ANNUAL REPORT 2017

WATPAC

Newstead Series, Brisbane

Contents

Highlights FY17

148,939
cubic metres of concrete poured

>27,000 people inducted on site

1,874
tonnes of steel erected

>6,741,000 hours worked

11,549
tonnes of reinforcing steel

19 tower cranes erected on sites

Active on
62
construction project sites

>18.82m
BCM of material mined

Active on

15

Civil & Mining project sites

17

excavators operating

49

dump trucks in operation

9,228

toolbox talks held

Two Komatsu HD1500 dump trucks donated to the Starlight Children's Foundation valued at

$350,000

Watkins, Watpac's new intranet, goes live

Launched Indigenous Engagement Policy

600

respondents took part in Watpac Employee Engagement Survey

>3,700

learning modules completed through iLearn

>1,000

employees and their families took part in Watpac Family Days

Chair and Managing Director's Report

The results for the 2017 financial year were again below what we consider acceptable. While our core businesses still performed profitably at an underlying level, disappointingly performance was again impacted by challenging market conditions.

Despite difficult circumstances faced over the course of the 2017 financial year, the Group remained committed to retaining a healthy balance sheet and liquidity levels. Pleasingly this objective was achieved with surplus capital existing from which to explore various capital management initiatives which we believe will lead to improved shareholder value.

While our targeted tendering strategy and the timing of project awards resulted in a reduction in aggregate work volumes compared to the prior year, the decrease in profitability of the Construction businesses in FY17 was unexpected, being mainly attributable to heightened levels of residential construction activity persisting for much of the financial year and its corresponding impact on subcontractor trade costs.

Despite this reduced profitability, the Group successfully converted several high-profile projects over the past 12 months across the Health & Science, Education and Defence and Secure Environments sectors, resulting in aggregate Construction work-in-hand at balance date remaining relatively stable at $1.37 billion. Watpac also continued its participation on projects being delivered under the Public Private Partnership (PPP) procurement model, bringing the total number of projects now having been awarded under this form of contract to six.

Herston Quarter Redevelopment, Brisbane

We believe our disciplined approach to project selection and ability to work within complex contractual frameworks provides a strong platform from which to improve future profitability and value for shareholders.

At almost $500 million at 30 June 2017, health-related projects now represent a more prominent portion of our work-in-hand balance. A number of high-profile projects were secured during FY17, including the $373 million contract (inclusive of scope enhancements) to construct the Specialist Rehabilitation and Ambulatory Care Centre at Australian Unity's Herston Quarter Redevelopment in Brisbane, and the $63 million contract with Health Infrastructure (NSW) for the construction of the NSW Forensic Pathology and Coroner's Court in Sydney. These project awards followed the completion of several other significant health projects in Queensland and Victoria during FY17 and continue Watpac's demonstrated success in this specialist area of design and construction management.

Watpac's expertise in delivering world-class education precincts also continued to be recognised, with the announcement in July 2017 of the $187 million Arthur Phillip High School and Parramatta Public School project in Sydney. This complex project will provide a new high-rise high school accommodating up to 2,000 students and a new multi-storey 1,000 student facility for Parramatta Public School. Coupled with the ongoing delivery of 10 schools across South East Queensland as part of the Queensland Schools PPP project and 15 new schools across the Greater Melbourne area under the Victorian Schools PPP project, it confirms Watpac's expertise and credibility in delivering specialist design and construct education projects.

Our extensive experience in international competition standard sporting facilities brought further success in FY17, with the announcement that the Group had been appointed as Managing Contractor for Stage One of the new $250 million North Queensland Stadium in Townsville. This iconic project follows the recent completion of a number of other bespoke sporting facilities, including the Anna Meares Velodrome in Brisbane, which will host the cycling events for the 2018 Gold Coast Commonwealth Games.

FY17 represented a year of substantially improved underlying profit for the Group's Civil & Mining business. This result was achieved notwithstanding comparatively lower turnover, with reduced activity levels persisting in this sector for most of the 2017 financial year. We continued our attention on using innovative work methods together with our flexible plant & equipment fleet to achieve the best possible outcome for our clients.

The resources sector remained particularly challenging and projects that came to market were hotly contested. Notwithstanding, we maintained a disciplined approach to tendering and this has resulted in a reduction in Civil & Mining work-in-hand levels to $48 million at balance date. While several significant near-term tender opportunities exist, this low level of work-in-hand and the current unpredictable nature of the industry has resulted in the recognition of further impairments against carrying values of plant and equipment and inventory assets. Aggregate non-cash impairment charges recognised in FY17 amounted to $29.6 million.

NSW Forensic Pathology and Coroner's Court, Sydney

With activity levels rising, we are anticipating a more sustained opportunity pipeline for the Civil & Mining business over the short to medium term, and as such there are real opportunities to enhance both revenue and profitability levels in the future.

We remain cognisant that FY17 represented another year where we have failed to provide appropriate returns for our shareholders, however we have continued to make substantial improvements in addressing our performance issues. Such initiatives include further refining our risk management systems, and restructuring our business delivery support systems and processes such that we have in place a scalable model from which future operational and financial success can be delivered.

As highlighted earlier, the Group has also deliberately and prudently maintained significant levels of liquidity. Cash and term deposits at financial year end totalled $229 million and despite the statutory loss reported, the Group achieved positive operating cash flow in FY17. The Group's substantial liquidity is supplemented by a $170 million committed bank guarantee facility and $245 million in insurance bonding lines, which are presently only drawn to approximately $200 million in aggregate.

This conservative capital model is required to support the continued execution of the Group's strategies, which include targeting projects with higher entry barriers – both at an execution credentials and capital support structure level.

As we enter the 2018 financial year we remain committed to enhancing value for our shareholders, by building on our strong operating platform and maintaining a diverse portfolio of quality projects.

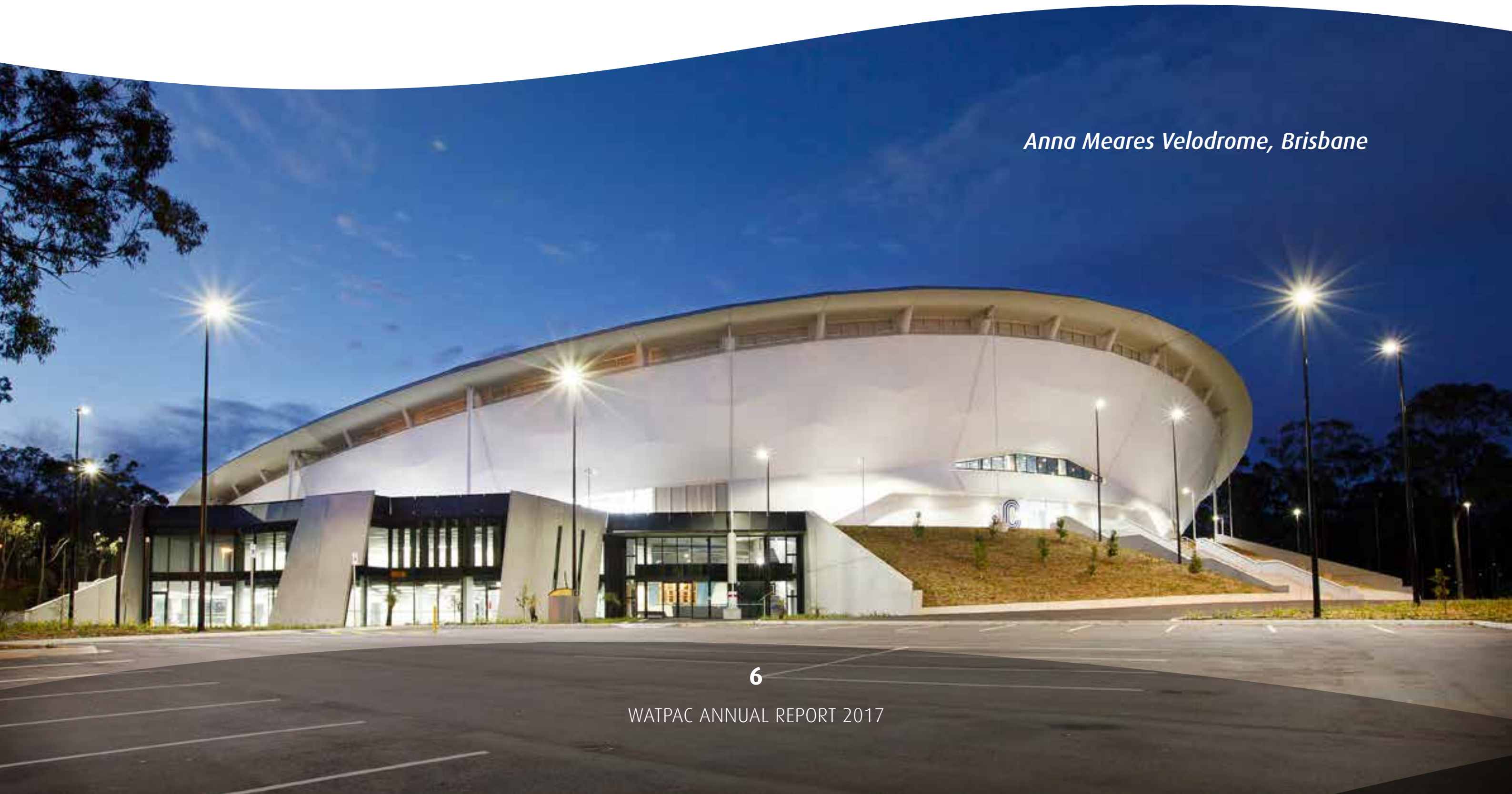
At an organisational level, the ongoing investment in the development of our people and support systems provides a strong foundation for a highly-respected, safe and diverse business.

As we look to the year ahead, we would like to acknowledge the continued enhancement of the range and mix of skills and experience represented by the Board, and thank all of the Group's employees who continue to strive for excellence.

To our shareholders, thank you for your ongoing support. We remain confident that through the management of current and emerging risks, and the execution of our strategies, we can deliver improved value and sustainable results for all of Watpac's stakeholders.

Richard McGruther
Chair, Watpac Limited

Martin Monro
Managing Director

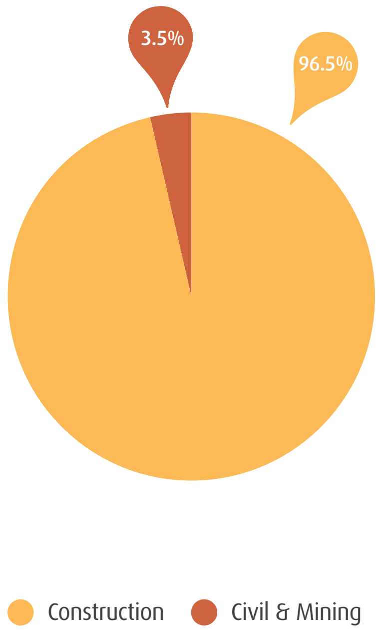


Anna Meares Velodrome, Brisbane

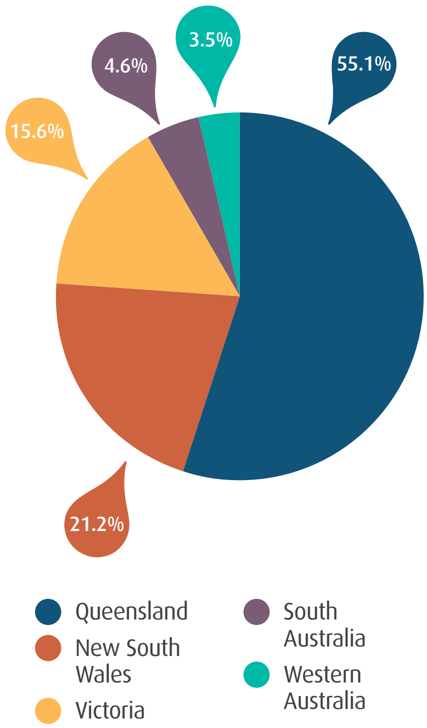
180 Brisbane, Brisbane

The Results in Brief (as at 30 June 2017)

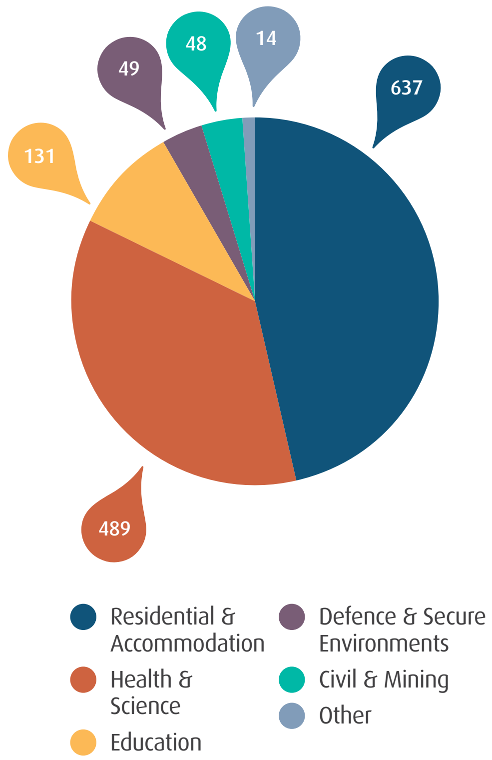
Work-in-hand by product type



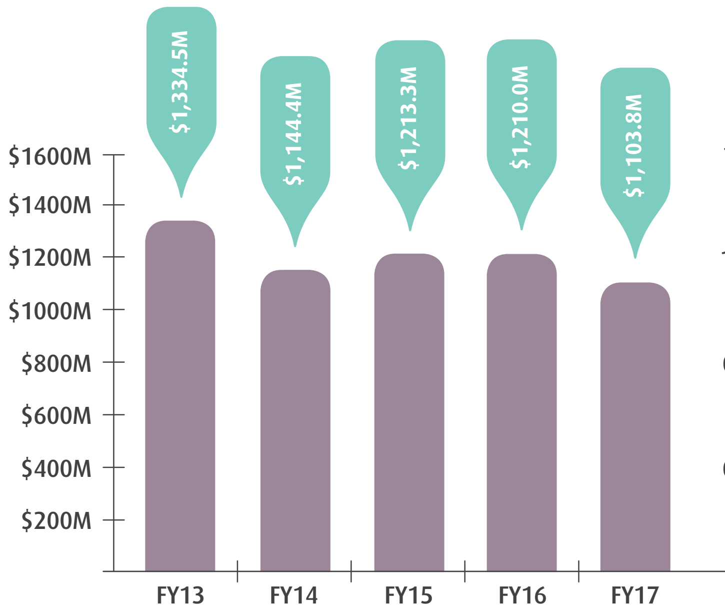
Work-in-hand by region



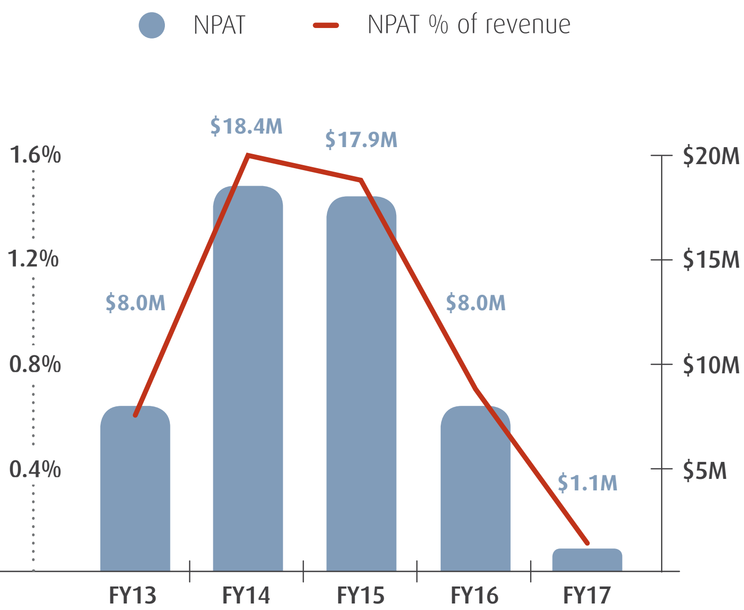
Work-in-hand ($M) by industry sector



Total operating revenue from continuing operations



Underlying Net Profit After Tax



Frankston Private Hospital, Melbourne

Creating Landmarks

Healthy communities

Frankston Private Hospital

Watpac completed the expansion of the Frankston Private Hospital in June 2017. Works on this leading healthcare facility included construction of a new building adjacent to and adjoining the existing hospital, which now serves as the main entry. An additional 60 beds have been delivered through the expansion as well as three extra operating theatres, an expanded Central Sterile Services Department and a new day oncology unit. With the original hospital refurbished, the existing day oncology unit has been converted into a second stage recovery unit.

Ronald McDonald House South Brisbane

Brisbane's new Ronald McDonald House was completed in September 2016 and welcomed its first families in October. Located opposite the Lady Cilento Children's Hospital, the project required detailed site management to minimise impacts to pedestrians and the nearby public transport hub. Being the largest Ronald McDonald House in the world, it features 84 accommodation rooms with capacity to expand to 126 rooms. At 46 metres high, the 12-level tower has a total floor area of 11,080 square metres and incorporates approximately 5,735 cubic metres of concrete and 578 tonnes of reinforcing steel. More than 8,000 square metres of metal cladding was used in the building's eye-catching façade. The House also comprises communal spaces including lounges, kitchen and dining facilities, work spaces, indoor and outdoor recreation areas, a roof top function area, 266 square metres of ground level retail and onsite car parking.

Herston Quarter Redevelopment

Watpac recently commenced works at the Herston Quarter project site in Brisbane, following the finalisation of its contractual terms with Australian Unity in February 2017. Work to date has included the removal of hospital equipment, and dismantling of interior walls and ceilings, with demolition of the former Royal Children's Hospital having recently commenced. The new Specialist Rehabilitation and Ambulatory Care Centre (SRACC) building which will be built on the cleared site for Metro North Hospital and Health Service will provide 35,157 square metres of facilities and feature a Sky Bridge Link to the Royal Brisbane and Women's Hospital. Watpac will also deliver the Spanish Steps – which will extend from Herston Road into the main public realm, in addition to dedicated car parks underneath the new facilities and major infrastructure upgrade works.

NSW Forensic Pathology and Coroner's Court Facility

Watpac recently commenced construction of the new NSW Forensic Pathology and Coroner's Court facility for Health Infrastructure at Lidcombe in Western Sydney. A collaboration between NSW Health and NSW Department of Justice, the new three-level building will include identification and waiting rooms, counselling rooms, a mortuary and laboratories on the ground floor with conference rooms, court registry, administration rooms and offices on the first floor, and the Coroner's suites and courtrooms on the second floor.

Point Cook College, Victoria

Building futures

Queensland Schools PPP

With nine of the 10 new schools now operational, construction of the final new school at Springfield West is expected to commence in October 2017, and be completed in time for the 2019 academic year. Work continues on construction of Stage 2 at Griffin State School, Deebing Heights State School, Bellmere State School and Pallara State School. These four primary schools are currently on track for completion at the end of this year and planning has commenced for the 2018 projects. Watpac is delivering the South East Queensland schools for the Queensland Government as part of the Plenary Schools Consortium.

Victorian Schools PPP

Watpac has now delivered eight of the 15 new schools it is building as part of the Learning Communities Victoria consortium for the Victorian State Government's New Schools PPP Project. The project recently completed Stage 2 works at Mernda Central, with construction of the Tranche 2 schools at Armstrong Creek, North Geelong, Bannockburn and Torquay North progressing well and on schedule for completion in January next year. The project includes the construction of primary, secondary and special schools, in addition to community facilities across a number of Victoria's fastest growing metropolitan and regional communities.

Griffin Primary School, Queensland

Growing cities

Riverlight

Works on Frasers Property Australia's latest residential development at Brisbane's Hamilton Reach have progressed well with external finishes having now commenced. Upon completion Riverlight will comprise a combination of one, two and three bedroom apartments and five high-end penthouses. Recreational facilities will include an alfresco dining room, an outdoor master-chef barbecue retreat, a 20 metre lap pool and sun deck, a sensory garden and a fully equipped gymnasium. A two-level basement carpark will also be delivered as part of the project, providing parking for 283 cars.

Ryde Garden

Construction of Ryde Garden's three towers is progressing well, with Building C structure topping-out in March 2017 and structures for Building B and Building A having both now well exceeded 20 levels. Significant progress has also been made installing 2,049 pre-fabricated bathroom pods with façade and internal fit-out of the apartments progressing well. Upon completion the residential development will feature 830 apartments and provide basement parking for 730 cars, as well as 2,100 square metres of public park, four public artwork installations, roof top gardens and a communal pool. Over 1,100 square metres of non-residential floor space including retail space, gymnasium and areas for future amenity expansion will also be delivered.

York & George, Sydney

York & George

The York & George development in Sydney's central business district will feature 199 apartments, a seven-storey mixed-use podium structure and two underground basement levels. The tower core jumpform is now well progressed up the structure with works undertaken to date including the commencement of vehicle lift commissioning and installation of the George Street stone façade. Basement waste/holding rooms and lower ground substation shielding works have been completed. Restoration of the Spiden House parapet has been completed, with the completion of the Spiden House façade and reconstruction of the Carlton House courtyard wall expected to occur in the coming months.

Ryde Garden, Sydney

Central Adelaide, Adelaide

Central Adelaide

Central Adelaide achieved practical completion in May 2017 and welcomed its first residents shortly thereafter. Comprising 260 apartments in studio, one, two and three bedroom configurations, the new luxury residential complex features a sky garden with barbecue facilities, sky pool, three-hole mini golf course, stone massage walking track, gym and fitness centre, mini cinema and billiard rooms. The state-of-the-art 18-storey building is 62.9 metres tall with a gross floor area of 30,500 square metres set over 20 levels, including a ground floor retail level and lower level for parking with car stacking facilities. A significant environmental consideration in the construction of Central Adelaide was its recycling program, which facilitated up to 93 per cent of all building rubbish leaving the site to be sorted and recycled.

Kodo

Construction of the Kodo development in Adelaide's central business district has now commenced, following finalisation of contract conditions earlier this year. The first sod was officially turned in April 2017 and the tower crane was installed in June. When complete Kodo will be the city's tallest residential apartment complex featuring 208 apartments, a sky garden, plus ground floor retail and commercial tenancies.

Kodo, Adelaide

Pullman and Ibis Hotels, Brisbane

Summer Hill Flour Mill

Following completion of Stage 1 of the mixed-use residential precinct, Stage 2 is scheduled to reach completion in the coming months. When complete, the conversion of Summer Hill's historic flour mill silos will house 45 apartments, forming part of the 127 apartments and townhouses to be delivered across seven buildings. The precinct will also feature 18 three-storey terrace homes with construction incorporating landscaping and road works, services infrastructure and retail spaces as part of the project.

Union Tower

Works continue on site at the 35-storey Union Tower residential development in Melbourne, with the core now substantially progressed. The structure is now on typical cycles and is anticipated to progress at roughly a floor a week. Formwork stripping, services rough-in and fitout have commenced. Upon completion the inner-city tower located on Little Lonsdale Street will offer 165 one and two-bedroom apartments, with only five apartments per typical level to suit the building's tall and slender design. The development will also feature a six-storey podium that will provide amenities including shared and private work spaces, gymnasium, bike storeroom, common workshop facilities and a retail precinct.

Mary Lane

Works on the Mary Lane precinct are progressing well, with the structure for the 37-storey tower starting to take shape. When complete Mary Lane will feature Brisbane's newest 5-star international hotel – The Westin, and 184 luxury one, two and three bedroom residences. Featuring a multi-layered atrium with laneways, fine dining restaurants and bars, the development will incorporate separate facilities for residents and guests including a roof top recreation deck with pool, gymnasium, BBQ and function areas. The 286-room 5-star hotel element includes four podium levels with a large, resort-style pool with swim up bar, gymnasium, day spa, function space, lobby bar and restaurant.

Pullman and Ibis Hotels

Construction of the new 5-star Pullman Hotel, 3.5-star Ibis Hotel and Conference Centre at Brisbane Airport is nearing completion. Internal fitout on the guest room floors is complete and the hotel is expected to open in the coming months.

Jewish Care Senior Living and Community Precinct

Construction of the Senior Living and Community Precinct in Melbourne commenced in June this year. With a strong emphasis on Jewish heritage and culture, the development to be delivered across multiple phases will transform the existing site into a state-of-the-art aged care facility. The nine-storey building will feature 156 residential units, relevant health care and medical services, associated retail and commercial areas and basement car parking. The contemporary senior living development will also provide facilities for residential religious services including a synagogue and communal kosher kitchens with adjacent dining areas. Education and leisure facilities will include an art gallery, community service centres, training rooms, function spaces, family lounges with fireplaces and indoor and outdoor terraces with barbecue facilities. The grounds will be fully landscaped to include courtyards, therapy and mobility gardens, residents' kitchen gardens, a family playground and water features.

