WATPAC LIMITED

INTERIM FINANCIAL REPORT

31 DECEMBER 2016

WATPAC

Contents

Contents	Page

The Directors present their report, together with the consolidated interim financial statements of Watpac Limited (**Watpac** or **Company**) and its controlled entities (**Group**) for the half year ended 31 December 2016 (**1H FY17** or **Reporting Period**) and the Auditor's review report thereon.

Directors

The Directors of the Company (**Board**) at any time during or since the end of the half year are:

Name	Period of directorship
Non-executive	
Mr Richard B McGruther (Chair)	Director since 17 February 1993 Chair since 29 September 2014
Mr Johan C M C Beerlandt	Director since 27 May 2013
Mr Garret J Dixon	Director since 12 February 2014
Ms Linda C Evans	Director since 25 August 2015
Ms Bronwyn K Morris	Director since 3 February 2015
Mr Carlo J Schreurs	Director since 10 October 2014
Executive	
Mr Martin G Monro	Director since 10 October 2014

Review of operations

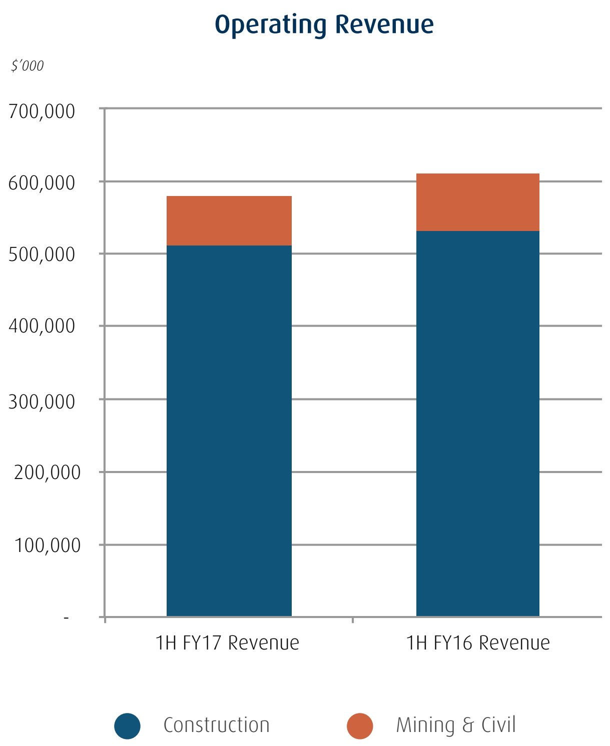
The Group's operations for the Reporting Period principally comprised its core businesses of Construction and Civil & Mining.

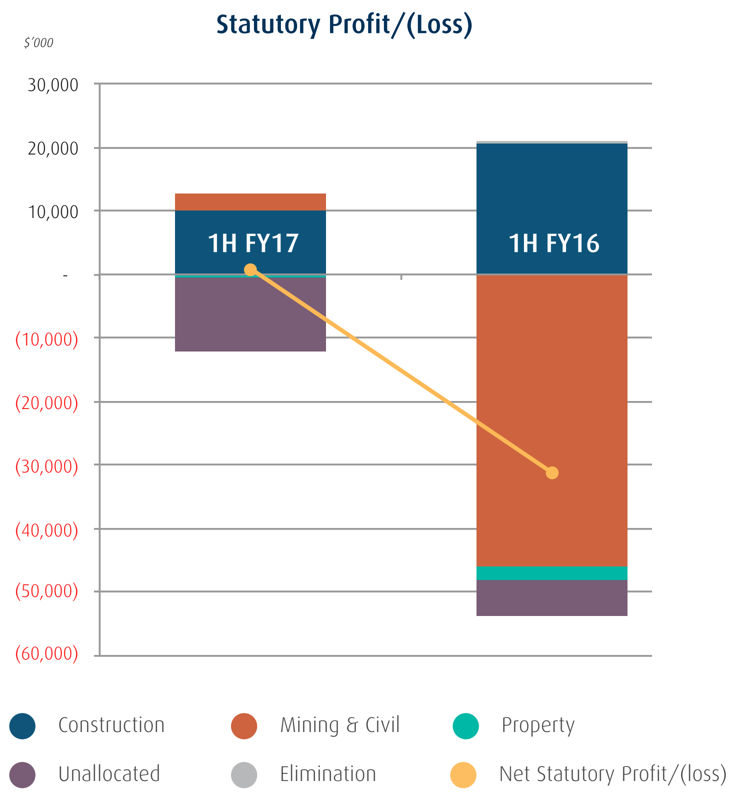
Financial

The Group recorded a statutory profit after tax of $0.6M for the Reporting Period. This compares to the statutory loss after tax of $25.3M recorded for the half year ended 31 December 2015 (**1H FY16** or **Comparative Period**).

