





Contents

	Page
Directore' Deport	2
Directors' Report	_
Lead Auditor's Independence Declaration	10
Consolidated Income Statement	11
Consolidated Statement of Comprehensive Income	12
Consolidated Balance Sheet	13
Consolidated Statement of Changes in Equity	14
Consolidated Statement of Cash Flows	15
Condensed Notes to the Consolidated Interim Financial Statements	16
Directors' Declaration	24
Independent Auditor's Review Report	25



The Directors present their report, together with the consolidated financial report of Watpac Limited (**Watpac** or **Company**) and its controlled entities (**Group**) for the half year ended 31 December 2014 (**1HFY15** 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 December 1993, Chair since 29 September 2014
Mr Johan C M C Beerlandt	Director since 27 May 2013
Mr Bradley C Bowton	Director since 28 August 2013
Mr Garret J Dixon	Director since 12 February 2014
Mr Robert J Lette	Director since 23 May 1996
Ms Bronwyn K Morris	Director since 3 February 2015
Mr Carlo J Schreurs	Director since 10 October 2014
Mr Chris R Freeman	Retired 29 September 2014
Mr David M Little	Retired 31 December 2014
Mr Kevin A Mooney	Retired 25 November 2014
Executive	
Mr Martin G Monro	Director since 10 October 2014



Review of operations

The Group recorded a profit after tax of \$6.214M for the Reporting Period (2013: \$7.382M), representing an annualised post-tax return on equity of approximately 5%. An overview of the financial performance of the Group and its reportable segments, compared to the first half of the 2014 financial year (1HFY14 or Comparative Period), is detailed below.

Continuing Operations		Revenue		Profit / (loss)			
In thousands of AUD	1HFY15	1HFY14	% Variance	1HFY15	1HFY14	%Variance	
Contracting	450,843	448,422	0.5%	15,805	9,974	58.5%	
National Mining & WA Civil	143,719	147,651	-2.7%	2,405	9,121	-73.6%	
Property	435	10,157	-95.7%	(367)	(917)	-60.0%	
Unallocated	-	-	0.0%	(9,317)	(8,246)	13.0%	
Elimination	-	3,047	-100.0%	-	293	-100.0%	
Group (Pre-Tax)	594,997	609,277	-2.3%	8,526	10,225	-16.6%	
Income tax expense				(2,312)	(2,843)	-18.7%	
Group (Post-Tax)				6,214	7,382	-15.8%	

Broadly similar work volumes were completed in 1HFY15 when compared to the Comparative Period.

The change in Group profitability, however, is substantially the net result of:

- improved financial performance from the Group's Contracting reporting segment, which is consistent with improved market conditions across the construction sector generally; and
- a reduction in the financial contribution from the Mining & Civil reporting segment, which is reflective of the current state of the resources sector and impact of falling commodity prices.

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

Contracting

The Contracting segment, which comprises the Group's Construction and Specialty Services businesses, provides building, refurbishment, project management, and construction management services across all states and territories in Australia with the exception of Tasmania and Western Australia.

The segment reported a pre-tax profit for the Reporting Period of \$15.81M (profit before tax margin of 3.5%), being a substantial improvement on result for the Comparative Period of \$9.97M (profit before tax margin of 2.3%).

This increase in profitability was recorded notwithstanding revenue was broadly the same as 1HFY14, and is reflective of:



- The result recorded in the Comparative Period being abnormally low, as a consequence of the timing of
 profit contribution from projects existing at that time. This is demonstrated by the FY14 full year net profit
 before tax margin for the Contracting segment being 3.0%, which compares to the result for the Comparative
 Period being a margin of 2.3%.
- The successful completion of a number of projects and the achievement of certain project milestones in 1HFY15, which contributed positively to the profit recorded. This result also reflects the continuing success of the Group's national approach to its work activities and clients, as well as the successful cross-utilisation of skills, resources and the "Watpac Knowledge Asset" throughout the country.

The allocation of the Contracting segment's revenue for the six months ended 31 December 2014 and work in hand at 31 December 2014, by business unit, is summarised in the table below:

-				
In thousands of AUD	1HFY15 revenue	Work in hand at 31 December 2014		
	004.000	740.007		
Queensland	224,600	748,967		
New South Wales	108,416	201,181		
Victoria	78,675	222,625		
South Australia	3,976	562		
Specialty Services	35,176	21,438		
Total	450,843	1,194,773		

The Group has the capacity, credibility, relationships and financial and operational resources available to complete substantial further works in all regions.

While some general geographic diversification of work is desired, Watpac takes a national approach to its contracting businesses and as such, all key new project opportunities are targeted on a non-regional specific basis. The overriding objective is to maximise short and long-term shareholder value, with resources deployed to operating regions as and when is necessary. This national approach to work ensures all of Watpac's clients receive the best possible project outcomes and have access to the full extent of the Group's resources, irrespective of the delivery location.

