

OVERVIEW

Downer's corporate governance framework provides the platform from which:

- The Board is accountable to shareholders for the operations, performance and growth of the Company;
- Downer management is accountable to the Board;
- The risks to Downer's business are identified and managed; and
- Downer effectively communicates with its shareholders and the investment community.

Downer continues to enhance its policies and processes to promote leading corporate governance practices.

The Board endorses the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles).

PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Downer Board Charter sets out the functions and responsibilities of the Board and is available on the Downer website at www.downergroup.com.

The Board Charter states that the role of the Board is to provide strategic guidance and to effectively oversee management of the Company. Among other things, the Board is responsible for:

- Overseeing the Company, including its control and accountability systems;
- Appointing and removing the Group CEO and senior executives;
- Monitoring performance of the Group CEO and senior executives; and
- Reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

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.

Details of the Downer Executive Leadership Team are available on the Downer website at www.downergroup.com.

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; and
- The respective rights, duties and responsibilities and roles of the Board and senior executives.

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 FY2014, Downer's senior executives participated in periodic performance evaluations where they received feedback on progress against these targets.

PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE

Throughout the 2014 financial year, the Board was comprised of a majority of independent Directors.

The Board is currently comprised of the Chairman (Mike Harding, an independent, Non-executive Director), six independent, Non-executive Directors and an Executive Director (the Group CEO, Grant Fenn). Details of the members of the Board, including their skills, experience, status and their term of office are set out in the Directors' Report on pages 2 to 3 and are also available on the Downer website at www.downergroup.com.

The composition of the Board is assessed by the Nominations and Corporate Governance Committee to ensure the Board is of a composition, size and commitment to effectively discharge its responsibilities and duties.

Directors are required to bring an independent judgement to bear on all Board decisions. To facilitate this, it is Downer's policy to provide Directors with access to independent professional advice at the Company's expense in appropriate circumstances.

Downer's Non-executive Directors recognise the benefit of conferring regularly without management present, and they do so at various times throughout the year.

The Board considers that an independent Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could (or could reasonably be perceived to) materially interfere with the independent exercise of their judgement. The Board regularly assesses the independence of each Director to ensure that each director has the capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of Downer as a whole.

Downer's governance framework requires each Director to promptly disclose actual and possible conflicts of interest, any interests in contracts, other directorships or offices held, related party transactions and any dealing in the Company's securities.

At least one Director must retire from office at each Annual General Meeting (AGM). No Non-executive Director can serve more than three years without offering themselves for re-election.

The Chairman of the Board is an independent, Non-executive Director. He is responsible for leadership of the Board and for the efficient organisation and functioning of the Board. The Chairman is appointed by the Board to ensure that a high standard of values, governance and constructive interaction is maintained.

The Chairman facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and the Board and management. He also represents the views of the Board to Downer's shareholders and conducts the AGM.

CORPORATE GOVERNANCE

FOR THE YEAR ENDED 30 JUNE 2014

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE – CONTINUED

The roles of Chairman and Group CEO are not exercised by the same person and the division of responsibilities between the Chairman and the Group CEO have been agreed by the Board and are set out in the Board Charter and Downer's Delegations Policy.

The Board has established a number of committees to assist the Board to effectively and efficiently execute its responsibilities. A list of the main Board Committees and their membership is set out in the table below.

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

The names of members of each committee, the number of meetings and the attendances by each of the members of the various committees to which they are appointed is set out in the Directors' Report on page 15.

The Tender Risk Evaluation Committee's primary purpose is to oversee tenders and contracts that exceed the delegation of the Group CEO. The Tender Risk Evaluation Committee is chaired by an independent Director and comprises five members, including the Group CEO. Meetings of the Tender Risk Evaluation Committee are convened as required to review tender opportunities.

The Board has established the Nominations and Corporate Governance Committee to oversee the practices for selection and appointment of Directors of the Company.

The Nominations and Corporate Governance Committee's primary purpose is to support and advise the Board on fulfilling its responsibilities to shareholders by ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and leading governance practice.

The Nominations and Corporate Governance Committee has a charter which sets out its roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. The Nominations and Corporate Governance Committee Charter gives the Nominations and Corporate Governance Committee access to internal and external resources, including access to 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.

