ltd	Laundries services	Australia	**30**	30

(i) EDI Rail-Bombardier Transportation Pty Ltd changed its name to EDI Rail-Alstom Transport Pty Limited during the financial year ended 30 June 2023.

There are no material commitments held by joint ventures and associates. All joint ventures and associates have a statutory reporting date of 30 June.

The Group's share of financial information from joint ventures and associates is presented below.

The Group does not disclose the details of the other individual joint ventures and associates on the basis these are individually immaterial.

The Group's share of the carrying amounts:

2023 $'m	Repurpose It	Keolis Downer	HT HoldCo	Bitumen Importers Australia	Other	Total
Current assets	**12.5**	**215.3**	**15.0**	**10.9**	**23.0**	**276.7**
Non-current assets	**67.2**	**119.6**	**87.5**	**10.7**	**11.3**	**296.3**
Current liabilities	**(19.9)**	**(148.5)**	**(17.2)**	**(3.7)**	**(5.9)**	**(195.2)**
Non-current liabilities	**(38.9)**	**(100.2)**	**(56.5)**	**(13.7)**	**(21.2)**	**(230.5)**
Net assets	**20.9**	**86.2**	**28.8**	**4.2**	**7.2**	**147.3**
Goodwill	**7.0**	**–**	**–**	**–**	**–**	**7.0**
Adjustment to align accounting policies	**–**	**4.9**	**–**	**–**	**–**	**4.9**
Carrying amounts	**27.9**	**91.1**	**28.8**	**4.2**	**7.2**	**159.2**
Profit for the year	**8.1**	**9.3**	**0.4**	**5.4**	**6.6**	**29.8**
Total comprehensive income for the year	**8.1**	**9.3**	**0.4**	**5.4**	**6.6**	**29.8**

2022 $'m	Repurpose It	Keolis Downer	HT HoldCo	Bitumen Importers Australia	Other	Total
Current assets	9.3	234.9	13.8	13.2	18.0	289.2
Non-current assets	42.6	119.2	90.2	10.8	9.4	272.2
Current liabilities	(16.1)	(150.5)	(15.4)	(2.6)	(5.6)	(190.2)
Non-current liabilities	(23.1)	(105.8)	(60.2)	(15.1)	(15.7)	(219.9)
Net assets	12.7	97.8	28.4	6.3	6.1	151.3
Goodwill	7.0	–	–	–	–	7.0
Adjustment to align accounting policies	–	4.5	–	–	–	4.5
Carrying amounts	19.7	102.3	28.4	6.3	6.1	162.8
Profit/(loss) for the year	6.7	13.1	(5.0)	7.1	7.8	29.7
Total comprehensive income/(loss) for the year	6.7	13.1	(5.0)	7.1	7.8	29.7

Recognition and measurement

Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the Consolidated Statement of Profit or Loss, and the Group's share of movements of the investee's other comprehensive income in the Consolidated Statement of Other Comprehensive Income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

(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.

F1. Joint arrangements and associate entities – continued

(b) Interest in joint operations

The Group recognises its interest in the assets, liabilities, revenue and expenses of joint operations.

Name of joint operation	Principal activity	Principal place of business	Ownership interest 2023 %	Ownership interest 2022 %
Ausenco Downer Joint Venture	Enabling works for Carrapateena Project	Australia	**50**	50
Bama Civil Pty Ltd & Downer EDI Works Pty Ltd	Civil Infrastructure design and/or construction activities	Australia	**50**	50
Cameron Road Joint Venture	Cameron Road construction	New Zealand	**50**	50
China Hawkins Construction JV	Building construction	New Zealand	**50**	50
City Rail JV	Enabling works for Auckland City Rail Link	New Zealand	**50**	50
Concrete Pavement Recycling Pty Ltd (ii)	Road maintenance	Australia	**(ii)**	49
Confluence Water JV	Sydney Water services	Australia	**43**	43
CPB Contractors Pty Ltd & Spotless Facility Services Pty Ltd	Riverina Redevelopment Program	Australia	**50**	50
CPB Downer Joint Venture	Parramatta Light Rail construction	Australia	**50**	50
CRL Construction Joint Venture	Construction of the City Rail Link Alliance Project	New Zealand	**30**	30
Dampier Highway Joint Venture	Highway construction and design	Australia	**50**	50
Downer BMD Joint Venture	West Camden Water Recycling Plant Upgrade	Australia	**50**	50
Downer EDI Works Pty Ltd & CPB Contractors Pty Ltd	Warringah Freeway Upgrade Project	Australia	**33**	33
Downer EDI Works Pty Ltd & McConnell Dowell Constructors (Aust) Pty Ltd (iv)	Waurn Ponds Duplication	Australia	**50**	50
Downer Electrical GHD JV (iii)	Traffic control infrastructure	Australia	**90**	90
Downer FKG JV	Major civil and roadworks	Australia	**50**	50
Downer HEB Joint Venture (Te Ara Tupua) (i)	Te Ara Tupua Alliance	New Zealand	**50**	–
Downer Fulton Hogan Joint Venture (Wakatipu Transport Alliance) (i)	Wakatipu Transport Alliance	New Zealand	**50**	–
Downer HEB Joint Venture (iRex Project) (i)	iRex Ferry Construction project	New Zealand	**50**	–
Downer HEB Joint Venture (Memorial Park Alliance)	Design and build of the New Zealand National War Memorial Park	New Zealand	**50**	50
Downer HEB Joint Venture (Mt Messenger Project)	Design and build of the Mt Messenger Project	New Zealand	**50**	50
Downer MCD Wynyard Edge JV (Americas Cup Project)	Design and build on Americas Cup Project	New Zealand	**50**	50
Downer Seymour Whyte JV	Road construction	Australia	**50**	50
Downer Utilities Australia Pty Ltd & Ventia Utility Services Pty Ltd (Gold Coast Infrastructure Solutions) (i)	Gold Coast Asset Lifecycle Services	Australia	**50**	–
Downtown Infrastructure Development Project JV	Downtown infrastructure development program	New Zealand	**33**	33
HCMT Supplier JV	Rail build supplier	Australia	**50**	50
John Holland Pty Ltd & Downer Utilities Australia Pty Ltd Partnership	Operation of water recycling plant at Mackay	Australia	**50**	50
Macdow Downer Joint Venture (Connectus)	Rail construction	New Zealand	**50**	50
Macdow Downer Joint Venture (CSM2)	Road construction	New Zealand	**50**	50
Macdow Downer Joint Venture (Russley Road)	Road construction	New Zealand	**50**	50
NEWest Alliance (iv)	Construction activities as part of Perth's METRONET program	Australia	**50**	50

Name of joint operation	Principal activity	Principal place of business	Ownership interest 2023 %	Ownership interest 2022 %
North Canterbury Transport Infrastructure Economic Recovery Alliance 'NCTIER' JV	Kaikoura earthquake works	New Zealand	**25**	25
Safety Focused Performance JV	Water and sewerage capital works	Australia	**45**	45
Thiess VEC Joint Venture	Highway construction	Australia	**50**	50
Utilita Water JV	Plant maintenance	Australia	**50**	50
VEC Shaw Joint Venture	Road construction	Australia	**50**	50
Wiri Train Depot Joint Venture	Construction of the Wiri train depot	New Zealand	**50**	50

(i) Joint operation entered into during the year ended 30 June 2023.
(ii) Following the acquisition of the remaining interest in Concrete Pavement Recycling Pty Ltd, this joint operation is now 100% controlled by the Group.
(iii) Contractual arrangement prevents control despite ownership of more than 50% of this joint operation.
(iv) Joint operations in the process of novation to DT Infrastructure Pty Ltd as a result of the sale of the Australian Transport Project business.

Recognition and measurement

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

F2. Controlled entities

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

Australia

A E Smith & Son (NQ) Pty Ltd (v)
A E Smith & Son (SEQ) Pty Ltd (v)
A.E. Smith & Son Proprietary Limited (v)
AE Smith Building Technologies Pty Ltd (v)
A.E. Smith Service (SEQ) Pty Ltd (v)
A.E. Smith Service Holdings Pty Ltd (v)
A.E. Smith Service Pty Ltd (v)
ACN 009 173 040 Pty Ltd
Airparts Fabrication Pty Ltd (v)
Airparts Fabrication Unit Trust (v)
Airparts Holdings Pty Ltd (v)
Aladdin Group Services Pty Limited
Aladdin Laundry Pty Limited
Aladdin Linen Supply Pty Limited
Aladdins Holdings Pty. Limited
ASPIC Infrastructure Pty Ltd
Asset Services (Aust) Pty Ltd
Berkeley Challenge (Management) Pty Limited
Berkeley Challenge Pty Limited
Berkeley Railcar Services Pty Ltd
Berkeleys Franchise Services Pty Ltd
Bonnyrigg Management Pty. Limited
Cleandomain Proprietary Limited
Cleanevent Australia Pty. Ltd.
Cleanevent Holdings Pty. Limited
Cleanevent International Pty. Limited
Cleanevent Technology Pty Ltd
Concrete Pavement Recycling Pty Ltd (iv)
DM Road Services Pty Ltd
DMH Electrical Services Pty Ltd
DMH Maintenance and Technology Services Pty Ltd
DMH Plant Services Pty Ltd
Downer Australia Pty Ltd
Downer EDI Associated Investments Pty Ltd
Downer EDI Engineering Company Pty Limited
Downer EDI Engineering CWH Pty Limited
Downer EDI Engineering Electrical Pty Ltd
Downer EDI Engineering Group Pty Limited
Downer EDI Engineering Holdings Pty Ltd
Downer EDI Engineering Power Pty Ltd
Downer EDI Engineering Pty Limited
Downer EDI Limited Tax Deferred Employee Share Plan
Downer EDI Mining Pty Ltd
Downer EDI Mining-Minerals Exploration Pty Ltd
Downer EDI Rail Pty Ltd
Downer EDI Services Pty Ltd
Downer EDI Works Pty Ltd
Downer Energy Systems Pty Limited
Downer Group Finance Pty Limited
Downer Holdings Pty Limited
Downer Investments Holdings Pty Ltd
Downer Mining Regional NSW Pty Ltd
Downer PipeTech Pty Limited
Downer PPP Investments Pty Ltd
Downer Professional Services Pty Ltd (vi)
Downer QTMP Pty Ltd (vii)
Downer Utilities Australia Pty Ltd
Downer Utilities Holdings Australia Pty Ltd
Downer Utilities New Zealand Pty Ltd
Downer Utilities SDR Pty Ltd
Downer Victoria PPP Maintenance Pty Ltd
EDI Rail PPP Maintenance Pty Ltd
EDICO Pty Ltd
Emerald ESP Pty Ltd (v)
Emoleum Partnership
Emoleum Road Services Pty Ltd
Emoleum Roads Group Pty Ltd
Envar Engineers and Contractors Pty Ltd (v)
Envar Holdings Pty Ltd (v)
Envar Installation Pty Ltd (v)
Envar Service Pty Ltd (v)
Envista Pty Limited
Errolon Pty Ltd
Evans Deakin Industries Pty Ltd
Fieldforce Services Pty Ltd