Approximately \$250M in new construction contracts and extensions were awarded to Watpac's Contracting businesses during 1HFY15. New projects included the:

- \$45M Knox Private Hospital Expansion for Healthscope (Victoria)
- \$44M Queensland State Velodrome in Brisbane for the Gold Coast 2018 Commonwealth Games (Queensland)
- \$29M Ronald McDonald House project in Southbank (Queensland)
- \$24M BaptCare Aged Care Facility in McLeod (Victoria)
- \$23M Australian Institute of Tropical Health & Medicine facility at James Cook University (Queensland)
- \$16M Ergon Energy Garbutt Depot Redevelopment (Queensland)
- \$7M Syndal Station Multideck Carpark (Victoria)



Significant contract extensions in the Reporting Period include tenant fitout works at the 180 Brisbane (\$10M) and Southpoint (\$24M) commercial office tower projects, which are currently both under construction in Queensland.

The continuing maintenance of sufficient forward work volumes represents a risk to Watpac's medium and longer term financial outlook. The reduction in work in hand over the past six months is demonstrative of this fact, and consequently work winning initiatives and strategies are a key priority of the Board and Management.

As general construction work volumes increase, however, resources become less available and consequently input costs also come under pressure. Rising subcontractor costs therefore represent an identified key risk to the future profitably for Watpac's Contracting businesses, and must continue to be critically considered as part of the Group's pre-contract risk management and immediate post award processes.

The Group is confident that its Contracting businesses can deliver improved shareholder returns in future reporting periods, with a cost leadership focus and the business' key sources of competitive advantage provided by:

- a strong balance sheet and surplus available funding lines;
- a focus on building strong stakeholder relationships;
- · collaborative and innovative work methods; and
- unsurpassed credentials in the national construction sector across all types of projects.

Mining & Civil

The Group's Mining & Civil segment, which comprises the National Mining & WA Civil business unit, provides contracting mining services for small to medium projects throughout Australia and civil infrastructure activities in Western Australia.

The segment reported a pre-tax profit for the Reporting Period of \$2.41M (2013: \$9.12M). This decline in profitability is largely representative of the downturn in the resources industry, which has adversely and significantly impacted operational effectiveness and hence the returns of all operators in this sector.

In addition to these sector-related impacts, the Group's reported profitability in 1HFY15 was also adversely impacted by a comparative reduction in the contribution from the Cockatoo Island iron ore contract. This reduced profit was the result of the following key factors:

- The client, Pluton Resources Limited (Pluton), having been in the process of undertaking a capital raising for most of the Reporting Period (June 2014 to October 2014), in which the Group participated to a level of \$3M (refer Note 11 to the Consolidated Interim Financial Statements). During this time and consistent with the position taken in FY14, revenue from the Cockatoo Island contract was recognised on a cash basis. This conservative accounting policy resulted in no margin on this project being recognised over the first four months of FY15, notwithstanding Watpac retains an as yet unrecognised entitlement from Pluton in the order of \$14M.
- Pluton being placed in receivership in October 2014, which resulted in only minor works being undertaken over November and December 2014 (i.e. representing a reduction in work volumes when compared to the



Comparative Period). As this work was completed under the direction and indemnity of the receiver and manager (**Receiver**), revenue was brought to account on an accruals basis over this period. The low levels of work completed and revised pricing arrangements put in place with the Receiver, however, resulted in only minor profit being earned on the project over the last two months of the Reporting Period.

Despite these factors adversely impacting the result:

- All of the Group's mining and civil projects remained profitable over the Reporting Period.
- The National Mining & WA Civil business unit was awarded a 19-month mining services contract with Hanking Gold at its Southern Cross operations in Western Australia. Amidst a highly competitive tender market, this was a result of the application of innovative work methods and plant utilisation initiatives.
- While fewer civil infrastructure projects were completed in 1HFY15 when compared to the Comparative Period, the business unit's history in delivering complex civil projects also resulted in the award of the following new civil projects:
 - o a \$17M Tailing Storage Facility for Sirius Resources at its Nova Nickel project; and
 - an \$8M Spillway Remedial Works for the Western Australia Water Corporation at Logue Brook
 Dam.

Only a moderate level of plant and equipment purchases were made in 1HFY15, reflective of the existing high level of capital allocated to this business unit and desire to reduce future investment levels to that which is more commensurate with current market conditions. Capital purchases made over the past six months mainly comprised major maintenance works on existing assets, in accordance with original equipment manufacturer guidelines. As a consequence of the depreciation recognised over the Reporting Period, by 31 December 2014 the level of investment in Mining & Civil plant assets totalled \$143M, down from \$153M at 30 June 2014.

Given the current state of the resources sector in Australia and with the substantial level of Watpac's existing investment in its National Mining and WA civil business unit, achieving the Group's targeted return on capital metrics will be extremely challenging over the near term. Rather the business' prospects very much depend on commodity and AUD pricing levels, market dynamics and competition, and business confidence commensurate with stability in the domestic political environment – across all levels of government.

