



SHAREHOLDERNEWSLETTER**2014**

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Message from the Chair



Welcome to the 2014 edition of Watpac's annual shareholder newsletter. I'm pleased to present this update which details our project achievements, operational activities and strategic successes to date.

It is now some 18 months since the Watpac Board and management team set about repositioning the Group's overall short and mid-term strategies to build a strong and viable platform to focus upon shareholder value, and prepare for an ultimate recovery of the construction markets.

The initial focus on the strategy and subsequent execution of this has helped us achieve previously articulated key goals. Notwithstanding this, we remain in an environment of continuous improvement and recognise that sustained enhanced performance remains a key objective for shareholders.

This shareholder newsletter will expand on the details of the successes of the Group to date, but I am pleased to report the most important achievement was in delivering a half year net profit after tax of \$7.4 million for FY14, consequently paying shareholders an interim fully franked dividend of 2.5 cents per share. Our first dividend payment since March 2012.

Going forward our management team now has a strong focus on our corporate and social values. In particular we have developed a superior risk management

environment, which remains in evolution, to mitigate difficulties that can occur both internally and externally.

It has now been a little over a year since Watpac welcomed BESIX Group as its major shareholder and we continue to work closely with them to be in a position to bring many of their clearly identifiable global skills to fit with Watpac's key strategies and financial capacities. BESIX has an enviable record offshore and we are confident that as a major shareholder they will support Watpac in delivering enhanced value to all shareholders.

The Board and Group Executive Management Team are very focused on our continued operations in the mining sector where we need to manage and respond to a rapidly changing environment. To support our success with this, and as part of our board rejuvenation strategy, on 12 February 2014 we welcomed a Perth-based independent Non-Executive Director to the Board, Mr Garret Dixon. Mr Dixon brings a wealth of local and international mining experience which will support our business platform for this sector.

Watpac's national contracting operations have continued to perform profitably, with a number of significant new projects in Queensland, New South Wales and Victoria. Our strategy has been to position the Group so it is ready for a strengthening market recovery. The Group has worked hard to strengthen its credibility in the public sector where we have continued to compete vigorously and successfully for structured government projects. This has been successful with the appointment of Watpac to deliver significant government projects in Queensland and New South Wales.

Our property asset sales program has made substantial progress in divesting its non-core property assets, with the Group's property debt now fully extinguished. This has allowed all ongoing sale proceeds from property to be recycled back into the Group's existing businesses. The Board is committed to divesting the remaining property asset portfolio in a timely manner, whilst maximising value.

As the year progresses, we remain dedicated to delivering sustainable, profitable growth and the protection of Watpac's brand, financial strength and local networks.

I wish to sincerely thank my fellow board members, the management team and staff who have worked through a very difficult few years to place Watpac in its current position, which will enable us to maximise the expected recovery in the market, where I believe we have a competitive advantage.

Chris Freeman AM
CHAIR, WATPAC LIMITED

Message from the Chief Executive Officer



As a business, our primary focus has been on strengthening the organisation and delivering a superior return to Watpac shareholders. Our growing work book not only demonstrates the improving market, but the benefits of the long term strategic priorities we have put in place by focusing on our core businesses.

During FY14 our national contracting businesses secured a number of new contracts to bring our total forward order book to nearly \$2 billion across our construction operations in Queensland, New South Wales, Victoria and South Australia, our national contract mining business, and our civil operations in Western Australia.

These include a number of significant projects such as the Queensland Schools PPP as part of the Plenary Schools Consortium, Melbourne's STK Apartments and the 333 George Street office tower in Sydney.

One of our objectives for FY14 was to have a more geographically diverse order book. I am pleased to report we have been successful in achieving this goal thanks to a number of project wins in regional New South Wales and our continued focus on projects in Darwin and the Australian Capital Territory.