Included in the table and graph below is an overview of the Statutory Result for the Group and its reportable segments for 1H FY17 compared to 1H FY16.

	Revenue				Statutory Profit/(Loss)			
In thousands of AUD	1H FY17	1H FY16	$ Variance	% Variance	1H FY17	1H FY16	$ Variance	% Variance
Construction	**511,547**	530,642	(19,095)	(3.60%)	**10,102**	20,578	(10,476)	(50.91%)
Civil & Mining	**67,671**	79,333	(11,662)	(14.70%)	**2,808**	(45,815)	48,623	106.13%
Operating Total	**579,218**	609,975	(30,757)	(5.04%)	**12,910**	(25,237)	38,147	151.16%
Property	**4,660**	6,806	(2,146)	(31.53%)	**(254)**	(1,945)	1,691	86.94%
Unallocated	**-**	-	-	N/A	**(11,957)**	(5,785)	(6,172)	(106.69%)
Inter-segment/Elimination	**(68)**	5,109	(5,177)	(101.33%)	**-**	168	(168)	(100.00%)
Total	**583,810**	**621,890**	**(38,080)**	**(6.12%)**	**699**	**(32,799)**	**33,498**	**102.13%**
Tax benefit/(expense)					**(129)**	7,525	(7,654)	(101.71%)
Net profit/(loss) after tax					**570**	**(25,274)**	**25,844**	**102.26%**





The key themes associated with the Group's 1H FY17 result are as follows:

- **Operating Revenue:** Aggregate work volumes were 5.04% ($30.8M) lower than the Comparative Period, reflective of a 3.60% ($19.1M) decrease in Construction turnover and a 14.70% ($11.7M) decrease in Civil & Mining turnover. Opportunities for work volume increases were available, however given current market conditions and the enhanced risks, Watpac employed more selective tendering practices in 1H FY17 and maintained margin application discipline.
- **Construction Profitability:** The pre-tax profit of the Construction segment, which was $10.5M lower than 1H FY16, was primarily a consequence of the prolonged cost escalation pressures emanating from the intense residential construction activity impacting profitability in the Group's Qld Construction business.
- **Civil & Mining Profitability:** The pre-tax statutory profit of the Civil & Mining segment was $48.6M higher than 1H FY16, a reflection of statutory impairment charges totalling $41.7M recognised against receivables, plant & equipment, stock and goodwill in 1H FY16, together with improved overall financial performance across continuing projects.
- **Unallocated:** Net costs that are not allocated to any Reportable Segment in 1H FY17 include $3.3M associated with new business investment. In 1H FY16, unallocated net costs included a $2.7M gain on disposal of a property holding in Brisbane.

As noted above, the 1H FY17 statutory result includes $3.3M (pre-tax) in new business costs, being items that are not considered to represent underlying trading. Consequently information provided in this report has been presented at both a statutory reporting level (**Statutory Result**) and underlying trading result level (**Underlying Result**).

Key metrics in respect of the Statutory Result and Underlying Result compared to 1H FY16 are summarised in the following tables:

In thousands of AUD	1H FY17	1H FY16	$ Change	% Change
Statutory result				
Total revenue	**583,810**	621,890	(38,080)	(6.12%)
Profit / (loss) before tax	**699**	(32,799)	33,498	102.13%
Income tax benefit / (expense)	**(129)**	7,525	(7,654)	(101.71%)
Profit / (loss) after tax	**570**	(25,274)	25,844	102.26%
Profit / (loss) after tax attributable to members	**570**	(25,274)	25,844	102.26%
Basic earnings per share attributable to members (cents)	**0.31**	(13.41)	13.72	102.31%
NTA per share (cents)	**115**	113	2	1.53%
Return on shareholders' funds (percentage)	**0.49%**	(22.18%)	22.67%	102.22%

