

# ASX RELEASE

13 November 2018

The Manager  
Company Announcements Office  
ASX Limited  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir / Madam

**Watpac Limited's Chair, Managing Director and BESIX CEO's Addresses at 2018 Annual General Meeting**

In accordance with Listing Rule 3.13.3, please find attached a copy of the Chair, Managing Director and BESIX CEO's addresses to be given at the 2018 Watpac Limited Annual General Meeting, which will be held today at 10:00am (Brisbane time).

Yours sincerely  
WATPAC LIMITED



Mark Baker  
COMPANY SECRETARY

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# CHAIR'S ADDRESS

## **Watpac Limited** **Annual General Meeting – 13 November 2018**

The 2018 Financial Year has been one of positioning for the Group, as we were presented with a number of challenges but also a number of opportunities, all while continuing to deliver on our commitment to provide quality project outcomes for our clients.

It has been a year that not only reinforced our platform in several markets but also saw the Group explore its relationship with major shareholder BESIX as they looked to increase their majority holding in Watpac.

We have remained steadfast in our commitment to position our businesses within the sectors that align with our core capabilities and provide the long-term opportunities that drive greater profitability, innovation and in turn value for our shareholders.

It is therefore pleasing to be able to report on the progress we have made in regard to our strategic priorities, in particular the progress of the Construction business.

The Group's construction activities contributed a substantially improved pre-tax profit of \$20.6 million for the reporting period, representing a 75 per cent improvement on prior year earnings despite the legacy of several historical projects which are now pleasingly behind us.

The encouraging financial performance of the Construction business has also been supported by nearly \$1.4 billion in new building work secured across a number of sectors, demonstrating the Group's concerted efforts to improve the quality of its workbook nationally.

Despite improved earnings from the Construction business, the consolidated underlying result for the 2018 Financial Year was impacted by a reduced operating contribution from the Civil & Mining business.

As we have reported previously, this business has faced a number of challenges as several large mining contracts reached completion and no major opportunities were converted. As such, after adjusting for an overhead restructuring provision and impairment charges the Civil & Mining business recorded a statutory pre-tax loss of \$49.6 million.

While this loss, which impacted the Group's overall result, is not satisfactory nor excusable we are making headway in realising our options for rationalisation and divestment of surplus assets within the Civil and Mining business following a review of its operations. To a large extent the statutory adjustments recognised in FY18 have arisen as a consequence of these circumstances.

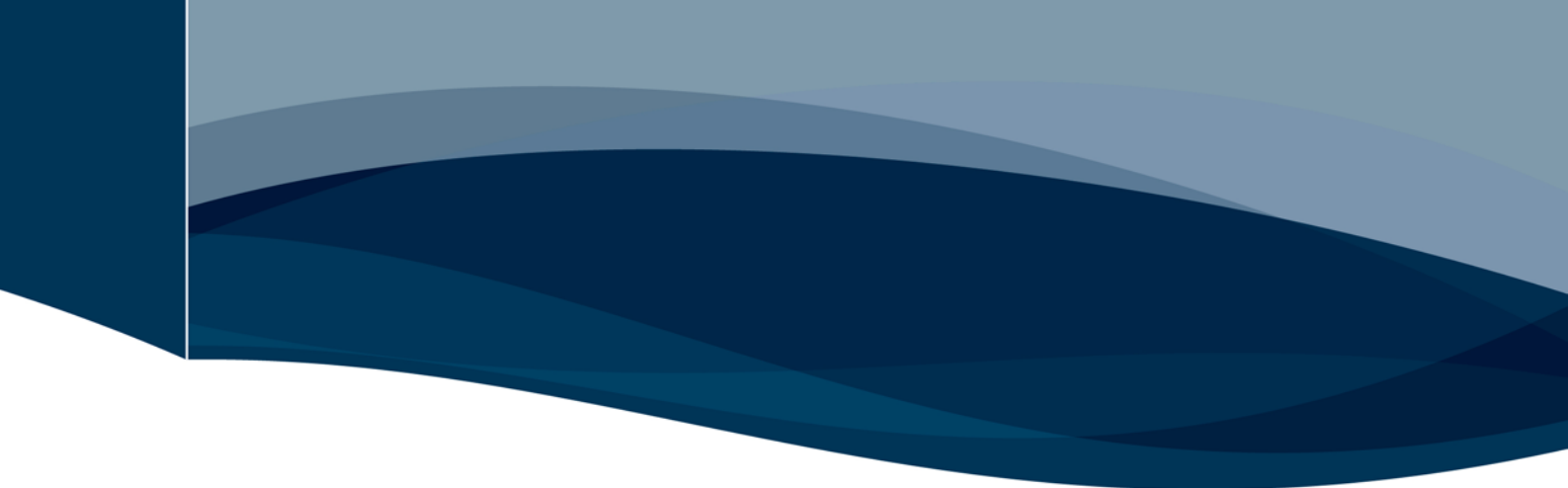
Shareholders, while this result has again been one that has not met your expectations, the Group is in a strong position with our construction sector diversification strategy resulting in greater conversion success as we undertake more complex work.