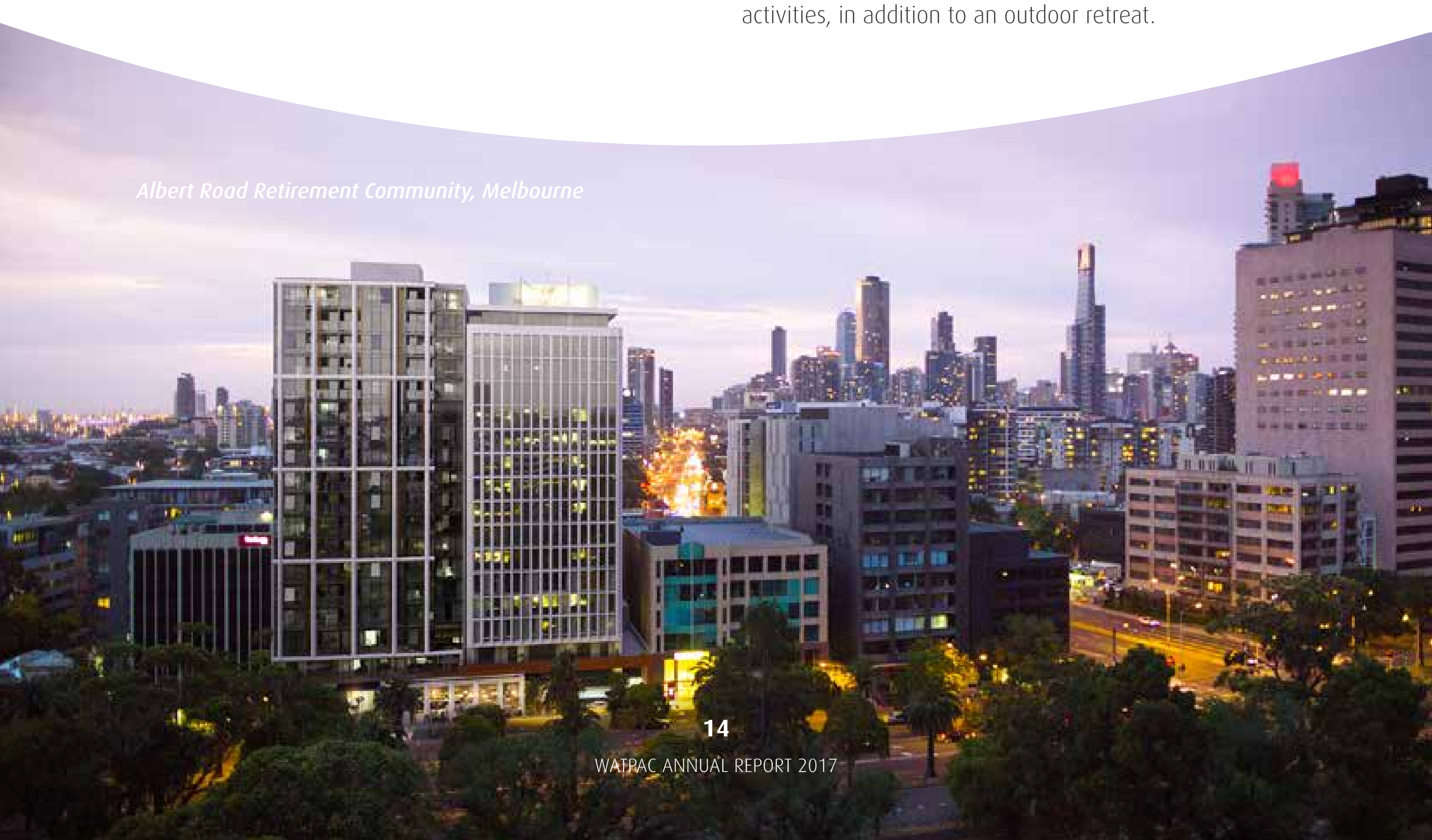
Albert Road Retirement Community

Works commenced in January this year on Australian Unity's new retirement community on Albert Road in South Melbourne. The project will deliver a 17-level residential tower comprising 83 purpose-designed apartments and two levels of carparking.

Jewish Care Senior Living and Community Precinct, Melbourne

The Cascades

A sod turning ceremony was held in February this year marking the official commencement of construction of the Cascades Seniors Living Development for Garden Village in Port Macquarie. The project consists of 52 apartments across two buildings, each with five floors of accommodation and a basement car park with a total of 58 spaces, to be delivered in two stages. The first building will comprise 35 one, two and three bedroom apartments while the second building will provide 17 apartments, of which 15 will be two bedroom apartments and the remainder three bedroom apartments. The new complex will include a restaurant, coffee shop, specially designed gymnasium, community centre and activity rooms that will be tailored for residents' specific activities, in addition to an outdoor retreat.



Albert Road Retirement Community, Melbourne

Southpoint, Brisbane

Southpoint

Southpoint, the new home for Flight Centre's global headquarters, reached practical completion in October 2016. This 21-level transit-oriented development provides a gross floor area of 48,000 square metres with 24,000 square metres of A-Grade commercial office space, 3,000 square metres of ground floor retail and dining, a gymnasium and basement parking. Located at South Bank in Brisbane, it offers easy access to public transport, including South Bank railway station and the South Eastern Busway. The project also involved meticulous restoration works to heritage-listed Collins Place, with the project team undertaking detailed and lengthy planning to preserve this part of Brisbane's heritage, which required lifting the 330 tonne heritage-listed brick building nine metres off the ground. Designed to be environmentally sustainable with optimal use of natural light, high indoor air quality, and high standards of energy and water conservation, Southpoint was awarded a 5 Star Green Star rating for Office Design v3 from the Green Building Council of Australia and is targeting a 5 Star Green Star As-Built rating, as well as a 4.5 Star NABERS Energy Rating.

333 George Street

Construction of this 18-storey premium office tower reached practical completion in early December 2016. The tower overlooks Sydney's business district and features 15 levels of A-Grade contemporary commercial office space, three levels of premium retail, landscaped rooftop terraces and basement parking.

Secure facilities

Virgin Australia Baggage Handling System Upgrade

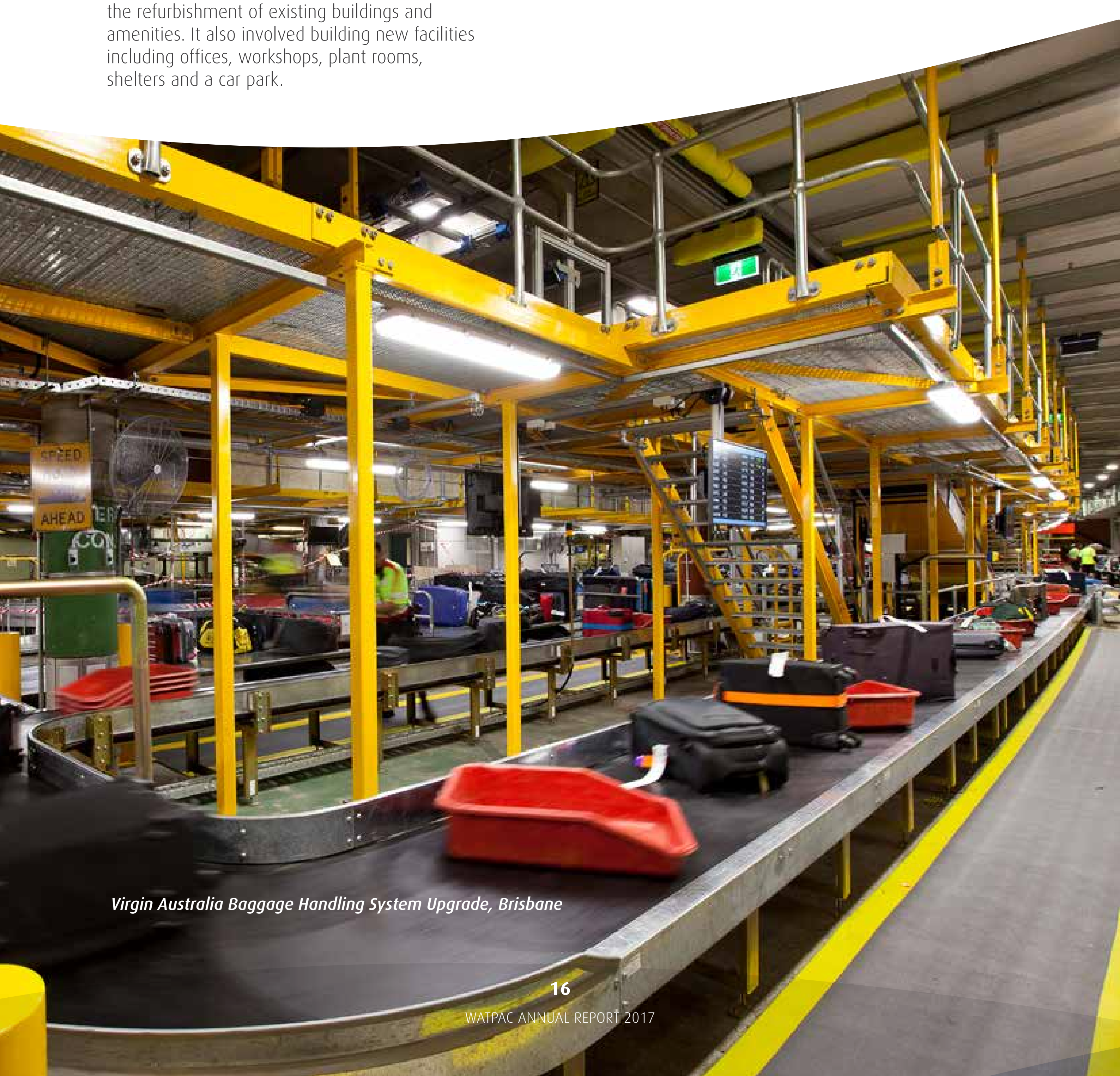
The project to upgrade the Virgin Australia baggage handling system is scheduled to reach practical completion in the coming months. Virgin Australia are now utilising the new conveyors while the existing conveyors are being replaced.

17th Construction Squadron

The 17th Construction Squadron, 6th Engineer Support Regiment was relocated to RAAF Base Amberley following the completion of works by Watpac. Delivered over five stages, the project included construction of a fire training area and the refurbishment of existing buildings and amenities. It also involved building new facilities including offices, workshops, plant rooms, shelters and a car park.

Puckapunyal and Mangalore Explosive Ordnance Facilities

Watpac is constructing and commissioning explosive ordnance facilities at the operational Puckapunyal and Mangalore military bases. Within the Puckapunyal military area, five ammunition transfer points are being constructed at five geographically separate locations. Works at the Mangalore site include the construction of two earth covered buildings for storing ammunition, which have the capacity for 360 standard pallets of ammunition. The project will also incorporate road upgrades, drainage, service infrastructure and the installation blast doors.



Virgin Australia Baggage Handling System Upgrade, Brisbane

Axehandle Gold Mine, Western Australia

Enhanced delivery

Axehandle Gold Mine

Bulk mining of overburden and ore continues at the Axehandle Gold Mine. Now owned by Shandong Tianye Group Bid Co Pty Ltd, the mine is managed by Minjar Gold Pty Ltd who oversee and direct operations. During FY17 over 9.8 million BCM of material was mined by Watpac, utilising up to four excavators and 19 dump trucks.

Mt Magnet Gold Mine

Mining is expected to be completed in September this year at the Mt Magnet Gold Mine, following completion of the $45 million contract extension for additional works at the Blackmans, Titan and Brown Hill Pits. With more than 3.7 million BCM of material mined during FY17, the scope of works includes drill and blast services and load and haul of waste and ore. The pits are being mined using 100 and 200 tonne excavators, depending on pit geometry and geological constraints. Watpac has provided mining services worth around $250 million for Ramelius Resources at their Mt Magnet Gold Mine since 2011.

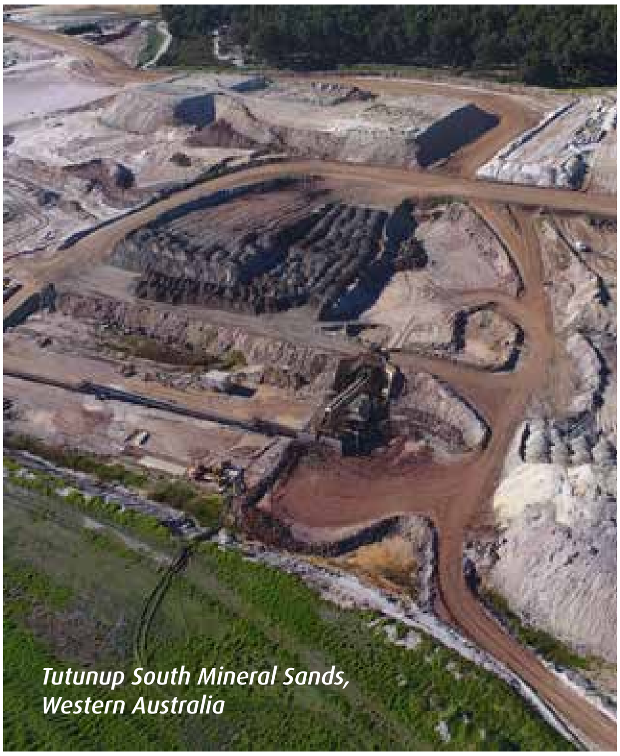
Imperial / Majestic Project

With two of the three stage Majestic pit works complete, activities have commenced via free dig operations in the nearby Imperial pit. Increased production requirements at the Silver Lake Resources project have meant the utilisation of two mining fleets continuously over recent months, with up to four excavators and nine dump trucks used to mine more than 3.7 million BCM of material over the last 12 months.

Imperial / Majestic Project, Western Australia

Tutunup South Mineral Sands

As the sole provider of mining services at Iluka Resources' Tutunup South Mineral Sands Mine, Watpac's scope of work required the establishment of this greenfield site, construction of noise bunds, haul roads, process dams and the relocation of sensitive wetlands, in addition to civil works. Located 17 kilometres south of Busselton, this mine is a source of ilmenite, rutile and zircon products which are exported around the world. During FY17 over 1.575 million BCM of material was mined and 1.89 million tonnes of ore was fed through the processing plant.



Tutunup South Mineral Sands, Western Australia

Capel Satellite Project

Works at the Capel Satellite Project continues with Watpac undertaking the removal and drying of iron oxide and ironman gypsum from the dams ready for export markets. Located 35 kilometres north of the Tutunup South mine site at Iluka Resources' main processing plant in Western Australia, work on this site is seasonal from October to April. During the FY17 period 99,958 BCM of material was mined utilising two 20 tonne excavators and two 40 tonne articulated dump trucks. A record six shipments were sent to export markets during FY17.

Kathleen Valley Gold Project

Watpac completed its open cut mining services at the Kathleen Valley Gold Mine in September 2016. Services provided at the site located approximately 50 kilometres north of the township of Leinster included clearing, constructing mine infrastructure, drill and blast, and dewatering operations. Watpac also collaborated on pit and ramp design to lower the cost of overburden removal and reduce the strip ratio.

Kalbarri Roadworks

Watpac is upgrading 20 kilometres of unsealed roads/ tracks in the Kalbarri National Park to sealed roads for the Department of Parks and Wildlife (DPaW) in Western Australia. Located 30 kilometres east of Kalbarri – 570 kilometres north of Perth, the Stage 2 Loop / Z Bend Access Roads and Carparks Upgrade works has included earthworks, drainage, pavement construction and carparks. With road sealing works complete, activities to finish the carpark will occur later in the year following completion of other national park infrastructure works being carried out by DPaW.

Kathleen Valley Gold Project, Western Australia

Harold Road Passing Lanes, Western Australia

Harold Road Passing Lanes

Completed at the end of June 2017, this project involved clearing, cut to fill, cut to spoil, pavement construction, drainage, sealing, kerbing, line marking and signage to reconstruct a 2.8 kilometre section of the Albany Highway. The project also incorporated the creation of an overtaking lane in each direction.

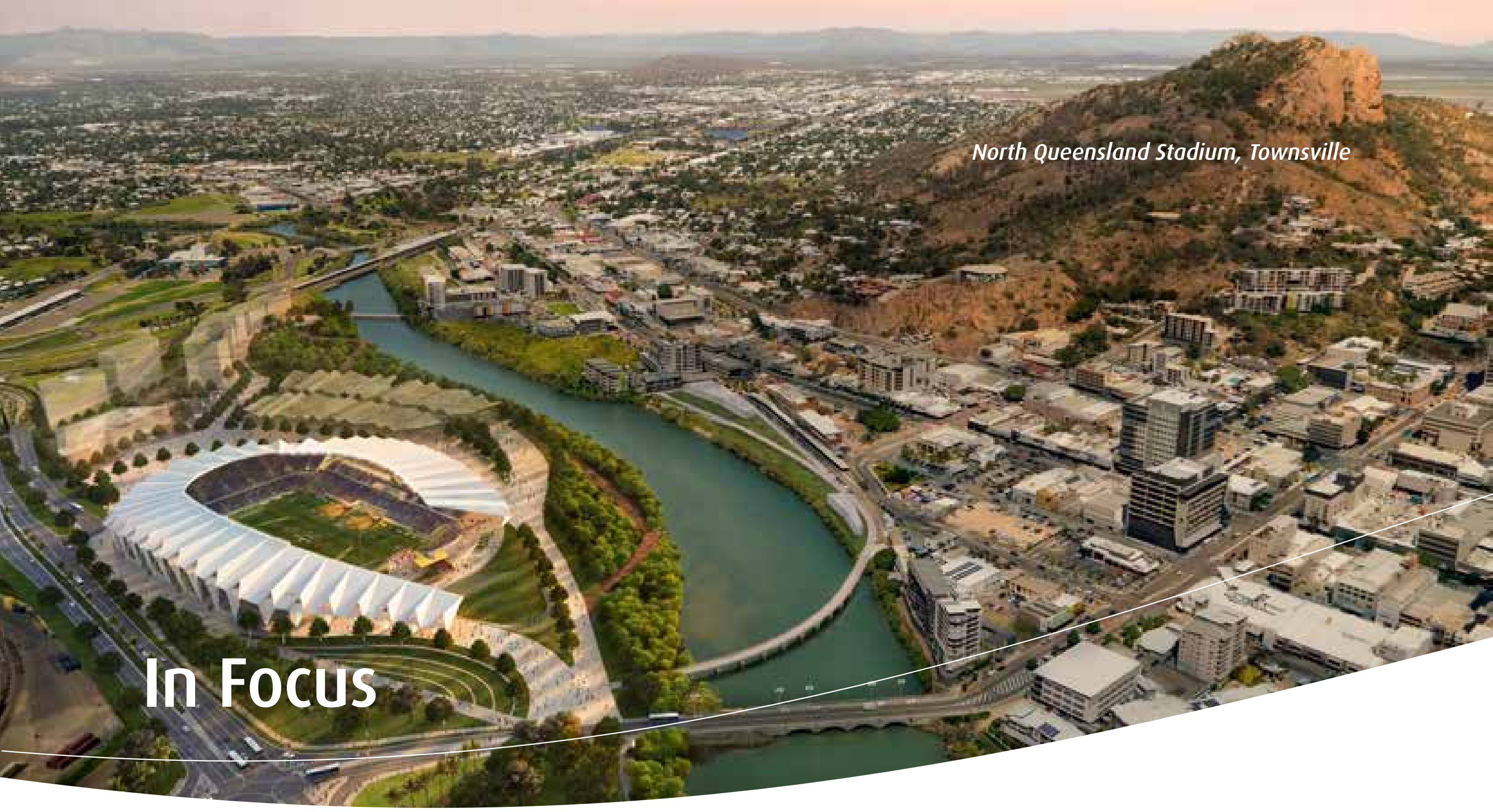
Remediation of Ravensthorpe Dam No. 4 Bitumen Catchment

Works will soon commence for the reconstruction of sub-catchments one and two and resealing of sub-catchments three to six at Ravensthorpe Bitumen Catchment. Works will include the restoration of excavated and disturbed facilities including land surfaces to their pre-construction condition. Activities to occur include removal of weeds and vegetation across all sub-catchments; sweeping of sub-catchments three to six and spreading of excess loose aggregate across eroded areas; proof compacting of the exposed gravelly basecourse across sub-catchments one and two; placing and compacting of an additional 100 millimetres of basecourse gravel across sub-catchments one and two; and resealing of sub-catchments one to six, including surrounding drainage channels.

Denmark Water Treatment Plant Remedial Works

Remedial works have been completed to the concrete weir at the Denmark Dam for the Water Corporation of Western Australia. Works included demolition and disposal of floodgate including diving works, supply and installation of stainless steel pipework and steel gridmesh, concrete works involving 105.5 cubic metres of reinforced cast insitu concrete and the installation of 56 metres of poly pipe.

Denmark Water Treatment Plant Remedial Works, Western Australia


North Queensland Stadium, Townsville

In Focus

Building state-of-the-art sporting infrastructure

With a reputation for delivering iconic sporting infrastructure, Watpac is setting the standard for world-class sporting venues around the country.

The Group's extensive experience in the technical needs of international competition standard facilities has resulted in Watpac delivering a recent portfolio of projects which include stadiums, a velodrome and swimming venues.

The appointment of Watpac as Managing Contractor for Stage One of the new $250 million North Queensland Stadium in Townsville rounds out a successful year of sporting projects for Queensland's construction business.

Construction Queensland/Northern Territory State Manager, Drew Brockhurst, said the announcement of the contract in May was an exciting milestone for the business and publicly affirmed the Group's capabilities in delivering iconic sporting infrastructure.

"We have a strong and renowned capability for building stadiums, with a team that has delivered some of Queensland's favourite venues such as Suncorp Stadium and The Gabba in Brisbane, and the Gold Coast's CBUS Super and Metricon stadiums," Mr Brockhurst said.

"So to continue this tradition with the delivery of the North Queensland Stadium is a really pleasing result for the business.

"Our priority is to deliver an iconic sporting stadium for the North Queensland community and while doing so provide indigenous employment opportunities, local business participation and job upskilling where possible for the region."

With each piece of sporting infrastructure having unique and complex design requirements, Mr Brockhurst said the Group's ability to deliver a client's vision and meet extensive sporting body requirements has ensured his team has remained attuned to progressive building methods.

"Nowhere was this more evident than during the delivery of Queensland's first purpose-built indoor velodrome – the Anna Meares Velodrome.

"Extensive planning and design was undertaken to ensure this venue would meet international Olympic Committee competition standards, given it will host the Gold Coast 2018 Commonwealth Games cycling events."

Awarded the 2017 Brisbane Master Builders Queensland Award for Sporting Facilities, the Anna Meares Velodrome, based on an elliptical shape and consisting of two 180-degree circular bends connected by two straights, takes advantage of natural lighting and ventilation aspects.

"In addition to the 250 metre timber cycling track designed and built by Germany's Ralph Schuermann of SportBAU Schurmann GBH – a specialised track builder, the distinguishing characteristic of the velodrome is the structural steel oculus.

Griffith University Aquatic Centre, Gold Coast

"This structure coupled with a combination of opaque and translucent fabric to maximise daylight use, has minimised the requirement for artificial lighting and power consumption throughout the day, providing significant energy savings."

As the second project delivered for the upcoming 2018 Gold Coast Commonwealth Games, the first being the award-winning Gold Coast Aquatic Centre, the recognition of Watpac's capabilities emphasises the Group's commitment to providing international standard venues.

"Earlier this year our team completed the Griffith University Aquatic Centre at the Gold Coast campus, which comprises a FINA accredited 50 metre swimming pool and fitness-orientated facility.

"This venue will also be used as a training facility for the Commonwealth Games."

Watpac Construction General Manager, Nick Saclley, said he credits the Group's capabilities and strong client relationships for the business's ongoing success in delivering major sporting projects.

"Our team has a specialised skillset and have delivered not only iconic Queensland sporting infrastructure, but nationally we have built facilities including Melbourne Park Eastern Plaza and Tennis Centre Redevelopment and Werribee Sports and Fitness Centre," Mr Saclley said.

"As these facilities have evolved, our teams have been invited back to undertake subsequent works such as the upgrade of suites at Suncorp Stadium."

In February, the Group was announced as the successful contractor to deliver four new high definition LED video display screens at Suncorp Stadium and The Gabba.

"The infrastructure upgrade allows all sporting fans a greater opportunity to be a part of the on-field action, greatly enhancing the experience for all," Mr Saclley said.

"It's another example of our overall objective to provide quality outcomes for clients and in turn the end-user."

Anna Meares Velodrome, Brisbane

People, Safety and Sustainability

People

Our people are the cornerstone of the Group's success. Through continued investment in learning and development we are not only laying the foundation for a respected and profitable business, but supporting our employees to build careers which thrive and shape the communities in which we live and operate.

By participating in a range of programs focused on improving our approach to safety, innovation, project management and technical skills as well as a suite of bespoke leadership and personal development programs, our teams are able to organically grow and develop within Watpac.

The Group's new online learning management system – iLearn, has strengthened our capabilities by providing our employees with quick and easy access to compliance, technical and personal development courses. Since its launch in July 2016 over 94 per cent of employees who have access to the system have completed more than 3,700 online learning modules across areas including industrial relations, financial management, safety and supervisory skills.

Opportunities for knowledge sharing continues to be a key focus for Watpac, with eight of the Group's high potential employees embarking on a study tour of BESIX Group operations in Europe and the Middle East. The tour provided participants with a valuable insight into construction methods and approaches used around the world.