In thousands of AUD	1H FY17	1H FY16	$ Change	% Change
Underlying result				
Statutory net profit / (loss) after tax attributable to members	**570**	(25,274)	25,844	102.26%
Adjust for:				
Pre-tax new business expenditure	**3,297**	-	3,297	N/A
Pre-tax impairment of Civil & Mining assets				
- Nullagine (BC Iron) Receivables	**-**	12,497	(12,497)	(100.00%)
- Nullagine (BC Iron) Plant & Stock	**-**	19,200	(19,200)	(100.00%)
- Mining & Civil Goodwill	**-**	10,022	(10,022)	(100.00%)
Pre-tax impairment of property development inventory	**-**	2,471	(2,471)	(100.00%)
Pre-tax gain on sale of land & buildings	**-**	(2,728)	2,728	100.00%
Tax on adjustments	**(763)**	(9,481)	8,718	91.95%
Underlying profit / (loss) after tax attributable to members	**3,104**	6,707	(3,603)	(53.72%)
Underlying earnings per share attributable to members (cents)	**1.67**	3.56	(1.89)	(53.13%)

In thousands of AUD	1H FY17	1H FY16	$ Change	% Change
Underlying result before tax summary				
Construction segment	**10,102**	20,578	(10,476)	(50.91%)
Mining & Civil segment	**2,808**	(4,096)	6,904	168.55%
Property segment	**(254)**	526	(780)	(148.29%)
Unallocated	**(8,660)**	(8,513)	(147)	(1.73%)
Elimination	**-**	168	(168)	(100.00%)
Group Total	**3,996**	8,663	(4,667)	(53.87%)
Represented by:				
Statutory profit / (loss) before tax	**699**	(32,799)	33,498	102.13%
Pre-tax adjustments	**3,297**	41,462	(38,165)	(92.05%)
Underlying profit / (loss) before tax	**3,996**	8,663	(4,667)	(53.87%)

Additional information pertaining to the financial performance of each Reportable Segment for the Reporting Period is included below.

Construction

Financial Overview

The Construction segment provides building, refurbishment, project management, and construction management services across all Eastern states in Australia, and South Australia.

At both a Statutory Result and Underlying Result level, the Construction segment reported a pre-tax profit for 1H FY17 of $10.1M (1H FY16: $20.6M).

As noted above, the Construction segment's 1H FY17 result was adversely affected by the prolonged cost escalation pressures emanating from the intense residential construction activity, particularly in the South East Qld market.

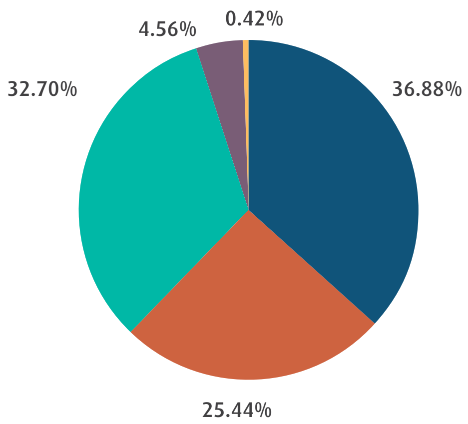
Work-in-hand decreased by approximately $500M over the Reporting Period to $1.1B at 31 December 2016 (**Balance Date**). This reduction is attributable to:

- more selective tendering practices, in accordance with the Group's targeted sector strategy;
- margin and risk / cost escalation application discipline, resulting in fewer project conversions; and
- the deferral of a significant project being delivered under a Managing Contractor model, which was previously included in the Group's work-in-hand balance at the estimated project value.

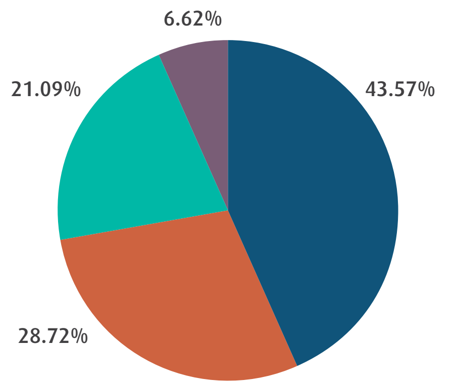
Watpac's Construction businesses are presently tendering on a number of opportunities, several of which are expected to be converted in the second half of the 2017 financial year.

The allocation of work delivered in the Reporting Period and that in hand at 31 December 2016 by business unit is summarised in the graphs below.

