

Sustainability Performance Summary 2018

Downer's approach to sustainability

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

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

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

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

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

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

Downer's approach to reporting

Downer has prepared its Sustainability Report with reference to the Global Reporting Initiative's (GRI) Standards to provide investors with comparable information relating to environmental, social and governance (ESG) performance. Specifically, Downer's approach takes into consideration the GRI's principles for informing report content: materiality, completeness, and sustainability context and stakeholder inclusiveness. A key focus is to demonstrate how Downer delivers sustainable returns while managing risk and being responsible in how it operates.

What's new?

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

- Alignment to the GRI Standards from G4 Guideline;
- Alignment of Case Studies to the UN Sustainable Development Goals;

- Adoption of Task Force on Climate-related Financial Disclosures (TCFD) recommendations;
- Inclusion of Spotless' data (excluding health, safety and environmental data for New Zealand); and
- Inclusion of ESG Sustainability Analyst Rating Scores.

Governance and Risk Management

The Board's Zero Harm Committee oversees the development and implementation of Downer's workplace health and safety and environmental management systems. The effectiveness of these systems is monitored through extensive internal and third-party audit programs, with oversight by both the Board Zero Harm and Board Audit and Risk Committees. Other aspects of Downer's approach to sustainability are overseen by the Group Diversity Committee and its other corporate governance forums.

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

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

This has included:

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

Climate-related risks are governed as part of Downer's Group Risk and Opportunity Management Framework and Project Risk Management Framework. Downer identify, manage and disclose material climate-related risks as part of Downer's standard business practices, and, in accordance with the Group and Divisional strategies, which apply to everyone at Downer.

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

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

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

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

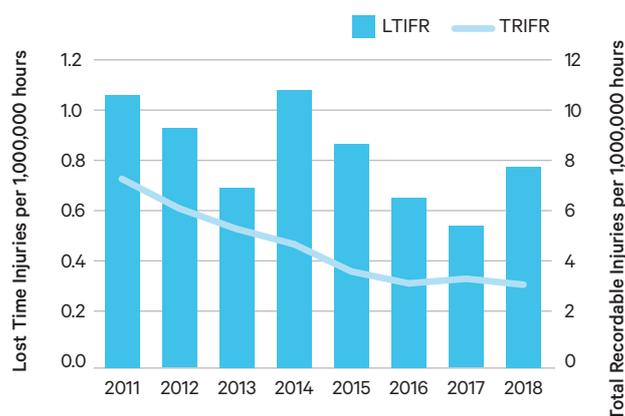
Health and safety

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

Downer's strategic plan for critical risk management continues to be a key focus of Downer's Zero Harm program. As the critical risk program has matured within its business, the strategy embraces the identification of opportunities to further harmonise the way that shared critical risks are managed throughout

the business. This presents opportunities to increase the consistency and effectiveness of critical risk management within Downer's business, while continuing to focus on evaluation and assurance of critical controls by multiple layers of management and frontline leaders.

Downer continue to focus on investing in the capability of its frontline leaders, and recognise the important role they hold in cultivating a workplace culture focused on prevention of harm. Downer's strategy this year includes enhancement of internal training provided to Downer's leaders and incorporates advancements in learning methodologies.



Environmental sustainability

Downer's environmental sustainability performance is measured against the key areas of risk management, compliance, minimising environmental impact and maximising resource efficiency opportunities in its own and its customers' businesses. Downer's key focus areas during the year were:

- continuing to focus on the resilience and assurance of environmental risk controls;
- incorporating sustainability rating tools and initiatives into major projects;
- improving environmental workforce capability;
- engaging with customers regarding Downer's environmental capability; and
- positioning its businesses for the transition to a low carbon economy.

Downer achieved its Group-wide target of zero Level 5¹ or Level 6² environmental incidents. There were no significant environmental incidents³ (≥ Level 4) during financial year 2018. However, Downer incurred four minor infringement notices totalling NZD\$3,000 relating to its New Zealand operations, (further information is available in the 2018 Sustainability Report).

1 A Level 5 environmental incident is defined as any incident that causes significant impact or serious harm on the environment, where material harm has occurred and if costs in aggregate exceed \$50,000.

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

3 A significant environmental incident or significant environmental spill (≥ Level 4) is any environmental incident or spill where there is significant impact on or material harm to the environment; or there is long-term community irritation leading to disruptive actions and requiring continual management attention.