F2. Controlled entities – continued

Australia – continued
Fowlers Asphalting Pty. Limited
Gippsland Asphalt Pty. Ltd.
Infrastructure Constructions Pty Ltd
International Linen Service Pty Ltd
LNK Group Pty Ltd
Lowan (Management) Pty. Ltd.
Maclab Services Pty Ltd
Mineral Technologies (Holdings) Pty Ltd
Mineral Technologies Pty Ltd
Monteon Pty Ltd
Nationwide Venue Management Pty Limited
New South Wales Spray Seal Pty Ltd
NG-Serv Pty Ltd
Nuvogroup (Australia) Pty Ltd
Pacific Industrial Services BidCo Pty Ltd
Pacific Industrial Services FinCo Pty Ltd
Primary Producers Improvers Pty. Ltd.
Rail Services Victoria Pty Ltd
Riley Shelley Services Pty Limited
Roche Services Pty Ltd
RPC Roads Pty Ltd
RPQ Asphalt Pty. Ltd.
RPQ Mackay Pty Ltd
RPQ North Coast Pty. Ltd.
RPQ Pty Ltd
RPQ Services Pty. Ltd.
RPQ Spray Seal Pty. Ltd.
Skilltech Consulting Services Pty. Ltd.
Skilltech Metering Solutions Pty Ltd.
Smarter Contracting Pty Ltd
Southern Asphalters Pty Ltd
Sports Venue Services Pty Ltd
Spotless Defence Services Pty Ltd
Spotless Facility Services Pty Ltd
Spotless Financing Pty Limited
Spotless Group Holdings Limited
Spotless Group Limited
Spotless Investment Holdings Pty Ltd
Spotless Management Services Pty Ltd
Spotless Property Cleaning Services Pty Ltd
Spotless Securities Plan Pty Ltd
Spotless Services Australia Limited
Spotless Services International Pty Ltd
Spotless Services Limited
Spotless Treasury Pty Limited
SSL Asset Services (Management) Pty Ltd
SSL Facilities Management Real Estate Services Pty Ltd
SSL Security Services Pty Ltd
Tarmac Linemarking Pty Ltd
Taylors Two Two Seven Pty Ltd
Trenchless Group Pty Ltd
Trico Asphalt Pty. Ltd.
UAM Pty Ltd
Utility Services Group Holdings Pty Ltd
Utility Services Group Limited
VEC Civil Engineering Pty Ltd
VEC Plant & Equipment Pty Ltd

New Zealand and Pacific
AF Downer Memorial Scholarship Trust
DGL Investments Limited
Downer Construction (Fiji) Pte Limited
Downer Construction (New Zealand) Limited
Downer EDI Engineering Power Limited
Downer EDI Engineering PNG Limited
Downer EDI Works Vanuatu Limited
Downer New Zealand Limited
Downer New Zealand Projects 1 Limited
Downer New Zealand Projects 2 Limited
Downer Utilities New Zealand Limited
Green Vision Recycling Limited
Hawkins Limited
Hawkins Project 1 Limited
ITS Pipetech Pacific (Fiji) Pte Limited
Richter Drilling (PNG) Limited
Spotless Facility Services (NZ) Limited
Spotless Holdings (NZ) Limited
Techtel Training & Development Limited
The Roading Company Limited
Waste Solutions Limited
Works Finance (NZ) Limited

Africa
Downer EDI Mining – Ghana Limited
Downer Mining South Africa Proprietary Limited (iii)
MD Mineral Technologies Africa (Pty) Ltd
MD Mining and Mineral Services (Pty) Ltd (i)

Asia
Chang Chun Ao Hua Technical Consulting Co Ltd
Cleanevent Middle East FZ LLC (ii)
Downer EDI Engineering (S) Pte Ltd
Downer EDI Engineering Holdings (Thailand) Limited
Downer EDI Engineering Thailand Ltd
Downer EDI Group Insurance Pte Ltd
Downer EDI Rail (Hong Kong) Limited
Downer EDI Works (Hong Kong) Limited
Downer Pte Ltd
Downer Singapore Pte Ltd
MD Mineral Technologies Private Limited
PT Duffill Watts Indonesia
PT Otraco Indonesia (iii)

Americas
Mineral Technologies Comercio de Equipamentos para Processamento de Minerais LTD
Mineral Technologies, Inc.
Otraco Brasil Gerenciamento de Pneus Ltda (iii)

United Kingdom and Channel Islands
KHSA Limited
Sillars (B. & C.E.) Limited (ii)
Sillars (TMWD) Limited (ii)
Sillars Holdings Limited (ii)
Sillars Road Construction Limited (ii)
Works Infrastructure (Holdings) Limited (ii)
Works Infrastructure Limited (ii)

(i) 70% ownership interest.
(ii) Entity is currently undergoing liquidation/dissolution.
(iii) Entity dissolved/de-registered during the financial year ended 30 June 2023.
(iv) Entity acquired during the financial year ended 30 June 2023.
(v) These Spotless controlled entities do not form part of the tax-consolidated group of which Downer EDI Limited is the head entity.
(vi) AGIS Group Pty Limited changed its name to Downer Professional Services Pty Ltd during the financial year ended 30 June 2023.
(vii) Entity incorporated during the financial year ended 30 June 2023.

F3. Related party information

(a) Transactions with controlled entities

Aggregate amounts receivable from and payable to controlled entities by the parent entity are included within total assets and liabilities balances as disclosed in Note F4.

(b) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note F2.

Equity interests in joint arrangements and associate entities

Details of interests in joint arrangements and associate entities are disclosed in Note F1. The business activities of a number of these entities are conducted under joint venture arrangements. Associated entities conduct business transactions with various controlled entities. Such transactions include purchases and sales, dividends and interest.

(c) Controlling entity

The parent entity of the Group is Downer EDI Limited.

F4. Parent entity disclosures

(a) Financial position

	Company	
	2023 $'m	2022 $'m
Assets		
Current assets	**8.7**	24.1
Non-current assets	**2,665.1**	2,774.8
Total assets	**2,673.8**	2,798.9
Liabilities		
Current liabilities	**10.2**	30.1
Non-current liabilities	**–**	5.8
Total liabilities	**10.2**	35.9
Net assets	**2,663.6**	2,763.0
Equity		
Issued capital	**2,463.8**	2,481.6
Retained earnings	**171.1**	253.5
Reserves		
Employee benefits reserve	**12.7**	11.9
Equity reserve	**16.0**	16.0
Total equity	**2,663.6**	2,763.0

The parent entity was in a net current liabilities position largely due to the recognition of the fair value on the Downer Contingent Share Options (DCSO) of $3.7 million financial instrument at reporting date which would be settled in equity. The parent entity can meet all its financial obligations when they fall due since it has the ability to control the timing of the funding from its controlled entities.

(b) Financial performance

	Company	
	2023 $'m	2022 $'m
Profit for the year	**32.3**	228.7
Total comprehensive income	**32.3**	228.7

F4. Parent entity disclosures – continued

(c) Guarantees entered into by the parent entity in relation to the 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 2023 (2022: nil) other than those disclosed in Note C9 to the financial statements.

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

The parent entity does not have any commitments for acquisition of property, plant and equipment as at 30 June 2023 (2022: nil).

F5. Acquisition of businesses

Current year acquisition

Concrete Pavement Recycling Pty Ltd

On 14 April 2023, the Group acquired the remaining 50.5% interest in Concrete Pavement Recyling Pty Ltd ("CPR") for consideration of $0.1 million.

The acquisition accounting for CPR remains provisionally accounted at 30 June 2023.

Prior year acquisition

Fowlers

On 30 November 2021, the Group acquired 100% of Fowlers Asphalting Pty. Limited, Gippsland Asphalt Pty. Ltd. and Tarmac Linemarking Pty Ltd ('Fowlers') for total consideration of $25.9 million. Total consideration for this acquisition comprised $24.0 million cash paid (net of $0.6 million cash balances acquired) and $1.3 million deferred consideration. The fair value of the acquired net assets amounts to $18.1 million resulting in goodwill of $7.8 million being recognised. Fowlers is an asphalting and civil construction business operating in the Gippsland area of Victoria.

The Group has concluded the acquisition accounting process for this acquisition and there was no material change arising from finalisation.

Goodwill from acquisition

The goodwill resulting from the above acquisition 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.

Measurement of fair values

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

Asset/liability acquired	Valuation technique
Trade receivables and contract assets	Cost technique – considers the expected economic benefits receivable when due.
Property, plant and equipment	Market comparison technique and cost technique – the valuation model considers quoted market prices for similar items when available and current replacement cost when appropriate.
Intangible assets	Multi-period excess earnings method – considers the present value of net cash flows expected to be generated by the customer contracts and relationships, intellectual property and brand names, excluding any cash flows related to contributory assets. For the valuation of certain brand names, discounted cash flow under the relief from royalty valuation methodology has been utilised.
Trade payables and 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.

Recognition and measurement

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred
- Liabilities incurred to the former owners of the acquired business
- Equity interests issued by the Group
- Fair value of any asset or liability resulting from a contingent consideration arrangement, and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

(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).