In the second half of FY17 Watpac launched its Employee Engagement Survey to gain feedback on a variety of topics including communication, leadership, pay and benefits, recognition, brand, learning and development and career advancement. Pleasingly more than 600 responses were received, representing approximately 63 per cent of the Group's workforce.

Results were both interesting and thought provoking with valuable feedback provided on a range of relevant issues, including industrial relations, work procedures/processes, reward and recognition, benefits, career opportunities, and leadership. From innovative ideas to business improvements and thoughts on what is and is not working in their respective work areas, the survey captured feedback to ensure Watpac can continue to grow, evolve and respond to the needs of its people.

A pleasing outcome of the survey was that employees identified safety as the most positive aspect of the business and one which is considered of most importance to the Group. This along with feeling a sense of accomplishment from work, and a sense of autonomy and empowerment were also rated as extremely positive aspects of our business. There were also areas identified for improvement, particularly in the areas of reward/recognition, communication, and change management.

Over the course of FY18 the results of this survey will be used to identify key themes and to implement initiatives and improvements that will create a better workplace for our employees and in turn a prosperous and successful business.

Through our Healthy Foundations program Watpac has continued to provide a number of initiatives to support the health and wellbeing of our employees. Initiatives have included health checks, seminars, physical activities, and a range of counselling, financial and nutritional services via our Employee Assistance Program. The Group has also continued its popular 'Family Days' for employees and their families. This year over 1,000 employees and their families attended one of the days, which are designed to thank all the supportive partners and families of the Watpac community.

Our commitment to support our employees at work and at home was reinforced during the year with the Group launching its new Parental Leave (Paternity and Partner) Policy which provided an additional paid leave benefit for new dads and partners. The policy provides paid time away from work to support and to be involved in the care of their newborn baby or adopted child.

The Group also introduced a Domestic Violence Policy, to assist any Watpac employee who may be experiencing domestic violence. The policy reiterated our zero tolerance position on violence occurring in or being perpetrated from our workplaces. While some elements of our policy have previously been available through our Employee Assistance Program, the development of a coherent system of support now includes access to leave, safety plans, requests for flexibility, payroll and other matters. This policy and associated leave is available to all employees, regardless of gender.

Our support of charitable organisations continued in FY17 with the Group providing ongoing assistance to Ronald McDonald House. Our association with the charity reached an exciting milestone in September 2016 when we completed construction of their new House in South Brisbane, Queensland. Doors to the new facility, the largest Ronald McDonald House in the world, opened in October providing much needed accommodation and support to families whose children are receiving medical treatment.

In addition to supporting Ronald McDonald House, the Group was delighted to donate two Komatsu HD1500 dump trucks valued at $350,000 to the Starlight Children's Foundation (Starlight) to help raise vital funds for the national children's charity.

The trucks formed part of an arrangement between Starlight and Queensland national training provider Training & Personnel Australia (TPA), where funds from the leasing of the trucks for training purposes will go towards helping seriously ill children.

Following a successful three-year partnership with Ronald McDonald House, Watpac's employees have elected the Australian Childhood Foundation as its new National Charity Partner. Commencing in July 2017, the partnership will support the Foundation's work throughout Australia, including remote and regional areas as well as indigenous communities, to prevent child abuse and reduce the harm it causes to children, families and the community.

Diversity & inclusiveness

Watpac is committed to providing an inclusive workplace and an organisational culture that embraces diversity and equality.

We believe that genuine diversity leads to increased business performance and an enriched workplace culture that helps foster an environment of innovation, inspiration, candour and commitment. We have made it a priority to improve diversity within our business.

The establishment of an Inclusive and Diversity Committee has helped us set a vision and action plan to ensure we reach our goal to be not only an employer of choice, but a place that embraces and accepts differences where all individuals feel valued, are treated fairly, and have the opportunity and motivation to excel in their chosen careers.

As we strive to improve diversity within our business we remain focused on the following core principles:

- Merit – decisions about recruitment, development, promotion and remuneration are based on performance and capabilities.
- Fairness and equality – embracing diversity and being inclusive means we do not tolerate unlawful discrimination, bullying, harassment or victimisation.
- Contribution to commercial success – our diversity and inclusion initiatives are based on sound business principles and objectives. We will focus on results for the Group and our people, not on processes or programs for their own sake.
- Everyone's business – we will have some focused initiatives for specific groups, but essentially diversity and inclusion is for everyone. It is part of how we work and, because it helps the Group to be successful, it is everyone's business.

As a business we are making headway. Over the course of FY17 we have engaged with schools and universities to highlight career pathways for females in the construction and mining industries, while broadening our recruitment channels to ensure we reach different demographics and locations.

The Group also launched an Indigenous Engagement Policy, establishing a working group to reinforce our commitment to becoming a valued partner to Aboriginal and Torres Strait Islander communities. In addition to the establishment of this group, we have also recently embarked on the journey to create a Reconciliation Action Plan. These initiatives will assist our end goal of increasing opportunities for employment and engagement, and to embed a greater awareness and understanding of Aboriginal and Torres Strait Islander cultures throughout our business.

WGEA Reporting

In accordance with the requirements of the Workplace Gender Equality Act 2012, Watpac lodged its annual compliance report with the Workplace Gender Equality Agency (WGEA) on 17 May 2017. The reports were compiled using organisational data for the reporting period 1 April 2016 to 31 March 2017. Copies of the reports, and the respective compliance certificates, are available on Watpac's website at www.watpac.com.au. For more information on the reporting process and guidelines, please refer to the Agency's website at www.wgea.gov.au.

Safety

Safety is an integral part of Watpac's culture and central to the way we do business. Our commitment to delivering on promises safely, is fundamental to the way in which we conduct our operations.

Through proactive leadership, mutual engagement, and empowerment of our workforce we actively work to deliver a sustainable and safe operating environment across all of our projects and operations. This in turn enables our people to return home safely, every day.

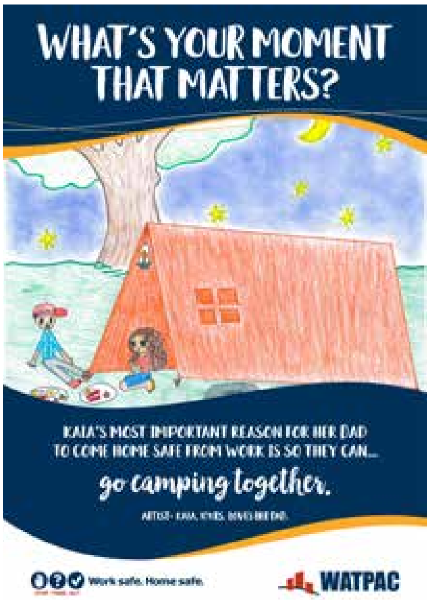
As a leading national business, we are committed to upholding the highest possible health, safety, environment and quality standards across our projects and operations for the benefit of both our employees and clients. This is achieved in a variety of ways including external certification of our management systems and through dedicated resourcing and senior leadership commitment.

Construction

More than 6.5 million hours were worked by the Group's Construction business in the 2017 financial year. Its Lost Time Injury Frequency and Medical Treatment Injury rates were again well below industry averages.

The business's commitment to safe work practices is underpinned by Watpac's national 'Work Health and Safety Strategic Plan' which promotes a holistic and comprehensive approach to the prevention and minimisation of work-related injuries, illnesses and deaths. This plan provides the platform from which the Group conducts its responsibilities and reinforces its health and safety philosophy and culture.

Through the development of Watpac's National Safety Management System (NSMS) the business has a systematic approach for achieving workplace health and safety objectives, while complying with its statutory duties nationally. The system is designed to facilitate continual improvement in workplace health and safety performance and maintains third party certification to AS/NZS 4801:2001 and accreditation with the Office of the Federal Safety Commissioner.



The Group's STOP. THINK. ACT. WORK SAFE. HOME SAFE. philosophy continues to underpin our activities, with a number of strategic campaigns developed to ensure safety remains at the forefront of people's minds.

In October 2016, during Safe Work Month a 'What's your moment that matters?' campaign invited all Watpac stakeholders to think about the 'moments that matter', encouraging people to STOP. THINK then ACT when making the decision to WORK SAFE and get HOME SAFE. A drawing competition was rolled-out to the children of both Watpac employees and subcontractors to encourage discussion and have families illustrate their 'moment that matters'.

Our excellence in health and safety was again recognised over the course of the financial year with the Summer Hill Flour Mill project awarded the New South Wales Master Builders Association Site Safety Award.

This project was identified as one that exemplified the identification of hazards and appropriate controls for high-risk construction work through early and continued planning and consultation.

Our need to be adaptable and respond to leading health and safety practices remains a priority for the business. As such, the business is currently introducing the use of in-field technology to assist in increasing efficiencies by enabling e-paperwork to be completed in real time on site, allowing employees to remain actively engaged with the workforce versus completing the tasks in an office.

Civil & Mining

The commitment of Watpac's Civil & Mining business to excellence in health, safety, environment and quality remains pivotal in delivering quality outcomes for its clients and ensuring the wellbeing of all employees.

During the 2017 financial year, the business worked 1.1 million hours, achieving a Lost Time Injury Frequency Rate of 0.86 per million hours, well below both internal targets and industry benchmarks. The business also achieved improvements on the past year's performance for Medically Treated Injuries and First Aid Injuries through a focus on leading indicators and continued systems maturity. For the second year running, a Significant Environmental Incident Rate of zero over the financial year was recorded, with the All Environmental Frequency Rate slightly declining over the period.

The ongoing delivery of the Health, Safety, Environment and Quality (HSEQ) Team Leadership Program has assisted in communicating and reinforcing the responsibilities of leaders in the business to enable the delivery of sustainable and safe practices across our operations. Over 80 per cent of identified leaders have been through the program and new leaders in the business are enrolled in the program at the first opportunity to ensure that they too are given access to the right tools and information to deliver excellence in the field.

A key focus this year has been further integration of core documentation common amongst health, safety, environment and quality disciplines, as well as the simplification of supporting processes. The refinement and continuous improvement of systems and processes across the business in a number of areas of recently developed documentation continues, including High Risk Operational Control, Injury Management and Medicals and HSEQ integrated documentation. Revised or new processes have been rolled out for Change Management, Client Satisfaction and Auditing.

With the implementation of a revised document management system, the opportunity was taken to align the HSEQ Management System to the new AS/NZS ISO Management System Standards structure (AS/NZS ISO 14001:2016 Environment, AS/NZS ISO 9001:2016 Quality). This further streamlines systems and process with improved consistency across the disciplines and ensures the system remains fit for purpose, value adding and a key enabler in improving our performance and efficiency.

All external accreditations have been maintained, including triple certification in Health & Safety, Environment and Quality with SAI Global, as well as the Office of the Federal Safety Commissioner.

Ryde Garden, Sydney

Sustainability

Watpac embraces sustainability across all of its operations and projects. Environmental, social and economic considerations are central to creating and sustaining value and managing risk in our business. Operating in a sustainable and responsible manner is an important business philosophy which enhances value for all of our stakeholders.

There are a number of initiatives that have been implemented across the business to align with our sustainability and business objectives. These initiatives include:

- Employing design and construction methodologies that deliver better sustainability outcomes over the lifecycle of the building or structure.
- Using innovative products/processes.
- Seeking opportunities to reduce energy, water and materials consumption.
- Encouraging recycling and waste minimisation.
- Supporting the local communities in which we work.

We work closely with industry groups and partners to understand, develop and maintain best industry practices in relation to sustainability.

Construction

Watpac continues to deliver projects with Ecologically Sustainable Design (ESD) as a guiding principle. As a member of the Green Building Council of Australia (GBCA) since 2008, the Group's focus on delivering projects which meet sustainable building practices has continued.

In Queensland projects such as the Herston Quarter Redevelopment, Riverlight and Mary Lane all include ESD objectives. The Mary Lane project, which includes a residential component, is demonstrating a Best Practice Nationwide House Energy Rating Scheme (NatHERS) rating, with an average star rating of 6 stars.

During FY17 Watpac achieved a 6-star Green Star rating for 180 Brisbane, Queensland's first 6 Star office project. Impressively, this was achieved in the first round of review. Sydney's 333 George Street was also recognised during the year, with the project awarded a 5 Star Green Star Design Rating.

The Ryde Garden residential development in Sydney is on track to obtain a 4 Star Green Star Multi Unit Residential Design Rating. Notable points targeted by the team relate to a 'high performance site office'. These points are achieved through the introduction of sustainable and wellness initiatives into the site offices including energy efficient fixtures and fittings, adequate natural light, plants and outdoor eating spaces. This target along with a 'wellbeing plan' developed by the project team, demonstrate the importance placed on wellbeing of all our employees.

Environmental initiatives for the Victorian Schools PPP continue, as the second and final tranche of project remains on track for completion in January next year. The $291 million project has been focused on its requirement to use 25 per cent less energy than benchmark buildings in accordance with the Building Code of Australia, inclusive of a renewable energy source – photovoltaic cells on each site.

Building designs for the project have optimised passive design principles including orientation, shading, and natural light opportunities, in addition to low Volatile Organic Compound materials throughout to improve indoor air quality.

An integrated civil and landscape design provides an ecologically enhanced water sensitive solution incorporating native planting, rainwater swale retention systems and passive irrigation opportunities. Each school also features an environmental education zone where flora and fauna biodiversity is encouraged. This learning resource, coupled with the project's ESD initiatives will be used to assist in educating students about sustainability, through the involvement of the Centre for Education and Research in Environmental Strategies (CERES). CERES is a specialist not-for-profit sustainability educational facilitator that will provide educational programs to students at all schools, customised for each site's environmental setting.

In addition to the Group's Green Star project undertakings, Watpac has continued to engage in a number of sustainability challenges, to ensure continued innovation and learning opportunities. These include:

- **International WELL Building Institute (WELL) –** In support of this ESD initiative gaining traction in the industry, Watpac have engaged with the WELL institute including an internal presentation by its Chief Executive Officer. The initiatives of this scheme focus around individual health and wellness, many of which were considered in the design of the Group's new Sydney office, demonstrating a commitment to the wellbeing of our employees.
- **Living Future Institute of Australia (LFIA) –** Following on from our success in 'The Brickworks Living Building Challenge' design competition in 2016, Watpac have continued to engage with the LFIA, having recently attended a collaborative forum to discuss 'Building Nutrition: Bringing health, happiness and wellbeing back to the centre of the design discussion' with other industry leaders.

Herston Quarter Redevelopment, Brisbane

Civil & Mining

The importance of sustainability for project delivery and quality outcomes continues to be a priority for the Civil & Mining business. The development and implementation of initiatives for inclusion in sustainability plans has focused energy, waste, water and materials.

This focus has been reiterated through the Group's Civil & Mining HSEQ Leadership program which provides competency for environmentally sustainable work practices.

The roll-out of a sustainability innovation alert process was embraced by the business during the year with a number of key innovations communicated to the broader group. This process promotes organisational learning as well as recognition and celebration of the great work our people do in finding and creating innovative outcomes throughout their day-to-day work.

Civil & Mining has also continued to refine and increase the number of items available via its centralised warehouse facility in Perth, ensuring greater cost savings and improved efficiencies for the procurement of goods. This has also provided the Group with the opportunity to partner with suppliers whose practices and goods align with our sustainability goals.

The business continues to follow the philosophy of reduce, re-use or recycle wherever possible. With this philosophy in mind, a number of initiatives and processes have been progressed throughout the year.

Energy efficiency initiatives implemented include:

- Green drill rigs which use up to 50 per cent less fuel than the predecessor and a range of other benefits.
- Fuel efficient excavator added to the fleet which has productivity advantages, efficiency gains, optimised energy consumption and fewer emissions.
- Truck tray modifications which result in increase to payload by 11 per cent. Watpac has been replacing trays progressively with 20 in the fleet to date.

Each month all projects report on key environmental metrics around diesel, petrol, oils, water and waste. This enables the tracking of usage and emissions across the business as well as providing useful data for modelling of future sustainability initiatives.

An objective to reduce paper usage across the business was set for the financial year. Paper was seen as a high use material that the business could improve upon. The business achieved a reduction of seven per cent per person over this period. This provides not only environmental but cost benefits as well. Initiatives to achieve this included education and awareness campaigns around rethinking the need to print.

Waste management was standardised through inclusion of a waste stream analysis and suggested waste contractors being considered and included in all project Environmental Management Plans. This ensures consistency across projects, where it makes sense to do so, and enables waste management to be planned from tender to project execution stages. A range of waste items are recycled on all projects including steel, batteries and printer cartridges. Other items are recycled where feasible, with an ongoing evaluation of this.

Kalbarri Roadworks

Ronald McDonald House, South Brisbane

Financial Report 2017

Financial Report

The Directors present their report, together with the Consolidated Financial Statements of Watpac Limited ("Watpac" or "Company") and its controlled entities ("Group") for the financial year ended 30 June 2017 and the Auditor's Report thereon.

1.0 Operating and financial review

The Group's operations for the financial year ended 30 June 2017 (**FY17** or **Reporting Period**) principally comprised its core businesses of Construction and Civil & Mining.

During the Reporting Period Watpac also continued with the successful execution of the sale of non-core property assets, in accordance with current capital recycling initiatives to divert liquidity into the Group's core operating businesses and establish appropriate reserves to pursue growth through diversification.

Pleasingly, and as outlined in section 1.5 below, overall liquidity increased during the Reporting Period as a consequence of a disciplined approach to capital management, allowing the Group to maintain high flexibility, including the strategic deployment of capital in response to project-based or acquisitive opportunities as they present.

1.1 Group financial summary

The Group recorded a consolidated statutory loss after tax for the Reporting Period of $31.4M. This compares to the statutory loss after tax of $21.4M recorded for the financial year ended 30 June 2016 (**FY16** or **Comparative Period**).

Included in the table below is an overview of the Statutory Result for the Group and its reportable segments for FY17 compared to FY16.

	Revenue				Statutory Profit/(Loss)			
In thousands of AUD	FY17	FY16	$ Variance	% Variance	FY17	FY16	$ Variance	% Variance
Construction	**954,832**	1,043,542	(88,710)	(8.50%)	**11,773**	26,006	(14,233)	(54.73%)
Civil & Mining	**148,928**	166,497	(17,569)	(10.55%)	**(22,559)**	(39,650)	17,091	43.10%
Operating Total	**1,103,760**	1,210,039	(106,279)	(8.78%)	**(10,786)**	(13,644)	2,858	20.95%
Property	**7,283**	7,980	(697)	(8.73%)	**(425)**	(2,618)	2,193	83.77%
Unallocated	**-**	-	-	N/A	**(22,030)**	(14,306)	(7,724)	(53.99%)
Inter-segment/Elimination	**(2,335)**	5,109	(7,444)	(145.70%)	**-**	168	(168)	(100.00%)
Total	**1,108,708**	**1,223,128**	**(114,420)**	**(9.35%)**	**(33,241)**	**(30,400)**	**(2,841)**	**(9.35%)**
Tax benefit/(expense)					**1,828**	9,037	(7,209)	(79.77%)
Net profit/(loss) after tax					**(31,413)**	**(21,363)**	**(10,050)**	**(47.04%)**

The key themes associated with the Group's FY17 Statutory Result are as follows:

- **Operating revenue**

  Aggregate work volumes were 8.78% lower than the Comparative Period, reflective of a 8.5% (or $88.7M) decrease in Construction turnover and a 10.55% (or $17.6M) decrease in Civil & Mining turnover, with:
  - the reduction in Construction turnover resulting from the transition of work-in-hand to more selectively tendered scope, and the state of a number of near-term project conversion opportunities; and
  - the reduction in Civil & Mining turnover arising from the complete elimination of iron ore mining contracts from the workbook and persistence of lower activity levels in this sector for most of the Reporting Period.

- **Construction profitability**

  The $14.2M decrease in the pre-tax profit of the Construction segment is primarily attributable to unforeseen and prolonged cost escalation pressures, which negatively impacted the profitability of a number of residential and accommodation projects awarded in prior reporting periods.

  This cost escalation offset otherwise solid profitability from the balance of projects, as the Group's sector-based strategy started delivering early success, particularly around the Health & Science, Education, Defence and Secure Environments and PPP sectors.

- **Civil & Mining profitability**

  The statutory loss of $22.6M recognised in the Civil & Mining segment in FY17 represented a substantially improved underlying profit result for this business over the Reporting Period, net of asset impairment charges, further details of which are outlined below.

The FY17 statutory result includes the following items that are not considered reflective of underlying trading operations:

- $4.1M (pre-tax) in new business costs, which were incurred in assessing opportunities for the deployment of surplus capital into a major Construction project not considered part of normal business operations, and the pursuit of diversification into the East Coast Infrastructure sector; and
- $29.6M in impairment charges recognised against assets deployed in the Group's Civil & Mining business.

This report therefore includes information presented at both a statutory reporting level (**Statutory Result**) and underlying trading result level (**Underlying Result**).

Key metrics in respect of the FY17 Statutory Result and Underlying Result compared to the Comparative Period are summarised in the tables below:

In thousands of AUD	FY17	FY16	$ Change	% Change**
Statutory Result*				
Total revenue	**1,108,708**	1,223,128	(114,420)	(9.35%)
Profit/(loss) before tax	**(33,241)**	(30,400)	(2,841)	9.35%
Income tax benefit/(expense)	**1,828**	9,037	(7,209)	(79.77%)
Profit/(loss) after tax	**(31,413)**	(21,363)	(10,050)	47.04%
Profit/(loss) after tax attributable to members	**(31,413)**	(21,363)	(10,050)	47.04%
Basic earnings per share attributable to members (cents)	**(16.89)**	(11.41)	(5.48)	47.99%
NTA per share (cents)	**98**	115	(17)	(14.78%)
Return on shareholders' funds (percentage)	**(15.76%)**	(9.25%)	(6.51%)	70.38%

In thousands of AUD	FY17	FY16	$ Change	% Change**
Underlying Result*				
Statutory net profit/(loss) after tax attributable to members	**(31,413)**	(21,363)	(10,050)	47.04%
Adjust for:				
Pre-tax new business expenditure	**4,051**	-	4,051	N/A
Pre-tax impairment of Civil & Mining assets				
Receivables	**-**	9,640	(9,640)	(100.00%)
Plant & Stock	**29,648**	19,200	10,448	54.42%
Civil & Mining Goodwill	**-**	10,022	(10,022)	(100.00%)
Pre-tax impairment of property development inventory	**-**	2,747	(2,747)	(100.00%)
Pre-tax gain on sale of land & buildings	**-**	(2,728)	2,728	(100.00%)
Tax on adjustments	**(1,215)**	(9,476)	8,261	(87.17%)
Underlying profit/(loss) after tax attributable to members	**1,071**	8,042	(6,971)	(86.69%)
Underlying earnings per share attributable to members (cents)	**0.58**	4.29	(3.71)	(86.48%)

In thousands of AUD	FY17	FY16	$ Change	% Change**
Underlying result before tax summary*				
Construction segment	**11,773**	26,006	(14,233)	(54.73%)
Civil & Mining segment	**7,089**	(788)	7,877	(999.62%)
Property segment	**(425)**	129	(554)	(429.46%)
Unallocated	**(17,979)**	(17,034)	(945)	5.55%
Elimination	**-**	168	(168)	(100.00%)
Group Total	**458**	8,481	(8,023)	(94.60%)

** The information presented in the tables above has not been reviewed or audited by the Group's auditor.*

*** Percentage change calculated as dollar change divided by FY16 value.*

1.2 Construction

1.2.1 – Performance review

The Construction segment provides building construction, refurbishment, project and design management services across Australia.

At both a Statutory and Underlying Result level, the Construction segment reported a pre-tax profit for FY17 of $11.8M (FY16: $26.0M). As noted above, the $14.2M decrease in the pre-tax profit of the Construction segment is primarily attributable to broad-based cost escalation pressures in the subcontractor market flowing mostly from heightened activity levels in the residential building sector.

Over recent financial years, the Group has been steadily improving the quality of its work-in-hand to feature more projects in targeted sectors that exhibit improved earnings prospects, are more specialised, and are less exposed to the price competitiveness of construction markets in general. This prudent approach to new project opportunities commenced in FY16 and continued throughout the Reporting Period and has, to a degree, contributed to a reduction in headline work-in-hand levels of approximately $290M over the Reporting Period.

It is important to note however, that this decrease also includes:

- the removal of a significant project ($230M) from the work-in-hand balance during the six months to 31 December 2016 (**1H FY17**), due to its client-initiated deferral; and
- the timing of major project awards soon after 30 June 2017 (**Balance Date**), including the $187M Arthur Phillip High School and Parramatta Public School project awarded on 7 July 2017 and anticipated conversion of stage two of the circa $250M North Queensland Stadium project.

On a normalised basis, Construction segment work-in-hand at Balance Date is therefore broadly consistent with work-in-hand at 30 June 2016, and not indicative of any material reduction in activity levels or ability of the Group to secure new work.

Importantly, Management and the Board believe that the enhanced focus on project selection has delivered on the objective of significantly enhancing the quality of the workbook when compared to the prior year.