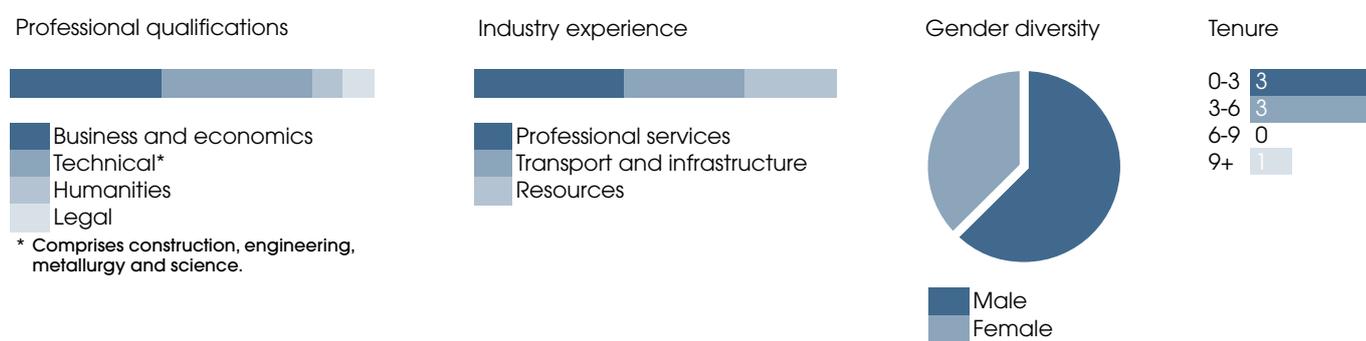
PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE – CONTINUED

The Committee’s responsibilities include:

- Assessing the skills and competencies required on the Board;
- Assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual Directors and the Board as a whole;
- Establishing processes for identifying suitable candidates for appointment to the Board (including undertaking a formal due diligence screening process); and
- Recommending the engagement of nominated persons as Directors.

When appointing Directors, the Nominations and Corporate Governance Committee aims to ensure that an appropriate balance of skills, experience, expertise and diversity is represented on the Board. This may result in a Non-executive Director with a longer tenure remaining in office so as to bring that experience and depth of understanding to matters brought before the Board.

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



From time to time, Downer engages external specialists to assist with the selection process as necessary, and the Chairman, Board and Group CEO meet with nominees as part of the appointment process.

Nominations for re-election of Directors are reviewed by the Nominations and Corporate Governance Committee and Directors are re-elected in accordance with the Downer Constitution and the ASX Listing Rules.

As part of its commitment to leading corporate governance practice, the Board undertakes improvement programs, including externally facilitated periodic reviews of its performance and that of its Committees and Directors. The last review was completed during FY13 with a number of improvements identified and implemented.

Downer’s Director induction program is designed to enable new Directors to gain an understanding of, among other things, Downer’s culture and values and the Company’s financial, strategic, operational and risk management position.

Directors are given an induction briefing by the Company Secretary and an induction pack containing information about Downer and its business, Board and Committee charters and Downer Group policies. New Directors also meet with key senior executives to gain an insight into the Company’s business operations and the Downer Group structure.

Directors are encouraged to continually build on their exposure to the Company’s business and a formal program of Director site visits has been in place since 2009.

Directors are also encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge and the Company Secretary regularly organises governance and other continuing education sessions for the Board.

The Board is provided with the information it needs to discharge its responsibilities effectively. The Directors also have access to the Company Secretary for all Board and governance-related issues and the appointment and removal of the Company Secretary is determined by the Board. The Company Secretary is accountable to the Board, through the Chair, on all governance matters.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Downer strives to attain the highest standards of behaviour and business ethics when engaging in corporate activity. The Downer Standards of Business Conduct sets the ethical tone and standards of the Company and deals with matters such as:

- Compliance with the letter and the spirit of the law;
- Workplace behaviour;
- Prohibition against bribery and corruption;
- Protection of confidential information;
- Engaging with stakeholders;
- Workplace safety;
- Diversity and inclusiveness;
- Sustainability; and
- Conflicts of interest.