The team at Port Macquarie has successfully grown the business, winning a number

of major contracts including the Kempsey District Hospital Redevelopment, the University of New South Wales Joint Health Facility and Stage 1 of the Charles Sturt University permanent campus. These wins come off the back of the soon to be completed Port Macquarie Base Hospital Project.

Watpac has successfully completed a number of landmark construction projects including the iconic One Central Park in Sydney, the Advanced Engineering Building at the University of Queensland and the Dandenong Municipal Building in Victoria. The Group has also delivered a number of the Single Leap 2 projects across the country.

At an organisational level workplace safety remains a priority for Watpac, and we are continuing to improve systems such as the ERM Platform to enhance our operational efficiencies.

Financially the long-term outlook for the Group has been strengthened with the

establishment of a new \$105 million syndicated banking facility with domestic and international banks comprising ANZ, Bank of Queensland, BNP Paribas and HSBC. The support of this strong syndicate is an endorsement of our strategy and provides greater scope for future growth.

The Group has made substantial progress over the past 12 months with its strategy to divest of Watpac Property real estate assets. During FY14 we have achieved more than \$60 million in settled and unconditional sales, with the Group's property debt now extinguished in full. This is a significant milestone given the market of the last 12 months, and as asset sales continue, resulting capital will be redeployed into existing businesses.

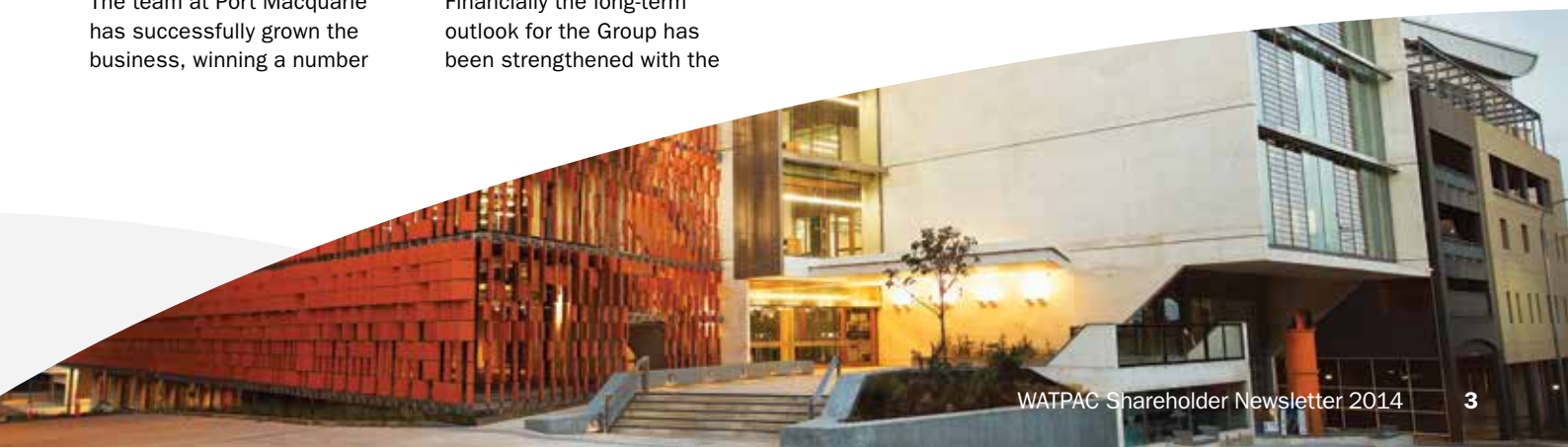
Overall our contracting business has strengthened and grown, with healthy work in hand levels. Our national mining and civil


operations in Western Australia continue to perform well despite a tightening market, with the team continuing to work closely with clients to achieve optimal project outcomes.

Thanks to our forward order book, the strength of our balance sheet and the capability of our people, Watpac is well positioned to explore future opportunities in an improving market. I look forward to providing further updates on our strategies and financial performance in the months ahead.