1.2.2 – Key risks

Given the relatively short tenure of most construction projects, the selection and conversion of appropriate work opportunities to maintain sufficient forward work volumes in targeted sectors represents a key risk when assessing the Construction business' outlook. The immediate pipeline of opportunities across all operating regions, however, exemplifies projects meeting Watpac's selection criteria and providing an appropriate risk / return outcome for the Group.

Watpac is also subject to a changing industrial relations landscape and, in particular, the reinstatement of the Australian Building and Construction Commission and introduction of the 2016 Federal Building Code (**2016 Code**). While a risk faced by all major building companies in Australia, failure to agree Enterprise Bargaining Agreements that are 2016 Code compliant through partisan collaboration by all affected stakeholders could result in the Group not being eligible to tender for Federally-funded work exceeding $10M in value.

In recent years, the strong financial performance of Watpac's Construction business has been adversely impacted by heightened levels of construction activity and corresponding high input costs from enhanced demand for subcontractor trades. Notwithstanding that subcontractor pricing levels are anticipated to normalise across more trade categories as the pace of residential construction activity subsides, specific new resources have been added to Watpac's overhead structures to provide additional scrutiny and management of project time and cost elements. This essential investment to assist with risk minimisation is anticipated to be more than offset through the enhanced financial performance of projects.

1.2.3 – Strategies and future performance

Watpac is currently tendering on a number of material project opportunities in targeted sectors, several of which have or are expected to be converted in the first half of the 30 June 2018 financial year. As is indicated above, recent wins have included the $187M Arthur Phillip High School and Parramatta Public School project awarded on 7 July 2017 (Education sector), while Watpac is also currently preferred builder for the second stage of the circa $250M North Queensland Stadium project (Stadia sector), for which the Stage 1 design works are currently being undertaken.

The Group has strong credentials across a number of targeted sectors, which generally have higher barriers to entry, require application of specialised experience and know-how, and provide greater latitude for Watpac to balance securing new work with competitiveness on factors beyond simply price. These sectors include:

- **Health & Sciences,** most recently demonstrated by the February 2017 award of the $373M contract for Australian Unity's Herston Quarter redevelopment and the June 2017 award of the $63M contract with Health Infrastructure (NSW) for the redevelopment of the Forensics Pathology and Coroners Court. These wins build on Watpac's already extensive credentials in Health & Sciences that include the $160M Gold Coast Private Hospital completed in December 2015, and the $240M Translational Research Institute delivered for the Queensland Government in November 2012, amongst other projects completed nationally.

- **Education,** most notable of which are the Qld Schools PPP project being delivered across 10 locations in South East Queensland and the Vic Schools PPP project delivering 15 schools in the greater Melbourne area, both of which undoubtedly contributed to the successful conversion of the Arthur Phillip High School and Parramatta Public School project.

- **Defence & Secure Environments,** highlighted by, but not limited to, a number of projects having been successfully delivered for the Department of Defence and across airport facilities at a number of locations.

- **Sporting Stadia,** as evidenced by the Group being the preferred contractor on the circa $250M North Queensland Stadium project, and the delivery over time of a number of iconic sporting facilities, most recently including the Anna Meares Velodrome and Gold Coast Aquatic Centre for the 2018 Gold Coast Commonwealth Games, but also extending to Brisbane's Suncorp Stadium (delivered as a joint venture) as well as Cbus Super Stadium and Metricon Stadium on Queensland's Gold Coast.

- **Food Processing,** where Watpac has delivered a number of bespoke operating environments including a $65M processing facility for Swickers in Kingaroy presently under construction.

These sectors will continue to be targeted, with the Group driven to deliver further value to clients and shareholders while building on past successes.

Other near-term strategies applicable to the Group's Construction business, all of which are currently in the process of execution, include:

- the substantial improvement in internal program and cost management competencies, with an emphasis on efficiency and consistency by expanding resources and encouraging the adoption and sharing of best practice nationally;
- the establishment of national operational centres of excellence, focussing on both demonstrated and innovative building methods; and
- the continuing development of in-house design management capabilities that will result in greater overall project value capture for all stakeholders, allowing Watpac more influence over a broader range of activities within the project value chain.

Management and the Board remain confident that through the management of current and emerging risks and the execution of these business enhancing strategies, Watpac can deliver substantially improved value in the future. While strategic initiatives are overlaid with the Group's robust enterprise risk management system to protect the Company long-term, this is done in such a way as to not stifle innovation and flexible approaches to winning and executing high-quality projects that deliver for both shareholders and clients.

1.3 Civil & Mining

1.3.1 – Performance review

The Group's Civil & Mining business provides contract mining services and civil infrastructure activities throughout Australia.

The business reported a Statutory pre-tax loss in FY17 of $22.6M (FY16 Statutory Result: pre-tax loss of $39.7M), which after adding back asset impairment charges represents an Underlying pre-tax profit for the Reporting Period of $7.1M (FY16 Underlying Result: pre-tax loss of $0.8M).

This substantially improved Underlying Result was achieved notwithstanding a reduction in turnover, and is reflective of generally enhanced operational performance across the business in FY17. The result also reflects the innovative work methods applied, the flexibility and interchangeability of Watpac's plant & equipment fleet, and commitment of all of Watpac employees to achieving the best possible project outcomes.

Despite an Underlying Result improving on the Comparative Period, the level of Civil & Mining work-in-hand reduced to $48M at Balance Date (30 June 2016: $156M). This reduction was in part due to the disciplined approach applied to tender pricing, as well as the timing of when targeted new work opportunities have or are expected to come to market.

At the date of this report, the Group is participating in a significant number of mining services and civil infrastructure tenders, and the conversion of several of these tenders is anticipated during the first half of the 30 June 2018 financial year.

While Management and the Board are pleased with the improvement to the Underlying Result achieved in FY17 and the promising pipeline of new opportunities, the reduced work-in-hand level over the Reporting Period has resulted in there being less objective certainty around future work volumes and profitability. Additionally, while there has been some recent improvement which is anticipated to continue, second hand plant & equipment values remain depressed. As such, Watpac again assessed the carrying value of the Civil & Mining business' assets using a "value in use" accounting model methodology (**VIU Method**) at Balance Date.

The VIU Method requires anticipated future cash flows to be discounted to their present day value, which is then compared to the carrying value of a business' assets. With there being future cash flow uncertainty emanating from the reduced work-in-hand at Balance Date, aggregate cash flows able to be forecast under the VIU Method have reduced, giving rise to a $29.6M non-cash impairment charge being recognised in FY17 in accordance with the prevailing accounting standards.

While negatively impacting the FY17 Statutory Result, the embedded values associated with these assets are not forgone, and Management and the Board will continue to operate the Civil & Mining business with a view to maximising earnings and the opportunity for pre-impairment asset values to be recovered.

1.3.2 – Key risks

Similar to the Construction segment and representing the main driver behind the recognition of the non-cash impairment charge at Balance Date, the maintenance of appropriate forward work volumes reflects the most significant risk when assessing the Civil & Mining business' outlook.

As indicated above, tendering levels have enhanced significantly in recent months and economic data indicates the resources sector may now be entering an expansionary part of the cycle. In this environment, Watpac will continue to take a disciplined approach to pricing opportunities, and striking an appropriate balance between risks and returns will not be overlooked in the course of pursuing increased volumes. As such, notwithstanding enhanced opportunity levels, there is a risk that Watpac's Civil & Mining business' workbook will not achieve targeted growth forecasts, and this would negatively impact future profitability.

1.3.3 – Strategies and future performance

As previously reported, over the past few years Watpac has redistributed its contract mining work mix to those sectors with the most attractive prospects for sustainable longer-term operations. Watpac presently has no iron ore mining contracts, with the workbook now more heavily weighted to gold mining – a product type that has shown relative stability over recent periods and where margins remain less volatile.

In the context of risk and return pricing disciplines adopted, the Group expects a steady increase to work volumes in future periods, through existing and new client relationships across a more diversified range of commodities. Prospects for future work opportunities have enhanced in line with a modest yet steady improvement in market conditions, and this is anticipated to result in enhanced profitability in the future. It is anticipated that this will be coupled with a larger presence for Watpac's presently small, but successful Civil operations where increased investment in estimating and conversion resources is planned over the course of the 2018 financial year.

At $11.5M at Balance Date, equipment funding levels remain conservative. With modest debt servicing obligations, meaningful cash returns are therefore expected to continue from the Civil & Mining business over the foreseeable future.

1.4 Property

1.4.1 – Performance review

The Property segment recorded a Statutory Result and Underlying Result of a $0.4M loss before tax for the Reporting Period (FY16 Statutory Result: $2.6M loss before tax, Underlying result $0.1M profit before tax).

1.4.2 – Key risks, strategies and future performance

The carrying value of the Group's unsold property inventory assets at Balance Date totalled $12.5M (30 June 2016: $17.1M).

Watpac currently anticipates that the majority of remaining property assets will be divested materially in line with book value over the next two years.

1.5 Capital management and liquidity

1.5.1 – Performance review

Gross cash and deposits totalled $229M at Balance Date (30 June 2016: $251.5M), with net cash (calculated after adjusting for gross debt) being $217.6M (30 June 2016: $233M). This reduction in gross and net cash balances mainly reflects normal working capital movements associated with the Group's core operating businesses.

Net liquidity, measured as gross cash, trade and other receivables (including work in progress) less trade payables and accruals (current balance) increased to $92.9M at Balance Date (30 June 2016: $91.9M). This improved liquidity position was achieved notwithstanding subdued underlying profitability over the Reporting Period, and reflects the focus and discipline applied to enhancing the Group's overall liquidity position and Watpac's well-established capital and cash management processes.

In addition to a strong cash and liquidity position, the Group also maintains:

- a $170M committed syndicated banking facility for the provision of bank guarantees (drawn to $67.5M at Balance Date); and
- $245M in aggregate bi-lateral facilities for the provision of insurance bonds (drawn to $128M at Balance Date).

Watpac therefore has extensive capacity to provide required performance bonding on new projects. This is particularly relevant and important for construction projects with higher entry barriers, such as social infrastructure PPP form of delivery projects, which can require capacity to provide performance bonding of up to 10% of the contract value at inception.

The scope of the Group's bank guarantee and insurance bonding facilities is also a positive demonstration for current and future clients of Watpac's financial strength, providing certainty of delivery for all project stakeholders.

1.5.2 – Key risks, strategies and future performance

Maintaining a strong balance sheet and funding facilities is a key strategic priority for the Group. Importantly the improvement in liquidity over the Reporting Period demonstrates that Watpac's financial strength remains unaffected by the non-cash impairment charge recognised in FY17.

The substantial level of cash and liquidity is however under constant review by Management and the Board, and opportunities for capital management will be regularly assessed in the context of the Group's other strategies and capital requirements.

In addition to continuing to investigate new opportunities in adjacent markets such as transport-focussed East Coast Civil Infrastructure, the Group is currently actively investigating opportunities to deploy surplus working capital and / or liquidity into its construction projects in a more considered manner, providing a more diversified income stream and enhancing overall returns on capital.

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2.0 Directors

Details of the Directors of the Company in office at any time during or since the end of the financial year are included below.

Current Directors – Non-executive

Mr R B McGruther, OBE

CHAIR, NON-EXECUTIVE DIRECTOR, Director since 17 February 1993

Mr McGruther complements the Board's desire for quality with his experience in corporate and financial management. He is a Fellow of Chartered Accountants Australia and New Zealand, and is currently a consultant to Bentleys, a national chartered accountancy firm, with a particular focus on aged care services. Mr McGruther is a former board member of the Queensland Events Corporation Ltd, and former Chairman of QRU Limited and ARU Limited and was awarded an Order of the British Empire (OBE) for his services to the community and sport.

Mr McGruther is Chair of the Board and is a member of the Nomination and Remuneration Committees.

Mr P L Watson

DEPUTY CHAIR, NON-EXECUTIVE DIRECTOR, Director since 7 July 2017

Mr Watson has extensive experience in the construction and engineering industries, 10 years of which were as Managing Director for Transfield Services, subsequently known as Broadspectrum. During this period, he led the business through a successful transition, cultivating a sustainable and successful public company.

With more than 10 years of experience in various Non-executive Director roles, Mr Watson is currently Chair of LogiCamms, was a founding Board member of Infrastructure Australia when it was established as a statutory Authority and is a member of the Major Transport Infrastructure Board in Victoria. In addition, Mr Watson advises a number of companies in strategy and Corporate Governance.

Mr Watson has a Diploma of Civil Engineering, is a member of the Institute of Engineers Australia, a member of the Australian Institue of Company Directors and a Fellow of the Australian Academy of Technological Sciences and Engineering.

Mr Watson was appointed a Director on 7 July 2017 and as Deputy Chair of the Board on 20 July 2017.

Mr J C M C Beerlandt

NON-EXECUTIVE DIRECTOR, Director since 27 May 2013

Mr Beerlandt is Chairman of one of Belgium's largest construction companies, BESIX Group, and has extensive expertise in the international contracting sector. Mr Beerlandt joined BESIX Group in 1974 and has overseen the delivery of major projects in Europe, Africa and the Middle East. Under his leadership, BESIX has grown from a traditional civil and building construction company to a multidisciplinary organisation, achieving revenues of over €2.3B in 2016 and operating in 21 countries over four continents.

Mr Beerlandt is a Director of the Management Board of the Belgian Federation of Enterprises (FEB-VBO), a Member of the Advisory Board of ING Bank, and Chairman of the Arab Belgian Luxemburg Chamber of Commerce. He has a Masters of Civil Engineering and Architecture from the University of Ghent in Belgium and completed The General Manager Program at Harvard Business School.

Mr Beerlandt is a member of the Remuneration Committee.

Mr G J Dixon

NON-EXECUTIVE DIRECTOR, Director since 12 February 2014

Mr Dixon is an experienced and accomplished senior executive with extensive experience in the resources, transport and contracting sectors in Australia and overseas. His work in both private and ASX listed companies spans more than three decades, having worked in senior executive roles for major mine owners, mine operators and contractors in the iron ore, gold, coal, nickel and bauxite commodities markets.

Mr Dixon's career since graduation in 1981 includes time with a Federal Government construction department, Executive General Manager for civil construction and contract mining group Henry Walker Eltin Ltd, logistics company Mitchell Corporation as Managing Director, Managing Director & CEO of ASX listed Gindalbie Metals Ltd and as Vice President of Iron Ore Business Development for rail freight operator Aurizon. Mr Dixon currently holds the position of President Alcoa Bauxite where he is responsible for the global bauxite mining business for the NYSE listed Alcoa Corporation.

Mr Dixon has a Bachelor of Engineering (Hons) and a Master of Business Administration, and is a member of the Australian Institute of Company Directors.

Mr Dixon is the Chair of the Remuneration Committee.

Ms L C Evans

NON-EXECUTIVE DIRECTOR, Director since 25 August 2015

Ms Evans is a partner in the Clayton Utz Competition group, practising in competition law. She has been practising since 1987 and a partner since 1994. Ms Evans was a Board member of Clayton Utz for four years and Chairman for two. She is also a director of Cycling Australia Limited and a councillor of the National Competition Council.

Ms Evans has a Bachelor of Jurisprudence and a Bachelor of Laws from the University of Western Australia, and is a member of the Australian Institute of Company Directors.

Ms Evans is the Chair of the Nomination Committee and is a member of the Audit and Risk Committee.

Ms B K Morris

NON-EXECUTIVE DIRECTOR, Director since 3 February 2015

Ms Morris's career as a Non-executive Director in publicly-listed, government and not-for-profit sectors spans more than two decades, across a wide range of industries. She is currently a director of a number of entities including Collins Foods Limited, RACQ, RACQ Insurance Limited, QT Mutual Bank Limited and Gold Coast 2018 Commonwealth Games Corporation. Her previous directorships include QIC Limited, Spotless Group Limited and Chair of Queensland Rail.

Ms Morris is a Fellow of the Australian Institute of Company Directors and a Fellow of Chartered Accountants Australia and New Zealand. Ms Morris is also a former partner of KPMG and worked in audit and corporate services in Brisbane, London and the Gold Coast. Ms Morris retired from KPMG in 1996, however was a partner of KPMG when it undertook an audit of the Company.

Ms Morris is the Chair of the Audit and Risk Committee.

Mr C J Schreurs

NON-EXECUTIVE DIRECTOR, Director since 10 October 2014

Mr Schreurs is Chief Development Officer of the BESIX Group. Mr Schreurs has a Masters of Engineering from the University of Leuven in Belgium and joined BESIX in 1982. Through his 35 year international career, he has acquired worldwide experience in the different disciplines of the contracting businesses. Mr Schreurs was responsible for establishing BESIX in Australia in 2012.

In his role within the BESIX Group Mr Schreurs is focussed on guiding innovation practices and the alignment of strategies and actions to achieve one common objective for the BESIX Group and to develop and prepare BESIX for future challenges.

Mr Schreurs is a member of the Audit and Risk and Nomination Committees.

Mr G Aelbrecht

ALTERNATE NON-EXECUTIVE DIRECTOR (FOR MR BEERLANDT), Alternate Director since 1 July 2015

Mr Aelbrecht, Group Human Resources & Communication Director within the BESIX Group, is a member of BESIX's Executive and Strategy Committee and a Director of the BESIX Foundation. Mr Aelbrecht has been employed at BESIX since 2007 and previously held the position of Vice-President Compensation & Benefits at Belgacom, Belgium's national public telecommunications company, where he worked for over 13 years. Mr Aelbrecht acts as Mr Beerlandt's Alternate member of the Remuneration Committee.

Current Directors – Executive

Mr M G Monro

MANAGING DIRECTOR, Director since 10 October 2014

Mr Monro was appointed Chief Executive Officer of Watpac in August 2012 and Managing Director in October 2014. He brings to the role more than 28 years' experience in the national construction sector and abroad, with a proven track record in prudent financial management, safety leadership and successful expansion into new markets.

Mr Monro was appointed Managing Director of Grant Constructions in 2004 after the company was acquired by Watpac. For the next two years he successfully grew and transitioned the business under the Watpac brand, before being appointed to head Watpac's NSW Construction Division. In 2009 he was appointed as Watpac's National General Manager, Construction.

Mr Monro is a Director of numerous Watpac Limited subsidiaries and is the current Queensland President and National Vice President for the Australian Industry Group. He is also a member of the Board of the Australian Constructors Association, a body dedicated to making the construction industry safer, more efficient, more competitive and better able to contribute to the development of Australia.

He has formal qualifications in Psychology and Human Resources Management, is a graduate of the Accelerated Development Program at the London Business School, a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Institute of Building.

3.0 Company Secretary

Mr M A Baker

COMPANY SECRETARY, CHIEF FINANCIAL OFFICER, Appointed 26 August 2011

Mr Baker was appointed to the roles of Chief Financial Officer and Company Secretary in August 2011.

Mr Baker holds a Bachelor of Commerce and a Bachelor of Arts and is a Fellow of Chartered Accountants Australia and New Zealand. He has also completed the Advanced Management Program at Harvard Business School, is a Fellow of the Governance Institute of Australia and is a certified member of the Finance and Treasury Association of Australia.

4.0 Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the year is listed in the table below.

	Board Meetings		Audit and Risk Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	A	B	A	B	A	B	A	B
Mr R B McGruther	11	13	-	-	5	5	6	6
Mr J C M C Beerlandt/Alternate	6	13	-	-	5	5	-	-
Mr G J Dixon	13	13	-	-	5	5	-	-
Ms L C Evans	13	13	5	5	-	-	6	6
Ms B K Morris	13	13	5	5	-	-	-	-
Mr C J Schreurs	13	13	4	5	-	-	6	6
Mr M G Monro	13	13	-	-	-	-	-	-

A – Number of meetings attended.

B – Reflects the number of meetings held during the time the Director held office during the year and was a member of the relevant committee, excluding those held in a period when a leave of absence was taken.

5.0 Audit and Risk Committee

The three current members of the Audit and Risk Committee are:

- Ms B K Morris (Chair) – Non-executive Director
- Ms L C Evans – Non-executive Director
- Mr C J Schreurs – Non-executive Director

The role of the Group's Audit and Risk Committee is to provide the Board with additional assurance regarding the quality and reliability of financial information prepared for use by the Board and included in the Group's financial statements. The Committee also oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the Group's risk management framework.

6.0 Nomination Committee

The three current members of the Nomination Committee are:

- Ms L C Evans (Chair) – Non-executive Director
- Mr R B McGruther – Non-executive Director
- Mr C J Schreurs – Non-executive Director

The role of the Group's Nomination Committee is to assist the Board in its oversight of the identification of suitable candidates for appointment to the Board. The Nomination Committee also assists the Board with Managing Director succession planning, the provision of appropriate training and development opportunities for Directors, assessment of Board member performance and the endorsement of retiring directors seeking re-election.

7.0 Remuneration report – audited

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7.1 Introduction

The 2017 Watpac Remuneration Report has been prepared in accordance with the requirements of s300A of the *Corporations Act 2001* and applies to Key Management Personnel (**KMP**) of the Group. KMP are defined as those persons who have authority and responsibility for planning, directing and controlling the activities of the Group.

KMP of the Group for the 2017 financial year are as follows:

Current
Non-executive Directors
Mr R B McGruther – *Chair*
Mr J C M C Beerlandt
Mr G J Dixon
Ms L C Evans
Ms B K Morris
Mr C J Schreurs
Executive Director
Mr M G Monro (Managing Director)
Executives
Mr M A Baker (Chief Financial Officer & Company Secretary)
Mr R J Hall (General Manager Civil & Mining)
Mr N A Saclley (General Manager Construction)

7.1.1 – Key management personnel

Details and disclosures relating to KMP who held office in prior financial years have been included in this report as required. Members of the Group Senior Executive Team who are KMP, which includes the Managing Director, are referred to in this Remuneration Report as **Senior Executives**.

Biographies of all KMP, with the exception of Mr R J Hall and Mr N A Saclley, are included in section 2 & 3 of the Directors' Report. Details of Mr R J Hall and Mr N A Saclley are included below.

Mr R J Hall

Mr Hall has over 31 years of experience in executive positions, operations and business development, in civil, mining and property development. As General Manager of Watpac's Civil and Mining Business, Mr Hall is responsible for overseeing existing operations, developing and implementing growth and diversification strategies, and proactively implementing the company's safety policies. He brings to the role strong analytical, financial, negotiation, strategic and management skills and a commitment to mentoring and developing personnel within the business.

Mr Hall has a Bachelor of Engineering (Civil) from Adelaide University and has completed the Executive Management Program at the University of NSW.

Mr N A Saclley

Mr Saclley has almost 30 years of global experience in the construction industry. With formal qualifications in engineering, he has extensive experience in project management, design and construction, client relationship management and negotiation. Prior to joining Watpac, Mr Saclley held various project and operational management positions in the United Kingdom, the United States and Australia.

Biographies of other members of the Group Senior Executive Team, who are not KMP, are located at www.watpac.com.au.

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7.2 Remuneration governance

7.2.1 – Board oversight

The Watpac Board is ultimately responsible for ensuring that the Group's remuneration structure is appropriate and aligns with the long-term interests of shareholders.

Watpac's Remuneration Committee, which comprises three Non-executive Directors, assists the Board with all aspects of remuneration strategy, structure and planning. Members of the Remuneration Committee during the 2017 financial year and as at the date of this report were as follows:

Committee members
Current
Mr G J Dixon
Mr J C M C Beerlandt
Mr R B McGruther
Meetings
Number of meetings in FY17 - 5
Other individuals who regularly attend meetings (attendance subject to conflicts of interest)
Mr M G Monro (Managing Director)
Ms A J Liebke (Group Human Resources Manager)

The activities of the Remuneration Committee are governed by the Remuneration Committee Charter. The Committee's key responsibilities are:

- Setting remuneration policy and its specific application to KMP, as well as its general application to all employees;
- the determination of levels of reward to the Managing Director and other KMP; and
- providing guidance to the Chair of the Board on evaluating the performance of the Managing Director.

The Remuneration Committee meets as often as necessary in order for it to achieve its objectives.

7.2.2 – Use of remuneration consultants

The Remuneration Committee seeks and considers advice from remuneration consultants where appropriate.

All engagements conducted by remuneration consultants are completed under direction of the Remuneration Committee and as such are free of undue influence from Management.

Senior Executives are not involved in the selection and appointment of, or contract negotiation with, remuneration advisors, and all documentation and communication is provided directly to the Remuneration Committee and/or Board. Additionally, the Board has put in place policies managing remuneration advisors' access to Senior Executives on remuneration-related matters.

In June 2017 Ernst & Young (**EY**) were engaged by the Remuneration Committee to conduct a review of Watpac's current executive remuneration framework. The scope of this review is to assess Watpac's framework against current market practice in comparable industries and markets, emerging practices and shareholder perspectives, in order to identify opportunities to refine and enhance the current structure.

This review will give rise to amendments to the Group's remuneration framework, to be effective in the 30 June 2018 financial year (**FY18**). As at the date of this report final details of these amendments have not been confirmed, however will be included in the 30 June 2018 Remuneration Report.

No fees were paid for remuneration services to EY or any other remuneration consultant in FY17. Fees associated with the current review will be paid in FY18.