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Our resolve to improve the quality of the Construction workbook nationally has resulted in a ~\$400 million increase to work-in-hand at balance date. Our work-in-hand for the Construction business has been the strongest in quite some time and as Martin will expand on shortly, represents the continued execution of our targeted sector strategy and active tempering of residential projects.

The Board and Senior Management team do believe the Construction business's targeted work winning strategy will continue to bring results and build on its success in FY18.

We continue to see strong market conditions and improved public sector investment in New South Wales and Victoria, in addition to ongoing growth across the Education, Health, Aged Care and Defence spaces nationally.

The diverse nature of these sectors aligns with the Group's specialised capabilities and bespoke design management expertise, ensuring we realise our ultimate objective of a workbook that is well-balanced and effective.

Consistent with the revised approach for Civil & Mining, civil infrastructure and rehabilitation projects underpinned this business during the FY18 reporting period. Disappointingly however tender conversions for the business remained challenging despite the efforts of the team on the ground.

While the 2018 financial year has been challenging and failed in its expectations we have seen opportunity and progress.

The Group has refined its position in its chosen markets and further developed its strategic future which includes targeting more sophisticated construction projects and a stronger relationship with BESIX.

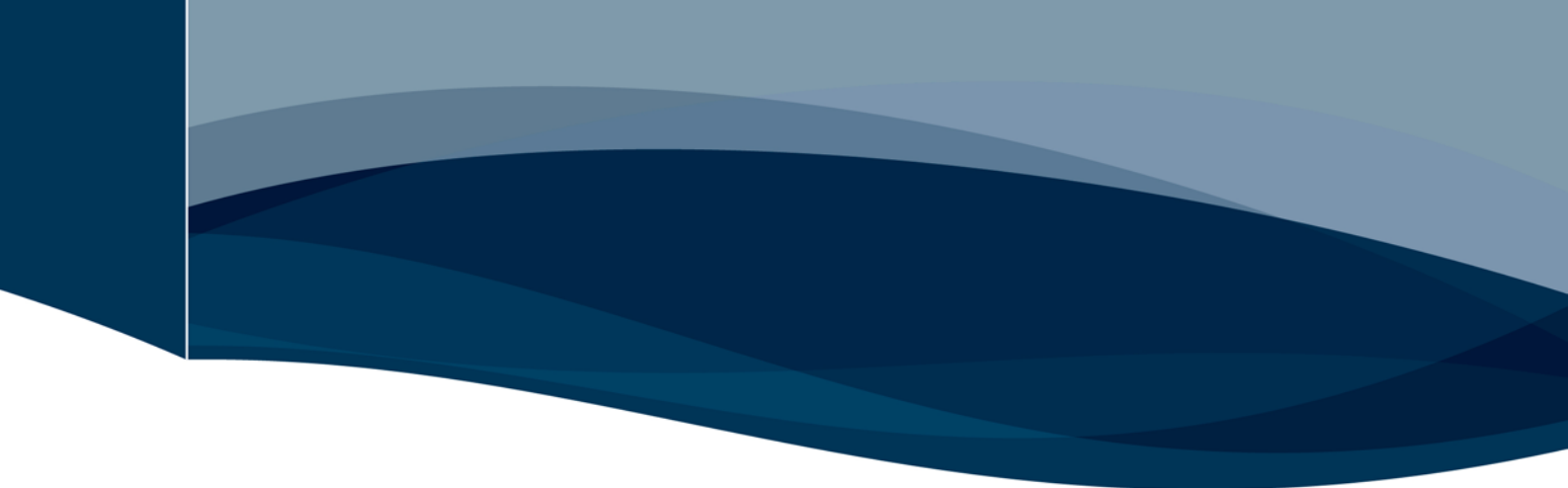
As you are aware, in February the Independent Board Committee supported BESIX in its proposal to increase its shareholding in the Group via a scheme of arrangement as it believed this stronger relationship with BESIX would provide a range of opportunities for Watpac including access to new sectors, an enhanced financial platform and growth that builds on BESIX's extensive international contracting experience and expertise.

While the resolution put to shareholders ultimately did not pass, the prospect for a much closer alignment has since evolved. I am pleased to report that BESIX's off-market takeover offer has been well received and they have already reached a position of control. As at close of business yesterday, BESIX's ownership interest in Watpac was 51.45%, with a minimum further period of approximately three weeks left of the Offer period.

The Bid Implementation Agreement negotiated by the Independent Board Committee with BESIX sets out our joint obligations and while I don't propose to go into detail here, I am happy to take questions later.

I do believe this is an exciting moment for Watpac and one which will bring a prosperous future for the Group.

The Group's fiscal health is strong, with \$238 million in cash and term deposits at financial year-end. The Group's substantial level of cash and liquidity is under constant review by Management and the Board, and opportunities for additional capital management will continue to be assessed in the context of the Group's strategy.



Our financial capacity and capabilities provide a strong platform for undertaking projects that require a demonstration of our financial strength. As social infrastructure demands increase due to population growth and the largest aging generation of our time, our ability to participate in the delivery of PPPs is paramount to the Group's ongoing success.

The processes, capabilities and financial platform are in place for this to be achieved and over the course of the coming year the Board and Senior Management will be focused on enhancing the Group's position in key sectors and exploring larger PPP opportunities and providing selective finance participation.