Martin Monro

CHIEF EXECUTIVE OFFICER,
WATPAC LIMITED





The cutting-edge, world-class project attracted internationally renowned architects including Jean Nouvel of Ateliers Jean Nouvel, who collaborated with botanist Patrick Blanc to integrate into the façade of One Central Park the 'living walls' for which Mr Blanc is so famous.

One Central Park images: Photographer Murray Fredericks, courtesy of Frasers Property and Sekisui House

Iconic One Central Park reaches completion

Watpac reached a major milestone in its 30 year history recently with the completion of One Central Park, part of the Group's largest project to date, the Central Park precinct.

The \$600 million mixed-use residential and retail project located at the southern end of the Sydney CBD, includes over 1,350 residential apartments in five separate residential towers and more than 15,000sqm of retail space as part of the development, by joint venture partners Frasers Property Australia and Sekisui House Australia.

The jewel of the project however is One Central Park which includes two residential towers and five levels of retail space. Watpac Chief Executive Officer, Martin Monro, believes that One Central Park has become a landmark of the city due to its striking architectural design.

"Frasers Property Australia and Sekisui House Australia definitely had a vision in mind when designing One Central Park and we are extremely proud to have been able to play a major part in making this a reality," Mr Monro said.

"It has not only become a landmark development for Sydney, but also a destination thanks to the retail area, the vast open community parkland and the iconic heliostat."

The innovative cantilevered Skydeck, the first to be incorporated into an Australian residential tower, is positioned 30 levels (over 100m) above ground and extends 32 metres from the edge of the building. The Skydeck itself includes a spa, landscaped area, sunlounges and a barbecue entertainment area.

Suspended from the Skydeck is the light reflector system which reflects sunlight (downwards) into the atrium between the two residential towers off mirrors which are situated on the roof of the adjoining tower. The reflected sunlight passes through a glass atrium roof (which has cascading water flowing over it) and down through five floors of retail void onto a series of landscaped walls 100 metres below.

For Watpac Construction NSW/ACT State Manager, Ric Wang, the project which commenced in 2010, presented a number of unique challenges for the Watpac team.

"We successfully delivered a \$120 million residential project for Frasers Property Australia in 2009, and it was clear that we had been selected to build this iconic project due to Watpac's relationship with Frasers and our reputation in the industry as a leading construction services provider," Mr Wang said.

"The completed product is a testament to the skill, experience, hard work and tenacity of the whole project team.

"They met all challenges head-on not only in the construction of the Skydeck but also building a precinct which encompasses innovative sustainability initiatives and energy-efficient components including greenwalls, a trigeneration plant, water recycling and blackwater treatment.

"These aspects, and the speed and quality of the build, have now set the standard for residential construction.

"This really is a new iconic building for Sydney that we are proud to have constructed."

The One Central Park residential towers feature extensive vertical gardens, creating an appearance of green living walls on the exterior of the buildings. At 33 storeys high the East tower also features the iconic heliostat, which produces a light show every evening.

Combined, the East tower and the 16 storey West tower of One Central Park provide 623 residential units above a five storey retail and recreation podium. The complex includes five levels of basement car parking to cater for 1,200 vehicles.

Watpac has also delivered Central Park's other three residential towers including Park Lane and The Mark.

Across the country

Since signs of an improving market appeared late last year, Watpac has continued to harness new opportunities with the Group now successfully positioning itself as a leading national contractor.