1H FY17 revenue



Work-in-hand as at 31 December 2016



Queensland | New South Wales | Victoria | South Australia | Specialty Services

Key Risks

As highlighted in the Group's FY16 Annual Report, the maintenance of sufficient forward work volumes reflects a risk when assessing the outlook for the Group's medium and longer-term financial performance. Work must be selectively tendered, however, to ensure alignment with strategy, and converted projects must have appropriate embedded profitability and risk contingency to achieve return target requirements.

The prolonged heightened levels of residential construction projects, which typically have lower profit margins, has adversely affected Watpac's Construction business units' profitability for the Reporting Period. Demand for subcontractors has remained high, and assessing appropriate subcontractor pricing and risk and contingency levels for new project tenders requires additional scrutiny and management. Specific new resources have been added to the overhead structures of Watpac's Construction businesses to address these risks, manifesting as an increase in operating business unit overheads in the 1H FY17 result.

Cost escalation risk reflects the current state of the market, and is seen as a short-term impact associated with the cycle. Once general construction work returns to more normal levels and subcontractor work volumes reduce (as is anticipated over the near-term) these risks could quickly reverse and assist with the delivery of substantially enhanced project margins.

Strategies and Future Performance

While market forces have resulted in residential construction projects comprising the majority of Watpac's Construction work-in-hand levels, the Group has strong credentials in project delivery across a number of other sectors. Specifically, Watpac has significant and expansive capabilities in delivering projects in the following sectors:

- Health & Sciences, with a number of significant and iconic projects such as the Mater Hospital Springfield and Gold Coast Private Hospital being delivered in FY16.
- Education, demonstrated by the Qld Schools PPP and Vic Schools PPP projects currently being delivered across South East Qld and the greater Melbourne area respectively.
- Defence & Secure Environments, highlighted by the continuing work being delivered for the Department of Defence in Qld and Vic, and substantial intellectual property attained by Watpac through the Greater Futures Consortium on the New Grafton Correctional Centre PPP tender process.
- Sporting stadiums, most recently highlighted by the delivery of the Anna Meares Velodrome at Chandler in Brisbane, a new purpose built stadium for the 2018 Gold Coast Commonwealth Games.
- Food processing, with Watpac having assisted numerous clients deliver bespoke operating environments across all red and white meat products.

Watpac's targeted sector and project approach provides significant opportunities for the Group to add value to projects, clients and their financiers, and in a form of contract that is generally more suited to providing maximum benefit to all project stakeholders. The additional resources recently deployed to each business unit are anticipated to assist with not only addressing current risks, but also enhancing Watpac's project delivery capabilities.

Through the execution of work winning strategies, and the successful management of cost input pressures that have adversely impacted the 1H FY17 result, the Board and Management are confident that Watpac's Construction businesses can deliver improved shareholder returns in future reporting periods.

Civil & Mining

Performance Review

The Group's Civil & Mining business provides contract mining and civil infrastructure activities for small to medium projects throughout Australia.

Both the Statutory Result and Underlying Result recorded by the segment for the Reporting Period was a pre-tax profit of $2.8M (1H FY16 Statutory Result: pre-tax loss of $45.8M; Underlying Result: pre-tax loss of $4.1M).

Despite lower work volumes than the Comparative Period, the increased profitability at an Underlying Result level is largely representative of improved operational performance across the business' contract mining and civil infrastructure projects.

All contract mining and civil infrastructure projects are currently performing in line with expectations and delivering on Watpac's strategy to ensure requisite plant utilisation levels are being attained.

Key Risks

Notwithstanding the solid 1H FY17 financial result, Watpac's investment in plant & equipment assets deployed in its Civil & Mining operation continues to represent a key risk for the Group.

With a depressed second hand market, the value of Watpac's plant & equipment investment is supported by its "value in use". Realising the assets' book values is therefore dependent on the continuing adequacy of work volumes and profitability.

The level of work-in-hand for the Civil & Mining business totalled $126M at Balance Date, a circa 20% reduction from work levels at 30 June 2016 of $156M. With longer-term contracts that were typical several years ago now replaced by shorter-term contracts, this reduction is a market-driven outcome and is not considered reflective of the Group's future prospects in converting contract mining and civil infrastructure opportunities.