Downer has a formal whistleblower policy and procedures for reporting and investigating breaches of the Standards of Business Conduct. This includes the Our Voice service, an external and independent reporting service which enables employees to anonymously report potential breaches of the Standards of Business Conduct, including misconduct or other unethical behaviour. Reports received through Our Voice are investigated where appropriate, with the Company Secretary overseeing the completion of any remedial action.

The Standards of Business Conduct apply to all officers and employees and is available on the Downer website at www.downergroup.com.

Downer endorses leading governance practices and has in place policies setting out the Company's approach to various matters, including:

- Securities trading (stipulating "closed periods" for designated employees and a formal process which employees must adhere to when dealing in securities);
- The Company's disclosure obligations (including continuous disclosure);
- Communicating with shareholders and the general investment community; and
- Privacy.

Downer has an Anti-Bribery and Corruption Policy which expands upon the prohibition against bribery and corruption currently contained in the Standards of Business Conduct, and which addresses key issues such as working with government, political donations, human rights, conducting business internationally and gifts and benefits. As Downer has operations in foreign jurisdictions, Downer employees are confronted by the challenges of doing business in environments where bribery and corruption are real risks. However, regardless of the country or culture within which our 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.

DIVERSITY AT DOWNER

Downer is committed to ensuring that it has a diverse and inclusive workforce, which fulfils the expectations of its employees, customers and shareholders while building a sustainable future for its business. Downer has formalised its practices in a Diversity and Inclusiveness Policy, which sets out Downer's diversity initiatives and has a particular focus on gender, age and cultural diversity. Downer has established a Diversity and Inclusiveness Committee made up of senior executives across the Group which meets to implement and monitor these initiatives.

The Diversity and Inclusiveness Policy and Downer's Sustainability Reports are available on the Downer website at www.downergroup.com.

ASX DIVERSITY RECOMMENDATIONS – DIVERSITY STATEMENT

This diversity statement outlines Downer's performance throughout 2014 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 2014; and
- An outline of Downer's measurable gender diversity objectives for 2015.

GENDER REPRESENTATION METRICS

As at 30 June 2014, the gender representation metrics were as follows:

- Three of the eight Non-executive Directors on the Downer Board are women (unchanged since FY12);
- Women currently make up 7 per cent of Senior Executive¹ roles;
- 6.0 per cent of Manager² roles are held by women; and
- Women constitute approximately 12 per cent of Downer’s workforce.

LOOKING BACK: FY2014 MEASURABLE OBJECTIVES

Objective	Outcome
<p>Increase the number of female employees in the organisation by providing development opportunities, targeted recruitment and introduction of flexible work opportunities where appropriate</p>	<p>The number of female employees in the organisation remained unchanged from FY13 at 12 per cent.</p> <p>The Diversity and Inclusiveness Policy was updated to recognise and promote flexible work practices within Downer.</p> <p>The Diversity Committee has introduced the concept of Employee Resource Groups which are designed to increase awareness and assist with the implementation of diversity and inclusiveness initiatives throughout the organisation.</p> <p>The Downer Diversity and Inclusiveness intranet site was established in March 2014 and now provides employees with access to a range of information and resources relating to diversity and inclusiveness.</p> <p>Downer New Zealand established the Downer Women’s Network, the purpose of which is to explore key barriers to and opportunities for career progression within Downer, and to encourage networking amongst female employees in this business.</p> <p>Downer continues to offer a Group-wide Downer Corporate Family Program to its employees. This program, established in FY13, is designed to support employees with caring responsibilities and to assist them in managing these responsibilities with their work obligations.</p>
<p>Increase the number of Indigenous and Torres Strait Islander employees in Australia and increase the number of Maori and Pacific Island employees in management and senior management roles in New Zealand, through targeted recruitment and development initiatives</p>	<p>The program for the recruitment of Indigenous and Torres Strait Islander employees continues to deliver strong results, particularly in Downer Mining.</p> <p>Downer New Zealand established the Maori Leadership Network which is designed to promote leadership development opportunities for Maori employees in Downer.</p>
<p>Undertake a pilot program to support the Jawun program and it is expected this will lead to full support and membership with Jawun</p>	<p>In late 2013, three Downer employees participated in a successful six week pilot program to support the Jawun program, an indigenous corporate partnership program which creates opportunities for selected employees to use their professional skills to make a contribution to our Indigenous communities.</p> <p>Following the successful pilot program, Downer has entered into a formal partnership with Jawun, with further secondments now underway.</p>

1 For present purposes, “Senior Executive” refers to CEO, KMP and Other Executives/General Managers as defined in the Workplace Gender Equality Agency Reference guide to the workplace profile and reporting questionnaire (WGEA Reference Guide).