Despite the challenges of previous years, in FY14 Watpac is delivering more than \$1.8 billion in work across the company's contracting businesses, including the construction of major

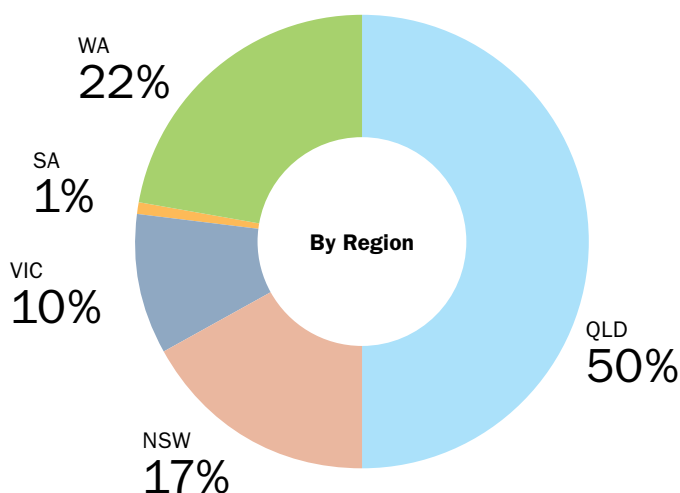
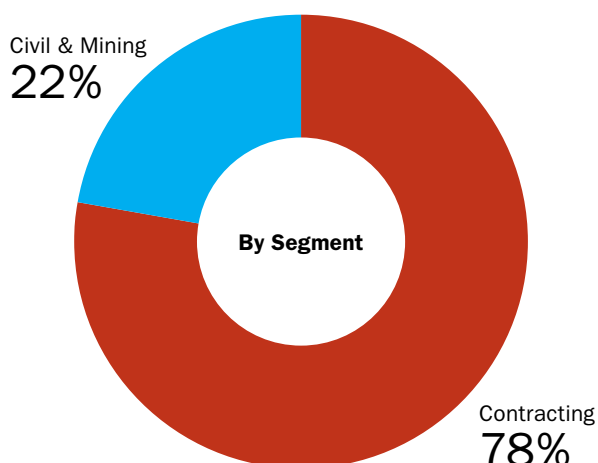
commercial and residential apartment projects, hotels, hospitals and airports, and the specialist refurbishment of schools and food processing facilities. This work also includes

mining services across remote sites in Western Australia.

An improving construction market has seen the Group continue its focus on profitability

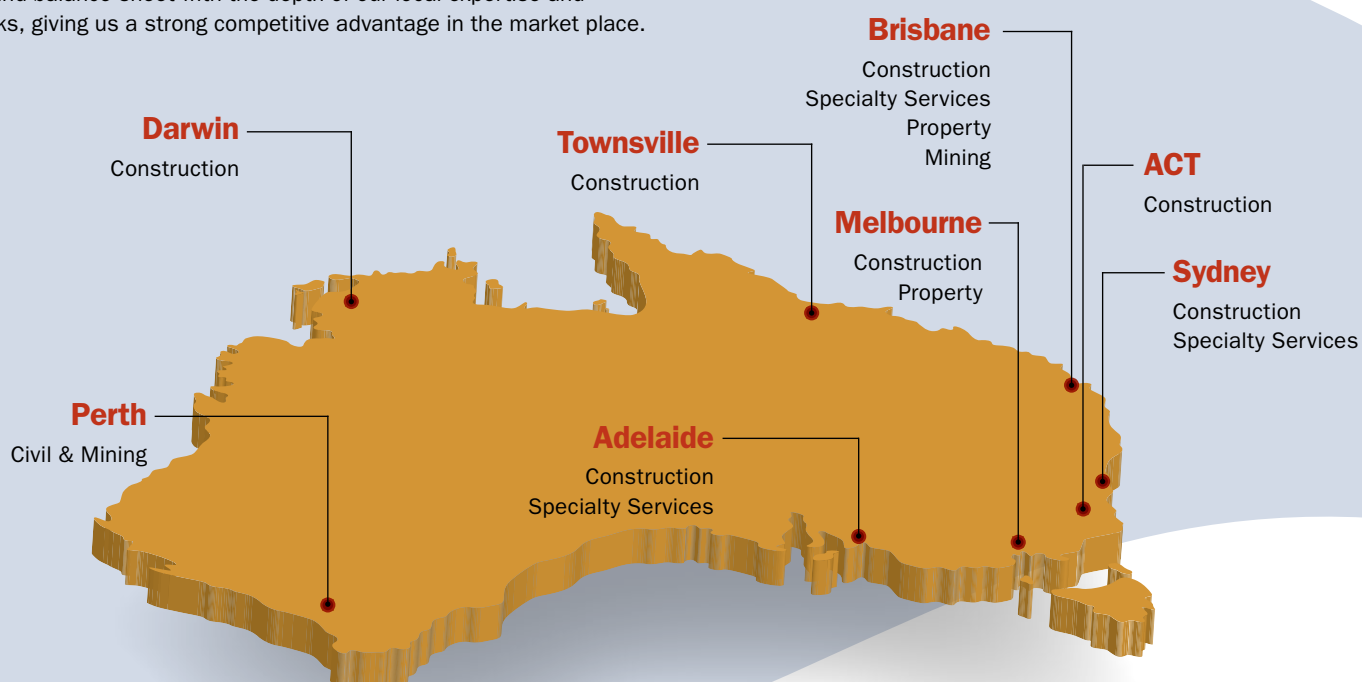
and shareholder value, with the outlook positive for continued sustainable growth supported by a substantially strengthened balance sheet.