Strategies and Future Performance

As previously reported, the Group has redistributed its contract mining work mix to those sectors with the most attractive prospects for medium to longer-term opportunities. While iron ore mining contracts once comprised the significant majority of the Civil & Mining segment's work-in-hand and turnover levels, this is now more heavily weighted to gold mining – a product type that has shown more stability over recent times and is anticipated to continue to do so for the foreseeable future.

Watpac Civil & Mining's focus is to maintain and grow work volumes steadily through existing client relationships in targeted product sectors. Prospects for future iron ore opportunities may have enhanced in line with improved commodity prices in the Reporting Period, however the Group will continue to adopt a conservative and selected tendering approach to all opportunities.

With a sustainable capital structure, innovative work techniques and disciplined cost control, together with civil infrastructure opportunities that are available on the east coast of Australia, the Board and Management are confident that the Civil & Mining business can continue to deliver improving shareholder returns in future periods.

Property

Performance Review

The Property segment recorded a Statutory Result and Underlying Result of a $0.3M loss before tax for the Reporting Period (1H FY16 Statutory Result: $1.9M loss before tax; Underlying Result: $0.5M profit before tax).

Key Risks, Strategies and Future Performance

The carrying value of the Group's unsold property inventory assets at 31 December 2016 totalled $12.7M (30 June 2016: $17.1M). Almost half of the remaining property assets are anticipated to be divested in the 2017 calendar year, and contribute future cash inflows to the Group.

While there remains some risk that current book values will not be achieved upon sale, most asset values are supported by independent external valuations undertaken in the second half of FY16.

The Board remains committed to divesting all remaining property assets as appropriate in a timely manner.

Capital Management and Liquidity

The Group recorded a gross cash and deposits balance of $237.4M at 31 December 2016 (30 June 2016: $251.5M). After adjusting for gross debt, the net cash balance at Balance Date was $222.6M (30 June 2016: $233M). While a reduction over the Reporting Period, gross and net cash balances reported at Balance Date are reflective of a normalisation of favourable working capital positions that existed at 30 June 2016.

Watpac continues to have no significant off-balance sheet lease or other commitments. All current off-balance sheet contingent liabilities relate to the provision of bank guarantees and surety bonds as performance security for projects predominantly being completed in the Group's Construction businesses.

In December 2016, the Group completed arrangements for a new $170M syndicated banking facility for the provision of bank guarantees with domestic and international banks comprising Bank of Queensland, BNP Paribas, Commonwealth Bank of Australia and HSBC. This new facility represented a $50M increase compared to the Group's previous bank guarantee facility. Together with available headroom in the surety bond facilities, Watpac has significant capacity to provide requisite performance security to deliver on its strategy to compete for projects with higher entry barriers, including significant social infrastructure projects in targeted sectors.

The maintenance of a strong balance sheet and the availability of funding facilities remains a key strategic priority for Watpac.

On 16 February 2017 the Directors resolved that, given current facts and circumstances, no interim FY17 dividend would be declared. Payment of a dividend is not feasible due to the Statutory Result recorded in FY16 and there not being sufficient retained earnings.

The Board remains open to considering other strategic capital management options in the future and investigating ways in which to deploy surplus capital, as is evidenced by the $3.3M in new business expenditure incurred during the Reporting Period. The majority of costs were incurred pursuing projects considered to be outside the scope of Watpac's existing operations, with part of this investment attributable to potential growth in adjacent sectors. Outside the specific projects to which these costs related, this investment is considered to have generated significant value to the Group and should assist in generating future returns not previously available.

Rounding

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

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the half year ended 31 December 2016.

Dated at Brisbane this 16th day of February 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 review for the half-year ended 31 December 2016 there have been:

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

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Simon Crane
Partner

Brisbane
16 February 2017

Consolidated statement of profit or loss and other comprehensive income
For the six months ended 31 December 2016

In thousands of AUD	Note	2016	2015
Revenue		**583,810**	621,890
Cost of sales		**(552,887)**	(589,066)
Gross profit		**30,923**	32,824
Other income		**304**	15
Net property asset income/ (expense)		**-**	(15)
Property development holding costs expensed		**(239)**	(268)
Operating business unit and corporate administration expenses		**(27,960)**	(25,053)
Net finance income	9	**968**	1,160
Results from operating activities		**3,996**	8,663
New business expenditure	10	**(3,297)**	-
Gain on sale of land and buildings		**-**	2,728
Impairment expense		**-**	(44,190)
Profit/ (loss) before tax		**699**	(32,799)
Income tax benefit/ (expense)	7	**(129)**	7,525
Profit/ (loss) after tax		**570**	(25,274)
Other comprehensive income for the period, net of tax		**-**	-
Total comprehensive income/ (loss) for the period		**570**	(25,274)
Earnings per share			
Basic earnings per share		**0.31¢**	(13.41¢)
Diluted earnings per share		**0.30¢**	(13.41¢)