F6. Disposal of businesses

Current year divestments

Transport Projects

On 20 June 2023, Downer completed the sale of its Australian Transport Projects business to DT Infrastructure Pty Ltd, a Gamuda Berhad group company (Gamuda). The sale price represents an enterprise value of $212 million. There remains a number of customer consents outstanding at the date of completion, some of which remain outstanding as at the date of this report. These contracts will remain with Downer until the consents are received and Downer has agreed to defer $20.0 million of the proceeds until the remaining customer consents are received and the contracts novated. As at June 2023, net proceeds (after transaction costs) of $160.5 million had been received with a $44.4 million pre-tax gain on disposal.

The below table summarises the impact of divestments during the 2023 financial year:

2023 $'m	Note	Transport Projects
Proceeds on disposal (net of transaction costs)		**214.9**
Less cash disposed		**(54.4)**
Proceeds net of disposal costs (as per the Consolidated Statement of Cash Flows)		**160.5**
Consideration for divested contracts (net of transaction costs)		**164.9**
Cash and cash equivalents		**54.4**
Trade receivables and contract assets		**70.5**
Property, plant and equipment		**36.7**
Right-of-use assets		**1.7**
Goodwill/Intangible assets		**44.1**
Inventories		**0.9**
Deferred tax assets		**3.5**
Assets disposed		**211.8**
Trade payables and contract liabilities		**77.7**
Lease liabilities		**1.8**
Employee benefits provision		**11.8**
Liabilities disposed		**91.3**
Net assets disposed		**120.5**
Gain on disposal before tax	B3	**44.4**

F6. Disposal of businesses – continued

Prior year divestments

Disposal of Mining businesses

Open Cut Mining East business

On 11 October 2021, Downer entered into an agreement to sell its Open Cut Mining East business to an Australian subsidiary of PT Bukit Makmur Mandiri Utama (BUMA), a large Mining services provider in Indonesia, for gross proceeds of $150 million. The sale included the transfer of assets (including fleet and inventory) and liabilities; and the novation of the existing contracts to BUMA. Downer received an initial deposit of $16 million at that date. On 17 December 2021, the sale of Open Cut Mining East was completed and Downer received the remaining purchase price. As at 30 June 2022, net proceeds (after transaction costs) of $131.0 million had been received with a $64.7 million pre-tax loss on disposal recognised.

Otraco business

On 26 April 2021, an agreement was reached for the sale of Mining's tyre management business (Otraco) to Bridgestone Corporation (Bridgestone). Otraco was disclosed as a disposal group held for sale in the Group's 2021 Annual Report.
On 1 December 2021, the sale of Otraco was completed and Downer received net proceeds (after transaction costs) of $75.1 million and recorded a net pre-tax gain on disposal of $47.4 million.

The below table summarises the impact of divestments during the 2022 financial year:

2022 $'m	Note	Mining Divestments
Proceeds on disposal (net of transaction costs)		221.8
Less cash disposed		(15.7)
Proceeds net of disposal costs(i)		206.1
Proceeds on disposal (net of transaction costs)		221.8
Cash and cash equivalents		15.7
Trade receivables and contract assets		40.4
Property, plant and equipment(ii)		174.1
Right-of-use assets(iii)		41.7
Intangible assets(iv)		0.5
Inventories		40.3
Current tax assets		1.7
Deferred tax assets		9.2
Prepayments and other assets		0.7
Assets disposed		324.3
Trade payables and contract liabilities		5.9
Lease liabilities(v)		43.2
Employee benefits provision		38.5
Other provisions		0.2
Liabilities disposed		87.8
Net assets disposed		236.5
Add non-controlling interest disposed		4.6
Less FCTR held on businesses disposed		7.2
(Loss) on disposal before tax	B3	(17.3)

(i) A further $39.3 million proceeds in relation to Open Cut Mining West and Blasting businesses disposed during FY21 have been received during the year. Total divestment proceeds received as at 30 June 2022 amounts to $245.4 million.
(ii) A further $9.4 million of Otraco assets classified as Assets Held for Sale at 30 June 2021 were also disposed. Refer to Annual Report 2021.
(iii) A further $2.2 million of Otraco assets classified as Assets Held for Sale at 30 June 2021 were also disposed. Refer to Annual Report 2021.
(iv) $0.5 million of Otraco intangible assets classified as Assets Held for Sale at 30 June 2021 were also disposed. Refer to Annual Report 2021.
(v) A further $2.4 million of Otraco lease liabilities classified as Liabilities Held for Sale at 30 June 2021 were also disposed. Refer to Annual Report 2021.

F7. Disposal group held for sale

Transport Projects

On 20 June 2023, Downer announced it had completed the sale of its Australian Transport Projects business to DT Infrastructure Pty Ltd, a Gamuda Berhad group company (Gamuda). There remains a number of contracts with customer consents outstanding at the date of completion, some of which remain outstanding as at the date of this report. These contracts will remain with Downer until the consents are received.

Asset and Development Services

Downer has entered into an agreement to sell the remaining part of its Australian Mechanical and Electrical Commercial Projects business ('Asset & Development Services') to existing managers of the business. The transaction is expected to be completed in FY24.

The assets and liabilities of the contracts to be divested have been reclassified as current assets and liabilities held for sale at 30 June 2023.

At 30 June 2023, the disposal groups were stated at the lower of its carrying amount and fair value less costs of disposal, and consisted of the following assets and liabilities:

2023 $'m	Note	Transport Projects	Asset and Development Services	Total
Trade receivables and contract assets		42.8	41.2	84.0
Inventories		–	0.2	0.2
Current tax assets		–	2.0	2.0
Prepayments and other assets		0.7	0.5	1.2
Property, plant and equipment	C5	–	0.4	0.4
Right-of-use assets	C6	0.6	2.0	2.6
Deferred tax assets	B5(b)	–	1.8	1.8
Assets held for sale		**44.1**	**48.1**	**92.2**
Trade payables and contract liabilities		54.8	42.7	97.5
Lease liabilities		0.6	2.5	3.1
Current tax liabilities		–	0.2	0.2
Employee benefits provision		3.0	8.4	11.4
Other provisions	C8	0.5	1.2	1.7
Deferred tax liabilities	B5(b)	(1.0)	–	(1.0)
Liabilities held for sale		**57.9**	**55.0**	**112.9**

Recognition and measurement

Disposal groups are recognised when a sale is considered highly probable. The assets and liabilities of these disposal groups are disclosed separately on the basis that their value is expected to be realised through a sale event rather than continued use. Disposal group assets are presented at the lower of their carrying value or the value expected to be realised through the sale. Any impairment to the carrying value of the assets is recognised through the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The Assets held for sale do not include any recognition of divestment and exit costs.

G Other

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

G1. New accounting standards

(a) New and amended accounting standards adopted by the Group

During the year, the Group has applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2022, as follows:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments, including:*
  - *Amendments to AASB 137 – Onerous Contracts – Cost of Fulfilling a Contract.*
  - *Amendments to AASB 116 – Property, Plant and Equipment: Proceeds before Intended Use.*
  - *Reference to the Conceptual Framework (Amendments to AASB 3).*

Based on AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, the full cost approach was utilised and hence there was no impact on measurement of onerous contracts.

None of the above new and amended accounting standards have had a significant impact on the Group's consolidated 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 2020-1 and 2020-6 *Classification of liabilities as current or non-current.*
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates.*
- AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction.*
- AASB 17 *Insurance Contracts.*
- AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts.*
- AASB 2022-1 *Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 Comparative Information.*
- AASB 2022-5 *Amendments to AASB 16 Leases – Lease Liability in a Sale and Leaseback.*
- AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*
- AASB 2022-7 *Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards.*
- AASB 2022-6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants.*
- AASB 2023-1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements.*
- AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules.*

AASB 17 *Insurance Contracts* (AASB 17) will be first applicable to the Group for the financial year commencing 1 July 2023 and must be applied retrospectively. Insurance contracts are defined as contracts 'under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'. AASB 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

Management is in the process of determining the impact and no material items have been identified to date.

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.

A buy-back of Downer's shares was announced to the market on 27 April 2021 and the buy-back commenced on 8 June 2021. As of 30 June 2023, the buy-back has ended and a total of 32,217,939 shares were purchased for total consideration of $185.0 million, funded by the Group's cash reserves.

(b) Financial risk management objectives

The Group's Treasury function manages the funding, liquidity and financial risks of the Group that are managed under a Board approved Treasury Policy. These risks include foreign exchange, interest rate, commodity and financial counterparty credit risk.

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

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

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

(iii) Interest rate swaps to manage interest rate risk

(iv) Commodity forward contracts to manage commodity price movements in contracts.

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

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. No material amounts with a right to offset were identified in the Consolidated Statement of Financial Position.

(c) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. As a result, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts and cross-currency swaps.

The carrying amounts of the Group's unhedged foreign currency denominated financial assets and financial liabilities at the reporting date are as follows:

	Financial assets(i)		Financial liabilities(i)	
	2023 $'m	**2022 $'m**	**2023 $'m**	**2022 $'m**
US Dollar (USD)	**2.3**	1.3	**0.2**	–
Euro (EUR)	**0.5**	0.6	**0.1**	2.3

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

G2. Capital and financial risk management – continued

Foreign currency forward contracts

The following table summarises, by currency pairs, the Australian dollar value (unless otherwise stated) of forward exchange contracts outstanding as at the reporting date:

	Weighted average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	**2023**	**2022**	**2023 FC'm**	**2022 FC'm**	**2023 $'m**	**2022 $'m**	**2023 $'m**	**2022 $'m**
Buy USD / Sell AUD								
Less than 3 months	**0.6807**	0.7217	**3.1**	7.2	**4.6**	10.0	**0.1**	0.5
3 to 6 months	**0.7287**	0.7305	**2.1**	9.6	**2.9**	13.1	**0.3**	0.8
Later than 6 months	**0.6929**	0.7387	**3.9**	7.5	**5.6**	10.1	**0.2**	0.7
			9.1	24.3	**13.1**	33.2	**0.6**	2.0
Sell USD / Buy AUD								
Less than 3 months	**0.6768**	0.7194	**0.9**	3.5	**1.3**	4.9	**–**	(0.2)
3 to 6 months	**0.6888**	0.7431	**8.2**	12.4	**11.8**	16.7	**(0.4)**	(1.2)
Later than 6 months	**0.6514**	0.7225	**7.6**	8.8	**11.6**	12.2	**0.3**	(0.5)
			16.7	24.7	**24.7**	33.8	**(0.1)**	(1.9)
Buy EUR / Sell AUD								
Less than 3 months	**0.6328**	0.6530	**0.8**	3.8	**1.3**	5.9	**0.1**	(0.2)
3 to 6 months	**0.6198**	0.6304	**0.5**	1.0	**0.9**	1.6	**–**	(0.1)
Later than 6 months	**0.6201**	0.6260	**0.6**	0.8	**1.0**	1.2	**–**	–
			1.9	5.6	**3.2**	8.7	**0.1**	(0.3)
Buy JPY / Sell AUD								
Less than 3 months	**85.32**	86.14	**435.1**	584.6	**5.1**	6.8	**(0.6)**	(0.6)
3 to 6 months	**87.65**	89.82	**164.6**	75.6	**1.9**	0.8	**(0.1)**	–
Later than 6 months	**84.48**	82.77	**560.9**	342.4	**6.6**	4.1	**(0.4)**	(0.4)
			1,160.6	1,002.6	**13.6**	11.7	**(1.1)**	(1.0)
Sell JPY / Buy AUD								
Less than 3 months	**90.50**	87.97	**25.0**	515.9	**0.3**	5.9	**–**	0.4
3 to 6 months	**80.88**	–	**70.2**	–	**0.9**	–	**0.1**	–
Later than 6 months	**87.83**	80.02	**21.4**	51.3	**0.2**	0.6	**–**	0.1
			116.6	567.2	**1.4**	6.5	**0.1**	0.5
Buy NZD / Sell AUD								
Less than 3 months	**1.0854**	1.0992	**40.0**	45.0	**36.9**	40.9	**(0.1)**	(0.3)
Sell NZD / Buy AUD								
Less than 3 months	**1.0895**	–	**20.0**	–	**18.4**	–	**–**	–
Buy GBP / Sell AUD								
Less than 3 months	**–**	0.5669	**–**	0.4	**–**	0.6	**–**	–
Later than 6 months	**–**	0.5291	**–**	0.7	**–**	1.3	**–**	(0.1)
			–	1.1	**–**	1.9	**–**	(0.1)
Total							**(0.5)**	(1.1)

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	2023 %	2022 %	2023	2022	2023 $'m	2022 $'m	2023 $'m	2022 $'m
Buy USD / Sell AUD								
1 to 5 years	**5.9**	5.9	**0.7739**	0.7739	**129.2**	129.2	**17.3**	14.7
Buy JPY / Sell AUD								
5 years or more	**5.2**	5.2	**83.12**	83.12	**120.3**	120.3	**(9.9)**	(7.8)

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

Foreign currency sensitivity analysis

The Group is mainly exposed to the movement in United States dollar (USD), New Zealand dollar (NZD) and Japanese Yen (JPY) arising from cross-border trade and intercompany flows.

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)	
	2023 $'m	2022 $'m	2023 $'m	2022 $'m
USD impact				
- 15% rate change	**0.4**	0.2	**(1.9)**	(0.2)
+ 15% rate change	**(0.3)**	(0.1)	**1.4**	0.2
NZD impact				
- 15% rate change	**–**	–	**6.5**	7.2
+ 15% rate change	**–**	–	**(4.8)**	(5.3)
JPY impact				
- 15% rate change	**–**	–	**1.9**	1.2
+ 15% rate change	**–**	–	**(1.4)**	(0.9)

(i) This is mainly as a result of the changes in the value of unhedged foreign currency denominated financial asset and liabilities.
(ii) This is as a result of the changes in the value of forward foreign exchange contracts designated as cash flow hedges.

G2. Capital and financial risk management – continued

(d) Interest rate risk management

The Group is exposed to interest rate risk as entities borrow funds at floating interest rates. Management of this risk is governed by a Board approved Treasury Policy and is managed by maintaining an appropriate mix between fixed and floating rate borrowings and hedging is undertaken utilising cross-currency interest rate swaps and 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)	
	2023 %	2022 %	2023 $'m	2022 $'m
Floating interest rates – income and cash flow exposure				
Bank loans	**5.3**	1.8	**587.0**	7.0
Cash and cash equivalents	**2.3**	0.3	**(889.1)**	(738.5)
Total cash flow exposure			**(302.1)**	(731.5)
Fixed interest rates – fair value exposure				
Bank loans(i)	**5.0**	2.0	**221.8**	568.0
USD private placement notes(i)	**5.9**	5.9	**133.5**	130.5
AUD private placement notes	**5.8**	5.8	**30.0**	30.0
Medium term notes(i)	**3.6**	3.6	**620.5**	622.9
Total fair value exposure			**1,005.8**	1,351.4

(i) The marked to market values of the interest rate and cross-currency swaps have been included in the debt amounts.

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

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

The Group uses cross-currency interest rate swaps and interest rate swap contracts to manage interest rate exposures. Under these contracts, the Group commits to exchange the difference between fixed and floating rate interest amounts calculated on notional principal amounts. The principal and interest amounts on USD private placement notes and JPY medium term notes have been fully hedged against the Australian dollar through cross-currency interest rate swaps. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date.

The following table details the interest rate swap contracts and related notional principal amounts as at the reporting date:

	Weighted average interest rate		Notional principal amount		Fair value	
Outstanding floating to fixed swap contracts	2023 %	2022 %	2023 $'m	2022 $'m	2023 $'m	2022 $'m
AUD interest rate swaps						
Less than 1 year	**3.3**	0.7	**225.0**	575.0	**3.2**	5.4
1 to 2 years	**–**	3.3	**–**	225.0	**–**	1.5
			225.0	800.0	**3.2**	6.9

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and assuming that the rate change occurs at the beginning of the financial year and is then held constant throughout the reporting period.

Sensitivities have been based on a movement in interest rates of 100 basis points across the yield curve of the relevant currencies. The selected basis point increase or decrease represents the Group's assessment of the possible change in interest rates based on the current observable market environment for variable rate instruments, cross-currency interest rate swaps and interest rate swaps. An increase or decrease in interest rates of 100 basis points on the unhedged position (mostly cash and cash equivalents) will increase or decrease interest expense by $3.0 million (2022: $7.3 million) respectively for the next 12 months.

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 $1.4 million (2022: $5.8 million) and $1.2 million (2022: $5.6 million) respectively.

(e) Credit risk management

Credit risk refers to the risk that a financial counterparty will default on its contractual obligations in respect of a financial instrument, resulting in a potential loss to the Group.

Trade receivables and contract assets arise from a large number of customers, spread across diverse industries and geographical areas. A credit risk assessment is performed at the onset of material contracts to assess the financial condition of the counterparty and reviewed annually to take account of any changes in the risk profile of the counterparty. Where possible, a bank guarantee or performance bond, or parent guarantee from a creditworthy counterparty, is sought to secure a counterparty's contractual payment obligations. Refer to Note C2 for details on credit risk arising from trade receivables and contract assets.

Financial counterparty credit limits and the related credit acceptability of financial counterparties are set by a Board approved Treasury Policy that is subject to annual review to ensure it remains relevant to the external environment and reflects the Group's risk appetite at all times. The Treasury Policy sets clear parameters for determining acceptable financial counterparties and limits the exposure the Group may have at any one time to any financial counterparties to mitigate financial loss due to a default by a counterparty. No material exposure is considered to exist by virtue of the non-performance of any financial counterparty.

Credit risk on derivative financial instruments and cash balances held with financial counterparties is managed by Group Treasury with transactions only made with approved counterparties that have a minimum investment grade rating from Standard & Poor's of A- (or equivalent from Moody's or Fitch rating agencies). In limited circumstances, surplus cash may be held in foreign jurisdictions with financial counterparties that do not meet the minimum rating threshold where there is no other alternative.

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

(f) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its financial obligations as and when they fall due. The Group's liquidity risk is managed under a Board approved Treasury Policy that sets clear parameters governing the Group's continued access to liquidity.

The Group manages liquidity risk by ensuring a minimum level of liquidity is available to meet the Group's financial obligations in the form of available liquid cash balances and access to committed undrawn debt facilities and other forms of capital, monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The Group seeks to mitigate its exposure to liquidity risk by ensuring that debt facilities are provided by strong investment grade rated financial counterparties and by the early refinancing of debt facilities to ensure continued access to capital over the medium term.

As at 30 June 2023, the Group has no debt facilities maturing within the 12 months to 30 June 2024. The maturity profile and quantum of the Group's debt facilities will continue to be monitored and refinanced in advance subject to credit market conditions and the support of its financial counterparties. Included in Note E2 is a summary of committed undrawn bank loan facilities.

G2. Capital and financial risk management – continued

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.

2023 $'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
Bank loans(i)	45.7	403.9	162.2	18.0	307.4	–
USD notes	6.9	6.9	154.3	–	–	–
AUD notes	1.7	1.7	30.9	–	–	–
Medium term notes	19.7	19.7	519.7	1.2	1.2	110.0
Total borrowings including interest	74.0	432.2	867.1	19.2	308.6	110.0
Cross-currency interest rate swaps	5.8	5.8	(16.2)	5.1	5.1	41.5
Interest rate swaps	(2.5)	(0.9)	–	–	–	–
Foreign currency forward contracts	4.8	0.2	–	–	–	–
Total derivative instruments(ii)	8.1	5.1	(16.2)	5.1	5.1	41.5
Trade payables and accruals	1,749.0	–	–	–	–	–
Lease liabilities	156.7	115.0	86.1	63.0	45.2	156.4
Total financial liabilities	1,987.8	552.3	937.0	87.3	358.9	307.9

2022 $'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
Bank loans(i)	13.8	112.1	190.6	7.2	7.8	302.4
USD notes	6.6	6.6	6.6	148.5	–	–
AUD notes	1.7	1.7	1.7	30.9	–	–
Medium term notes	19.7	19.7	19.7	519.7	1.2	113.5
Total borrowings including interest	41.8	140.1	218.6	706.3	9.0	415.9
Cross-currency interest rate swaps	6.0	6.0	6.1	(10.5)	5.1	44.2
Interest rate swaps	(5.4)	(1.5)	(0.4)	–	–	–
Foreign currency forward contracts	1.8	0.1	(0.1)	–	–	–
Total derivative instruments(ii)	2.4	4.6	5.6	(10.5)	5.1	44.2
Trade payables and accruals	1,734.1	–	–	–	–	–
Lease liabilities	148.2	111.8	80.4	64.1	48.9	169.5
Total financial liabilities	1,926.5	256.5	304.6	759.9	63.0	629.6

(i) $812 million (2022: $582 million) of the bank loan liabilities relate to loan principal obligations with the balance relating to interest obligations for the current drawn profile. These interest obligations are set by reference to the relevant quarterly or monthly floating interest rate at the reporting date. Note that the principal and interest obligation are subject to change based on the actual drawn profile and changes in market interest rate.