The Board is also committed to maximising and preserving value within the Civil & Mining business, and while there has been some improvement in the resources sector in Western Australia, we are cognisant of the long-term sustainability this business requires to ensure earnings aren't impacted.

Watpac has recently been approached by several parties expressing an interest in acquiring the Western Australian Civil & Mining business. While we are continuing to operate in line with the strategic parameters arising from the recently completed review process, one of these options, which has an assessed potential transaction value broadly in line with the current written down value of this business' assets, is concurrently under evaluation by the Board. Given the conditionality of the proposal, however, it is not appropriate for me to elaborate any further at this time. While this type of transaction may give rise to Watpac exiting its presence in Western Australia, some civil work will continue to be completed as part of the Group's Construction operations and there remains opportunities for this to be expanded in the future.

Before I hand over to Martin I would like to touch on a number of changes we have seen at Board level recently including the retirement of Bronwyn Morris in September 2018.

Bronwyn joined Watpac in February 2015 and over the course of her time with the Board she served as Chair of the Audit and Risk Committee and as a member of the Independent Board Committee.

Her financial background, and risk management and governance experience, has been of great value to the Group and we appreciate her contribution.

I would also like to thank the Board who continue to provide their expertise and skills to support the Group through challenging times.

To the Management team and Watpac employees, we thank you for your efforts and commitment to delivering outstanding projects for our clients. Watpac's success is founded on the capabilities of our people and we appreciate their support in performing their roles safely and effectively.

Finally to our shareholders, thank you for your ongoing support. Despite the challenges we have faced across the year, we have seen progress in our strategy and a strong foundation to continue to grow our place and value in the market.

The Group is in a strong position for future successes.

# BESIX GROUP CEO'S ADDRESS

## **Watpac Limited Annual General Meeting – 13 November 2018**

Dear Watpac Shareholders, ladies and gentlemen, I thank you all for being here today.

Although the takeover bid is still on foot, BESIX Group has already reached the important milestone of achieving a greater than 50% controlling interest in Watpac Limited.

In that respect, on behalf of BESIX Group and its 15,000 employees, I want to warmly thank all Shareholders who have already accepted our offer and have contributed to making BESIX Group Watpac's majority shareholder.

I also want to express a special thanks to the Chairman, Peter Watson, and the other Independent Directors Linda Evans and Garrett Dixon for their ongoing confidence and support.

BESIX Group would not have sought to acquire control had we not been convinced that, despite disappointing performance on recent key projects, particularly in the mining business, Watpac's industrial story and fundamentals were strong. We have great respect for what Watpac has achieved in Australia in the past few decades, including for the resilience when the business presented numerous challenges. Watpac has accumulated great expertise and established a respected brand name. Credit for that goes to the staff members, the management and the shareholders.

I can assure you that BESIX Group, as majority shareholder, will be worthy of it.

Ladies and Gentlemen, you are present today because you care about Watpac's future. So does BESIX Group.

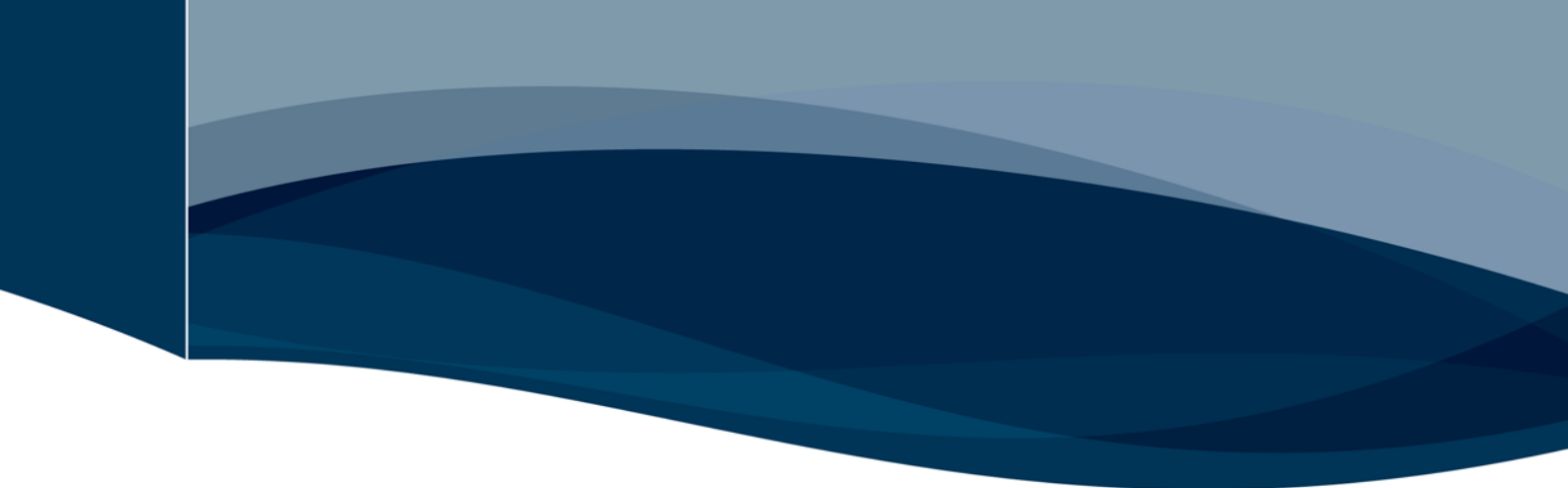
Let's not shy away from the fact that Watpac has accounted for disappointing results in recent years. Certain projects have encountered significant setbacks and the Civil & Mining business has not always been successful. But let's also embrace the positive opportunities that lie ahead.