7.2.3 – Hedging of Company securities

The Company's Securities Trading Policy prohibits the hedging of options or shares by KMP.

7.3 Senior Executive remuneration

Senior Executive remuneration strategies are designed to attract, motivate and retain those employees that the Board and Managing Director believe are important to the delivery of Watpac's strategic objectives. The Group's aim is to reward Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group, and aligned with market practice.

7.3.1 – Remuneration strategy

The following table provides details of the remuneration structure existing throughout the 30 June 2017 and prior financial year, and highlights how remuneration is linked to the achievement of specific outcomes.

Remuneration component	Current Vehicle	Current Purpose	Current Link to performance
Fixed remuneration	Comprises base salary, superannuation contributions and other benefits.	To provide competitive fixed remuneration set with reference to role, market and experience.	• Company and individual performance are considered during an annual remuneration review process. • Characteristics of individuals are considered, including experience, reputation, ethics and values, and importance to the Company. • Complexity of roles and personal risk are also assessed.
Short-Term Incentive **(STI)**	Paid in cash and performance rights, with part deferred and subject to claw back (subject to Board discretion).	Rewards Senior Executives for their contribution to achievement of financial and non-financial performance.	• Pre-tax profit targets are a key financial metric, and act as a payment assessment funding gate. • Qualitative measures are then assessed, such as safety performance, forward work-in-hand, and adherence to internal governance, risk management and reporting requirements. • Performance against qualitative performance objectives can increase or decrease base award by up to 50%.
Long-Term Incentive **(LTI)**	Awards are made in the form of performance rights.	Rewards Senior Executives for their contribution to the creation of shareholder value over a three-year term, in part assessed with reference to comparator companies and indices.	• Vesting of awards is dependent on achievement of independent performance measures, being: - Earnings Per Share **(EPS)** relative to internal targets set by the Board; and - Total Shareholder Return **(TSR)** relative to a chosen peer group.

The Group's targeted remuneration mix for Senior Executives is, in most cases, more heavily weighted to at-risk payments than the Group's competitors. This structure is deemed appropriate given the strong desire to link executive remuneration outcomes to shareholder value creation.

7.3.2 – Remuneration structure

7.3.2.1 Fixed remuneration

Fixed remuneration consists of base salary, superannuation contributions and other benefits. Other benefits include motor vehicle and other allowances. The Group pays fringe benefits tax on these benefits where required.

Fixed remuneration is reviewed annually by the Remuneration Committee, and considers individual, business unit and overall Group performance, as well as changing market, industry and economic circumstances. Adjustments are made to reflect appropriate market levels, taking into account factors such as alignment with competitors, skill, experience, contribution, values and ethics, and overall importance of the individual to the Company achieving its strategic objectives.

7.3.2.2 Performance linked remuneration

Performance linked remuneration includes short and long-term incentives designed to reward Senior Executives for meeting or exceeding the organisation's strategic and financial objectives.

Additional details in relation to Senior Executives' at-risk remuneration is included below.

STI Plan

The STI Plan (**STIP**) in operation in recent financial years (including FY17 and FY16) was designed to ensure the Group's remuneration framework was aligned with both the business strategy and the remuneration structures of other publicly listed companies in Australia.

The STIP was structured in a manner whereby cash was payable and performance rights granted to Senior Executives (the latter being a right to acquire fully paid ordinary shares in the Company for nil consideration and the award of which was subject to Board discretion), subject to meeting certain pre-determined financial and operational performance targets and vesting conditions.

At or around the commencement of each financial year in which this plan was in operation, with the endorsement of the Board, the Remuneration Committee set Senior Executives specific STI targets, being:

- their individual target STI amount, representing two thirds of the maximum amount payable as a STI for the new financial year;
- a Group performance STI target, representing the underlying net profit before tax target of the Group for the financial year;
- business unit(s) performance STI target(s), representing the underlying net profit before tax target of the applicable business unit(s) relevant to that Senior Executive for the financial year;
- the percentage weighting that achieving the Group performance STI target and business unit performance STI targets will have towards their total maximum STI amounts; and
- individual performance measures, representing Senior Executives' individual performance targets.

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The non-financial assessment criteria which also applied to the STIs are detailed in the table below.

Non-Financial Criteria	Details
Safety	• Achievement of Group target safety benchmarks, which are set annually in advance. • Proactive championing of safety leadership and implementation of best practices. • Provision of timely and accurate advice on occupational health and safety incidents and/or breaches.
Forward work and future growth	• Assistance and support to all business units in the Group to deliver forward work targets, set annually in advance.
People and leadership	• Containing controllable employment related costs through effective leadership practices, proactive people management, achievement of low voluntary attrition rates, and compliance with relevant legislation.
One Team	• Demonstration and promotion of interdivisional co-operation and collaboration including tender assistance, client introductions, information sharing, and resource sharing.
Watpac Brand	• Contribution to the creation of positive branding to promote and enhance Watpac's reputation with clients, suppliers and employees/candidates.
Business Development	• Proactive maintenance and enhancement of all client relationships to deliver higher levels of profitable repeat work opportunities and to achieve positive references for any work undertaken.
Values	• Demonstration and championing of actions and behaviours that are consistent with Watpac's core values.
Diversity	• Demonstration and championing of appropriate actions and behaviours that support the achievement of Group diversity and gender equity objectives.
Risk Management	• Compliance with Group risk management policies and active championing of cultural improvements relating to risk identification, management and reporting processes.
Reporting	• Adherence to quality standards and pre-agreed Group operational and financial reporting timetables.

All current KMP (excluding Non-executive Directors) participated in the FY17 STIP and FY16 STIP.

Additional details relating to the operation of the FY17 and FY16 STIP and how awards were calculated are included below.

<table>
<tr><th>Element</th><th>Reference</th><th colspan="4">Details</th></tr>
<tr><td>Target STI Amount</td><td>A</td><td colspan="4">66.67% of the maximum amount payable as an STI for the financial year.</td></tr>
<tr><td>Group Performance Conditions</td><td>B</td><td colspan="4">The Group performance STI target, expressed as net profit before tax attributable to ordinary equity holders of the Group, adjusted for non-recurring or abnormal items.</td></tr>
<tr><td>Group Performance Weighting</td><td>C</td><td colspan="4">The percentage weighting the Group performance STI target has towards the maximum amount payable as an STI.</td></tr>
<tr><td>Business Unit Performance Conditions</td><td>D</td><td colspan="4">The business unit(s) performance STI target(s), expressed as net profit before tax attributable to ordinary equity holders of the Group adjusted for non-recurring or abnormal items.</td></tr>
<tr><td>Business Unit Performance Weighting</td><td>E</td><td colspan="4">The percentage weighting the business unit(s) performance STI target(s) has (have) towards the maximum amount payable as an STI.</td></tr>
<tr><td>Individual Performance Conditions</td><td>F</td><td colspan="4">Details of individual performance targets relating to the STI, the performance against which Senior Executives will be assessed and provided a rating of between 0.5 and 1.50.</td></tr>
<tr><td rowspan="3">Total STI Entitlement</td><td rowspan="3">G</td><td colspan="4">Calculated as:</td></tr>
<tr><td>B and D met</td><td>B only met</td><td>D only met</td><td>Neither B nor D met</td></tr>
<tr><td>A x F</td><td>A x C x F</td><td>A x E x F</td><td>Nil</td></tr>
<tr><td>Payment Conditions</td><td>H</td><td colspan="4">Payment to be made as:
• Cash – 75% x G; and
• Performance rights – 25% x G (subject to Board discretion, including to pay as cash).
The number of any performance rights issued under the STIP were calculated with reference to the relevant award amount and the volume weighted average price of Watpac shares sold on ASX on the five trading days prior to the grant date.
Performance rights issued under the STIP are subject to an 18 month time-based vesting period and specific clawback conditions. The value of the deferred awards made to Senior Executives are subject to change over the vesting period, aligning the final value of the award to share price changes over this time.</td></tr>
</table>

FY17 and FY16 STIP Details

The Target STI Amounts for each Senior Executive participating in the FY17 and FY16 STIPs were as follows:

	Target STI amount	
Name	**FY17**	**FY16**
Mr M G Monro	**$480,500**	$467,500
Mr M A Baker	**$265,000**	$250,077
Mr R J Hall	**$310,000**	$310,000
Mr N A Saclley	**$325,000**	$275,000

The business unit performance conditions applicable to Senior Executives in relation to the FY17 and FY16 STIPs are included in the table below:

<table>
<tr><th rowspan="2">Name</th><th colspan="2">Business unit weighting towards overall Target STI</th><th rowspan="2">Business unit</th></tr>
<tr><th>FY17</th><th>FY16</th></tr>
<tr><td>Mr M G Monro</td><td>30%</td><td>30%</td><td rowspan="2">The financial performance of each operating business unit is equally represented in determining the Managing Director and Chief Financial Officer's relevant Business unit</td></tr>
<tr><td>Mr M A Baker</td><td>30%</td><td>30%</td></tr>
<tr><td>Mr R J Hall</td><td>50%</td><td>30%</td><td>The Civil and Mining Business unit</td></tr>
<tr><td>Mr N A Saclley</td><td>50%</td><td>30%</td><td>The financial performance of each Construction business unit is equally represented in determining the General Manager Construction's relevant Business unit</td></tr>
</table>

STI financial performance measures were set at levels appropriate given market conditions, agreed strategic objectives and the market's general expectation of acceptable return levels. For reasons of commercial sensitivity, these have not been published in this Remuneration Report.

FY17 and FY16 STIP Outcomes

The following table includes details of amounts paid/payable to Senior Executives under the FY17 and FY16 STIPs, as well as other pertinent details relating to the Board's assessment of Senior Executives' rights to these awards.

				Actual STI Payment				
Senior Executives	STIP	Target STI ($)	Maximum Potential STI ($)	Cash Component ($)	Deferred Component ($)	Total STI Payment ($)	% of Target STI	% of Maximum STI
Mr M G Monro (i)	**FY17**	**480,500**	**720,750**	**-**	**-**	**-**	**-**	**-**
	FY16	467,500	701,250	36,816	12,272	49,088	11	7
Mr M A Baker (i)	**FY17**	**265,000**	**397,500**	**-**	**-**	**-**	**-**	**-**
	FY16	250,077	375,116	19,694	6,565	26,259	11	7
Mr R J Hall (ii)	**FY17**	**310,000**	**465,000**	**58,125**	**-**	**58,125**	**19**	**13**
	FY16	310,000	465,000	-	-	-	-	-
Mr N A Saclley (iii)	**FY17**	**325,000**	**487,500**	**-**	**-**	**-**	**-**	**-**
	FY16	275,000	412,500	37,125	12,375	49,500	18	12

(i) Based on the Board's assessment of performance against the applicable Individual Performance Conditions and given the Statutory Losses reported, the following adjustments were made to both Mr M G Monro and Mr M A Baker's STIs (as calculated under the respective STIPs):

- FY17 STI entitlements were reduced to nil;

- FY16 STI entitlements were reduced by 30%; and

- the deferred components of the FY15 STIs were clawed back in full.

(ii) Given the Statutory Losses reported, the cash component of Mr R J Hall's FY17 STI entitlement as calculated under the STIP was reduced by 50% and the deferred component to nil.

(iii) Due to the reduction in the Construction segment's profitability, Mr N A Saclley's FY17 STI as calculated under the respective STIP was reduced to nil.

While not yet paid in cash as at year-end, all entitlements relating to the FY17 and FY16 STIPs have been allowed for in the 30 June 2017 and 30 June 2016 financial results respectively. Consequently, these amounts have been disclosed as part of Senior Executives' remuneration in the relevant financial years.

LTI Plan

The LTI Plan (**LTIP**) in operation in recent financial years (including FY17 and FY16) is structured in a manner whereby awards (described as performance rights) granted to Senior Executives represented a right to acquire fully paid ordinary shares in the Company for nil consideration, subject to meeting certain pre-determined vesting conditions. Performance rights awards under the LTIP were made to Senior Executives of the Company at the sole discretion of the Board. All current Senior Executives participated in this LTIP, the last award under which was granted in October 2016.

LTIP performance rights awarded under the current LTIP vest three years following the date of grant, subject to the following two discrete performance measures:

- EPS targets (**EPS Performance Rights**); and
- relative TSR targets (**TSR Performance Rights**).

EPS is measured on an absolute basis and is based on return on equity targets set by the Board. TSR is measured relative to a group of companies / indices determined by the Board as the most appropriate comparator group for Watpac at the date of grant.

A three-year performance period was deemed appropriate to Watpac's business and in line with market practice. This vesting period was seen to encourage sustained longer-term performance and employee retention.

Awards (or a proportion of the award) that do not vest after the three-year performance period are not subject to re-testing. Performance rights do not attract dividends or voting rights.

There are no disposal restrictions on shares obtained as a result of performance rights vesting, other than those contained within the Group's Securities Trading Policy available at www.watpac.com.au.

EPS

EPS Performance Rights vest subject to meeting an actual aggregate EPS result over the three-year vesting period, compared to the aggregate EPS result needed to deliver set Compound Annual Growth Rate (**CAGR**) targets, as set out below.

Actual cumulative EPS relative to CAGR targets	Proportion of EPS grant vesting
Less than minimum CAGR Target	0%
Less than maximum CAGR Target but greater than minimum CAGR Target	Straight line vesting between 50% and 100%
Greater than maximum CAGR Target	100%

The weighting of the EPS targets to the overall award and specific CAGR targets for each outstanding LTIP grant is included below:

	25 August 2016 Grant (2016 LTI)	20 August 2015 Grant (2015 LTI)
Weighting	50%	50%
Minimum CAGR	38%	7%
Maximum CAGR	60%	23%
Calculated with reference to underlying EPS of:	4.29 cents per share reported in FY16	9.48 cents per share reported in FY15

TSR

TSR Performance Rights provide a strong link between Watpac's total shareholder return performance relative to a selected comparator group. The use of TSR therefore links a significant portion of Senior Executives' LTI earnings capacity to a market-based measure.

The proportion of the TSR Performance Rights that vest under the 2016 LTI and 2015 LTI will be determined based on Watpac's TSR relative to the performance of companies in comparator groups determined by the Remuneration Committee, in accordance with the following vesting formula.

TSR of Watpac relative to TSR of comparator group of companies	Proportion of TSR vesting
Less than 50th percentile	0%
50th – 75th percentile	Straight line vesting between 50% and 100%
Greater than 75th percentile	100%

Under each LTI Watpac's TSR performance will be assessed over three years, commencing with the start of the financial year in which the grant of performance rights is made. Assessment of Watpac's performance against the performance measures is completed by an external party.

TSR Peer Group Selection Criteria

In choosing an appropriate peer group for Watpac, the Remuneration Committee has identified companies that:

- investors would see as Watpac's competitors in terms of business and operation; and
- exhibit similar investment characteristics in terms of cyclicality, market capitalisation and volatility.

The mix of the companies in the peer group is broadly aligned to the Group's investment profile in the year of the grant. Details of the peer groups applicable to the 2016 LTI and 2015 LTI are included in the following table.

2016 LTI	2015 LTI
AJ Lucas Group Limited	AJ Lucas Group Limited
Boart Longyear Limited	Ausenco Limited
Cardno Limited	Boart Longyear Limited
Decmil Group Limited	Brierty
Devine Limited	Calibre Group
Global Construction Services Limited	Decmil Group Limited
Gr Engineering Services Limited	Devine Limited
Logicamms Limited	Global Construction Services Limited
Macmahon Holdings Limited	Gr Engineering Services Limited
Monadelphous Limited	Logicamms Limited
NRW Holdings Limited	Lycopodium Limited
RCR Tomlinson Limited	Macmahon Holdings Limited
Service Stream Limited	MACA Limited
Seymour Whyte Limited	NRW Holdings Limited
Southern Cross Electrical Engineering Ltd	Sedgman Limited
SRG Limited	Seymour Whyte Limited
Sunland Group Limited	Southern Cross Electrical Engineering Ltd
UGL Limited	WDS Limited
S&P/ASX Small Ordinaries Index	S&P/ASX Small Ordinaries Index

August 2014 LTIP Grant (2014 LTIP) Outcome

The following table includes details of the vesting outcomes of the performance rights issued under the 2014 LTIP.

Hurdle	Weighting	Minimum vesting point	Maximum vesting point	Result achieved	% of grant vested
EPS	60%	15% CAGR	33% CAGR	(32.3%) CAGR	-%
Relative TSR	40%	50th percentile	75th percentile	56.25th percentile	62.5%

While the performance period for these rights ended on 30 June 2017, the vesting determination date has been set at 11 September 2017.

7.3.2.3 Company performance and consequences on shareholder wealth

In considering the Group's performance and consequences on shareholder wealth, the Remuneration Committee also assess a number of other important financial indices of the Group.

The following table outlines these financial metrics over the five-year period from 1 July 2012 to 30 June 2017.

	2017	2016	2015	2014	2013
Profit/(loss) after tax attributable to the members of the Company ($000's)	**(31,413)**	(21,363)	11,523	17,854	(4,674)
Underlying profit/(loss) after tax attributable to the members of the Company ($000's) *	**1,071**	8,042	17,879	18,369	7,972
Dividends paid/payable in relation to financial performance during year (cents)	**Nil**	Nil	2.0	6.0	Nil
Change in share price - 30 June less 1 July ($)	**(0.26)**	0.01	(0.03)	0.26	(0.04)
Return on shareholders' funds (%)	**(15.76)**	(9.25)	4.50	7.03	(1.96)
Total shareholder return (%)	**(14.58)**	(0.14)	0.11	33.77	(15.08)

* *While the Group's statutory financial results have been audited in each of the financial year's listed above, the underlying net profit/(loss) has not been reviewed or audited by the Company's auditor.*

7.3.3 – Summary of Senior Executives' contracts

It is the Group's policy that service contracts for Senior Executives, including the Managing Director and Chief Financial Officer and Company Secretary, are unlimited in term but capable of termination in accordance with their contracts. The notice periods applicable to the Managing Director and Chief Financial Officer and Company Secretary are currently six months, and three months for other Senior Executives.

The Group retains the right to terminate all service contracts with Senior Executives immediately by making payment in lieu of notice or as otherwise mutually agreed between the parties. On termination of employment, Senior Executives are also entitled to receive their statutory leave entitlements, together with any superannuation benefits.

Senior Executives have no entitlements to payment in lieu of notice in the event of removal for misconduct.

7.4 Non-executive Directors' remuneration

Details of the Non-executive Directors' current fee structure are included in the table below.

Fee for Role	Annual Fee p.a.
Chair of Board*	$205,000
Non-executive Director	$82,500
Chair of Audit & Risk Committee	$25,000
Member of Audit & Risk Committee	$15,000
Chair of Remuneration Committee	$20,000
Member of Remuneration Committee	$15,000
Chair of Nomination Committee	$10,000
Member of Nomination Committee	$5,000

* *No fee is payable to the Chair for membership or attendance at Committee meetings. Currently it is the practice of the Chair to attend all Board committee meetings of the Group.*

These fees include all statutory entitlements such as superannuation and cover preparation and attendance at all Board and Committee meetings, irrespective of the number of meetings held during a financial year.

Additional fees may be payable to Non-executive Directors or their related entities should they undertake specific consulting projects for the Company in the areas of their expertise. No such payments have been made in FY17.

Total remuneration for all Non-executive Directors of the Company must not exceed $1,100,000 per annum.

There is no current retirement scheme applicable to Non-executive Directors, however benefits accumulated up until the termination of the old scheme in 2003 remain in place. This previous scheme, which is no longer in operation for Directors appointed after this time, was based on a pre-requisite of five years of service as a Director. The scheme provided for one off payments to retiring Non-executive Directors of $60,000 (adjusted annually by CPI) and $90,000 for the Chair in office at that time (adjusted annually by CPI), from 1 July 2003. The current value of retirement benefits accrued as at 30 June 2017 is as follows:

Non-executive Director	Original benefit at 1 July 2003	Value of benefit (adjusted for CPI) at 1 July 2016	CPI adjustment FY17	Benefits paid FY17	Value of benefit (adjusted for CPI) at 30 June 2017
Mr R B McGruther	$60,000	$85,859	$1,365	$-	**$87,224**

7.5 Directors' and Senior Executives' remuneration

The table overleaf has been prepared in accordance with the requirements of the *Corporations Act 2001* and relevant accounting standards and pronouncements in Australia.

Remuneration disclosures have been presented on a statutory basis.

		Short-term		
		Salary & fees	STIP - Cash	Non-monetary benefits accounting accrual (i)
		$	$	$
Non-executive directors				
Mr R B McGruther (Chair)	**2017**	**177,000**	**-**	**-**
	2016	170,333	-	-
Mr J C M C Beerlandt	**2017**	**97,500**	**-**	**-**
	2016	97,083	-	-
Mr G J Dixon	**2017**	**93,607**	**-**	**-**
	2016	92,466	-	-
Ms L C Evans	**2017**	**95,287**	**-**	**-**
	2016	77,109	-	-
Ms B K Morris	**2017**	**98,174**	**-**	**-**
	2016	96,271	-	-
Mr C J Schreurs	**2017**	**102,500**	**-**	**-**
	2016	101,250	-	-
Executive directors				
Mr M G Monro	**2017**	**925,400**	**-**	**68,663**
	2016	882,480	36,816	46,632
Former directors				
Mr B C Bowton	**2017**	**-**	**-**	**-**
(Non-executive Director until 24 March 2016)	2016	69,064	-	-
Mr R J Lette	**2017**	**-**	**-**	**-**
(Non-executive Director until 31 July 2015)	2016	7,230	-	-
Executives				
Mr M A Baker	**2017**	**493,439**	**-**	**1,892**
	2016	453,345	19,694	33,928
Mr N A Saclley	**2017**	**593,512**	**-**	**21,686**
	2016	515,900	37,125	14,668
Mr R J Hall	**2017**	**585,900**	**58,125**	**(14,006)**
	2016	579,939	-	23,952
Total compensation: key management personnel	**2017**	**3,262,319**	**58,125**	**78,235**
(Consolidated)	2016	3,142,470	93,635	119,180
Total compensation: key management personnel	**2017**	**2,082,907**	**-**	**70,555**
(Parent)	2016	2,046,631	56,510	80,560

Notes in relation to the table of Directors' and Senior Executives' remuneration

(i) Non-monetary benefits represent the value of reportable fringe benefits for the respective fringe benefits tax year ending 31 March as applicable and net accruals of annual leave and long service leave accrued during the financial year.

(ii) Equity settled performance rights are net of adjustments for performance rights that are anticipated to fail to vest as a result of not achieving the relevant EPS performance measures.

Post-employment					
Superannuation benefits $	Termination/ Retirement benefits accrued $	Equity settled Performance Rights (accounting accrual) (ii) $	Total Remuneration (statutory basis) $	Proportion of remuneration performance related (at risk)	Value of performance rights as proportion of remuneration
28,000	**1,365**	**-**	**206,365**	**0.00%**	**0.00%**
33,000	1,525	-	204,858	0.00%	0.00%
-	**-**	**-**	**97,500**	**0.00%**	**0.00%**
-	-	-	97,083	0.00%	0.00%
8,893	**-**	**-**	**102,500**	**0.00%**	**0.00%**
8,784	-	-	101,250	0.00%	0.00%
9,052	**-**	**-**	**104,339**	**0.00%**	**0.00%**
7,325	-	-	84,434	0.00%	0.00%
9,327	**-**	**-**	**107,501**	**0.00%**	**0.00%**
9,146	-	-	105,417	0.00%	0.00%
-	**-**	**-**	**102,500**	**0.00%**	**0.00%**
-	-	-	101,250	0.00%	0.00%
30,000	**-**	**105,135**	**1,129,198**	**9.31%**	**9.31%**
30,000	-	99,620	1,095,548	12.45%	9.09%
-	**-**	**-**	**-**	**0.00%**	**0.00%**
6,561	-	-	75,625	0.00%	0.00%
-	**-**	**-**	**-**	**0.00%**	**0.00%**
687	1,525	-	9,442	0.00%	0.00%
30,000	**-**	**74,017**	**599,348**	**12.35%**	**12.35%**
30,000	-	55,241	592,208	12.65%	9.33%
35,000	**-**	**74,225**	**724,423**	**10.25%**	**10.25%**
35,000	-	68,301	670,994	15.71%	10.18%
35,000	**-**	**60,210**	**725,229**	**16.32%**	**8.30%**
35,000	-	11,749	650,640	1.81%	1.81%
185,272	**1,365**	**313,587**	**3,898,903**		
195,503	3,050	234,911	3,788,749		
115,272	**1,365**	**179,152**	**2,449,251**		
125,503	3,050	154,861	2,467,115		

7.6 Other statutory disclosures

7.6.1 – Analysis of performance rights granted as remuneration

As is indicated in section 7.3.2.2 above, under the Group's current STIP and LTIP performance rights may be granted to Senior Executives. Performance rights are a right to acquire fully paid ordinary shares in the Company for nil consideration. On vesting, each right automatically converts into one ordinary share. Holders of performance rights do not receive any dividends and are not entitled to vote in relation to the rights during the vesting period.