Sustainability Performance Summary 2018 – continued

Achievements for 2018 include:

- Plastiphalt – the launch of a new recycled asphalt product to join the series of Downer’s recycled road products. Partnering with Hume City Council, Close the Loop and RED Group, Downer produced and laid a road manufactured using soft plastics and glass, in an Australian first.
- The Rosehill Detritus Plant – Downer opened a repurposing facility which is capable of cost effectively processing, separating and cleaning more than 40,000 tonnes annually from street sweepings and stormwater pits. Approximately 85% of detritus can be converted into meaningful streams of material for reuse such as organic matter, sand, gravel, metals and plastic.
- Smart stormwater drains – working with partners Yarra Valley Rangers Council, Fujitsu and EYefi, Downer has helped implement a network of sensors, technology and software architecture which monitors water levels and potential flow rates within stormwater drains to reduce the risk of flooding. Regular rising water alerts sent to response and maintenance teams enable faster responses and opportunities for preventative action.

In the renewable energy sector Downer remains one of Australia’s largest and most experienced delivery partners offering design, build and maintenance services for wind farms, wind turbine sites and solar farms. Downer has been involved in the construction of approximately half the wind turbines built in Australia and has worked, or is currently working, on 576MW of capacity with the Sunshine Coast, Clare, Beryl and Ross River solar farms and Murra Warra Wind Farm (Stage 1). Downer’s experience in the renewables sector led to its work at the Ararat Wind Farm being awarded⁴ Australia’s first ISCA rating for a renewables project.

Downer’s climate risk journey

Downer conducts business in a way that is sustainable. At Downer there are many facets of sustainable operations, including climate change impacts and ultimately this requires making sure that it runs its business as efficiently as possible and by providing innovative solutions to customers that reduce their environmental footprints. Downer recognises that the impact of climate change presents a challenge to business, society and the natural environment. While Downer’s business portfolio is diverse, it has limited exposure to the effects of climate change impacts on its business through fixed, long lived capital assets. Downer’s diverse portfolio allows it to be flexible and agile to redeploy its assets to high growth areas as markets change. This portfolio diversity strongly positions Downer to mitigate and manage its exposure to climate risks and to maximise the business opportunities it presents.

In this reporting period a detailed assessment against the Task Force on Climate Related Financial Disclosures (TCFD) framework has been conducted and disclosures presented are aligned with the TCFD recommendations. In conducting its assessment, Downer considered the diversity of its operations and portfolio, in the context of transitional, physical and reputational risks as well as considering opportunities particularly in respect of transport, new markets and technological changes. This review did not identify any material short-term risks to the Downer business in respect of climate change, however risks and opportunities across short, medium and long-term horizons were identified and these are outlined below.

Downer’s existing Group and Divisional strategy process already considers the key external drivers as mentioned above. Downer has also enhanced its strategy process to more explicitly incorporate climate-related risks and opportunities on an ongoing basis. Downer has already embedded this process in the annual Group strategy session, with the intention of implementing a similar process into the Divisional strategy sessions during the 2019 period.

Outlined below are the key climate-related risks and opportunities. These risks and opportunities are not listed in order of significance and are not intended to be exhaustive. They are a representative sample of the risks identified during the review undertaken in the 2018 financial year. They are informed by a review of Group and Divisional risk registers, interviews and workshops with senior management, and employees.

As indicated below, the majority of Downer’s climate-related risks have been deemed to impact the business in the medium to longer term. Opportunities identified relate primarily to leveraging Downer’s existing capabilities and business model as a service provider to service new and adjacent emerging markets that arise from the transition to a lower carbon economy.

Downer has made significant progress to date in assessing climate-related risks and opportunities and in the 2019 financial year Downer is committed to exploring further the impacts of these items through analysis and identification of appropriate metrics and targets.

Stemming from the risk and opportunity analysis undertaken already, Downer’s focus for scenario analysis will now be in the following areas:

- outlook for metallurgic and thermal coal;
- impact of extreme weather (increase in rainfall and temperature); and
- energy transition, considering both the impact on energy prices and opportunities for alternative generation sources.

⁴ This award was issued in the 2018 financial year.

Downer FY2018 TCFD

Climate change is a global challenge. As a diverse organisation with operations spanning across the Asia Pacific region, Downer acknowledges that climate change will impact its business, which will present a combination of climate-related risks and opportunities over the medium to long term.