(ii) Includes assets and liabilities. The derivative instruments are subject to change as interest rates and exchange rates change.

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 at 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. These are presented as current assets or liabilities to the extent they are expected to settle within 12 months after the end of the reporting period. There were no fair value hedges in the year ended 30 June 2023.

Hedge accounting

AASB 9 aligns the accounting for hedging instruments closely with the Group's risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Group has elected to adopt the general hedge accounting model in AASB 9. AASB 9 includes requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

Fair value hedges

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

Cash flow hedges

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

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

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

G3. Other financial assets and liabilities

2023 $'m	Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current
At amortised cost[i]**:**				
Current				
Other financial assets	3.4	14.4	–	–
Advances to/from joint ventures and associates	4.2	–	3.6	–
Deferred consideration	–	–	1.3	–
	7.6	14.4	4.9	–
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	0.8	0.5	1.5	0.3
Cross-currency and interest rate swaps – Cash flow hedge	2.3	18.6	4.9	5.4
Downer Contingent Share Options (DCSO) financial instrument	–	–	3.7	–
	3.1	19.1	10.1	5.7
Level 3				
Unquoted equity investments – Fair value through OCI	–	18.0	–	–
	–	18.0	–	–
Total	10.7	51.5	15.0	5.7

(i) Due to the short-term nature of the other current receivables, their carrying amount is considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different from their carrying amounts.

G3. Other financial assets and liabilities – continued

2022 $'m	Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current
At amortised cost[(i)]:				
Current				
Other financial assets	15.7	5.6	–	–
Advances to/from joint ventures and associates	0.3	–	3.6	–
Deferred consideration	4.5	–	0.2	1.3
	20.5	5.6	3.8	1.3
At fair value:				
Level 2				
Foreign currency forward contracts – Cash flow hedge	2.2	0.4	3.6	0.3
Cross-currency and interest rate swaps – Cash flow hedge	5.5	17.0	5.3	3.4
Downer Contingent Share Options (DCSO) financial instrument	–	–	13.7	–
	7.7	17.4	22.6	3.7
Level 3				
Unquoted equity investments – Fair value through OCI	–	9.7	–	–
	–	9.7	–	–
Total	28.2	32.7	26.4	5.0

(i) Due to the short-term nature of the other current receivables, their carrying amount is considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different from their carrying amounts.

Reconciliation of Level 3 fair value measurements of financial assets

The fair value of Level 3 investments has increased by $8.3 million from prior year due to the $6.0 million investment in Evolution Rail (HCMT project), $2.1 million investment in a virtual reality technology company and $0.2 million investment revaluation.

Recognition and measurement

Fair value measurement

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

Valuation of financial instruments

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

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

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

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

Type	Valuation technique	Significant unobservable input
Cross-currency and interest rate swaps	Calculated using the present value of the estimated future cash flows based on observable yield curves.	Not applicable.
Foreign currency forward contracts	Calculated using forward exchange rates prevailing at the balance sheet date.	Not applicable.
Unquoted equity investments	Calculated based on the Group's interest in the net assets of the unquoted entities.	Assumptions are made with regard to future expected revenues and discount rates. Changing the inputs to the valuations to reasonably possible alternative assumptions would not significantly change the amounts recognised in profit or loss, total assets or total liabilities, or total equity.

Directors' Declaration

for the year ended 30 June 2023

In the opinion of the Directors of Downer EDI Limited:

(a) The financial statements and notes set out on pages 71 to 134 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

M J Menhinnitt
Chairman

P J Tompkins
Managing Director and Chief Executive Officer

Sydney, 10 August 2023

Corporate Governance

for the year ended 30 June 2023

Overview

Downer's corporate governance framework provides the platform from which:

- The Board is accountable to shareholders for the operations, performance and growth of the Company
- Downer management is accountable to the Board
- The risks to Downer's business are identified and managed
- Downer effectively communicates with its shareholders and the investment community.

Downer continues to enhance its policies and processes to promote leading corporate governance practices.

The Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles).

Principle 1: Lay solid foundations for management and oversight

The Downer Board Charter sets out the functions and responsibilities of the Board and is available on the Downer website at **www.downergroup.com**.

The Board Charter states that the role of the Board is to provide strategic guidance and to effectively oversee management of the Company. Among other things, the Board is responsible for:

- Overseeing the Company, including its control and accountability systems
- Appointing and removing the Group CEO and senior executives
- Monitoring performance of the Group CEO and senior executives
- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Before appointing a Director or senior executive, the Board undertakes appropriate checks.

The Board provides shareholders with all material information which is relevant to the decision to elect or re-elect a Director.

Directors receive formal letters of engagement setting out the key terms, conditions and expectations of their engagement.

The Board Charter also describes the functions delegated to management, led by the Group CEO.

The primary goal set for management by the Board is to focus on enhancing shareholder value, which includes responsibility for Downer's economic, environmental and social performance.

The Group CEO is responsible for the day-to-day management of Downer and his authority is delegated and authorised by the Board.

Downer has written employment agreements with each of its senior executives and the performance of those senior executives is regularly reviewed against appropriate measures, including performance targets linked to the business plan and overall corporate objectives. In 2023, 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**.

Inclusion and Belonging 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 Inclusion and Belonging (I&B) Policy which outlines the Company's commitment to developing a diverse and inclusive workforce.

The I&B Policy is available on the Downer website at **www.downergroup.com**.

ASX diversity recommendations – diversity statement

This diversity statement outlines Downer's performance throughout 2023 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 2023
- An outline of Downer's measurable gender diversity objectives for 2023.

Gender representation metrics

As at 30 June 2023, Downer's female gender representation metrics were as follows:

Board	50%
Senior Executive[1]	20.2%
Management[2]	18.3%
Workforce	30%

1. For present purposes, 'Senior Executive' refers to CEO, KMP and Other Executives/General Managers as defined in the Workplace Gender Equality Agency Reference Guide to the workplace profile and reporting questionnaire (WGEA Reference Guide).
2. For present purposes, 'Management' refers to CEO, KMP, Other Executives/General Managers, Senior Managers and Other Managers as defined in the WGEA Reference Guide.

Looking back: 2023 measurable objectives

Focus Area	Objective	Targets	Initiatives	FY23 Outcomes
Aboriginal, Torres Strait Islander and Māori Peoples	Educate and embed best practice cultural heritage monitoring within large scale on-country project deliveries. Support engagement and partnership with Iwi, Local Traditional Owner groups and Registered Native Title bodies. Focus on talent and sourcing pipelines, Employee Value Proposition, retention and engagement.	3% Aboriginal and Torres Strait Islander employees.	▪ Develop and deliver a series of information sessions, awareness packs and other resources to the business about Aboriginal, Torres Strait Islander and Māori history and cultures, such as Cultural Learning Bites.	▪ Delivered Inclusion and Belonging monthly reports, lunch 'n' learn online sessions and resource packs about Aboriginal and Torres Strait Islander culture and days of significance, including NAIDOC Week and National Reconciliation Week.
			▪ Develop and endorse inclusive 'optional' mentoring programs for Aboriginal and Torres Strait Islander employees, to ensure supported ongoing 'Cultural Safety' in their roles.	▪ Work has commenced on how to leverage the Graduate Mentoring Support Program with tailored components to support Indigenous employees. This will form part of the overarching Downer Indigenous Employment Program (DIEP) to be launched in FY24.
			▪ Develop internal Indigenous pre-employment and internship programs in Australia, through the consultation, education, engagement and collaboration with Business Units across Downer.	▪ The Walu pilot program outcomes have been reviewed as a pre-employment framework to partner with external Indigenous employment agencies. Building on the pilot program, a holistic approach will be captured as part of DIEP.
			▪ Identify and implement pipeline activities for potential candidates from Aboriginal, Torres Strait Islander and Māori heritage. Develop innovative programs and approaches to reach a wider range of recruitment platforms and diverse communities.	▪ Re-signed partnership agreements with NRL Cowboys House and Stars Foundation, organisations that help support young Indigenous people. An Indigenous Careers recruitment video is under development to increase our reach in promoting Downer as a culturally safe place for young people to start their career journey.
			▪ Develop a strategic and inclusive Diversity Attraction, Employment, Engagement and Retention Plan.	▪ A plan has been developed with the focus being on DIEP. This will encompass pre-employment, talent acquisition, upskilling, mentoring and career development to ensure onboarding and retention outcomes as a sustainable Group-wide approach.
			▪ Continue to deliver Downer's Māori Leadership Development program, Te Ara Whanake.	▪ Te Ara Whanake continues to be a flagship program with 46 participants completing in FY23. An alumni event for 148 graduates was hosted by the NZ Executive.
			▪ Continue to deliver the Te Ara Maramatanga program to Non-Māori leaders which gives them a deeper understanding of Māori history, culture and tikanga.	▪ Te Ara Maramatanga was delivered to another 17 participants in FY23.
			▪ Create and maintain identified positions for Aboriginal and Torres Strait Islander people.	▪ Positions are identified in projects and contracts that can be specifically filled by Aboriginal and Torres Strait Islander people.