Details and the vesting profiles of the performance rights granted as at 30 June 2017 as remuneration to Senior Executives of the Group are included below, along with other pertinent details relating to outstanding performance rights on issue:

							Fair value yet to vest	
	Grant Date	Incentive Plan	Number	Fair Value at Grant Date ($)	Vested in year	Forfeited in year	Min ($)	Max ($)
Mr M G Monro	27-Aug-13	LTIP	440,000	0.44	40%	60%	-	-
	8-Aug-14	LTIP	440,000	0.61	0%	0%	-	269,280
	24-Nov-15	LTIP	450,000	0.98	0%	0%	-	438,750
	24-Nov-15	STIP	18,301	1.07	0%	100%	-	-
	25-Aug-16	STIP	13,544	0.86	0%	0%	-	11,648
	27-Oct-16	LTIP	450,000	0.66	0%	0%	-	297,000
Mr M A Baker	27-Aug-13	LTIP	200,000	0.44	40%	60%	-	-
	8-Aug-14	LTIP	200,000	0.61	0%	0%	-	122,400
	20-Aug-15	LTIP	250,000	0.82	0%	0%	-	203,750
	25-Aug-15	STIP	10,671	0.86	70%	30%	-	-
	25-Aug-16	STIP	7,245	0.86	0%	0%	-	6,231
	25-Aug-16	LTIP	300,000	0.70	0%	0%	-	208,500
Mr R J Hall	27-Aug-13	LTIP	125,000	0.44	40%	60%	-	-
	8-Aug-14	LTIP	100,000	0.61	0%	0%	-	61,200
	20-Aug-15	LTIP	120,000	0.82	0%	0%	-	97,800
	25-Aug-16	LTIP	250,000	0.70	0%	0%	-	173,750
Mr N A Saclley	20-Aug-15	LTIP	200,000	0.82	0%	0%	-	163,000
	25-Aug-15	STIP	22,783	0.86	70%	30%	-	-
	25-Aug-16	STIP	13,658	0.86	0%	0%	-	11,746
	25-Aug-16	LTIP	350,000	0.70	0%	0%	-	243,250

Grant Date	Incentive Plan	Fair value at Grant Date ($)	Financial year in which performance period ends	Financial year in which grant vests (subject to performance conditions)
8 August 2014	LTIP	0.61	30 June 2017	30 June 2018
20 August 2015	LTIP	0.82	30 June 2018	30 June 2019
24 November 2015	LTIP	0.98	30 June 2018	30 June 2019
24 November 2015	STIP	1.07	30 June 2017	30 June 2017
25 August 2016	LTIP	0.70	30 June 2019	30 June 2020
25 August 2016	STIP	0.86	30 June 2018	30 June 2018
27 October 2016	LTIP	0.66	30 June 2019	30 June 2020

The date that performance rights were granted has been determined with reference to when the Group received confirmation that Senior Executives understood the terms and conditions of the awards and / or when the issue of performance rights was approved by the Board.

The fair value of LTI performance rights is calculated on grant date utilising the assumptions underlying the Black-Scholes methodology to produce a Monte-Carlo simulation model. This allows incorporation of the performance hurdles that must be met before the performance rights vest.

The fair value of the STI performance rights is determined based on the market price of the Company's shares at the grant date with an adjustment made to take into account the vesting period and expected dividends during that period that will not be received by the employees.

7.6.2 – Analysis of movement in performance rights

The movement during the reporting period by value (assessed fair value at grant date) and number of performance rights held by Directors and Senior Executives is detailed below:

	Incentive Plan	As at 1 July 2016	Granted in year	Exercised in year	Forfeited in year	As at 30 June 2017	Vested as at 30 June 2017
By value							
Mr M G Monro	LTIP	$899,958	$297,000	$58,608	$133,320	**$1,005,030**	-
	STIP	$19,582	$11,648	-	$19,582	**$11,648**	-
Mr M A Baker	LTIP	$413,390	$208,500	$26,640	$60,600	**$534,650**	-
	STIP	$9,177	$6,231	$6,424	$2,753	**$6,231**	-
Mr R J Hall	LTIP	$213,525	$173,750	$16,650	$37,875	**$332,750**	-
	STIP	-	-	-	-	**-**	-
Mr N A Saclley	LTIP	$163,000	$243,250	-	-	**$406,250**	-
	STIP	$19,593	$11,746	$13,715	$5,878	**$11,746**	-
By number							
Mr M G Monro	LTIP	1,330,000	450,000	176,000	264,000	**1,340,000**	-
	STIP	18,301	13,544	-	18,301	**13,544**	-
Mr M A Baker	LTIP	650,000	300,000	80,000	120,000	**750,000**	-
	STIP	10,671	7,245	7,470	3,201	**7,245**	-
Mr R J Hall	LTIP	345,000	250,000	50,000	75,000	**470,000**	-
	STIP	-	-	-	-	**-**	-
Mr N A Saclley	LTIP	200,000	350,000	-	-	**550,000**	-
	STIP	22,783	13,658	15,948	6,835	**13,658**	-

While the total value of performance rights granted is included in the table above, the amount is allocated to Senior Executives remuneration evenly over the relevant vesting period.

7.6.3 – Analysis of movement in shares

The movement during the reporting period in the number of ordinary shares in Watpac Limited held directly, indirectly or beneficially by KMP at 30 June 2017, including their related parties, is as follows:

	As at 1 July 2016	Acquisitions	Received on vesting of rights	Sales	As at 30 June 2017
Non-executive Directors					
Mr R B McGruther	181,079	-	-	-	**181,079**
Mr G J Dixon	35,000	-	-	-	**35,000**
Ms L C Evans	24,000	-	-	-	**24,000**
Ms B K Morris	10,000	-	-	-	**10,000**
Executive Director					
Mr M G Monro	200,000	74,000	176,000	-	**450,000**
Executives					
Mr M A Baker	124,545	-	87,470	-	**212,015**
Mr R J Hall	27,590	-	50,000	(25,000)	**52,590**
Mr N A Saclley	-	-	15,948	-	**15,948**

8.0 Directors' interests

The relevant interest of each Director in the shares and rights or options issued by the Company as notified by the Directors to the Australian Securities Exchange (**ASX**) in accordance with s205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	Ordinary shares	Performance rights
Non-executive Directors		
Mr R B McGruther	181,079	-
Mr P L Watson	-	-
Mr J C M C Beerlandt	-	-
Mr G J Dixon	35,000	-
Mr C J Schreurs	-	-
Ms B K Morris	10,000	-
Ms L C Evans	24,000	-
Executive Director		
Mr M G Monro	450,000	1,340,000

9.0 Dividends

There have been no dividends paid or declared by the Company since the end of the previous financial year. No dividends were declared or paid by the Company subsequent to 30 June 2017.

10.0 Significant changes in the Group's state of affairs

There were no significant changes in the Group's state of affairs during the financial year under review not otherwise disclosed in this report or in the Consolidated Financial Statements.

11.0 Events subsequent to reporting date

There has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect the operations or state of affairs of the Group in future financial years.

12.0 Environmental regulations

The Group's operations are subject to environmental regulation under both Commonwealth and State Government legislation. Building and property development approvals, including specific environmental aspects, are required for the Group's construction and development operations.

Pursuant to this the Group has established and maintains third party certified Environmental Management Systems developed in accordance with AS/NZS ISO14001:2004 and has a dedicated group of Environmental Advisors who monitor compliance with the above environmental regulations and company policy.

The Directors are not aware of any significant breaches during the period covered by this report.

13.0 Indemnification and insurance of officers and auditors

Indemnification

Since the end of the previous financial year, the Group has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Group. Each Director, Alternate Director and Officer of the Company has in place a Deed of Indemnity, Access and Insurance, on normal commercial terms.

Insurance premiums

During the financial year the Group paid premiums in respect of Directors' and Officers' liability insurance contracts for the insurance year ended 30 June 2017. Such insurance contracts insure against certain liability (subject to specific exclusions) of persons who are or have been directors or executive officers of the Group. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

14.0 Non-audit services

In addition to their statutory duties, during the year KPMG, the Company's auditor, has performed other non-assurance services by way of taxation advice.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to KPMG and its related practices for audit and non-audit services provided are set out in Note G4 of the Financial Report.

15.0 Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 64 and forms part of the Directors' Report for the financial year ended 30 June 2017.

16.0 Rounding

In accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 commencing 1 April 2017, amounts in the Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Dated at Brisbane this 23rd day of August 2017.

Signed in accordance with a resolution of the Directors.

R B McGruther – Chair

KPMG

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

To the Directors of Watpac Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Watpac Limited for the financial year ended 30 June 2017 there have been:

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

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

KPMG

KPMG

Simon Crane
Partner

Brisbane
23 August 2017

1. In the opinion of the directors of Watpac Limited (the **Company**):

   (a) the Consolidated Financial Statements and notes set out on pages 71 to 110 and the Remuneration Report in section 7 of the Directors' report, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards and the C*orporations Regulations 2001*; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the group entities identified in Note F3 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

3. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2017.

4. The Directors draw attention to section A of the Consolidated Financial Statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Brisbane this 23rd day of August 2017.

Signed in accordance with a resolution of the Directors.

R B McGruther – Chair

KPMG

Independent Auditor's Report

To the shareholders of Watpac Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Watpac 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 2017 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 the:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for th 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 tim to time during the financial year.

Basis for opinion

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

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

KPMG

Key Audit Matters

- The *Key Audit Matters* we identified are:
- Recognition of revenue relating to construction and mining services contracts; and
- Impairment of property, plant and equipment.

Key Audit Matters are those matters that, in our professional judgment, 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 relating to construction and mining services contracts

Refer to Note B2 to the financial report

The key audit matter	How the matter was addressed in our audit

We focused on this area as a key audit matter due to the degree of management judgment involved in the estimation of revenue over the course of the contract life. We specifically focused on:
• contracts in the Group's largest revenue streams for Construction and Mining and Civil;
• contracts with specific contract risks, a deterioration in margin and loss making contracts; and/or
• those contracts where there is significant judgement involved in determining current and future contract performance.
Auditing Construction and Mining and Civil revenue involves assessing management's estimates and judgements applied at reporting date. This necessitated the involvement of the more experienced members of the audit team.
The estimates and judgements arise due to:
• the significant forward looking nature of the remaining contract costs to complete;
• the accuracy of known or expected contract variations;
• valuation requirements relating to outcomes of known but unsettled claims and liquidated damages exposure; and
• the need to deliver contracts to the cost expected within the planned timelines.
	Our procedures over Construction and Mining and Civil revenue included, amongst others:
	• evaluation of management's accounting process regarding the Group's contract revenues. We tested a sample of controls over the monthly contract reporting, including the re-estimation of costs to complete, identification of specific project risks or opportunities relating to contractual variations and claims and the certification and approval of progress claims;
	• for a sample of contracts selected:
	  • we read the contracts to evaluate the consistency of critical individual characteristics with management's estimates;
	  • we assessed the estimation of costs to complete by understanding the activities required to complete the contract and analysed the costs of those activities based on our experience;
	  • we challenged the financial assessment of the contract progress and percentage complete through independent discussion with management. We compared the outcome of these discussions with underlying records; and
	  • we tested contract variations, claims and liquidated damages by comparing the amount to underlying records including legal or expert reports commissioned by the Group over contentious positions.

KPMG

Impairment of property, plant and equipment	
Refer to Note B5 to the financial report	
The key audit matter	**How the matter was addressed in our audit**
The assessment of impairment of the Group's Civil and Mining property, plant and equipment is a key audit matter due to the impairment recognised by the Group at 30 June 2017 of $25.1m and the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the recoverable amount of the Civil and Mining Cash Generating Unit (CGU). Given the reduced work in hand at 30 June 2017 and continuing challenging market conditions impacting the resource sector in Australia, management assessed that this was an indicator of impairment and performed an impairment assessment. The impairment assessment performed incorporated significant judgments. In particular, we focused on those judgements listed below which impact the CGU's recoverable amount: • Growth in revenue which is driven by the ability to achieve forecast levels of work in hand; • Forecast operating margins; and • Discount rates applied to forecast cashflows. To assess these significant judgements it necessitated the involvement of senior audit team members and specialists to challenge management's assumptions.	Our procedures over the impairment testing of the Civil and Mining CGU included: • Using our valuation specialists, we challenged the key assumptions, including those relating to forecast cashflows, discount rates and growth rates by comparing to external data, such as peer group forecasts, as well as our own assessments based on industry experience and knowledge of the Group; • We assessed the Group's historical forecasting accuracy by comparing actual performance against previous forecasts and assumptions; and • We performed sensitivity analysis on the forecast growth and discount rate assumptions.

KPMG

Other Information

Other Information is financial and non-financial information in Watpac Limited’s annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Annual 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 and will 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 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; and
- assessing the Group and Company’s ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor’s Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Watpac Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Director's 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 Section 7 of the Director's Report for the year ended 30 June 2017.

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

KPMG

KPMG

Simon Crane
Partner

Brisbane
23 August 2017

Contents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		For the year ended 30 June	
In thousands of AUD	Note	2017	2016
Revenue	B2	**1,108,708**	1,223,128
Cost of sales		**(1,054,838)**	(1,167,351)
Gross profit		**53,870**	55,777
Other income/(expenses)		**331**	2,009
Property development holding costs expensed		**(443)**	(552)
Administration expenses		**(55,226)**	(50,388)
Net finance income		**1,926**	1,635
Results from operating activities		**458**	8,481
Gain on sale of land and buildings		**-**	2,728
Impairment expense	B5	**(29,648)**	(41,609)
New business expenditure	B6	**(4,051)**	-
Profit/(loss) before tax		**(33,241)**	(30,400)
Income tax benefit/(expense)	B4a)	**1,828**	9,037
Net profit/(loss) after tax		**(31,413)**	(21,363)
Other comprehensive income/(loss) for the year, net of tax		**-**	-
Total comprehensive income/(loss) for the year		**(31,413)**	(21,363)
Earnings per share			
Basic earnings/(loss) per share	B3	**(16.89¢)**	(11.41¢)
Diluted earnings/(loss) per share	B3	**(16.89¢)**	(11.41¢)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes on pages 76 to 110.

In thousands of AUD	Note	As at 30 June 2017	2016
ASSETS **Current assets**			
Cash and cash equivalents		**94,916**	129,351
Cash deposits		**134,127**	122,105
Trade and other receivables	C2	**157,352**	141,831
Inventories – stock on hand	C4	**10,352**	14,377
Inventories – property development assets	C4	**1,321**	8,112
Total current assets		**398,068**	415,776
Non-current assets			
Inventories – property development assets	C4	**11,188**	9,013
Property, plant and equipment	C5	**84,154**	115,218
Intangibles	C6	**17,676**	17,676
Deferred tax assets	B4b)	**23,717**	21,889
Total non-current assets		**136,735**	163,796
Total assets		**534,803**	579,572
LIABILITIES **Current liabilities**			
Trade and other payables	C7	**293,548**	301,411
Borrowings	D1	**6,089**	7,236
Employee benefits	G1	**14,004**	14,776
Provisions		**49**	111
Total current liabilities		**313,690**	323,534
Non-current liabilities			
Trade and other payables	C7	**11,756**	9,226
Borrowings	D1	**5,380**	11,216
Employee benefits	G1	**3,739**	3,807
Provisions		**875**	940
Total non-current liabilities		**21,750**	25,189
Total liabilities		**335,440**	348,723
Net assets		**199,363**	230,849
EQUITY			
Issued capital	D4a)	**235,563**	235,563
Reserves	D4b)	**7,671**	7,744
Retained earnings		**(43,871)**	(12,458)
Total equity		**199,363**	230,849

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 76 to 110.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017					
In thousands of AUD	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
Balance at 1 July 2016	235,563	9,844	(2,100)	(12,458)	230,849
Total comprehensive income/(loss) for the period					
Profit/(loss)	-	-	-	(31,413)	(31,413)
Other comprehensive income/(loss)	-	-	-	(31,413)	(31,413)
Transactions with owners recorded directly in equity					
Purchase of treasury shares	-	(539)	-	-	(539)
Share settled performance rights awarded	-	466	-	-	466
Total contributions by and distributions to owners	-	(73)	-	-	(73)
Total transactions with owners	-	(73)	-	-	(73)
Balance at 30 June 2017	**235,563**	**9,771**	**(2,100)**	**(43,871)**	**199,363**

For the year ended 30 June 2016					
In thousands of AUD	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
Balance at 1 July 2015	239,570	9,461	(2,100)	8,905	255,836
Total comprehensive income/(loss) for the period					
Profit/(loss)	-	-	-	(21,363)	(21,363)
Other comprehensive income/(loss)	-	-	-	(21,363)	(21,363)
Transactions with owners recorded directly in equity					
Purchase of treasury shares	(4,007)	-	-	-	(4,007)
Share settled performance rights awarded	-	383	-	-	383
Total contributions by and distributions to owners	(4,007)	383	-	-	(3,624)
Total transactions with owners	(4,007)	383	-	-	(3,624)
Balance at 30 June 2016	235,563	9,844	(2,100)	(12,458)	230,849

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 76 to 110.

		For the year ended 30 June	
In thousands of AUD	Note	2017	2016
Cash flows from operating activities			
Cash receipts from customers		**1,204,037**	1,383,596
Cash paid to suppliers and employees		**(1,204,985)**	(1,292,837)
Cash generated from operations		**(948)**	90,759
Interest received		**3,990**	3,858
Interest paid		**(2,547)**	(3,334)
Income taxes refunded/(paid)		**345**	(60)
Net cash provided by operating activities	C1	**840**	91,223
Cash flows from investing activities			
Investment in cash deposits		**(12,022)**	(51,749)
Acquisition of assets		**(14,951)**	(14,609)
Proceeds from sale of assets		**696**	9,586
Net cash used in investing activities		**(26,277)**	(56,772)
Cash flows from financing activities			
Repayment of borrowings		**(6,983)**	(13,285)
Purchase of treasury shares		**(539)**	(4,007)
Finance facility transaction costs		**(1,476)**	(173)
Net cash used in financing activities		**(8,998)**	(17,465)
Net increase/(decrease) in cash and cash equivalents		**(34,435)**	16,986
Cash and cash equivalents at 1 July		**129,351**	112,365
Cash and cash equivalents at 30 June		**94,916**	129,351

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 76 to 110.

A – About this report

Statement of compliance

The Consolidated Financial Statements of Watpac Limited (**Watpac** or **Company**) are general purpose financial statements. They comprise the consolidated results of the Company and its subsidiaries (together referred to as the **Group**), and the Group's interests in joint arrangements, and:

- have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*; and
- comply with International Financial Reporting Standards (**IFRS**) adopted by the International Accounting Standards Board.

The Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements (collectively known as the **Financial Statements**), were authorised for issue by the Board of Directors on 23 August 2017.

Rounding of amounts

In accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Financial Statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Basis of accounting

The Financial Statements are presented in Australian dollars (**AUD**) which is the functional currency of the Company. They have been prepared on the historical cost basis, except for certain financial assets which are measured at fair value.

The accounting policies set out in the Financial Statements have been applied consistently by all entities in the Group and the Group's interests in joint arrangements. Details of the Group's accounting policies, including any changes made during the year, are included in the Financial Statements.

Use of judgements and estimates

Preparation of the Financial Statements requires Management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis and actual results may differ from these estimates. Revisions to accounting estimates are recognised prospectively.

Judgements made by Management in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements, and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the future, are included in the Financial Statements.

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

B – Business Performance

Included in this section is information most applicable to the Group's business performance, together with a summary of the accounting policies and the significant judgements and estimates used in calculating its financial performance.

B1. Segment information

An operating segment is a part of the Group's operations that engages in business activities, from which it may earn revenues and incur expenses.

The Group has identified its operating segments by assessing the internal reports where discrete financial information is reported on a regular basis to the Managing Director, Watpac's chief operating decision maker, to effectively allocate Group resources and assess performance.

Reportable segments are based on aggregated operating segments, determined by the similarity of products sold and/or services provided by each operating segment.

For the year ended 30 June 2017 (**Reporting Period**) the Group has identified three reportable segments being:

- *Construction:* Construction, refurbishment, project and design management.
- *Civil & Mining:* Contract mining services and civil infrastructure works.
- *Property:* Development, investment in and trading of property assets.

The following items are not allocated to operating segments as they are not considered part of the core operations of any segment:

- corporate assets;
- unallocated/corporate expenses; and
- costs associated with new business.

Information regarding the results of each reportable segment is included on the following page.

	2017					
In thousands of AUD	Construction	Civil & Mining	Property	Unallocated	Elimination	Total
External revenue	954,832	148,928	7,283	-	-	1,111,043
Inter-segment revenue	(2,335)	-	-	-	-	(2,335)
Total segment revenue	**952,497**	**148,928**	**7,283**	**-**	**-**	**1,108,708**
Other material non-cash items:						
- Impairment:						
- Plant & equipment/Stock	-	(29,648)	-	-	-	(29,648)
- Depreciation	(681)	(17,700)	-	(2,039)	-	(20,420)
New business expenditure	-	-	-	(4,051)	-	(4,051)
Finance income	-	-	-	4,496	-	4,496
Finance expense	(1,632)	(938)	-	-	-	(2,570)
Total segment profit before tax	**11,773**	**(22,559)**	**(425)**	**(22,030)**	**-**	**(33,241)**
Reportable segment assets	**144,281**	**109,177**	**12,851**	**291,208**	**(22,714)**	**534,803**
Capital expenditure	**282**	**12,910**	**-**	**1,759**	**-**	**14,951**

	2016					
In thousands of AUD	Construction	Civil & Mining	Property	Unallocated	Elimination	Total
External revenue	1,043,542	166,497	7,980	-	-	1,218,019
Inter-segment revenue	5,109	-	-	-	-	5,109
Total segment revenue	1,048,651	166,497	7,980	-	-	1,223,128
Other material non-cash items:						
- Impairment:						
- Property inventory	-	-	(2,747)	-	-	(2,747)
- Receivables	-	(9,640)	-	-	-	(9,640)
- Plant & equipment/Stock	-	(19,200)	-	-	-	(19,200)
- Goodwill	-	(10,022)	-	-	-	(10,022)
- Depreciation	(691)	(19,417)	-	(1,452)	-	(21,560)
Finance income	-	-	962	4,005	-	4,967
Finance expense	(1,472)	(1,639)	-	(221)	-	(3,332)
Total segment profit before tax	26,006	(39,650)	(2,618)	(14,306)	168	(30,400)
Reportable segment assets	129,098	136,393	17,618	319,798	(23,335)	579,572
Capital expenditure	673	12,320	-	1,617	-	14,610

Geographical segments

The Group's operations are located wholly in Australia. As a result, all reportable segment information is attributable to the single geographical segment of Australia.

Major customer

Construction segment revenues include revenue from one major customer comprising $179,156,000. In the prior year there was one major customer contributing revenue of $123,513,000 to the Construction segment.

B2. Revenue

In thousands of AUD	2017	2016
Construction contracts – Building	**952,497**	1,048,651
Construction contracts – Civil Infrastructure	**21,313**	19,734
Mining services contracts	**127,615**	146,763
Property sales	**7,283**	7,980
Total revenue	**1,108,708**	1,223,128

Recognition and measurement

Construction contracts – Building and Civil Infrastructure

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to costs incurred and surveys of work performed. An expected loss on a contract is recognised immediately.

Mining services contracts

Revenue from the provision of mining services is recognised in accordance with a schedule of rates established under the contract, unless the outcome of the transaction cannot be estimated reliably. Revenue is recognised in the accounting period in which the services are rendered or when the criteria for reliable estimation of the transaction has been satisfied.

Sales of property

Revenue from the sale of property is recognised when the significant risks and rewards of ownership have passed to the buyer and can be measured reliably. Risks and rewards of ownership may be passed on transfer of legal title or upon entering into an unconditional contract.

Key estimates and judgements

- Construction contracts: Determining the stage of completion requires an estimate of works completed to date as a percentage of total estimated works. Where variations and modifications are made to a contract, the amount of revenue that will arise is subject to estimation, based on the probability that the contract sum will change by a specified amount.
- Mining services contracts: Determining the amount of revenue that can be recognised requires judgements about when the criteria for reliable estimation of the transaction has been satisfied.

B3. Earnings per share

Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period:

Basic earnings/(loss) per share calculation	2017	2016
Profit/(loss) for the year attributable to ordinary shareholders of the Company *(in thousands of AUD)*	**(31,413)**	(21,363)
Divided by weighted average number of ordinary shares at 30 June *(in thousands of shares)*	**186,030**	187,246
Basic earnings/(loss) per share *(cents)*	**(16.89)**	(11.41)

Weighted average number of shares – basic earnings/(loss) per share calculation

In thousands of shares	2017	2016
Issued ordinary shares at 1 July	**186,019**	189,258
Effect of shares cancelled under share buy-back arrangement	**-**	(2,158)
Effect of performance rights vested	**11**	146
Weighted average number of ordinary shares at 30 June	**186,030**	187,246

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, after adjustments for the effects of all dilutive potential ordinary shares:

Diluted earnings/(loss) per share calculation	2017	2016
Profit/(loss) for the year attributable to ordinary shareholders of the Company *(in thousands of AUD)*	**(31,413)**	(21,363)
Divided by weighted average number of ordinary shares (diluted) at 30 June *(in thousands of shares)*	**186,030**	187,246
Diluted earnings/(loss) per share *(cents)*	**(16.89)**	(11.41)

Weighted average number of shares – diluted earnings/(loss) per share calculation

In thousands of shares	2017	2016
Weighted average number of ordinary shares (basic)	**186,030**	187,246
Effect of performance rights on issue	**-**	-
Weighted average number of ordinary shares (diluted) at 30 June	**186,030**	187,246

The weighted average number of anti-dilutive shares assessed as at 30 June 2017 was 3,280,324 (2016: 3,283,133), representing all performance rights on issue (excluding those performance rights which are expected to vest upon their conversion to ordinary shares). While typically classified as dilutive and therefore impacting the diluted earnings per share calculation, all performance rights which are expected to vest have been excluded as the effect of including them would be to decrease the loss per share. Consequently, diluted earnings per share is equal to basic earnings per share.