2 For present purposes, “Manager” refers to CEO, KMP, Other Executives/General Managers, Senior Managers and Other Managers as defined in the WGEA Reference Guide.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING - CONTINUED

Objective

Maintain a continuous pipeline of talent into the organisation through cadetship, graduate and apprenticeship opportunities

Outcome

An analysis of the adequacy of the training support that Downer provides through its cadetship, graduate and apprenticeship opportunities was conducted across the Group. The findings of this analysis were presented to and considered by the Executive Committee and Downer Board and will form the basis for the initiatives of the Corporate Champions Program to be established during FY2015.

Downer Mining successfully applied to Queensland Civil and Administrative Tribunal in November 2013 for an exemption under the anti-discrimination laws to specifically recruit females for specific roles at designated mining sites in Queensland for the next five (5) year period. Additionally, the exemptions granted by the Anti-Discrimination Tribunal of New South Wales in March 2013 led to two targeted recruitment campaigns being run throughout FY2014 which employed 15 female operators (trainee and experienced) at the Boggabri mine site.

Optimise the ageing workforce by providing flexible work arrangements and retirement planning options to employees

Downer has received Commonwealth Government funding to establish a Corporate Champions Program, which will focus on improving the retention and management of mature workers. Additionally, Downer employees now have access to a senior living program which is designed to assist those employees who are transitioning into retirement by offering services such as superannuation planning and aged care assistance.

LOOKING AHEAD: FY2015 MEASURABLE OBJECTIVES

As part of Downer's ongoing commitment to the regular review and updating of its measurable objectives, Downer has re-affirmed its objectives for FY2015, which are comprised by a continuation of the FY2014 objectives and those set out below:

- To have at least one woman candidate on the shortlist for 25% of Manager roles (currently 17%) to aim to increase the number of female Managers in Downer from 6.0% (FY2014) to 6.5% in the future;
- To complete the implementation of a job grading structure across Downer to enable a comprehensive gender pay review in the future;
- Conduct a diversity and inclusiveness survey which will expand upon the survey conducted in 2012 by targeting a broader audience and incorporating cultural and age diversity, not just gender diversity;
- Introduce a Group-wide formalised mentoring program with the initial focus being women in leadership;
- Promote awareness, utilisation and continuous improvement of flexible work opportunities to female employees;
- Consolidate and strengthen Downer's involvement in the Jawun program; and
- Continue to focus on the ageing workforce and the flexible work and retirement planning options available to employees transitioning to retirement, with a particular focus on developing and implementing the objectives and initiatives of the Corporate Champions Program, and undertaking a Group-wide employee age profiling exercise.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

The Audit and Risk Committee assists the Board to fulfil its responsibilities relating to:

- The quality and integrity of the accounting, auditing and reporting practices of the Company with a particular focus on the qualitative aspects of financial reporting to shareholders;
- The Company's risk profile and risk policies; and
- The effectiveness of the Company's system of internal control and framework for risk management.

The Audit and Risk Committee is structured so that it:

- Consists of only Non-executive Directors;
- Consists of a majority of independent Directors;
- Is chaired by an independent Chairman (who is not the Chairman of the Board); and
- Has at least three members.

The Audit and Risk Committee currently comprises only independent Directors, includes members who are financially literate and has at least one member who has relevant qualifications and experience.

The Audit and Risk Committee Charter sets out the Audit and Risk Committee's role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Board receives assurances from the Group CEO and the Group CFO that the declarations provided 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.

The Audit and Risk Committee Charter is available on the Downer website at www.downergroup.com.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company's Disclosure Policy sets out processes which assist the Company to ensure that all investors have equal and timely access to material information about the Company and that Company announcements are factual and presented in a clear and balanced way. A copy of the Disclosure Policy is available on the Downer website at www.downergroup.com.