Looking back: 2023 measurable objectives

Focus Area	Objective	Targets	Initiatives	FY23 Outcomes
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.	▪ 40% women in the workforce by 2023; ▪ 25% women in management positions by 2023; ▪ 25% women in executive positions by 2023; and ▪ 30% women Directors on the Board.	▪ Analyse the WGEA reporting data and use the learnings as key inputs to develop ongoing strategy, programs and initiatives.	▪ WGEA data was shared with the P&C community for use within the I&B Committees.
			▪ Develop a strategic and inclusive Diversity Attraction, Employment, Engagement and Retention Plan.	▪ I&B Committees each hold their own plans which are shared through representation on the COP. Initiatives include Wahine Kotahitanga in NZ, to provide young females with development, support and a voice. ▪ Through the Women on Track (WoT) paid traineeship program we have trainees undertaking Certificate II training. With 10 women having completed the program, it will now be extended across Rail. ▪ We are an endorsed WORK180 employer which allows us to promote Downer as a preferred employer for women.
			▪ Conduct self-assessment against criteria and standards outlined in the Workplace Equality and Respect Standards and Gender Equality Act 2020 (Vic), reporting on areas for improvement.	▪ Not yet completed.
			▪ Continue to deliver THRIVE, our women's personal and professional growth program; and New Zealand's Women In Leadership Downer Program (WILD).	▪ THRIVE is a 12-month program based around five blocks of learning and collaboration. The second cohort of 117 participants have graduated this year. The third cohort of 130 participants commenced in March.
Cultural and Linguistic Diversity	To improve opportunities for employees from different cultural and linguistic backgrounds.	Increase employees who identify to be from cultural and linguistically diverse backgrounds.	▪ Develop a strategic and inclusive Diversity Attraction, Employment, Engagement and Retention Plan.	▪ Pacific Peoples was identified as a target group and a pre-employment program developed and delivered in partnership with the NZ Ministry of Pacific Peoples.
			▪ Develop and deliver information sessions, awareness packs and other resources to the business in relation to the awareness and understanding of different cultures and languages.	▪ Delivered Inclusion and Belonging monthly reports, lunch 'n' learn online sessions and resource packs about Harmony Week, Māori cultural awareness and multiculturalism.
			▪ Identify new partnerships and opportunities for sourcing and recruiting employees from under-represented cultural groups.	▪ We continue to engage with CareerSeekers to support the recruitment of interns from migrant and refugee backgrounds. One CareerSeeker has interned with Downer Utilities in FY23 so far. ▪ The GROW program at Bendigo Health focused on recruiting and training people from diverse backgrounds and has provided employment opportunities for over 70 new employees since its inception.

Focus Area	Objective	Targets	Initiatives	FY23 Outcomes
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.	Increase the number of graduate and apprentice employees year-on-year.	▪ Develop a strategic and inclusive Diversity Attraction, Employment, Engagement and Retention Plan. ▪ Continue to build a talent pipeline by investing in entry-level programs that align to our generational diversity focus and priority areas, including: – Downer Graduate Development Program – Cadetships and further undergraduate programs – Apprenticeships and traineeships (mature-age opportunities, recognition of prior learning for experienced workers without formal qualifications) – Internships – CSO pre-employment programs (NZ).	▪ Apprentices and Trainees number 420 in AU and 403 in NZ. There are two apprenticeship intakes per year. ▪ Career Pathways for main trades now available on L&D Hub to show the progression pathway to apprenticeship and beyond. ▪ Graduate program participants number 29 (AU) and 24 (NZ). ▪ Cadetship programs continue, including focus on mature applicants looking to retrain. ▪ Continuing partnerships with preferred Universities to bolster talent pipeline, including selected sponsorship of diverse student groups (female, rainbow and Indigenous). ▪ Collaborated with New Zealand graduates to trial Trans-Tasman Design Thinking Challenge.
LGBTIQA+	Create a welcoming and safe environment for all employees who identify as lesbian, gay, bisexual, transgender, intersex, queer, asexual and other diverse genders, sexes and sexualities.	Increase confidence of employees to identify as LGBTIQA+.	▪ Develop and deliver information sessions, awareness packs and other resources to the business in relation to LGBTQIA+ communities.	▪ Delivered Inclusion and Belonging monthly reports containing information about LGBTQIA+ significant days, including Wear it Purple Day. Rainbow Training provided, especially focusing on P&C and Recruitment. ▪ Volunteering opportunity for Downer colleagues to support Beyond Blue at the 2023 Sydney Gay and Lesbian Mardi Gras.
			▪ Identify new partnerships and opportunities for sourcing and recruiting employees from the LGBTQIA+ community.	▪ NZ retained Rainbow Tick accreditation, enhancing employee brand with community. ▪ StandOut Rainbow community group supported including first community conference held.
Disability and Neurodiversity	Providing a safe and inclusive workplace that enables people of all abilities to realise their full potential and make valued contributions.	Increase confidence of employees to identify employees with a disability.	▪ Identify new partnerships and opportunities for sourcing and recruiting employees with a disability.	▪ Initial scoping undertaken, and two potential work areas identified for further investigation including BSC (AU) and WMC (NZ).
			▪ Autism recruitment pilot within a specific Business Unit. Identify target roles and seek a recruitment exemption from the Anti-Discrimination Board (Australia).	▪ Work continuing with BSC to evaluate opportunity and to identify partner to support initiative.
			▪ Develop and deliver information sessions, awareness packs and other resources to the business in relation to disability workplace accessibility and inclusion.	▪ Delivered Inclusion and Belonging monthly newsletters containing information about Disability and Neurodiversity. Learning session delivered about Deaf awareness and the Deaf community as well as utilisation of sign language for NZ values.

Looking ahead: 2024 measurable objectives

Focus Area	Objective	Targets	Initiatives
Aboriginal, Torres Strait Islander and Māori Peoples	Develop and lead an Employment Program for Aboriginal and Torres Strait Islander people at Downer. Partner with Indigenous businesses to build relationships, promote Best Practice procurement and increase supplier diversity. Streamline data collection and reporting and communication of ISG Strategy, outcomes and metrics internally and externally.	▪ 3% Aboriginal and Torres Strait Islander employees.	▪ Develop an internal overarching approach to achieve employment target. This will encompass processes and resources for talent acquisition, onboarding, career development, mentoring and retention – delivered through the Downer Indigenous Employment Program (DIEP). ▪ Develop and deliver a series of information sessions, awareness packs and other resources to the business about Aboriginal, Torres Strait Islander and Māori history and cultures, such as Cultural Learning Bites. ▪ Establish and maintain mutually beneficial relationships with Aboriginal and Torres Strait Islander stakeholders and organisations. Promote and share outcomes and achievements with the business. ▪ Develop an Indigenous Business Inclusion Strategy to increase spend and build meaningful relationships enabling greater Supplier Diversity. ▪ Continue to deliver Downer's Māori Leadership Development program, Te Ara Whanake. ▪ Continue to deliver the Te Ara Maramatanga program to Non-Māori leaders which gives them a deeper understanding of Māori history, culture and Tikanga. Provide this opportunity to Australian-based leaders as well. ▪ Deliver Indigenous Cultural Awareness training for all NZ-based CEO-2 in Trans-Tasman business.
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.	▪ 40% women in the workforce by 2026. ▪ 25% women in management positions by 2026; and ▪ 28% women in executive positions by 2026.	▪ Analyse the WGEA reporting data and provide to each of the I&B Committees to use the learnings as key inputs to develop ongoing strategy, programs and initiatives. ▪ Support the Wahine Kotahitanga female network group and provide opportunity to share learnings across NZ and AU. ▪ Continue to deliver THRIVE, our women's personal and professional growth program, encompassing NZ participants. ▪ Establish the THRIVE Alumni framework.
Cultural and Linguistic, Disability and Neurodiversity Diversity	To improve opportunities for employees from different cultural and linguistic backgrounds.	▪ Increase employees who identify to be from cultural and linguistically diverse backgrounds.	▪ Rebuild and launch the Inclusion and Belonging SharePoint as a central hub of resources, particularly to support the broader focus areas of I&B. ▪ Develop resources for establishment of network/community groups based on the StandOut model. ▪ Develop and deliver information sessions, awareness packs and other resources to the business in relation to the awareness and understanding of different diverse groups. ▪ Identify new partnerships and opportunities for sourcing and recruiting employees from under-represented groups.
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.	▪ Increase the number of graduate and apprentice employees' year-on-year.	▪ Engage a new sourcing channel to attract youth. ▪ Develop a flexible working framework that supports retention of employees approaching retirement age. ▪ Continue to build a talent pipeline by investing in entry-level programs that align to our generational diversity focus and priority areas, including: – Graduate Development Programs – Cadetships and further undergraduate programs – Apprenticeships and traineeships (mature-age opportunities, recognition of prior learning for experienced workers without formal qualifications) – Internships – CSO pre-employment programs.
LGBTQIA+	Create a welcoming and safe environment for all employees who identify as lesbian, gay, bisexual, transgender, intersex, queer, asexual and other diverse genders, sexes, and sexualities.	▪ Increase confidence of employees to identify as LGBTQIA+.	▪ Develop and deliver information sessions, awareness packs and other resources to the business in relation to LGBTQIA+ communities, leveraging relationship with the Rainbow Tick. ▪ Identify new partnerships and opportunities for sourcing and recruiting employees from the LGBTQIA+ community. ▪ Leverage the work of the StandOut forum in NZ by providing wider access to their sharepoint site and initiatives.

Principle 2: Structure the Board to be effective and add value

Throughout the 2023 financial year, the Board was comprised of a majority of independent Directors.

The Board is currently comprised of the Chairman (Mark Menhinnitt, an independent, Non-executive Director), four other independent, Non-executive Directors and an Executive Director (the Group CEO, Peter Tompkins). 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 8 to 59 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 and 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	Chair	Members
Audit and Risk	N M Hollows	T G Handicott A M Howse P L Watson
Zero Harm	P L Watson	M J Menhinnitt P J Tompkins
Nominations and Corporate Governance	M J Menhinnitt	T G Handicott N M Hollows A M Howse
People and Culture	A M Howse	T G Handicott N M Hollows M J Menhinnitt
Disclosure	T G Handicott	M J Menhinnitt P J Tompkins
Tender Risk Evaluation	M J Menhinnitt	N M Hollows P J Tompkins P L Watson

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 29.