Order Book Breakdown (\$1.8bn total as at 31 December 2013)



Headquartered in Brisbane, Watpac employs more than 1,350 employees nationally across Queensland, Western Australia, New South Wales, Victoria, South Australia and the Northern Territory.

Our diversified business model combines the strength of our national reach and balance sheet with the depth of our local expertise and networks, giving us a strong competitive advantage in the market place.





Construction

An improving market has seen Watpac Construction grow its work book and capitalise on new opportunities.

Over the past 12 months the construction sector has shown signs of improvement with both the private sector and government commencing a number of major projects. Due to the strategic repositioning of Watpac in FY13, the Group has been able to successfully tender for a number of these projects ensuring a healthy forward work book.

At 31 December 2013, Watpac's national construction business had a work in hand level of nearly \$1.4 billion, a significant increase on last year's work book. This work is well spread geographically and places the business in good stead for further capacity in all regions.

Significant project wins during the past year include:

- \$350 million Queensland Schools PPP as part of the Plenary Schools Consortium (QLD)
- \$114 million Southpoint commercial office tower in Brisbane (QLD)
- \$80 million STK Apartments in St Kilda Melbourne (VIC)
- \$72 million 333 George Street office Tower (NSW)
- \$46 million Kempsey District Hospital Redevelopment (NSW)

Watpac also successfully completed a number of landmark construction projects including One Central Park in Sydney, the Advanced Engineering Building at the University of Queensland, the Bankstown Library in New South Wales, the Single Leap 2 projects at Lavarack, Duntroon, ADFA, Puckapunyal and Simpson Barracks, and the Dandenong Municipal Building in Victoria.

The Group is scheduled to soon complete the Gold Coast Aquatic Centre, the IBIS Hotel in Adelaide and Port Macquarie Base Hospital in New South Wales.

Ongoing project delivery has been a main focus in the Northern Territory and South Australia as the Darwin International Airport Terminal Expansion Project and Adelaide's Mayfair Hotel approach completion.



Watpac has completed construction of the City of Greater Dandenong Municipal Building in Victoria.

Civil and Mining



Watpac Civil and Mining has continued to perform well despite a challenging market, with the business focused on working closely with clients to achieve optimal project outcomes.

Our credentials in mining iron ore, gold and mineral sands, and strong local networks have ensured the Group is able to maintain a healthy forward work book as we explore new opportunities.

The positive financial performance of Watpac's national mining business is due in large part to its selective and sustainable business model, which focuses on long-term projects with established clients.