B4. Taxation

The prima facie income tax expense/(benefit) on profit/(loss) before income tax reconciles to the income tax expense/(benefit) as follows:

a) Reconciliation of income tax expense/(benefit)

In thousands of AUD	2017	2016
Profit/(loss) before tax	**(33,241)**	(30,400)
Income tax at 30% (2016: 30%)	**(9,972)**	(9,120)
Increase in income tax expense/(benefit) due to:		
Non-recognition of deferred tax assets relating to tax losses & offsets	**8,894**	-
Non-deductible expenses	**126**	120
Non-deductible goodwill impairment	**-**	3,007
	(952)	(5,993)
Research & development claim	**(880)**	(2,196)
Capital gain on sale of plant yard	**-**	(816)
(Over)/under provided in prior years	**4**	(32)
Income tax expense/(benefit) on pre-tax net profit/(loss)	**(1,828)**	(9,037)

b) Movement in deferred tax balances

	2017				
In thousands of AUD	Net balance 1 July 2016	Recognised in profit or loss	Net balance 30 June 2017	Deferred tax assets at 30 June 2017	Deferred tax liabilities at 30 June 2017
Consolidated					
Property, plant and equipment	(5,286)	**4,291**	**(995)**	**-**	**(995)**
Employee benefits	5,806	**(252)**	**5,554**	**5,554**	**-**
Other provisions	3,511	**1,526**	**5,037**	**5,037**	**-**
Accrued expenses	1,025	**1,918**	**2,943**	**2,943**	**-**
Borrowing costs	186	**(4)**	**182**	**182**	**-**
Tax loss carry-forwards	1,663	**(1,663)**	**-**	**-**	**-**
R&D tax offset carried forward	14,682	**(3,819)**	**10,863**	**10,863**	**-**
Sundry items	-	**-**	**-**	**-**	**-**
Property development projects	302	**(169)**	**133**	**133**	**-**
	21,889	**1,828**	**23,717**	**24,712**	**(995)**

In thousands of AUD	Net balance 1 July 2015	Recognised in profit or loss	Net balance 30 June 2016	Deferred tax assets at 30 June 2016	Deferred tax liabilities at 30 June 2016
	2016				
Consolidated					
Property, plant and equipment	(176)	(5,110)	(5,286)	-	(5,286)
Employee benefits	5,691	115	5,806	5,806	-
Other provisions	750	2,761	3,511	3,511	-
Accrued expenses	1,754	(729)	1,025	1,025	-
Borrowing costs	431	(245)	186	186	-
Tax loss carry-forwards	1,041	622	1,663	1,663	-
R&D tax offset carried forward	3,751	10,931	14,682	14,682	-
Sundry items	(602)	602	-	-	-
Property development projects	212	90	302	302	-
	12,852	9,037	21,889	27,175	(5,286)

Recognition and measurement

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at Balance Date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- goodwill;
- the initial recognition of assets or liabilities not in a business combination that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The Company recognises deferred tax assets arising from unused tax losses and R&D tax offsets of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

As a result of the $29.65M impairment expense recorded on the Civil & Mining cash generating unit (**CGU**) plant and equipment and stock assets during the Reporting Period, an adjustment has been made to the Group's tax balances at 30 June 2017 to reduce the value of deferred tax assets applicable to Tax loss and R&D tax offset carry-forwards.

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The components of the deferred tax assets balance not recognised at Balance Date is presented in the table below.

In thousands of AUD	2017	2016
Income tax losses & offsets	**8,894**	-
Capital losses	**18,016**	18,016

Offsetting deferred tax balances

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Tax consolidation

Watpac Limited and its wholly owned controlled entities are part of a tax-consolidated group under Australian tax law. Watpac Limited is the head entity in the tax-consolidated group.

Key estimates and judgements

- Recognition and measurement of deferred tax assets requires judgements and estimates of future taxable profit that will be available, against which the deductible temporary differences and tax losses and offsets can be utilised.

B5. Impairment expense

In thousands of AUD	Note	2017	2016
Property			
Inventories – property development assets		-	2,747
Civil & Mining			
Trade and other receivables		**-**	9,640
Plant and equipment	C5	**25,148**	15,200
Inventories – stock on hand		**4,500**	4,000
Goodwill	C6	**-**	10,022
		29,648	38,862
Total		**29,648**	41,609

Civil & Mining

In response to the reduced work-in-hand balance at 30 June 2017 and continuing challenging market conditions impacting the resource sector in Australia, which persisted through much of the past financial year, the Group critically assessed the recoverable amount of assets allocated to the Civil & Mining CGU including plant and equipment (**Plant**) and stock on hand (**Stock**) at 30 June 2017 (**Balance Date**). Details of each component of this review are included below.

Stock

In accordance with the accounting standard, items of stock are measured at the lower of cost and net realisable value. As a consequence of the impairment recognised against Plant assets and the strong correlation between the value of Stock and Plant, an impairment expense of $4.5M has been recognised at 30 June 2017 to reduce the carrying value of Stock to its assessed net realisable value.

Plant

As was reported in the Group's Financial Report for the year ended 30 June 2016 (**FY16**), the estimated recoverable amount of the Civil & Mining CGU exceeded its carrying value by approximately $4M at 30 June 2016. It was also noted in the Group's FY16 Financial Report that a reasonably possible change in the key assumptions that certain market participants may apply, may cause the carrying value of the Civil & Mining CGU to exceed its recoverable amount.

The following table, which was included in the notes to the FY16 financial statements, shows the amount by which the key assumptions would need to individually change (holding all other assumptions constant) for the estimated recoverable amount to be equal to the carrying amount.

	Key assumptions used	Possible change from key assumptions *	Assumption changes that would give rise to carrying value exceeding recoverable amount *
Discount rate (pre-tax WACC)	14.26%	+0.41%	14.67%
EBITDA growth rate (FY16 to FY17)	55.76%	(15.14)%	40.62%
Normalised EBITDA growth rate (FY16 to FY17) **	10.54%	(10.75)%	(0.21)%
Average forecast EBITDA growth rate (from FY17)	3.98%	(0.56)%	3.42%
Terminal value growth rate (Gordon Growth)	2.50%	(0.65)%	1.85%

* *Individual change holding all other assumptions constant.*

** *Adjusted for two loss-making contracts in FY16.*

In response to the reduced work-in-hand balance at 30 June 2017 and continuing challenging market conditions impacting the resource sector in Australia, CGU valuation testing has been performed at Balance Date to review the carrying value of Civil & Mining CGU assets. The key assumptions in estimating the Civil & Mining CGU recoverable amount at Balance Date are set out below.

	Key assumptions
Discount rate (pre-tax WACC)	15.57%
Terminal value growth rate (Gordon Growth)	2.5%
EBITDA growth rate (FY17 to FY18)	(4.56)%
Average EBITDA growth rate (from FY18)	+11.64%

The values assigned to the key assumptions for the Civil & Mining CGU net present value test, as calculated with reference to the requirements of the accounting standards, have been framed against the current market conditions impacting the resources sector.

The pre-tax discount rate of 15.57% (2016: 14.26% pre-tax) is based on industry and CGU weighted average cost of capital, and assumes possible debt leveraging at 16.7%.

The cash flow projections include specific estimates for five years and a terminal growth rate thereafter. The terminal value growth rate was determined based on management's estimates of the long-term annual EBITDA growth rate, together with consideration of market participant-based assumptions. The forecast EBITDA for the FY18 base year takes into account the current work-in-hand level and active project tenders, with reasonable contract conversion success rates having been applied to work to win and do assumptions when considering the resources currently available to the CGU. Notwithstanding the number of active project tenders under consideration, given the current low work-in-hand level, this calculation has also been performed using a revenue sensitivity at 90% of the base case FY18 forecast.

Utilising the assumptions outlined above, and after allowing for the reduced value of Stock assets by $4.5M, the estimated carrying value of the Civil & Mining CGU exceeds its recoverable amount by approximately $25.15M at Balance Date. Consequently, a $25.15M impairment charge has been recognised in the FY17 result to the written down value of Plant assets, and therefore the carrying value of the Civil & Mining CGU, to its recoverable amount.

B6. New business expenditure

During the Reporting Period, the Group incurred significant costs on new business opportunities that are considered outside the scope of normal operations. This was in pursuit of strategic growth, deploying currently surplus capital into diversified income producing activities.

In accordance with the prescriptive guidance contained in the prevailing accounting standards, all attributed costs have been recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the Reporting Period.

C – Operating assets and liabilities

Included in this section is information relating to the Group's operating assets and liabilities, together with a summary of the accounting policies and the judgements and estimates relevant to these items.

C1. Reconciliation of operating cash flows from operating activities

In thousands of AUD	Note	2017	2016
Total profit/(loss) for the year		**(31,413)**	(21,363)
Adjustments for:			
(Gain)/loss on sale of land and buildings		**-**	(2,728)
(Gain)/loss on sale of plant and equipment		**(249)**	(46)
Share based payments		**466**	383
Finance facility transaction costs		**1,476**	173
Depreciation	C5	**20,420**	21,560
Impairment	B5	**29,648**	41,609
Changes in assets and liabilities:			
(Increase)/decrease in trade and other receivables		**(15,521)**	27,223
(Increase)/decrease in inventories		**4,141**	5,303
Increase/(decrease) in payables		**(5,333)**	28,132
(Increase)/decrease in tax assets		**(1,828)**	(9,037)
Increase/(decrease) in provisions and employees benefits		**(967)**	14
Net cash from/(used in) in operating activities		**840**	91,223

C2. Trade and other receivables

In thousands of AUD	Note	2017	2016
Current			
Trade receivables		**26,617**	29,025
Allowance for expected losses		**(109)**	-
		26,508	29,025
Other debtors and prepayments		**13,785**	15,076
		40,293	44,101
Construction work in progress – amounts due from customers	C3	**117,059**	97,730
		157,352	141,831

The movement in the expected loss provision during the reporting period was:

In thousands of AUD	Gross 2017	Gross 2016
Balance at 1 July	**-**	-
Expected losses recognised in the consolidated profit or loss	**(109)**	-
Balance at 30 June	**(109)**	-

The ageing of the Group's trade receivables, other debtors and prepayments at the reporting date was:

In thousands of AUD	Gross 2017	Gross 2016
Not past due	**37,965**	37,082
Past due 0-30 days	**2,279**	3,353
Past due 31-120 days	**89**	426
Past due 121 days to one year	**69**	3
More than one year	**-**	3,237
Gross carrying amount	**40,402**	44,101
Expected loss provision	**(109)**	-
Net carrying amount	**40,293**	44,101

During the Reporting Period, contract terms for one debtor with a gross carrying value of $3.2M that had been outstanding for greater than one year were renegotiated. This outstanding debt related to works completed in FY15 on the direction and indemnity of a receiver & manager of a mining services client, Pluton Resources Limited. Due to the nature of the indemnity provided, this debtor has never been considered credit impaired. With no other significant long-term outstanding receivables in FY16, no allowance for expected losses was recognised at 30 June 2016.

The expected loss provision recognised at 30 June 2017 has arisen following a detailed assessment of the trade and other receivables balances at that date.

Recognition and measurement

Trade and other receivables are recognised initially at fair value plus any directly attributable transaction costs where they do not contain a significant financing component. This typically results in the initial measurement of trade and other receivables at their transaction price.

Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, less any allowance for expected credit losses:

The following basis is used to assess the allowance for expected losses:

- historical collectability data;
- an individual account assessment of past credit history; and
- any current facts and circumstance that indicate an increase or decrease in credit risk or likelihood of debtor insolvency.

Watpac has a strong receivables collection history across all its operations. Consequently, only a modest allowance for impairment of $109,000 has been recognised for trade and other receivable assets as at 30 June 2017 (30 June 2016: Nil).

Further information on the Group's exposure to credit risk is provided at Note E2a.

C3. Accounting for construction contracts

In thousands of AUD	Note	2017	2016
Cumulative contracts in progress as at reporting date:			
Cumulative costs incurred plus recognised profits less recognised losses to date		**3,431,834**	3,891,997
Less: Progress billings		**(3,314,775)**	(3,794,267)
Net construction work in progress		**117,059**	97,730
Net construction work in progress comprises:			
Amounts due from customers	C2	**117,059**	97,730
		117,059	97,730

Recognition and measurement

Construction work in progress is carried at cost plus profit recognised to date, based on the value of work completed less progress billings and provision for foreseeable losses, allocated between amounts due from customers and any amounts due to customers.

Cost includes both variable and fixed costs directly related to specific contracts, being those costs which directly relate to contract activity, those which can be allocated to specific contracts on a reasonable basis, and other costs specifically chargeable under the contract.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Revenue is recognised to the extent of costs incurred where it is probable that the costs will be recovered. Provision for the total estimated loss on a contract is made as soon as a loss is estimated.

C4. Inventories

In thousands of AUD	2017	2016
Current		
Raw materials and stores	**18,852**	18,377
Less: Write-down to net realisable value	**(8,500)**	(4,000)
	10,352	14,377
Property development assets:		
Land and buildings held for sale		
- Land at cost	**2,860**	15,865
- Development costs	**95**	5,213
- Interest, rates and taxes capitalised	**612**	4,876
Less: Write-down to net realisable value	**(2,246)**	(17,842)
	1,321	8,112
Non-current		
Property development assets:		
Land and buildings held for sale		
- Land at cost	**17,981**	15,964
- Development costs	**6,208**	2,353
- Interest, rates and taxes capitalised	**5,323**	3,190
Less: Write-down to net realisable value	**(18,324)**	(12,494)
	11,188	9,013

Recognition and measurement

Inventories, which include raw materials and property development assets, are carried at the lower of cost and net realisable value. Net realisable value is determined on an undiscounted basis.

Inventories which are not expected to be sold or converted to cash within 12 months are classified as non-current.

Key estimates and judgements

- Determining the net realisable value of raw materials and stores requires judgement regarding the level and composition of stock required for rendering of future services (and its applicability to items of Plant), so that value is realised through use.
- Determining the net realisable value of property development inventories requires estimates of future selling prices in the ordinary course of business less the estimated transaction costs and selling expenses.

C5. Property, plant and equipment

	2017		
In thousands of AUD	Land and buildings	Plant and equipment	Total
Carrying amount at 1 July 2016	-	115,218	**115,218**
Acquisitions	-	14,951	**14,951**
Disposals at net book value	-	(447)	**(447)**
Depreciation charge for the year	-	(20,420)	**(20,420)**
Impairment	-	(25,148)	**(25,148)**
Balance at 30 June 2017	**-**	**84,154**	**84,154**
Represented by:			
Cost	-	279,625	**279,625**
Accumulated depreciation/impairment	-	(195,471)	**(195,471)**

	2016		
In thousands of AUD	Land and buildings	Plant and equipment	Total
Carrying amount at 1 July 2015	322	143,859	144,181
Acquisitions	-	14,610	14,610
Disposals at net book value	(322)	(6,491)	(6,813)
Depreciation charge for the year	-	(21,560)	(21,560)
Impairment	-	(15,200)	(15,200)
Balance at 30 June 2016	-	115,218	115,218
Represented by:			
Cost	-	273,878	273,878
Accumulated depreciation/impairment	-	(158,660)	(158,660)

The Plant balance as at 30 June 2017 includes assets with a carrying amount of $38,470,000 that are subject to external finance arrangements (2016: $44,849,000).

The carrying value of Plant assets allocated to the Civil and Mining CGU was assessed for impairment at 30 June 2017, together with the CGU's other assets. Details of this assessment are disclosed at Note B5.

Recognition and measurement

Items of property, plant and equipment are stated at cost including expenditure that is directly attributable to the acquisition of the asset less accumulated depreciation and impairment losses. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group, with the carrying value of plant and equipment assets tested for indicators of impairment at each reporting date.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line or other basis if better reflective of the asset or its component parts' use, over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives used in the current and comparative periods are as follows:

- Plant and equipment 2 – 10 years
- Land Not depreciated

Key estimates and judgements

- The calculation of depreciation requires estimates of the useful lives and residual values of property, plant and equipment.
- Determining the recoverable amount of plant and equipment assets requires estimates of the amount and timing of future cash flows expected to be derived from the assets.

C6. Intangibles

In thousands of AUD	Goodwill
Cost	
Balance at 1 July 2015	27,698
Balance at 30 June 2016	27,698
Balance at 1 July 2016	**27,698**
Balance at 30 June 2017	**27,698**
Carrying amounts	
At 1 July 2015	27,698
At 30 June 2016	17,676
At 1 July 2016	**17,676**
At 30 June 2017	**17,676**

Impairment testing for cash-generating units containing goodwill

In thousands of AUD	2017	2016
Construction	**17,676**	17,676
Civil and Mining	**-**	-
	17,676	17,676

Recognition and measurement

Goodwill

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

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Goodwill is not amortised.

Allocation of goodwill to cash-generating units (CGUs)

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

Two independent CGUs have been identified by the Group against which asset impairment testing is conducted.

CGU impairment testing

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates, and involves a number of key estimates and judgements. Where the recoverable amount of a CGU, determined on a value in use basis, is less than the carrying amount, an impairment loss is recognised.

Calculations use cash flow projections over a period of five years and a terminal value calculated using an EBITDA multiple.

Key estimates and judgements

The calculation of the recoverable amounts of CGUs containing goodwill requires significant judgements and estimates on the key cash flow projections and discount rate assumptions, as well as consideration of other assets and liabilities required to deliver these forecasts.

Construction CGU

The key assumptions applied in the Construction CGU cash flow projections are:

	Key assumptions
Discount rate (pre-tax WACC)	14.29%
Terminal value earnings multiple	8 times EBITDA
EBITDA growth rate (FY17 to FY18)	90.47%
Normalised EBITDA growth rate (FY17 to FY18) *	(12.17)%

* *Adjusted for two loss-making contracts in FY17.*

The values assigned to key assumptions are based on past performance and future expectations, in the context of forecast economic conditions, calculated with reference to the specific requirements of the prevailing accounting rules and regulations. The pre-tax discount rate of 14.29% (2016: 15.14% pre-tax) is calculated with reference to industry benchmarks and the weighted average cost of capital metrics applicable to the CGU, and assumes no debt leveraging. This discount rate is considered appropriate given the current economic and market conditions and implications these may have on the future cash flows used in calculating the net present value of the CGU, as per the requirements of the accounting standards. The terminal value has been calculated by applying the earnings multiple to the projected year five cashflows.

Management does not believe that any reasonably possible change in any of these key assumptions would cause the carrying value of the Construction CGU to exceed its recoverable value.

C7. Trade and other payables

In thousands of AUD	2017	2016
Current		
Trade payables and accrued expenses	**17,554**	15,805
Subcontractor payable	**39,226**	41,314
Subcontractor accrual	**214,194**	222,286
Retentions payable	**22,574**	22,006
	293,548	301,411
Non-current		
Retentions payable	**11,756**	9,226

Recognition and measurement

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods or services or an assessment is made that costs have been incurred. Due to the typically short-term nature of these financial obligations, their carrying amounts are estimated to represent their fair values.

C8. Contingent liabilities

The Directors are of the opinion that provisions are not required in respect of the following items, as it is not probable that a future sacrifice of economic benefits will be required.

In thousands of AUD	2017	2016
Secured contingent liabilities at year end are:		
Bank guarantees	**70,977**	60,294
Unsecured contingent liabilities at year end are:		
Insurance bonds	**128,049**	119,588

Several claims have been brought against controlled entities in relation to both current and past contracts. The controlled entities are defending the claims and Directors are of the opinion that adequate provisions have been recognised as at 30 June 2017 relating to potential future outflows associated with those claims.

D – Capital structure

Included in this section are details of the Group's capital structure, which comprises both debt and equity capital. It also contains disclosures relating to the Group's capital risk management policies.

D1. Borrowings

In thousands of AUD	2017	2016
Current		
Secured equipment finance liabilities		
- Chattel mortgage liabilities	**5,960**	5,603
- Finance lease and hire purchase liabilities	**129**	1,633
	6,089	7,236
Non-current		
Secured equipment finance liabilities		
- Chattel mortgage liabilities	**5,256**	11,216
- Finance lease and hire purchase liabilities	**124**	-
	5,380	11,216

Recognition and measurement

Chattel mortgage borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Finance leases/hire purchase liabilities

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges on borrowings are charged directly to the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Capitalised leased assets are depreciated over their assessed estimated useful lives.

D2. Financing facilities

At 30 June 2017 and 2016, the Group had the following facilities.

	2017		
In thousands of AUD	Utilised	Unutilised	Facility limit available for utlisation
Bank guarantees	**70,977**	**96,744**	**167,721**
Insurance company bonding	**128,049**	**116,951**	**245,000**
Total bonding	**199,026**	**213,695**	**412,721**
Equipment finance	**11,469**	**10,000**	**21,469**

	2016		
In thousands of AUD	Utilised	Unutilised	Facility limit available for utlisation
Bank guarantees	60,294	59,754	120,048
Insurance company bonding	119,588	195,412	315,000
Total bonding	179,882	255,166	435,048
Equipment finance	18,452	18,143	36,595

Bonding

At 30 June 2017, the Group had $412.7M of bank guarantee and insurance company bond facilities to support its activities. $167.7M of these facilities are provided to the Group on a committed basis and $245M on an uncommitted basis. All facilities are subject to the specific terms and conditions contained in the relevant funding agreements.

A syndicate of lenders provides the Group's committed bank guarantee facilities on a secured basis. This facility was subject to refinance during the year, with the new syndicated bank guarantee facility due to mature in November 2020. The total facility limit of $170M is currently reduced by an agreed percentage of the value of outstanding bank guarantees issued by the fronting bank of the previous syndicate. The process of converting bank guarantees issued by the previous syndicate fronting bank for new syndicate bank guarantees is substantially completed at 30 June 2017.

The Group's uncommitted insurance bond facilities are provided by four insurance companies on an unsecured basis, and are subject to certain unsecured Group guarantees. The insurance bond facilities have varying maturity dates and are subject to annual reviews. Some of these facilities currently have the ability to be bank-fronted.

Equipment finance facilities

At 30 June 2017, the Group had $21M (2016: $37M) of equipment finance facilities provided by a number of financial institutions. These facilities are drawn against for the acquisition and general financing of plant & equipment assets utilised in the Civil & Mining business.

At 30 June 2017, the Group's largest equipment financier had security by way of specific charges over plant & equipment with a carrying value of $38M (2016: $41M).

The Group's equipment finance facilities are due to mature by no later than May 2019.

Covenants on financing facilities

The Group's bank guarantee facility agreement contains certain undertakings including obligations relating to financial covenants. This requires the Group to hold certain levels of assets and liabilities and to operate within certain financial ratios.

The main financial covenants which the Group is subject to relate to net current assets / liabilities, interest coverage, net debt to earnings before interest, tax, and depreciation and amortisation ratios, together with minimum cash balance and tangible net worth thresholds.

Assessment of performance against financial covenants is undertaken and reported to the Board on a regular basis. Reporting of financial covenants to the syndicated lenders occurs quarterly for the rolling 12 month periods to 31 March, 30 June, 30 September and 31 December. The Group was in compliance with all its financial covenants in throughout the Reporting Period.

Refinancing requirements

When facilities approach maturity, depending on the nature of the facility, capital position of the Group and strategic requirements, Management may seek to negotiate with existing and new financiers to extend the maturity date of those facilities, undertake to refinance the facilities, or repay them.

The Group's financial performance, financial position, and associated performance metrics, together with the economic and market conditions and general availability of credit, may influence the outcome of those negotiations.

D3. Commitments

a) Capital expenditure commitments

In thousands of AUD	2017	2016
Plant and equipment - contracted but not provided for and payable		
- Within one year	**778**	81

b) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2017	2016
Less than one year	**5,368**	5,096
Between one and five years	**8,994**	8,175
More than five years	**-**	-
	14,362	13,271

The Group leases office buildings under operating leases, which comprise the majority of the Group's operating lease commitments. The leases have varying termination dates up until 2022 (excluding renewal options). The Group also leases minor levels of Civil and Mining Plant, motor vehicles and computer software under operating lease which typically run from one to five years.

During the financial year ended 30 June 2017, $5,984,000 was recognised as an expense in the income statement in respect of operating leases (2016: $6,092,000), which mainly related to office building leases.