By acquiring a majority stake, the objective of BESIX is to strengthen and expand Watpac's activities in Australia.

In this regard, I stand behind BESIX's earlier commitments, as set out in our Bidder's Statement:

- to seek to grow Watpac's earnings,
- to enhance the company's operational capabilities and competitiveness,
- to diversify the business, and
- to maintain its Australian identity.

In order to bring this to life, Watpac will now have access to BESIX's broader service offering, international experience and extensive innovation platform. BESIX Group will also put its financial capabilities behind the Watpac brand.



Once the takeover bid is closed, it is our intention to include Watpac into BESIX's strategy in a respectful and effective manner. The following months will be devoted to working with the Watpac Senior Management to develop together the various opportunities and implement the strategies mentioned in the transaction documentation.

In the meantime, it is business as usual: Watpac's order book is looking steady and I have been pleased to see we have won some interesting contracts recently. A strong delivery of these projects and ongoing tenders remains a key priority all the same.

Ladies and Gentlemen, today, Watpac enters an exciting new chapter.

It will be necessary to continue the hard work, but BESIX is convinced that by joining forces with Watpac, results will improve. We can be optimistic about building a platform that is once again a successful and profitable company.

I count on all stakeholders to contribute to it successfully, as you can count on my support and that of the Board and Management of BESIX Group.

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# MANAGING DIRECTOR'S ADDRESS

## **Watpac Limited Annual General Meeting – 13 November 2018**

Over the past several years Watpac has enjoyed a number of project successes, but unfortunately they have been adversely impacted by under-performance on several key projects and prolonged uncertainty around the future of the Mining Services Business.

Both issues have severely impeded our results over the past three reporting periods and overshadowed a lot of the hard work and determined focus by the Board and Management to return the Group to profitability and ensure the strategic platform we have created for ourselves comprehensively delivers better results into the future.

I stand before you today taking full responsibility for those things that have not gone well, and with genuine pride for the things that have.

Our determined focus on playing to our strengths in sectors such as health, education, secure environments, specialist, and Defence work has delivered well in excess of \$1 billion of high-quality contract wins which, when delivered with the professionalism we know our teams are acutely capable of, will deliver improved profitability this year and beyond.

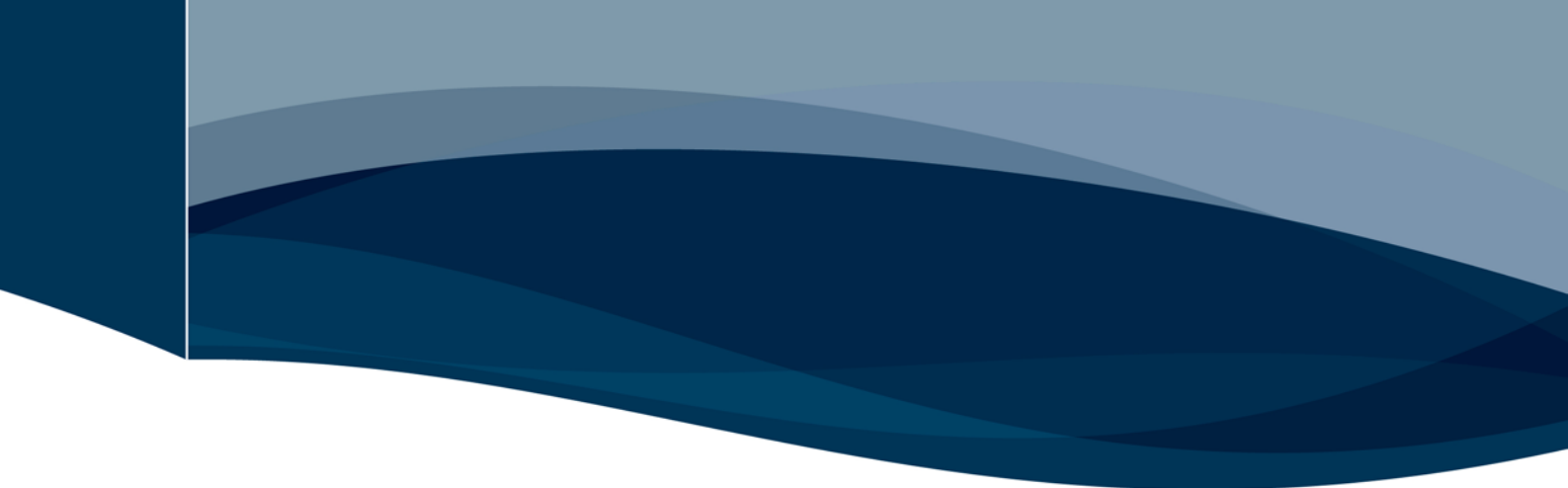
We operate today with near-record levels of work-in-hand, and as importantly, with that work-in-hand being of a depth of quality and appropriate diversity such that I consider it to be the best platform we have created for ourselves in many years.