Consolidated statement of financial position
As at 31 December 2016

In thousands of AUD	Note	31 Dec 16	30 Jun 16
ASSETS			
Current assets			
Cash and cash equivalents		**134,482**	129,351
Cash deposits		**102,913**	122,105
Trade and other receivables	11	**141,245**	141,831
Inventories - stock on hand		**14,356**	14,377
Inventories - property development assets		**6,088**	8,112
Total current assets		**399,084**	415,776
Non-current assets			
Trade and other receivables	11	**1,603**	-
Inventories - property development assets		**6,569**	9,013
Property, plant and equipment		**110,745**	115,218
Intangibles	12	**17,676**	17,676
Deferred tax assets		**21,760**	21,889
Total non-current assets		**158,353**	163,796
Total assets		**557,437**	579,572
LIABILITIES			
Current liabilities			
Trade and other payables	13	**281,749**	301,411
Borrowings		**6,540**	7,236
Employee benefits		**14,215**	14,776
Provisions		**99**	111
Total current liabilities		**302,603**	323,534
Non-current liabilities			
Trade and other payables	13	**10,699**	9,226
Borrowings		**8,282**	11,216
Employee benefits		**3,744**	3,807
Provisions		**1,008**	940
Total non-current liabilities		**23,733**	25,189
Total liabilities		**326,336**	348,723
Net assets		**231,101**	230,849
EQUITY			
Issued capital		**235,563**	235,563
Reserves		**7,426**	7,744
Retained earnings		**(11,888)**	(12,458)
Total equity		**231,101**	230,849

In thousands of AUD	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
	31 Dec 2016				
Balance at 1 July 2016	235,563	9,844	(2,100)	(12,458)	230,849
Total comprehensive income for the period					
Profit or loss	-	-	-	570	570
Total comprehensive income	**-**	**-**	**-**	**570**	**570**
Own shares purchased for employee share based payment scheme	-	(539)	-	-	(539)
Share settled performance rights awarded	-	221	-	-	221
Total contributions by and distributions to owners	**-**	**(318)**	**-**	**-**	**(318)**
Total transactions with owners	**-**	**(318)**	**-**	**-**	**(318)**
Balance at 31 December 2016	**235,563**	**9,526**	**(2,100)**	**(11,888)**	**231,101**

In thousands of AUD	Share capital	Equity benefits reserve	Fair value reserve	Retained earnings	Total
	31 Dec 2015				
Balance at 1 July 2015	239,570	9,461	(2,100)	8,905	255,836
Total comprehensive income for the period					
Profit or loss	-	-	-	(25,274)	(25,274)
Total comprehensive income	**-**	**-**	**-**	**(25,274)**	**(25,274)**
Share settled performance rights awarded	-	339	-	-	339
Shares purchased under buy-back	(2,997)	-	-	-	(2,997)
Total contributions by and distributions to owners	**(2,997)**	**339**	**-**	**-**	**(2,658)**
Total transactions with owners	**(2,997)**	**339**	**-**	**-**	**(2,658)**
Balance at 31 December 2015	**236,573**	**9,800**	**(2,100)**	**(16,369)**	**227,904**

Consolidated statement of cash flows
For the six months ended 31 December 2016

In thousands of AUD	2016	2015
Cash flows from operating activities		
Cash receipts from customers	**643,555**	740,134
Cash paid to suppliers and employees	**(649,189)**	(684,565)
Cash generated from operations	**(5,634)**	55,569
Interest received	**2,258**	1,904
Interest paid	**(1,220)**	(1,761)
Income tax paid	**-**	(372)
Net cash (used in)/ provided by operating activities	**(4,596)**	55,340
Cash flows from investing activities		
Draw down/(Investment in) cash deposits	**19,192**	(30,327)
Acquisition of assets	**(2,112)**	(1,308)
Major maintenance on plant and equipment	**(3,513)**	(4,498)
Proceeds from sale of assets	**330**	6,451
Net cash provided by/ (used in) investing activities	**13,897**	(29,682)
Cash flows from financing activities		
Repayment of borrowings	**(3,631)**	(9,434)
Purchase of own shares	**(539)**	
Consideration paid under share buy-back	**-**	(2,998)
Net cash used in financing activities	**(4,170)**	(12,432)
Net increase in cash and cash equivalents	**5,131**	13,226
Cash and cash equivalents at 1 July	**129,351**	112,365
Cash and cash equivalents at 31 December	**134,482**	125,591

1. Reporting entity

Watpac Limited (**Watpac** or **Company**) is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the six months ended 31 December 2016 comprises the Company and its subsidiaries (**Group**).