Recognising the need for increased information on climate-related impacts, the TCFD developed voluntary, consistent climate-related financial disclosures for use by investors, lenders, insurers and other stakeholders to inform decision making in relation to climate risk.

The final TCFD report was released in June 2017 and is supported by Downer. This report recommended improved disclosures in relation to the areas of governance, strategy, risk management and metrics and targets relevant to climate risk. The TCFD recognises that meaningful adoption of the report's recommendations will be achieved over a three-year timeframe as both experience and disclosures evolve in response to clearer messaging from financial markets about the information they require to measure and respond to climate-related risks and opportunities.

Downer supports the TCFD objectives. Commencing in the 2018 financial year Downer's climate related disclosures align with the TCFD recommendations and build on Downer's disclosures in the 2017 financial year.

Risk	Description	TCFD Risk Type	Potential Impact to Business	Management Response and Mitigation
Impacts of increasing energy costs	Increased operational costs due to increase in electricity, gaseous and liquid fuel prices, materially impacting high energy consuming service lines	Transition: Market and Policy	Decreased profitability from contracts in energy-intensive service lines Time horizon: Medium to Long Term	Continue identifying and implementing energy efficiency initiatives
Exposure to extreme weather events	Severe weather events impacting the delivery of contractual obligations. For example, resource mobilisation, health and safety, and security	Physical: Acute and Chronic, and Legal	Inability to achieve contractual schedules due to adverse and severe weather events Time horizon: Long Term	Continue to assess contractual arrangements with respect to acute and chronic weather events to ensure appropriate mitigation measures are in place
Exposure to thermal coal contracts	Transition to a low carbon economy leads to reduced demand for thermal coal for power generation	Transition: Policy, Legal, Technology Changes, Market Changes, Reputation	Reputational risks arise from Downer's continual exposure to the coal sector Time horizon: Medium Term	Continue to monitor demand forecasts for thermal coal – particularly local demand driven by power stations that are current customers for existing thermal coal mining services contracts Undertake scenario analysis of Downer's medium to long term exposure to metallurgical and thermal coal When reviewing contract extensions / new contracts, continue to undertake analysis to increase exposure to mines that are expected to maintain competitiveness in light of the transition to a low carbon economy

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Risk	Description	TCFD Risk Type	Potential Impact to Business	Management Response and Mitigation
Changing design and construction requirements	Increased climate-related risk requirements relevant to the construction of infrastructure driven by changing customer expectations and increased climate-related design requirements stipulated in EPCM contracts	Physical and liability: Acute and Chronic, Policy, Legal and Reputation	Increased cost of EPCM services and challenges to the competitiveness of Downer's services Time horizon: Medium to Long Term	Continue to assess contractual arrangements with respect to design and construction events to ensure appropriate mitigation measures are place

Response to climate-related opportunities

Opportunity	Description	TCFD Opportunity Type	Potential Growth to Business	Management Response
Existing renewable energy capability and market presence	Expertise with developing, implementing and maintaining renewable energy assets	Resource efficiency and Products/ Services	Transition to a low carbon economy drives increased demand for renewable energy technology and infrastructure services, as well as broader smart city products and services	<ul style="list-style-type: none"> – Strengthen existing and establish new relationships with key customers – Leverage Downer's capability and broaden Downer's service offerings
Leverage existing mining capabilities to service new and adjacent markets	Transition to low carbon is driving demand for base (e.g. Copper, Gold) and precious metals (e.g. Lithium, Zinc) critical for this transition	Products/Services and Markets	Opportunity to leverage existing mining capabilities to service new and adjacent markets with products essential for the transition to a low carbon economy	<ul style="list-style-type: none"> – Strengthen existing and establish new relationships with key customers – Leverage Downer's capability and broaden Downer's service offerings
Response services to extreme weather events	Increased frequency and impacts of extreme weather events drive increase demand for disaster recovery and resilience services	Products/Services, Markets and Resilience	Opportunity to further leverage Downer's existing expertise in responding to asset damage from extreme weather events. Opportunity to also leverage this expertise to improve the resilience of existing assets	<ul style="list-style-type: none"> – Continue to work with Government customers on emergency response to extreme weather response – Strengthen and leverage existing capability – Incorporate climate change and adaptation into the design of any infrastructure contract