### **Construction**

Following a subdued performance in the 2017 Financial Year, the Group's Construction business contributed a substantially improved pre-tax segment profit in the 2018 Financial Year of \$20.6 million – a 75 per cent improvement on the prior year.

This improvement in financial performance was delivered despite the negative impact from several historical projects which were adversely affected by prolonged cost escalation pressures in prior periods. Pleasingly this is now behind us and the execution of our strategy to better diversify our workbook targeting specific markets has been fruitful and improved the quality of our national project portfolio.

Almost \$1.4 billion in new building work was secured in the 2018 financial year demonstrating Watpac's strong reputation for project excellence and our high standing in the Australian contracting landscape.



We are committed to selecting and converting projects where we can make a difference, and enhance value for all project stakeholders. Pleasingly the Group has recently been awarded a number of projects that demonstrate our project execution capabilities and on which we have great ability to capture this enhanced value.

The contracts awarded during the reporting period and post year end include:

In Queensland:

- Stage 1 of the two-stage \$170 million Rheinmetall Defence Australia Military Vehicle Centre of Excellence at Ipswich that I will be launching with the responsible Minister later this week.
- Stage 2 of the quarter of a billion dollar North Queensland Stadium in Townsville, a project which continues Watpac's success in delivering world class sporting facilities; and
- the \$74 million Roma Hospital Redevelopment in regional Queensland.

In New South Wales the business was awarded:

- the \$126 million contract for the Mid North Coast Correctional Centre at Kempsey; and
- Stage 2 construction works on the Hornsby Ku-ring-gai Hospital and Medical Imaging building project for Health Infrastructure which has a total development value of \$200 million dollars.

The Group was also awarded the Early Contractor Involvement contract by Poly Australia for its first commercial office tower development in Sydney.

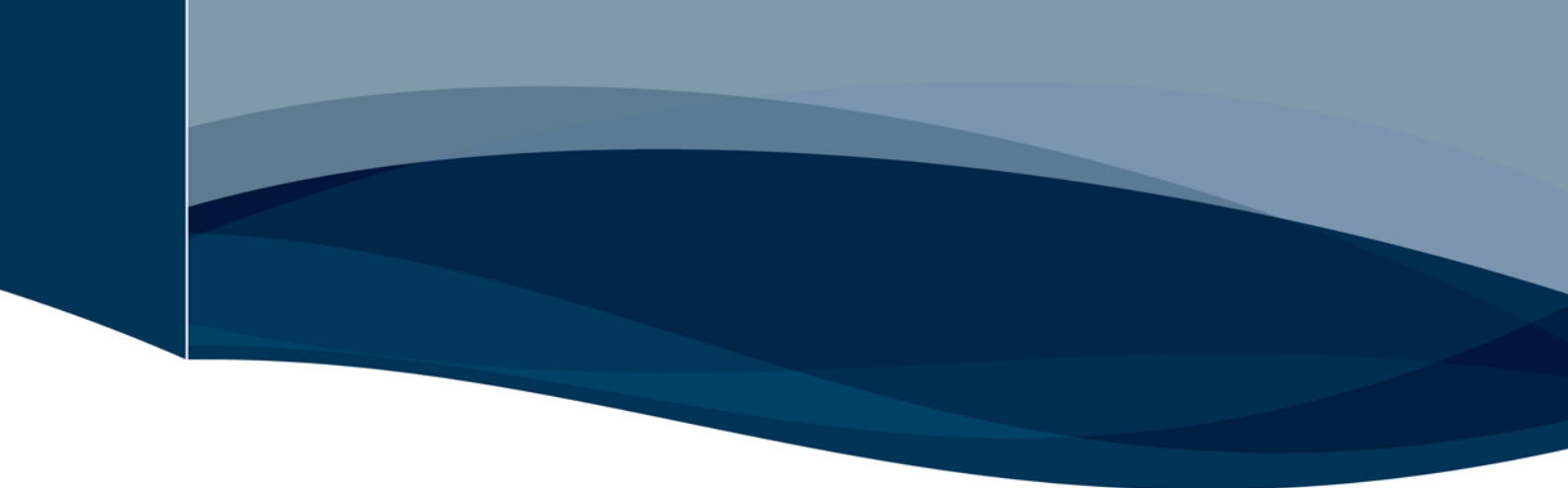
Work volumes in Victoria have also improved as public and private sector investment increased with the Group awarded the \$49 million Bouverie Street Student Accommodation project and the \$110 million Deakin Law School building in Melbourne. The team was also awarded a \$75 million contract to deliver a secure data centre.

Our South Australian business unit's market share has continued to grow with the award of the construction contract which forms part of the \$82 million Eight South Esplanade residential development at Glenelg, and the expansion of the existing Adelaide Airport Terminal – a significant portion of Adelaide Airport Limited's \$165 million upgrade programme. This is the second major project the Group will deliver for Adelaide Airport Limited and one that we are delighted to be a part of.