Recognition and measurement

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term.

c) Equipment finance commitments

Equipment finance liabilities of the Group, which include chattel mortgage and finance lease/hire purchase arrangements, are payable as follows:

	2017			2016		
In thousands of AUD	Minimum payments	Interest	Principal	Minimum payments	Interest	Principal
Less than one year	6,627	539	6,088	8,174	938	7,236
Between one and five years	5,535	154	5,381	11,893	677	11,216
	12,162	**693**	**11,469**	20,067	1,615	18,452

Under the terms of the equipment finance agreements, no contingent rents are payable.

D4. Shareholders equity

a) Issued capital

In thousands of shares	2017	2016
On issue at 1 July	**186,019**	189,258
Shares cancelled under buy-back arrangement	**-**	(3,642)
Shares issued upon vesting of performance rights	**37**	403
On issue at 30 June - fully paid	**186,056**	186,019

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at meetings of the Company.

b) Reserves

Equity benefits reserve

The equity benefits reserve is used to record the value of equity benefits, including share options and performance rights provided to employees as part of their remuneration.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investments in equity instruments, where an election has been made to measure the investment at fair value through other comprehensive income.

D5. Dividends

a) Ordinary shares

No final or interim dividends for the 2017 and 2016 financial years were declared or paid.

b) Franking credits

The franking account balance at 30 June 2017 is $41,000 (2016: $41,000).

E – Financial risk management

Included in this section are details of the Group's risk management disclosures relating to capital and financial risks.

E1. Capital risk management

As noted at section D of the Notes to the Consolidated Financial Statements, the capital structure of the Group consists of debt and equity. Management and the Board manage capital in a manner that attempts to facilitate optimum returns to shareholders, while ensuring Group entities continue to maintain a conservative capital model and levels of surplus liquidity required for execution of growth strategies. A capital management plan that assists in deriving the lowest cost of capital available, after taking into account market conditions, liquidity, aggregate project risks and future growth strategies, has therefore been adopted by the Group. Watpac's capital structure is regularly reviewed by the Board, and where the need arises, appropriate adjustments made to the capital management plan.

E2. Financial risk management

Overview

The Group has exposure to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

The Board has overall responsibility for the establishment and oversight of the Group's financial investments risk management framework. The Audit and Risk Committee, a committee of the Board, is responsible for assessing the appropriateness of the Group's risk management policies adopted by Management, and provides regular reports to the Board on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Group's activities.

The Audit and Risk Committee also oversees how management monitors compliance with risk management policies and procedures. The Managing Director, Chief Financial Officer and Group Risk and Compliance Manager assist the committee with this oversight responsibility. The Group Risk and Compliance Manager administers the Enterprise Risk Management Framework and internal audit program, and ensures compliance with the Group's Schedule of Delegated Authority. Regular and ad hoc reviews of risk management controls and procedures are undertaken by operational management in accordance with the protocols set out in various policy documents. The Group's Commercial Benchmarks set a framework against which contractual risks are assessed and certain delegated authority limits are established.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. Management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers where the group has an exposure above pre-agreed benchmarks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated Statement of Financial Position.

Cash and cash equivalents and term deposits

Cash and cash equivalents comprise cash at bank and in hand and at call deposits which are readily convertible to known amounts of cash and are subject to an insignificant change in value.

At 30 June 2017, the Group held cash and cash equivalents and cash deposits totalling $229,043,000 (2016: $251,456,000). This represents the maximum credit exposure on these assets. Cash and cash equivalents and cash deposits are currently held with bank and financial institution counterparties who are rated AA- to BBB+ based on Standard & Poor's long-term ratings.

Trade and other receivables

The Group's exposure to credit risk on trade and other receivables is dependent on the individual characteristics of each customer. Major new customers undergo a credit assessment process prior to a contractual agreement being entered into that binds the Group, in accordance with the Group Credit Risk policies and Commercial Benchmarks.

Any departures from the guidelines as stated in the Commercial Benchmarks must be authorised by Business Unit Leaders and Divisional General Managers and, if material, approved by the Managing Director and Chief Financial Officer. Failing agreement, the matter is referred to the Board.

Private sector construction projects are generally funded by third party financing and it is not until this is in place and sufficient evidence of funding provided to Watpac that the Group will accept the transaction credit risk. Mining project counterparties are assessed for credit worthiness through a review of the entities' current financial position, access to capital markets, and the economics of the underlying assets that they operate. Where necessary and available, credit risk insurance options are investigated and cover placed.

Credit risk is seen as a major risk to the Group and as such, significant time is spent on determining counterparties' ability to pay in accordance with their contractual obligations.

The Group's maximum exposure to credit risk arising from financial assets, comprising cash and cash equivalents, term deposits and receivables, excluding the value of any collateral or other security at Balance Date, is its carrying amount, net of any provisions for impairment, as disclosed in the Consolidated Statement of Financial Position and Notes to the Consolidated Financial Statements.

Financial guarantees

The Group's policy is to provide financial guarantees to wholly-owned subsidiaries that are listed in Note F1 as and when required to support the core operations of Construction and Civil and Mining operations. The Group also provides performance guarantees as part of its activities, details of which are provided in Note C8.

Exposure to credit risk

As noted above, the carrying amount of the Group's financial assets represents the maximum credit exposure.

The majority of the Group's trade and other receivables comprises receivables with terms of less than 12 months (typically 30 days) and therefore do not contain a significant financing component. Where the Group has an assessed exposure to credit risk, which results in the outcome of a transaction not being able to be estimated reliably, no revenue from the transaction is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income until such time as reliable estimation can be reasonably demonstrated.

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed operating conditions. Short term and rolling 12 month cash flows are regularly prepared and reviewed to ensure liquidity targets are forecast to be met at all times. Construction and Civil & Mining cash flows are monitored in line with the terms of the individual contracts.

The following tables detail the Group's contractual maturities for its financial liabilities, including cash flows attributable to both interest and principal debt repayment obligations (where applicable).

	2017					
In thousands of AUD	Effective interest rate	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
Borrowings	6.19%	11,469	12,162	6,627	5,535	-
Trade payables	-	17,554	17,544	17,544	-	-
Subcontractor payable & accrual	-	253,420	253,420	253,420	-	-
Retentions payable	-	34,330	34,330	22,574	11,756	-
		316,773	**317,456**	**300,165**	**17,291**	**-**

	2016					
In thousands of AUD	Effective interest rate	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years
Borrowings	6.27%	18,452	20,068	8,175	6,487	5,406
Trade payables	-	15,805	15,805	15,805	-	-
Subcontractor payable & accrual	-	263,600	263,600	263,600	-	-
Retentions payable	-	31,232	31,232	22,006	9,226	-
		329,089	330,705	309,586	15,713	5,406

The Group is currently in a net cash position and maintains a conservative approach to liquidity management.

c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management at Watpac is to manage and control market risk exposures within acceptable parameters.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates currently only affects cash on deposit. As all debt obligations have a fixed interest rate they are not subject to interest rate risks. The Group's policy with respect to controlling interest rate risk is to ensure regular review of the current and forecast total cash positions and assess the impact adverse changes in interest rates have on finance income and expenses. Consideration is given to:

- renewals/extension of existing positions; and
- alternative products and investment options.

The current low interest rate environment and differential between rate yield on cash holdings versus the Group's weighted average cost of capital has been a major factor when assessing capital management initiatives over recent years. This is particularly relevant given the Group's low levels of gearing and forecast increase in cash over the near term from operating earnings, sale of property assets and movements in working capital.

At Balance Date, the Group had the following fixed and variable rate financial assets and liabilities:

In thousands of AUD	2017	2016
Fixed rate instruments		
Financial assets (i)	**105,051**	122,105
Financial liabilities	**(11,469)**	(18,452)
	93,582	103,653
Variable rate instruments		
Financial assets	**123,992**	129,351
Financial liabilities	**-**	-
	123,992	129,351

(i) Fixed rate financial assets represent cash in investment accounts and term deposits which have varying maturity dates (not exceeding 9 months).

Sensitivity analysis for variable rate instruments

If interest rates had been 50 basis points lower or higher at reporting date and all other variables were held constant, the Group's profit from net variable rate instruments would have decreased/increased by $620,000 (2016: $646,000).

Foreign currency risk

Foreign currency risk has been present in the Group's Civil and Mining operations in previous years, arising as a consequence of the Group sourcing certain equipment from overseas. This resulted in the Group having exposure to foreign currency denominated input costs. Only minimal foreign currency purchases are currently made in the Civil and Mining business.

The level of overseas procurement forming part of the Group's Construction businesses has increased in recent years. While not currently representing a material risk to the Group, if converted, certain new projects may include foreign currency risk, mainly USD and CNY. The Group plans to treat this risk through various hedging strategies, where appropriate, including the use of hedging instruments that accord with the Group's risk management policies.

The Group hedges its foreign currency exposures where it is deemed appropriate and there is an underlying hedged item. All foreign currency hedge transactions are undertaken in accordance with the Group's Financial Risk Management and Hedging Policy and Securities Trading Policy.

E3. Financial instrument fair values

At 30 June 2017 and 30 June 2016, the net fair value of the Group's financial instruments approximates their carrying values. The following methods and assumptions are used to determine the net fair value of each class of financial instrument.

Cash

The carrying amount approximates the fair value because of their short term to maturity.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date and any expected credit losses, where appropriate.

Trade and other payables

Net fair value is based on the expected future cash outflows required to settle liabilities. As such carrying value approximates net fair value.

Borrowings

The net fair value of borrowings is calculated as the discounted value of expected future cash flows.

Recognition and measurement

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset or it does not expect cash flows to occur. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Equity instruments are recognised initially at fair value plus any directly attributable transaction costs. Unless the equity instrument is held for trading or contingent consideration, an irrevocable election is made at initial recognition to designate any subsequent fair value changes either in the income statement, or other comprehensive income.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to sell them on a net basis or to realise the asset and settle the liability simultaneously.

F – Group structure

Included in this section are details of Watpac's group structure, and includes, Watpac Limited disclosures and information relevant to the Watpac Deed of Cross Guarantee.

F1. Controlled entities

The controlled entities of the Group listed below, all of which are incorporated in Australia, were wholly owned during the current year and prior year, unless otherwise stated:

	Ownership interest	
	2017	2016
Ahden Engineering (Aust) Pty Ltd	**100%**	100%
Watpac Specialty Services Pty Ltd	**100%**	100%
Watdev Waterloo Pty Ltd	**100%**	100%
Watdev4 Pty Ltd	**100%**	100%
Watdev5 Pty Ltd	**100%**	100%
Watpac BRC Pty Ltd	**-**	100%
Watdev Boyds Bay Pty Ltd	**-**	100%
Watpac Finance Pty Ltd	**100%**	100%
Watpac Construction (SA) Pty Ltd	**100%**	100%
Watpac Corporate Services Pty Ltd	**100%**	100%
Watpac Asia Pty Ltd	**-**	100%
Watpac Construction Pty Ltd	**100%**	100%
Watpac Developments Pty Ltd	**100%**	100%
Watpac Construction (NSW) Pty Ltd	**100%**	100%
Watpac Construction (Vic) Pty Ltd	**100%**	100%
Watpac Civil and Mining (Vic) Pty Ltd	**100%**	100%
JMS Civil and Mining Pty Ltd	**100%**	100%
Watpac Mining Pty Ltd	**-**	100%
Watpac Civil & Mining Pty Ltd	**100%**	100%
JJ McDonald & Sons Sub-Holdings Pty Ltd	**100%**	100%
JMS Plant Pty Ltd	**100%**	100%
Watpac Construction (ACT) Pty Ltd	**100%**	100%
Watpac Super Pty Ltd	**100%**	100%
960 Gympie Road Pty Ltd	**-**	100%
Watpac Share Plans Pty Ltd	**100%**	100%

The following wholly-owned subsidiaries of Watpac Limited, were deregistered during the reporting period:

- Watpac BRC Pty Ltd
- Watdev Boyds Bay Pty Ltd
- Watpac Asia Pty Ltd
- Watpac Mining Pty Ltd
- 960 Gympie Road Pty Ltd

F2. Parent entity disclosures

The parent entity of the Group is Watpac Limited.

In thousands of AUD	2017	2016
Result of the parent entity		
Net profit/(loss) for the period	**(36,558)**	4,590
Other comprehensive income	**-**	-
Total comprehensive income/(loss) for the period	**(36,558)**	4,590
Financial position of the parent entity at year end		
Current assets	**9**	712
Total assets	**56,519**	93,360
Current liabilities	**265**	11
Total liabilities	**353**	96
Total equity of the parent entity comprising of:		
Share capital	**235,563**	235,563
Reserves	**4,221**	4,761
Retained earnings	**(183,618)**	(147,060)
Total equity	**56,166**	93,264

Parent entity guarantees

As highlighted in Note E2, 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.

F3. Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (effective 29 September 2016), relief is granted to the wholly-owned controlled entities listed below from the *Corporations Act 2001 (**Act**)* requirements for preparation, audit and lodgement of financial reports. It is a condition of the Instrument that the Company and each of the controlled entities enter into a Deed of Cross Guarantee.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debts in the event of winding up of any of the controlled entities under certain provisions of the Act. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event the Company is wound up.

The controlled entities subject to the Deed are:

- Watpac Specialty Services Pty Ltd
- Watpac Construction Pty Ltd
- Watpac Developments Pty Ltd
- Watpac Corporate Services Pty Ltd
- Watpac Construction (NSW) Pty Ltd
- Watpac Construction (Vic) Pty Ltd
- Watpac Civil & Mining (Vic) Pty Ltd
- JMS Civil & Mining Pty Ltd
- JJ McDonald & Sons Sub-Holdings Pty Ltd
- Watpac Civil & Mining Pty Ltd
- Watpac Construction (SA) Pty Ltd
- Watpac Finance Pty Ltd

A consolidated summarised income and retained profits statement and statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2017 and 30 June 2016 is set out as follows:

Summarised statement of income and retained profits

In thousands of AUD	2017	2016
Net Profit/(loss) before tax	**(35,171)**	(16,638)
Income tax benefit/(expense)	**1,285**	7,290
Net Profit/(loss) after tax	**(33,886)**	(9,348)
Retained earnings at beginning of year	**(12,501)**	(3,153)
Dividends recognised during the year	**-**	-
Retained earnings at end of year	**(46,387)**	(12,501)

Statement of financial position

In thousands of AUD	2017	2016
Cash and cash equivalents	**94,916**	129,351
Cash deposits	**134,127**	122,105
Trade and other receivables	**157,352**	141,831
Inventories – stock on hand	**10,352**	14,377
Inventories – property development assets	**1,321**	2,825
Total current assets	**398,068**	410,489
Inventories – property development assets	**3,565**	9,013
Property, plant and equipment	**84,154**	115,218
Intangibles	**17,676**	17,676
Other investments	**-**	307
Deferred tax assets	**23,594**	21,520
Total non-current assets	**128,989**	163,734
Total assets	**527,057**	574,223
Trade and other payables	**293,527**	301,310
Borrowings	**6,089**	7,236
Employee benefits	**14,004**	14,776
Provisions	**49**	111
Total current liabilities	**313,669**	323,433
Trade and other payables	**11,756**	9,226
Borrowings	**5,380**	11,216
Employee benefits	**3,739**	3,807
Provisions	**874**	940
Total non-current liabilities	**21,749**	25,189
Total liabilities	**335,418**	348,622
Net assets	**191,639**	225,601
Issued capital	**230,519**	230,519
Reserves	**7,507**	7,583
Retained earnings	**(46,387)**	(12,501)
Total equity	**191,639**	225,601

G – Other

Included in this section are details of other required disclosures relating to the Group including employee and auditors remuneration, together with new and changes to accounting policies.

G1. Employee benefits

a) Employee benefits provision

In thousands of AUD	2017	2016
Current	**14,004**	14,776
Non-current	**3,739**	3,807
Total	**17,743**	18,583

Recognition and measurement

The employee benefits liability represents accrued annual leave and long services leave entitlements recognised in respect of employee's services up to the end of the Reporting Period. These liabilities are measured at the amounts expected to be paid when they are settled and include related on-costs.

Employee benefits that are not expected to be settled within 12 months of Balance Date are measured at the present value of the estimated future payments up to the reporting date plus related on costs. In determining the present value of future cash outflows, the market yield as at the reporting date on Australian corporate bonds, which have terms to maturity approximating the terms of the related liability, are used.

b) Employee benefits expense

In thousands of AUD	2017	2016
Wages and salaries	**136,498**	138,974
Other personnel expenses	**11,859**	11,061
Superannuation expense	**11,446**	11,787
Increase/(decrease) in liability for annual leave	**(481)**	490
Increase/(decrease) in liability for long service leave	**(358)**	(632)
Equity settled share based payment transactions	**466**	383
	159,430	162,063

Recognition and measurement

Employee benefit expenses arising in respect of the following categories are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a net basis:

- wages and salaries, non-monetary benefits, annual leave, long service leave, and other leave benefits; and
- other types of employee benefits.

G2. Key management personnel remuneration

The key management personnel compensation included in employee benefits expense (Note G1) is as follows:

In AUD	2017	2016
Short-term employee benefits	**3,398,679**	3,355,285
Post-employment benefits	**185,272**	195,503
Termination/retirement benefits	**1,365**	3,050
Share based payments	**313,587**	234,911
	3,898,903	3,788,749

Recognition and measurement

The Group's current Short Term Incentive Plan (**STIP**) and Long Term Incentive Plan (**LTIP**), and previously the Employee Share Option Plan, allow senior executives to acquire shares of the Company, subject to certain vesting conditions.

The fair value of such equity-settled share-based transactions are measured at fair value at grant date and amortised over the vesting period. The cost is recognised as an employee benefits expense with a corresponding increase in equity of the Group.

The amount recognised as an expense, from both performance rights granted or options issued, is adjusted to reflect the actual number of options/performance rights that vest except where, in the case of performance rights, they relate to non-market based measures. Expenses previously recognised are reversed when a performance right is forfeited within the vesting period.

Key estimates and judgements

The fair value of performance rights issued under the LTIP is measured by using Monte-Carlo simulation and discounted cash flow methodologies. The fair value of the options granted is measured taking into account the terms and conditions upon which the options were granted.

G3. Related party information

A number of Directors or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Certain entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of those transactions with Directors and key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related entities on an arm's length basis.

A number of these transactions related to superannuation contributions paid to self-managed superannuation fund entities, of which Directors or Director related parties are trustees thereof. Such payments are included within the post-employment benefits expense in Remuneration Report.

G4. Auditor's remuneration

In AUD	2017	2016
Auditors of the Company – KPMG Australia		
Audit services:		
- Audit and review of financial reports	**252,318**	224,490
- Subcontractor retention trust account review	**5,125**	-
Other services:		
- Employment services	**40,835**	35,033
	298,278	259,523

G5. New accounting policies

The accounting standards that have not been adopted early for the year ended 30 June 2017 but will be applicable to the Group in future reporting periods are detailed below:

- AASB 15 *Revenue from Contracts with Customers* (**AASB 15**) provides a new five step model for recognising revenue earned from a contract with a customer and will replace the existing AASB 118 *Revenue*, AASB 111 *Construction Contracts*, and various related interpretations. The core principal of AASB 15 is that an entity recognises revenue in accordance with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard becomes mandatory for the Group for the 30 June 2019 financial year. Early adoption is permitted, however the Group does not presently intend to adopt the standard before its effective date.

  During the financial year ended 30 June 2017, the Group has established a project team to assess the impacts of the new standard. As a first step, the project team has performed a high level diagnostic for construction revenue streams as these are assessed as likely being the most impacted by implementation of the new standard.

  Areas potentially resulting in a change to current revenue recognition treatment (the financial impact of which requires further analysis) include:

  - *Determination of performance obligations*

    The Group has to determine the performance obligations that exist under each contract. For example, contracts may contain multiple performance obligations in the form of staged deliveries or separate services of design and construct. The identification of performance obligations is necessary as the transaction price is subsequently allocated to it and revenue recognised as it is satisfied.

  - *Identification and determination of variable consideration*

    AASB 15 requires an entity to identify variable consideration and limit its inclusion in the transaction price based on any uncertainties which have not been resolved. Most construction contracts contain a form of variable consideration in the form of liquidated damages or other penalties.

  - *Treatment of contract modifications*

    It is not uncommon in the construction industry, for contracts to be modified during the contract's life. AASB 15 contains specific rules regarding the treatment of contract modifications.

  - *Treatment of costs*

    Under AASB 15 costs are expensed when a performance obligation is satisfied and control of the underlying asset is transferred to the customer. This may result in changes to the timing of cost (and therefore margin) recognition compared to treatment under the current accounting standards, with costs recognised based on the value of work completed. Recognition and measurement of contract losses may also be affected.

  A decision on transition has not yet been determined because the outcome of assessment activities and the resultant impact on revenue (if any) will invariably impact the transition method adopted. Watpac will provide further information in future financial reports.

- AASB 16 *Leases* will eliminate the distinction between on-balance sheet finance leases and off-balance sheet operating leases by mandating a single, on-balance sheet accounting model that is similar to current finance lease accounting. The new standard will become mandatory for the Group for the 30 June 2019 financial year. Refer Note D3b) for the value of the Group's current operating lease commitments.

G6. Changes in accounting policies

The accounting policies applied by the Group in these Consolidated Financial Statements are the same as those applied in its Consolidated Financial Statements as at and for the year ended 30 June 2016.

G7. Subsequent events

There has not arisen, since the end of the financial year, any item, transaction or event of a material and unusual nature that have significantly affected, or may significantly affect, the operations or state of affairs of the Group in future financial years.

Voting Rights – Ordinary Shares

Fully Paid Ordinary Shares - 1 vote for every 1 share

Distribution of holdings of fully paid ordinary shares as at 31 July 2017

Range	Holders
1 - 1,000	1,015
1,001 - 5,000	1,196
5,001 - 10,000	576
10,001 - 100,000	1,234
100,001 and over	105
Total	**4,126**

Holdings of less than a marketable parcel

At 31 July 2017 there were 872 holders of ordinary shares holding less than a marketable parcel.

The top 20 fully paid ordinary shareholders at 31 July 2017

Holder	No. of shares	Percentage
BESIX GROUP SA	51,553,318	27.71
CITICORP NOMINEES PTY LIMITED	24,455,831	13.14
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,007,388	9.14
J P MORGAN NOMINEES AUSTRALIA LIMITED	9,140,672	4.91
JOHN GOSS PROJECTS PTY LTD	7,016,532	3.77
ONE MANAGED INVT FUNDS LTD <SANDON CAPITAL INV LTD A/C>	3,026,167	1.63
BNP PARIBAS NOMS PTY LTD <DRP>	2,352,969	1.26
NATIONAL NOMINEES LIMITED	2,304,865	1.24
MR JOHN ROSTYN HOMEWOOD	1,800,000	0.97
BRAZIL FARMING PTY LTD	1,516,719	0.82
MS SANDRA KARIN THAMS	1,000,000	0.54
R LETTE	901,604	0.48
CVC LIMITED	850,000	0.46
PINECREST PTY LTD	643,597	0.35
MR GREGORY KENNETH WILSON + MS NICKI BOOKER	636,000	0.34
INVIA CUSTODIAN PTY LIMITED <CLEM JONES FOUNDATION A/C>	625,000	0.34
MR NEVILLE MORGAN + MRS JENNIFER GAYLE MORGAN <MORGAN SUPER FUND A/C>	600,000	0.32
MR MARK MC DONALD + MRS JUDI MC DONALD <M A & J L MCDONALD S/F A/C>	592,037	0.32
MR RUSSEL CRAIG THOMPSON + MRS BRONWYN LYNETTE THOMPSON <BANJ SUPER FUND A/C>	536,000	0.29
LYMAL PTY LTD	534,506	0.29
Total	**127,093,205**	**68.31**

The Company's register of substantial shareholders records the following information as at 31 July 2017

Holder	Fully paid ordinary shares	Percentage of total shares*
BESIX GROUP SA	50,182,247	27.04
COMMONWEALTH BANK OF AUSTRALIA AND ITS SUBSIDIARIES	13,680,761	7.35
ADAM SMITH ASSET MANAGEMENT PTY LIMITED	10,928,811	5.87

* *As at time of substantial shareholder notice.*

Issued Shares

Issued capital of the Company as at 31 July 2017	186,055,907

Corporate Directory

Non-executive Directors

R B McGruther	Chair, Non-executive Director
P L Watson	Deputy Chair, Non-executive Director
J C M C Beerlandt	Non-executive Director
G J Dixon	Non-executive Director
L C Evans	Non-executive Director
B K Morris	Non-executive Director
C J Schreurs	Non-executive Director

Alternate Director

G Aelbrecht — Alternate for J C M C Beerlandt

Company Secretary

M A Baker

Website

www.watpac.com.au

Registered Office

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Share Registry Office

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West End Qld 4101

Tel 1300 850 505

Auditor

KPMG
Brisbane Qld

Managing Director

M G Monro

Chief Financial Officer

M A Baker

Corporate Contacts

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ABN 98 010 562 562

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Civil & Mining

General Manager Mining & Civil
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Nedlands WA 6009

Tel 08 6272 7555
Fax 08 6389 0176

Corporate Governance Statement

A copy of the 2017 Corporate Governance Statement can be found in the Corporate Governance section of the Watpac website.