2. Statement of compliance

These consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the Corporations Act 2001. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2016. These consolidated interim financial statements do not include all of the information required for the full annual financial statements, and should be read in conjunction with the Group's 30 June 2016 consolidated financial statements.

These consolidated interim financial statements were approved by the Board of Directors on 16 February 2017.

3. Functional and presentation currency

These consolidated interim financial statements are presented in Australian dollars, which is the functional currency of the Company. In accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the consolidated interim financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

4. Significant accounting policies

The accounting policies applied by the Group in the consolidated interim financial statements are the same as those applied in the Group's 30 June 2016 consolidated financial statements.

5. Judgements and estimates

The preparation of the consolidated interim financial statement requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and 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.

In preparing these consolidated interim financial statements, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group as at and for the year ended 30 June 2016.

6. Comparatives

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

7. Income tax expense

The Group's effective tax rate for the six months ended 31 December 2016 is 18.45% (for the six months ended 31 December 2015: 22.94%). This tax rate is consistent with Management's estimate of the effective tax rate that will be applicable for the year ended 30 June 2017, and reflects taxation benefits expected to arise to the Group in the current year as a consequence of participating in the Research and Development tax incentive regime.

8. Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the Group's chief operating decision maker to effectively allocate Group resources and assess performance.

The Group has identified its operating segments based on the internal reports that are reviewed and used in assessing performance and allocating resources by the Managing Director, Watpac's chief operating decision maker. Discrete financial information relating to each of the Group's operating segments are reported to the Managing Director on a regular basis.

Reportable segments are based on aggregated operating segments determined by the similarity of products sold and/ or services provided. These are the sources of the Group's major risks that could therefore have the greatest effect on returns.

The Group has three reportable segments, being:

- *Construction:* Building, refurbishment, project management and construction management.
- *Civil & Mining:* Contract mining services and civil infrastructure works.
- *Property:* Development and trading of commercial, residential, and industrial properties.

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

- Corporate assets including cash, receivables and plant and equipment;
- Income tax assets and liabilities;
- Unallocated/ corporate expenses; and
- Costs associated with new business.

Information regarding the results of each reportable segment is included in the following tables.

	2016					
In thousands of AUD	Construction	Civil & Mining	Property	Unallocated	Elimination	Total
External Revenue	511,479	67,671	4,660	-	(68)	583,742
Inter-segment revenue	68	-	-	-	-	68
Total segment revenue	**511,547**	**67,671**	**4,660**	**-**	**(68)**	**583,810**
Other material non-cash items:						
- Depreciation	(349)	(8,659)	-	(1,002)	-	(10,010)
New business expenditure	-	-	-	(3,297)	-	(3,297)
Finance income	-	-	-	2,335	-	2,335
Finance expense	(841)	(526)	-	-	-	(1,367)
Total segment profit before tax	**10,102**	**2,808**	**(254)**	**(11,957)**	**-**	**699**
New asset acquisitions	236	897	-	979	-	2,112
Spend on major maintenance	-	3,513	-	-	-	3,513
Total capital expenditure	**236**	**4,410**	**-**	**979**	**-**	**5,625**