Watpac was also successfully appointed to deliver the \$120 million multi-site Department of Defence Explosive Ordnance Logistics Reform Program to be delivered across various locations in New South Wales and Victoria. This is a great example of the Group's capabilities in delivering national projects at multiple locations with highly skilled people able to meet project-specific requirements, no matter the location.

As Peter mentioned earlier social infrastructure projects remain an integral part of our workbook and will continue to do so in the future. Sectors such as Health, Aged Care and Education make up a large portion of projects currently in progress, the largest of which being the Herston Quarter Redevelopment project here in Brisbane.





This circa \$400 million PPP project is now gathering momentum following the demolition of the old Royal Children's Hospital and Surgical Building. Significant progress is being made on what will be the first building for this major health initiative.

Work is also progressing well on the Casey Hospital expansion project in Victoria which will provide an additional 13,000 square metres to the existing hospital.

The NSW Forensic Pathology and Coroner's Court in Sydney has also made significant progress over the year with the project on track for completion in the coming months. This is an exceptional facility and one we are incredibly proud to be delivering.

Our portfolio of Aged Care projects remains strong with Melbourne's \$61 million Albert Road Retirement Community and the \$73 million Jewish Care Senior Living precinct well underway. Both luxury communities are an example of the evolution the sector is experiencing with the popularity of inner city retirement lifestyles.

In the education space, the delivery of Sydney's Arthur Phillip High School and Parramatta Public School projects continue. These high-rise and multi-storey school buildings are the first of their kind being delivered for the New South Wales Government.

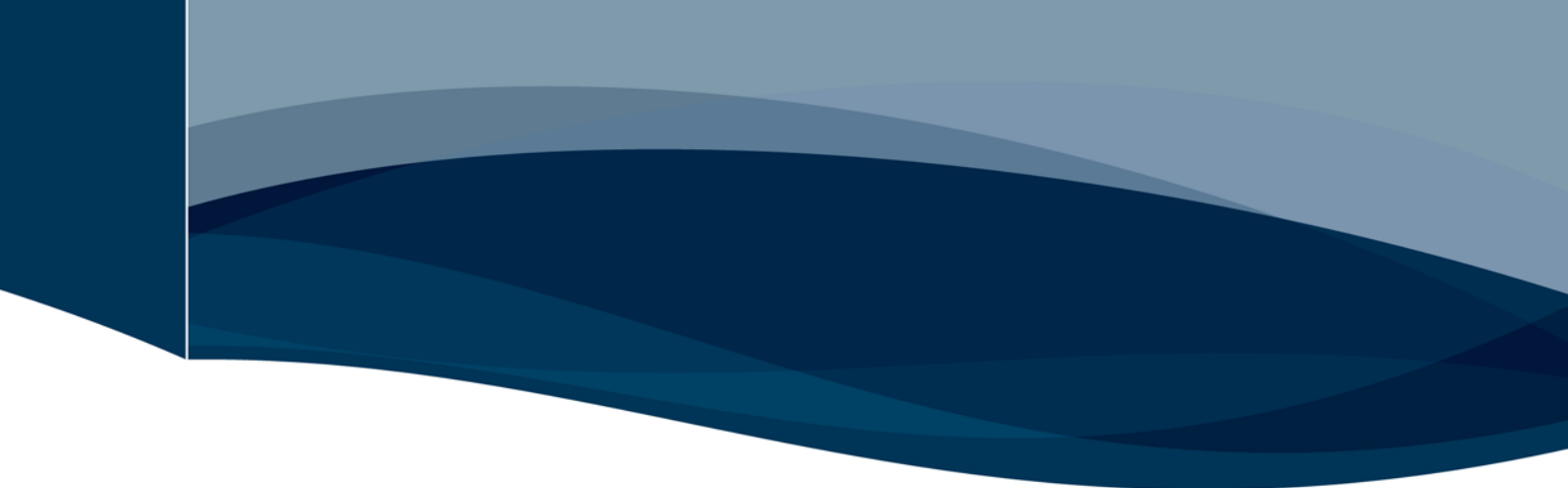
When complete, the state-of-the-art high-rise education project will accommodate up to 2,000 students, including a new 1,000-student multi-storey facility for Parramatta Public School adjacent to the new high-rise secondary school.

The \$350 million Queensland Schools PPP – a mainstay of our Education portfolio since 2013, will soon reach completion with the handover of the final school at Springfield West. This is the last of 10 schools Watpac has delivered for the Queensland Government as part of the Plenary Schools Consortium. From multi-purpose halls to administration buildings and inclusive learning spaces, these South East Queensland schools have helped shape some of the region's fastest growing communities, and we are delighted to have delivered this important piece of social infrastructure.

The second of our Education PPPs – the \$300 million Victorian New Schools project, also reached completion during FY18 with the final tranche of the 15 schools handed over in January this year.

Delivered for the Victorian State Government as part of the Learning Communities Victoria consortium, this multi-site project saw Watpac deliver 15 schools within a two year period - an outstanding achievement for the team. Their hard work was acknowledged in recent months with two schools recognised at the 2018 Learning Environments Australasia Awards and the 2018 Victorian School Design Awards.

Work continues on our extensive workbook of commercial, hotel and residential tower projects, including the \$129 million York & George mixed-used tower in Sydney, the \$188 million Mary Lane precinct in Brisbane and the \$47 million Union Tower in Melbourne's Central Business District.