The Tender Risk Evaluation Committee's primary purpose is to oversee tenders and contracts that exceed the delegation of the Group CEO. From 1 July 2023, Downer's Tender Risk Evaluation Committee has evolved into a Project Governance Committee, with expanded responsibilities from approving tender submissions to a broader project governance remit where opportunities are considered at defined stage gates (pursue, prepare, submit tender and execute contract) and monitoring of project performance. The Committee is chaired by an independent Director and comprises four members, including the Group CEO.

During the period, the Board determined it was appropriate that the Remuneration Committee transform to a broadened people and culture remit, and accordingly it was renamed as the 'People and Culture Committee'.

The Board has established the Nominations and Corporate Governance Committee to oversee the practices for selection and appointment of Directors of the Company.

The Nominations and Corporate Governance Committee's primary purpose is to support and advise the Board on fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and leading governance practice.

The Nominations and Corporate Governance Committee has a charter which sets out its roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. The Nominations and Corporate Governance Committee Charter gives the Nominations and Corporate Governance Committee access to internal and external resources, including advice from external consultants and specialists. The Nominations and Corporate Governance Committee Charter is available on the Downer website at **www.downergroup.com**.

The Nominations and Corporate Governance Committee, all members of which are independent Directors, is chaired by an independent Director and has a minimum of three members.

The Committee's responsibilities include:

- Assessing the skills and competencies required on the Board
- Assessing the extent to which the required skills are represented on the Board
- Establishing processes for the review of the performance of individual Directors, Board Committees and the Board as a whole
- Establishing processes for identifying suitable candidates for appointment to the Board (including undertaking a formal due diligence screening process)
- Recommending the engagement of nominated persons as Directors.

When appointing Directors, the Nominations and Corporate Governance Committee aims to ensure that an appropriate balance of skills, experience, expertise and diversity is represented on the Board. This may result in a Non-executive Director with a longer tenure remaining in office to bring that experience and depth of understanding to matters brought before the Board.

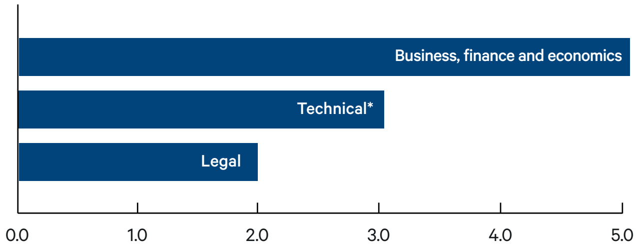
Given the breadth of Downer's service offerings across a range of markets, the Board seeks to ensure that it maintains an appropriate range of technical skills and executive experience across engineering, construction and scientific disciplines as well as services activities and professional services when considering the appointment of a new Director.

Downer's Board renewal program is ongoing. The Board has identified engineering and operational expertise in utilities, in particular power and water infrastructure, maintenance and services, experience in senior executive roles, as well as knowledge and experience of the New Zealand markets, as key skills required for future.

On 30 June 2023, Downer announced the appointment of Steven MacDonald as a Director, effective from 1 September 2023. Mr MacDonald is an experienced Non-executive Director and senior executive with extensive experience in the water and power sectors delivering engineering maintenance, services and major infrastructure projects ranging from power plants to tunnels to freeways and rail, and has worked in both Australia and New Zealand.

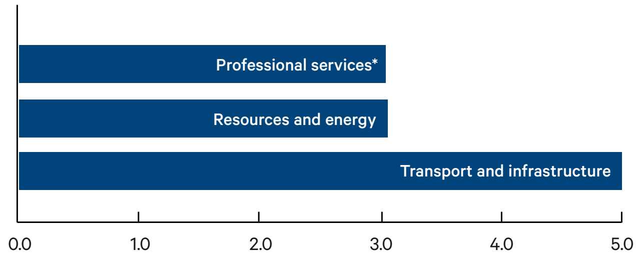
The chart following illustrates the balance achieved with the current Board composition. The Company recognises the value of diversity which has been a component of the appointment process over the past few years.

Professional qualifications



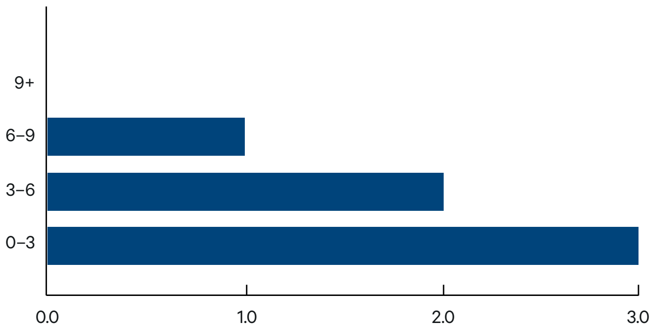
* Comprises construction, engineering, metallurgy and science.

Industry experience

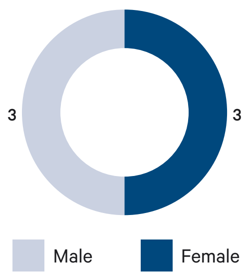


* Includes banking, finance and legal.

Tenure (years)



Gender diversity



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 FY22 and included consideration of the skills and knowledge of Directors.

The Company has formal induction procedures for both Directors and senior executives. These induction procedures have been developed to enable new Directors and senior executives to gain an understanding of:

- Downer's financial position, strategies, operations and risk management policies
- The respective rights, duties and responsibilities and roles of the Board and senior executives
- Downer's culture and values.

Directors are given an induction briefing by the Company Secretary and an induction pack containing information about Downer and its business, Board and Committee charters and Downer Group policies. New Directors also meet with key senior executives to gain an insight into the Company's business operations and the Downer Group structure.

Directors are encouraged to continually build on their exposure to the Company's business and a formal program of Director site visits has been in place since 2009. Directors are also encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge and the Company Secretary regularly organises governance and other continuing education sessions for the Board.

The Board is provided with the information it needs to discharge its responsibilities effectively. The Directors also have access to the Company Secretary for all Board and governance-related issues and the appointment and removal of the Company Secretary is determined by the Board. The Company Secretary is accountable to the Board, through the Chair, on all governance matters.

Principle 3: Instil a culture of acting lawfully, ethically and responsibly

Downer's Purpose is to Enable Communities to Thrive. Its Promise is to work closely with our customers to help them succeed, using world-leading insights and solutions. Downer's Purpose and Promise are founded on the Pillars of Sustainability, Delivery, Relationships and Thought Leadership and define the way it manages its business and are the foundations that support Downer's culture. An overview of the Purpose, Promise and Pillars can be found on the Downer website at **www.downergroup.com**.

Downer strives to attain the highest standards of behaviour and business ethics when engaging in corporate activity. The Downer Standards of Business Conduct sets the ethical tone and standards of the Company and deals with matters such as:

- Compliance with the letter and the spirit of the law
- Workplace behaviour
- Prohibition against bribery and corruption
- Protection of confidential information
- Engaging with stakeholders
- Workplace safety
- Diversity and inclusiveness
- Sustainability
- Conflicts of interest.

Downer has a formal whistleblower policy and procedures for reporting and investigating breaches of the Standards of Business Conduct. This includes the Our Voice service, an external and independent reporting service which enables employees to anonymously report potential breaches of the Standards of Business Conduct, including misconduct or other unethical behaviour. Reports received through Our Voice are investigated where appropriate, with the Company Secretary overseeing the completion of any remedial action. The Board is informed of material breaches of the Standards of Business Conduct through reporting of incidents reported under the whistleblower policy, investigations of allegations of fraud and breaches of Downer's Zero Harm Cardinal Rules.

The Standards of Business Conduct applies to all officers and employees and is available on the Downer website at **www.downergroup.com**.

Downer endorses leading governance practices and has in place policies setting out the Company's approach to various matters, including:

- Securities trading (stipulating 'closed periods' for designated employees and a formal process which employees must adhere to when dealing in securities)
- The Company's disclosure obligations (including continuous disclosure)
- Communicating with shareholders and the general investment community
- Privacy.

Downer has an Anti-Bribery and Corruption Policy which expands upon the prohibition against bribery and corruption currently contained in the Standards of Business Conduct, and which addresses key issues such as working with government, political donations, human rights, conducting business internationally and gifts and benefits. The Board is informed of material breaches of the Anti-Bribery and Corruption Policy.

As Downer has operations in foreign jurisdictions, Downer employees are confronted by the challenges of doing business in environments where bribery and corruption are real risks. However, regardless of the country or culture within which its people work, Downer is committed to compliance with the law, as well as maintaining its reputation for ethical practice.

These policies are available on the Downer website at **www.downergroup.com**.

Principle 4: Safeguard the integrity of corporate reports

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

An external limited assurance engagement is performed on selected sustainability information in Downer's annual Sustainability Report. Downer also follows a comprehensive internal verification process to ensure the integrity of the Sustainability Report and other periodic corporate reports which are not audited or reviewed by the external auditor, including the Directors' Report, Corporate Governance Statement, and Information for Investors. This process involves review of reporting by relevant subject matter experts across the organisation to ensure it is materially accurate, balanced and provides investors with appropriate information.

The Audit and Risk Committee assists the Board to fulfil its responsibilities relating to:

- The quality and integrity of the accounting, auditing and reporting practices of the Company with a particular focus on the qualitative aspects of financial reporting to shareholders
- The Company's risk profile and risk policies
- The effectiveness of the Company's system of internal control and framework for risk management.

The Audit and Risk Committee is structured so that it:

- Consists of only Non-executive Directors
- Consists of a majority of independent Directors
- Is chaired by an independent Chairman (who is not the Chairman of the Board)
- Has at least three members.

The Audit and Risk Committee comprises only independent Directors, includes members who are financially literate and has at least one member who has relevant qualifications and experience.

The Audit and Risk Committee Charter sets out the Audit and Risk Committee's role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Board receives assurances from the Group CEO and the Group CFO that the declarations provided to it in relation to the annual and half-year financial statements, in accordance with sections 295A and 303(4) of the *Corporations Act 2001* (Cth), are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Downer's external auditor attends the Company's AGMs and is available to answer any questions which shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

Information regarding the number of times the Audit and Risk Committee convened in FY23, together with the individual attendances of members at the meetings, is set out in the Directors' Report on page 29.