	2015					
In thousands of AUD	Construction	Mining & Civil	Property	Unallocated	Elimination	Total
External Revenue	530,642	79,333	6,806	-	-	616,781
Inter-segment revenue	5,109	-	-	-	-	5,109
Total segment revenue	**535,751**	**79,333**	**6,806**	**-**	**-**	**621,890**
Other material non-cash items:						
- Impairment:						
- Property inventory	-	-	(2,471)	-	-	(2,471)
- Receivables	-	(12,497)	-	-	-	(12,497)
- Plant & equipment/ Stock	-	(19,200)	-	-	-	(19,200)
- Goodwill	-	(10,022)	-	-	-	(10,022)
- Depreciation	(343)	(9,673)	-	(676)	-	(10,692)
Gain on sale of land and buildings	-	-	-	2,728	-	2,728
Finance income	-	-	961	1,975	-	2,936
Finance expense	(739)	(920)	-	(117)	-	(1,776)
Total segment profit before tax	**20,578**	**(45,815)**	**(1,945)**	**(5,785)**	**168**	**(32,799)**
New asset acquisitions	25	810	-	473	-	1,308
Spend on major maintenance	-	4,498	-	-	-	4,498
Total capital expenditure	**25**	**5,308**	**-**	**473**	**-**	**5,806**

9. Net finance income and expense

In thousands of AUD	2016	2015
Interest income	**2,335**	1,975
Change in carrying value of receivables	**-**	961
Finance income	**2,335**	2,936
Interest expense	**(1,367)**	(1,776)
Finance expense	**(1,367)**	(1,776)
Net finance income	**968**	1,160

10. New business expenditure

During the period, the Group incurred significant costs on new business opportunities that are considered outside the scope of normal operations, being in the pursuit of strategic growth and to utilise currently surplus capital into income producing activities.

Despite the investment providing potential to generate future returns not previously available, 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.

11. Trade and other receivables

In thousands of AUD	31 Dec 16	30 Jun 16
Current		
Trade receivables	**35,368**	29,025
Other debtors and prepayments	**18,893**	15,076
	54,261	44,101
Construction work in progress – amounts due from customers	**86,984**	97,730
	141,245	141,831
Non-Current		
Trade receivables	**1,603**	-

Recognition and measurement

Trade and other receivables

Trade and other receivables are initially recognised 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. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income.

The majority of the Group's trade and other receivables comprise 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.

Watpac has a strong receivables collection history across all its operations.

Construction work in progress

Construction work in progress is carried at cost plus profit recognised to date, based on the value of work completed and an assessment of likely recoveries, less progress billings and provision for foreseeable losses.

Cost includes both variable and fixed costs that relate to project activity in general, and which can be allocated to specific contracts on a reasonable basis.

12. Goodwill and CGU impairment testing

Recognition and measurement

Goodwill

In thousands of AUD	31 Dec 16	30 Jun 16
Construction	**17,676**	17,676
Mining and Civil	**-**	-
	17,676	17,676

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, liabilities and contingent liabilities acquired.

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

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 cash-generating unit 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.

Goodwill impairment testing is also relevant to the assessment of the carrying value of each CGU's assets, including Plant & Equipment assets allocated to the Civil and Mining CGU.

No impairment was identified as at Balance Date. The next impairment test will be performed at 30 June 2017.

13. Trade and other payables

In thousands of AUD	31 Dec 16	30 Jun 16
Current		
Trade payables and accrued expenses	**11,966**	15,805
Subcontractor payable	**58,223**	41,314
Subcontractor accrual	**186,299**	222,286
Retentions payable	**25,261**	22,006
	281,749	301,411
Non-current		
Retentions payable	**10,699**	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. Due to the typically short-term nature of these financial obligations, their carrying amounts are estimated to represent their fair values.

A provision for the total estimated loss on a construction project is made as soon as the loss is identified, with any resulting cost adjustments recognised as an increase to the subcontractor accrual balance.

14. Subsequent events

There has not arisen, in the interval between the end of the financial period 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 periods.

Directors' Declaration

In the opinion of the Directors of Watpac Limited (the "Company"):

1. the consolidated interim financial statements and notes set out on pages 10 to 18 are in accordance with the *Corporations Act 2001*, including:

    (a) giving a true and fair view of the financial position of the Group as at 31 December 2016 and of its performance for the half-year ended on that date; and

    (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

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

Dated at Brisbane this 16th day of February 2017.

Signed in accordance with a resolution of the Directors.

R B McGruther – Chair

KPMG

Independent Auditor's Review Report

To the shareholders of Watpac Limited

Conclusion

We have reviewed the accompanying Interim Financial Report of Watpac Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Watpac Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The Interim Financial Report comprises:

- Consolidated statement of financial position as at 31 December 2016
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date
- Notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The Group comprises Watpac Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

The Interim Period is the six months ended on 31 December 2016.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

KPMG

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Watpac Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Simon Crane
Partner

Brisbane
16 February 2017

WATPAC