These challenging inner city projects have come to life in the last 12 months with all soon to be completed. The hotel portion of Brisbane's Mary Lane – The Westin, officially opened last week and is an exceptional example of the capabilities of our people.

The construction of the \$250 million North Queensland Stadium in Townsville is now well underway with the superstructure taking shape. Our focus for this project has been not only on building a world-class 25,000 seat stadium, but one of opportunity for local businesses and the community to be part of the stadium's construction journey. So it's pleasing to be able to report that 83 per cent of trade packages let to date are to local subcontractors and suppliers.

We pride ourselves on using local content wherever possible and take our responsibilities in this regard very seriously.

Finally, before I provide an update on Civil & Mining I would like to take a moment to mention the ANSTO Mo-99 Nuclear Medicine Facility. As many of you would be aware this highly technical project was not without its problems and posed many challenges in previous financial years.

As such it is pleasing to report that the facility was this month named Best Industrial Building at the Master Builders NSW Excellence in Construction Awards. It is a significant win for the team given the technical nature of the project, and one I believe is well deserved.

## **Civil & Mining**

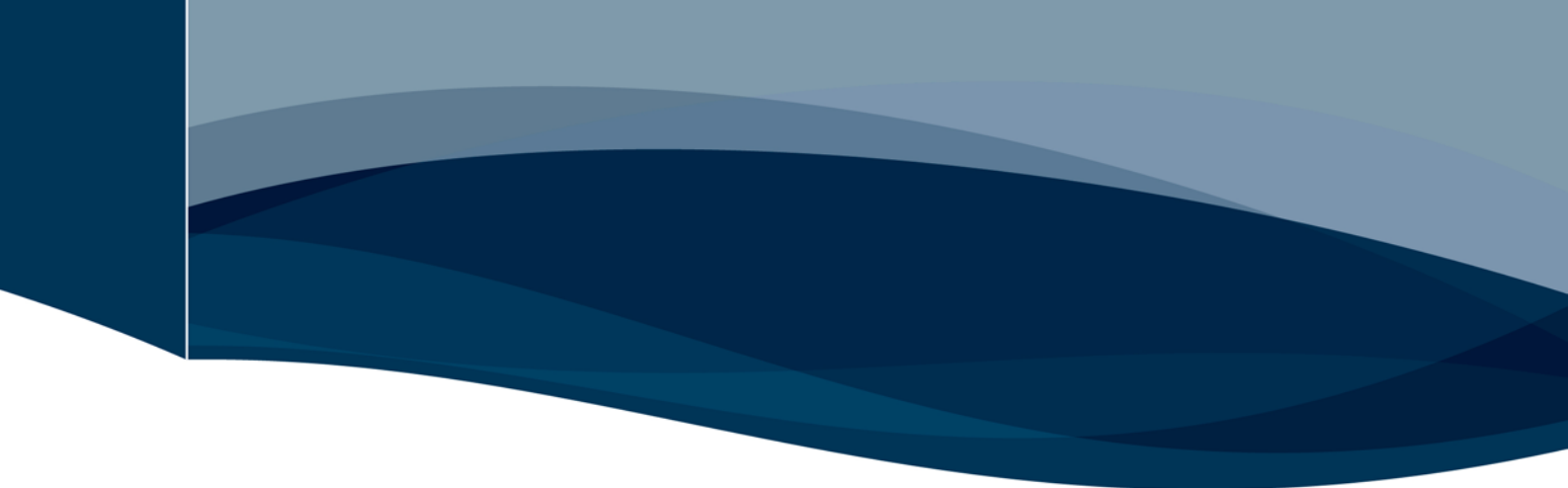
Turning now to Civil & Mining.

Despite best endeavours and a resilience that has seen the business persist in a turbulent sector in recent years, the 2018 Financial Year was another difficult one for this business unit.

While no major mining contracts were converted, activity in the civil infrastructure and rehabilitation space remained steady with a number of projects awarded. These included:

- Tutunup South Rehabilitation works programme;
- Yoganup Rehabilitation Earthworks;
- Capel Dam HDPE Reline;
- Miling Bypass;
- Cataby Civil Works; and
- Mt Barker Waste Water Treatment Plant Contingency Overflow Pond.

Unfortunately with the downturn in the sector several years ago we have struggled to deliver appropriate financial returns and were forced to recognise substantial asset impairments in recent years. Combined with the operating loss in FY18, the impairment recognised against the Civil & Mining business' assets in FY18 overshadowed positive progress in other areas of the Group's performance.



As has previously been reported, earlier this year after being advised that we were unsuccessful on two major mining project tenders, we commenced a comprehensive review of the Civil & Mining business, to ascertain options to maximise and preserve value.

This review concluded that it was appropriate for Watpac to rationalise overheads, divest surplus assets and adopt a more selective approach for tendering. As a result of this decision, assets allocated to the Civil and Mining business were written down to their assessed fair market value - less costs to sell - at 30 June 2018, and a business restructuring provision was recognised. This represented the majority of the statutory losses recorded by the Group for the financial year.

Since the release of our FY18 full year results, sentiment in the Western Australia resources sector has continued to improve and work opportunities are more abundant.