The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

Principle 5: Make timely and balanced disclosure

The Company's Disclosure Policy sets out processes which assist the Company to ensure that all investors have equal and timely access to material information about the Company and that Company announcements are factual and presented in a clear and balanced way. It includes that new and substantive investor or analyst presentations are released on the ASX Market Announcements Platform ahead of the presentation.

A copy of the Disclosure Policy is available on the Downer website at **www.downergroup.com**.

The Disclosure Policy also sets out the procedures for identifying and disclosing material and market-sensitive information in accordance with the *Corporations Act 2001* (Cth) and the ASX Listing Rules. The Board receives copies of all material market announcements promptly after they have been made.

Downer's Disclosure Committee consists of two independent, Non-executive Directors (one of which is the Chairman of the Board) and the Group CEO. The Disclosure Committee oversees disclosure of information by the Company to the market and the general investment community.

Principle 6: Respect the rights of security holders

Downer empowers its shareholders by:

- Communicating effectively, openly and honestly with shareholders
- Giving shareholders ready access to balanced and understandable information about the Company and its governance
- Making it easy for shareholders to participate in general meetings
- Giving shareholders the option to receive communications from, and send communications to, the Company and its security registry electronically.

The Downer Communication Policy sets out the Company's approach to communicating with shareholders and is available on the Downer website at **www.downergroup.com**.

The Company publishes corporate information on its website (**www.downergroup.com**), including Annual and Half Year Reports, ASX announcements, investor updates and media releases.

Downer encourages shareholder participation at members' meetings through its use of electronic communication, including by making notices of meetings available on its website and audio casting of general meetings and significant Group presentations. All substantive resolutions at meetings of shareholders are conducted by poll.

The Directors and key members of management attend the Company's AGMs and are available to answer questions.

Principle 7: Recognise and manage risk

To mitigate the risks that arise through its activities, Downer has various risk management policies and procedures in place that cover (among other matters) interest rate management, foreign exchange risk management, credit risk management, tendering and contracting risk and project management.

Downer has controls at the Board, executive and business unit levels that are designed to safeguard Downer's interests and ensure the integrity of reporting (including accounting, financial reporting, environmental and workplace health and safety policies and procedures). These controls are designed to ensure that Downer complies with legal and regulatory requirements, as well as community standards.

Downer has a Risk Management Framework in place to enable business risks to be identified, evaluated and managed. The Board ratifies Downer's approach to managing risk and oversees Downer's Risk Management Framework, including the Group risk profile and the effectiveness of the systems being implemented to manage risk. The last review of the Risk Management Framework was completed in 2022. The Board reviews the Group risk profile twice each year and considers other risk matters, such as business resilience, tender review processes, risk appetite and specific risk areas, on a regular basis, as well as regular reports from senior management, the internal audit team and the external auditor.

Downer's annual Sustainability Report provides a detailed overview of Downer's approach to managing its environmental and social risks. The Sustainability Report is available on the Downer website at **www.downergroup.com/sustainability**.

The Company's internal audit function objectively evaluates and reports on the existence, design and operating effectiveness of internal controls. Downer's internal audit team is independent of the external auditor and reports to the Audit and Risk Committee.

Downer's Audit and Risk Committee assists the Board in its oversight of Downer's risk profile and risk policies, the effectiveness of the systems of internal control and Risk Management Framework and Downer's compliance with applicable legal and regulatory obligations. The Audit and Risk Committee Charter is available on the Downer website at **www.downergroup.com**.

Management reports regularly to the Audit and Risk Committee on the effectiveness of Downer's management of its material business risks and on the progress of mitigation treatments.

Principle 8: Remunerate fairly and responsibly

The Board has established a People and Culture Committee and has adopted the People and Culture 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 People and Culture Committee is responsible for reviewing and making recommendations to the Board about:

- People, culture and conduct
- Talent management and succession
- Inclusion and belonging
- Executive remuneration and incentive policies
- The remuneration, recruitment, retention, performance measurement and termination policies and procedures for all senior executives reporting directly to the Group CEO
- Executive and equity-based incentive plans
- Superannuation arrangements and retirement payments.

Remuneration of the Group CEO, Executive Directors and Non-executive Directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Downer's remuneration policy is designed to motivate senior executives to pursue the long-term growth and success of the Company and prescribes a relationship between the performance and remuneration of senior executives.

The People and Culture Committee is structured so that it:

- Consists of a majority of independent Directors
- Is chaired by an independent Director
- Has at least three members.

The Executive Director is not a member of the People and Culture Committee.

The maximum aggregate fee approved by shareholders that can be paid to Non-executive Directors is $2.4 million per annum. This cap was approved by shareholders on 3 November 2022. Further details about remuneration paid to Non-executive Directors are set out in the Remuneration Report at page 31.

Retirement benefits are not paid to Non-executive Directors.

Non-executive Directors do not participate in any equity incentive schemes.

The remuneration structure for Executive Directors and senior executives is designed to achieve a balance between fixed and variable remuneration taking into account the performance of the individual and the performance of the Company. Executive Directors receive payment of equity-based remuneration as short-term and long-term incentives.

Executive Directors and senior executives are prohibited from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any of the Company's equity-based remuneration schemes, as set out in the Securities Trading Policy. A copy of the Securities Trading Policy is available on the Downer website at **www.downergroup.com**.

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report at page 31 and details of Downer shares beneficially owned by Directors are provided in the Directors' Report at page 11.

Information for Investors

for the year ended 30 June 2023

Downner shareholders

Downer had 25,012 ordinary shareholders as at 30 June 2023, of which 23,297 shareholders had a registered address in Australia.

The largest shareholder, HSBC Custody Nominees (Australia) Limited, held 31.30% of the 671,573,679 fully paid ordinary shares issued at that date.

Securities exchange listing

Downer is listed on the Australian Securities Exchange (ASX) under the 'Downer EDI' market call code 3965, with ASX code DOW, and is a foreign exempt issuer on the New Zealand Exchange with the ticker code DOW NZ.

Company information

The Company's website **www.downergroup.com** offers comprehensive information about Downer and its services. The site also contains news releases and announcements to the ASX and NZX, financial presentations, Annual Reports, Half Year Reports and Company newsletters. Downer printed communications for shareholders include the Annual Report which is available on request.

Dividends

Dividends are determined by the Board having regard to a range of circumstances within the business operations of Downer including operating profit and capital requirements. The level of franking on dividends is dependent on the level of taxes paid to the Australian Taxation Office by Downer and its incorporated joint ventures.

Dividends are paid in Australian dollars, other than for shareholders with a registered address in New Zealand, who receive dividends in New Zealand dollars unless an election is made to receive payment in Australian dollars by providing Australian bank account details.

International shareholders can use Computershare's Global Payments System to receive dividend payments in the currency of their choice at a nominal cost to the shareholder.

Dividend reinvestment plan

Downer's Dividend Reinvestment Plan (DRP) is a mechanism to allow shareholders to increase their shareholding in the Company without the usual costs associated with share acquisitions, such as brokerage. Details of the DRP are available from the Company's website or the Easy Update website at **www.computershare.com.au/easyupdate/dow**.

Share registry

Shareholders and investors seeking information about Downer shareholdings or dividends should contact the Company's share registry, Computershare Investor Services Pty Ltd (Computershare):

Level 3
60 Carrington Street
Sydney NSW 2000

GPO Box 2975
Melbourne VIC 3000

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 2023

Number of holders of equity securities:

Ordinary share capital

671,573,679 fully paid listed ordinary shares were held by 25,012 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 2023:

Shareholders	Ordinary shares held	% of issued shares
L1 Capital Pty Ltd and L1 Capital Strategic Equity Management Pty Ltd	80,179,543	11.94
Allan Gray Australia Pty Ltd and its related bodies corporate	61,204,402	9.11
Pendal Group Limited	41,010,826	6.07
Dimensional Fund Advisors LP and its related bodies corporate	40,335,725	6.00
State Street Corporation and subsidiaries	35,407,595	5.27
The Vanguard Group, Inc. and its controlled entities	35,082,734	5.09
T Rowe Price Associates, Inc.	34,158,001	5.08
First Sentier Investors Holdings Pty Limited and its related bodies corporate	33,760,188	5.03

Distribution of holders of quoted equity securities

Shareholder distribution of quoted equity securities as at 30 June 2023 is as follows:

Range of holdings	Number of shareholders	Shareholders %	Ordinary shares held	Shares %
1 – 1,000	13,331	53.30	5,552,670	0.83
1,001 – 5,000	8,505	34.00	20,351,642	3.03
5,001 – 10,000	1,903	7.61	13,803,053	2.06
10,001 – 100,000	1,211	4.84	26,378,409	3.93
100,001 and over	62	0.25	605,487,905	90.15
Total	25,012		671,573,679	100.00
Holding less than a marketable parcel of shares	1,732			

Twenty largest shareholders

Downer's 20 largest shareholders of ordinary fully paid shares as at 30 June 2023 are as follows:

Shareholders	Shares held	% of issued shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	210,223,879	31.30
CHASE MANHATTAN NOMINEES LIMITED	159,105,952	23.69
CITICORP NOMINEES PTY LIMITED	130,158,245	19.38
NATIONAL NOMINEES LIMITED	31,419,040	4.68
BNP PARIBAS NOMS PTY LTD <DRP>	27,052,008	4.03
ARGO INVESTMENTS LTD	13,315,059	1.98
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	4,100,182	0.61
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	3,298,771	0.49
CITICORP NOMINEES PTY LIMITED <143212 NMMT LTD A/C>	3,016,826	0.45
BNP PARIBAS NOMS (NZ) LTD <DRP>	2,058,133	0.31
MR GRANT ANTHONY FENN	1,999,772	0.30
UBS NOMINEES PTY LTD	1,773,787	0.26
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,721,664	0.26
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,574,996	0.23
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,392,376	0.21
CPU SHARE PLANS PTY LIMITED	1,079,890	0.16
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	986,810	0.15
ESTATE LATE BARRY SYDNEY PATTERSON + MRS GLENICE MARGARET PATTERSON	891,642	0.13
POWERWRAP LIMITED <ESCALA SMA TRADING A/C>	687,879	0.10
MR JOHN WILLIAM HARBOT	612,922	0.09
Total for top 20 shareholders	**596,469,833**	**88.81**