As at 31 December 2013, Watpac's national mining and WA civil business had a work in hand

value of \$405 million. There were a number of notable operational highlights and project milestones during the past year including the commencement of the Stage 4 seawall at Cockatoo Island Iron Ore Project and the Nullagine Iron Ore Project reaching record production levels, cutting in excess of one million tonnes per month using surface mining methodologies.

While the outlook for the resources sector is mixed and this presents a risk to future work volumes for this business, Watpac's financial strength and expertise in remote project

delivery is a key advantage in the current market and the Group is well positioned to capitalise on future opportunities in the resources sector.

The Group's civil operations in Western Australia have continued to perform well over the past 12 months, with work continuing on major projects.



Work is continuing at the Nullagine Iron Ore Project in Western Australia's Pilbara region.

Specialty Services



Watpac Specialty Services continues to build on its reputation as construction and refurbishment solution specialists in the education, food, commercial and retail sectors.

From design management to programming and construction, the team has met challenging projects head on such as the current \$11.9 million expansion of the Virgin Australia Business Lounge within the Brisbane Domestic Terminal Building for the Brisbane Airport Corporation. This complex project involves the expansion of the terminal to house a larger Virgin Australia Business Lounge, and the relocation and upgrade of the Virgin Australia Valet area, within the fully-operational airport.

The ability to deliver important infrastructure within complex live environments has led to repeat business for Watpac Speciality Services such as the \$8.3 million Brisbane Grammar School Middle School Refurbishment. The Brisbane Grammar School Refurbishment will see five buildings within the school campus upgraded, in addition to the construction of two commercial kitchens and a new external social spaces area. Concurrently, next door the Watpac Speciality Services team

is building the new \$16.3 million Brisbane Girls Grammar School Year 7 & Research Facility.

Watpac Specialty Services' expertise in the food sector and large-scale infrastructure upgrades resulted in the contract to design and construct the Baiada Poultry Oakburn Protein Plant in Tamworth. The team is currently also delivering the New Services Building Plant Room and Fire Services Infrastructure upgrades at the Baiada Poultry Hanwood Facility in Griffith NSW, which are due to be completed later this year.

A number of important milestones were achieved this year including:

- completion of the \$1.2 million All Hallows Aquinas L4 Science Labs Refurbishment in Brisbane, Queensland
 - completion of the \$1.2 million Padua College A,B,&C Buildings Refurbishment in Kedron, Queensland
 - the selection of the business on two of the Australia Post National Supplier Panels for commercial construction contractors in Queensland.
- The team's strong design and construction knowledge allows it to complete projects in areas such as aged care, health, commercial, education, food-related facilities, and many other construction disciplines that require specialised services in live environments.
- Specialty Services continues to contribute solid profits to the group and Watpac is committed to the ongoing evolution of the division, particularly in the areas of food processing and manufacturing where it has developed considerable expertise.
- completion of the Fire Services Upgrade to the BPL Adelaide Poultry facility in Winfield, South Australia
 - completion of the \$9.9 million Padua College M&N New Buildings Project in Kedron, Queensland



Watpac Specialty Services has completed the Fire Services Upgrade to the BPL Poultry Facility in South Australia.

Property



Our strategy to divest of Watpac Property development assets has progressed well during FY14, achieving more than \$60 million in settlements and unconditional sales.

These included the sale of Joule development site at 11 Breakfast Creek Road, Newstead, an operational Marina Facility in Urangan (Hervey Bay), an industrial allotment at Centra Park, Coolum and several retail shops in Coolum.

In April 2014 Watpac entered into an unconditional contract for the sale of the remaining Waterloo Junction development site for \$40 million in Brisbane. The sale of these assets is consistent with Watpac's broader strategy to divest its

investment in property assets and recycle capital back into existing businesses.

The Group has made substantial ground in divesting its non-core property assets and the Group's property debt

has been extinguished in full. Focus remains on divesting remaining property assets in a timely manner, whilst maximising value.



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The site has a wealth of information,
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information and links to our share price and
ASX announcements.