As Peter mentioned earlier, a number of options are being considered by the Board, nonetheless we continue to maintain pricing discipline and adopt a more selective approach to tendering, aimed at protecting value in the long term and encouraging sustainability of earnings.

## **Outlook**

So how does the future look for Watpac?

While the 2018 Financial Year didn't achieve all we had set out to from a profit perspective, it has been one which has seen successful construction strategy execution.

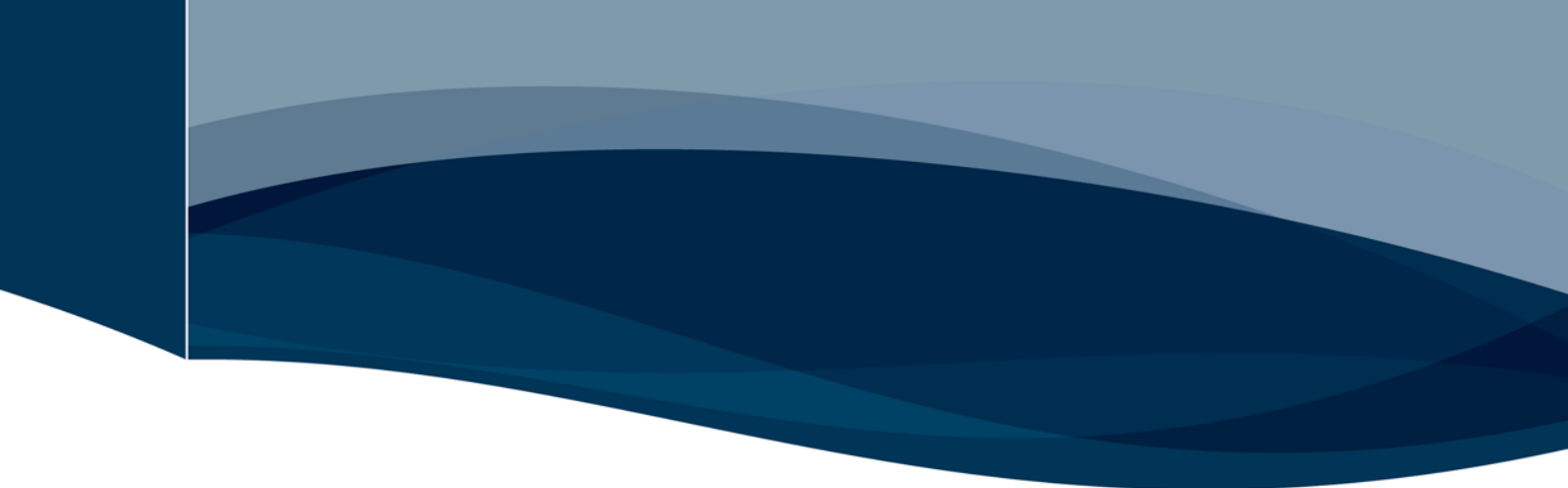
We have repositioned ourselves as leaders in the priority sectors of Health, Sciences & Aged Care, Education, Secure Environments, Defence and Sporting Facilities. The depth and mix of our current work-in-hand demonstrates the success of this focus.

As Peter touched on earlier our strategy execution capabilities will also now be enhanced by our substantially-strengthened relationship with BESIX.

The transition of BESIX from being an influential shareholder to that of a formative one fundamentally changes the proposition for Watpac.

We work in a highly complex and competitive environment where we have at times been frustrated in our efforts to build the critical mass of an holistic Group beyond the far more volatile 'project by project' existence our size in the market has often dictated.

Watpac has many strengths and capabilities, all supported and deployed by dedicated skilled professional employees, but we have at times struggled to position ourselves in a market that on occasions makes it possible to be too small to enjoy the benefits of being big while being too big to capitalise on the benefits of being small.



The presence of BESIX on the registry at a level that is potent and meaningful gives us access to a range of skills, resources, processes and systems that would simply not be possible to develop organically, and I believe will fundamentally change the narrative for Watpac in an extremely positive way.

We move presently to a time where the two organisations are genuinely integrated and where the ad hoc benefits of the past can now be woven into a permanent robust operating platform that will shift our position in this highly competitive industry.

As we approach the half way point for the 2019 Financial Year, our focus remains on sustainable long-term operations with a robust and diverse portfolio that delivers value for our shareholders and project excellence for our clients.

We've persisted in our commitment to simplifying the business, focusing on the markets that work to our strengths and to do so in a way that prioritises safety and efficiency.

We've also remained disciplined with our cash and capital, ensuring a strong balance sheet allows us the capacity to achieve the growth we seek.

We know that our selective tendering practices combined with the right people and delivery methods are the strengths of the business; and as such the ongoing investment in the development of our people, our culture and operating systems will ensure this foundation remains strong.

In closing, I would like to take this opportunity to acknowledge our committed management team, and all Watpac employees who work hard each and every day.

I'd also like to personally acknowledge the support of the Board and our Chief Financial Officer Mark Baker over the last 12 months.

To our shareholders, thank you for your time today and your continued support.

I believe the next 12 months will be an exciting chapter in the Watpac story as we build on the Group's strategy and embark on our journey with BESIX.