The Disclosure Policy also sets out the procedures for identifying and disclosing material and market-sensitive information in accordance with the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

Downer's Disclosure Committee consists of two independent, Non-executive Directors (one of which is the Chairman of the Board) and the Group CEO. The Disclosure Committee oversees disclosure of information by the Company to the market and the general investment community.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Downer empowers its shareholders by:

- Communicating effectively with shareholders;
- Giving shareholders ready access to balanced and understandable information about the Company; and
- Making it easy for shareholders to participate in general meetings.

The Downer Communication Policy sets out the Company's approach to communicating with shareholders and is available on the Downer website at www.downergroup.com.

The Company publishes corporate information on its website (www.downergroup.com), including Annual and Half Year Reports, ASX announcements, investor updates and media releases.

Downer encourages shareholder participation at AGMs through its use of electronic communication, including by making notices of meetings available on its website and audio casting of general meetings and significant group presentations.

The Directors and key members of management attend the Company's AGMs and are available to answer questions.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

To mitigate the risks that arise through its activities, Downer has various risk management policies and procedures in place that cover (among other matters) interest rate management, foreign exchange risk management, credit risk management, tendering and contracting risk and project management.

Downer has controls at the Board, executive and business unit levels that are designed to safeguard Downer's interests and ensure the integrity of reporting (including accounting, financial reporting, environment and workplace health and safety policies and procedures). These controls are designed to ensure that Downer complies with legal and regulatory requirements, as well as community standards.

Downer has a Risk Management Framework in place to enable business risks to be identified, evaluated and managed. The Downer 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.

Downer's annual Sustainability Report provides a detailed overview of Downer's approach to managing its environmental sustainability and social sustainability risks. The 2013 Sustainability Report is available on the Downer website at www.downergroup.com.

The Company's internal audit function objectively evaluates and reports on the existence, design and operating effectiveness of internal controls. Downer's internal audit team is independent of the external auditor and reports to the Audit and Risk Committee.

Downer's Audit and Risk Committee assists the Board in its oversight of Downer's risk profile and risk policies, the effectiveness of the systems of internal control and Risk Management Framework and Downer's compliance with applicable legal and regulatory obligations. The Audit and Risk Committee Charter is available on the Downer website at www.downergroup.com.

Management reports regularly to the Audit and Risk Committee on the effectiveness of Downer's management of its material business risks and on the progress of mitigation treatments.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration Committee and has adopted the Remuneration Committee Charter which sets out its role and responsibilities, composition, structure and membership requirements and the procedures for inviting non-committee members to attend meetings.

The Remuneration Committee is responsible for reviewing and making recommendations to the Board about:

- Executive remuneration and incentive policies;
- The remuneration, recruitment, retention, performance measurement and termination policies and procedures for all senior executives reporting directly to the Group CEO;
- Executive and equity-based incentive plans; and
- Superannuation arrangements and retirement payments.

Remuneration of the Group CEO, executive directors and non-executive directors forms part of the responsibilities of the Nominations and Corporate Governance Committee.

Downer's remuneration policy is designed to motivate senior executives to pursue the long-term growth and success of the Company and prescribes a relationship between the performance and remuneration of senior executives.

The Remuneration Committee consists of a majority of independent Directors, is chaired by an independent Director and has at least three members (currently no Executive Director is a member of the Remuneration Committee).

The maximum aggregate fee approved by shareholders that can be paid to Non-executive Directors is \$2.0 million per annum. This cap was approved by shareholders on 30 October 2008. Further details about remuneration paid to Non-executive Directors are set out in the Remuneration Report at page 17.

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

Non-executive Directors do not participate in any equity incentive schemes.

The remuneration structure for Executive Directors and senior executives is designed to achieve a balance between fixed and variable remuneration taking into account the performance of the individual and the performance of the Company. Executive Directors receive payment of equity-based remuneration as short 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 invested entitlements under any of the Company's equity-based remuneration schemes.

Further details about the remuneration of Executive Directors and senior executives are set out in the Remuneration Report at page 17 and details of Downer shares beneficially owned by Directors are provided in the Directors' Report at page 4.