With a current forward work position of approximately \$330M at 31 December 2014, some of which is attributed to projects with uncertain futures, the National Mining & WA Civil business unit must continue to focus on and develop successful work winning initiatives and strategies. These must emphasise cost competitive solutions, and be based around innovative ideas to reaching optimal operational efficiency and effectiveness. This key strategic priority takes even more importance in the current economic climate, where the financial viability of many mines across Australia, particularly iron ore, is under threat.

The Group's strong credentials in mining iron ore, gold and mineral sands, its flexible plant fleet and Watpac's demonstrated delivery of complex civil projects presents a strategic advantage from which to seek future shareholder value. The recovery of current plant asset investment values, which currently represents approximately 75 cents per share in book value terms, on a dollar for dollar basis, is the most imperative priority for this business. This can only be achieved, however, through the maintenance of future work volumes.



Property

The Property segment recorded a pre-tax loss of \$0.37M for the Reporting Period (2013: \$0.92M pre-tax loss). This improved comparative financial performance mainly reflects a decrease in holding costs on the Group's reduced investment in property assets. Watpac's Board and Management remains focused on the strategy to divest all remaining property assets in the near term, without sacrificing shareholder value.

As at 31 December 2014, the carrying value of the Group's unsold property inventory assets totalled \$41.1M. This follows disposals of one lot at Coolum Industrial Estate and the last remaining lot at Stage 2 of the Ocean Blue Estate during the Reporting Period at book value. \$27.5M of the remaining property assets have been earmarked for disposal within the next 12 months, which will result in further cash inflows and options regarding reinvestment and/or capital restructuring transactions.

In this context, the first stage of the Waterloo property sale, which was contracted for sale in April 2014, is anticipated to settle in March 2015 (\$9M net of the deposit already received). The balance of the sale (\$27M net of the deposit already received) is expected to settle later in the 2015 calendar year and thus in aggregate will represent the inflow of a further \$36M in cash to the Group in 2015, representing value of almost 20 cents per share.

Active sales and marketing campaigns and negotiations with a number of potential buyers are continuing for all remaining property assets. In addition, currently approved uses and schemes are constantly being challenged, such that each asset is being presented to the market in a manner that demonstrates its highest and best use and will yield the best possible result for Watpac's shareholders.

Discontinued operations

As previously reported, the Group committed to a plan of closing its civil operations in Queensland and Victoria in the 30 June 2013 financial year, with all projects having been completed in 1HFY14. There has been no financial impact associated with these discontinued operations on the Group's reported result in the Reporting Period, with all remaining commitments being costed to restructuring provisions established in FY13.

The Board remains confident that no additional costs will be incurred as the remaining contractual obligations associated with these businesses are extinguished.

Capital Management and Liquidity

The Group's cash position remains robust, with gross cash and term deposits on hand at 31 December 2014 totalling \$161M. After adjusting for gross debt, this equates to a net cash balance at this date of \$105M.

While there has been a reduction in gross cash from the position reported at 30 June 2014, this primarily reflects the reversal of several significant non-recurring and favourable working capital movements that occurred late in the 2014 financial year. The strong cash management disciplines that continue to be employed across the Group's Contracting and National Mining & WA Civil businesses, have resulted in the maintenance of the significant net cash position as at 31 December 2014.



The 31 December 2014 gross cash balance also includes the effect of the aggressive repayment of equipment finance debt during the Reporting Period. Gross debt levels at 31 December 2014 totalled \$56M, down from almost \$75M at 30 June 2014, and solely support income producing plant assets deployed by the Group's mining and civil projects.

With only minor debt financed capital acquisitions made during 1HFY15, gross debt as a percentage of plant asset carrying values has reduced from almost 50% at 30 June 2014 to 39% at 31 December 2014. While the strategy to de-gear these assets remains appropriate, particularly in the context of the current outlook for the resources sector, the Board acknowledges that continuing to equity finance balloon repayments and aggressively reduce debt levels in future periods will result in a highly-conservative capital model being adopted for this business. As such, in an attempt to seek a more efficient capital funding structure, the Group is currently investigating options to refinance a large portion of the remaining equipment finance facilities in the second half of FY15.

Similar to previous periods, Watpac has no significant off-balance sheet lease commitments relating to plant and equipment assets at 31 December 2014. Rather, off-balance sheet commitments mainly relate to the provision of bank guarantees and surety bonds, as performance security for projects being completed by the Group's contracting businesses.

Watpac's strong financial position, capital management strategy and risk management framework was again endorsed during 1HFY15, with the Group obtaining a \$20M (25%) increase in its bank guarantee facility limit, which was provided through the core syndicated banking facility comprising ANZ, Bank of Queensland, BNP Paribas and HSBC. In aggregate, the syndicated banking facility limit now totals \$125M, and comprises a \$100M bank guarantee facility and a \$25M revolving credit facility, the latter remaining undrawn and fully available for use.

The maintenance of a strong balance sheet and the availability of these facilities remains a key strategic priority for Watpac, as the Group seeks to compete for more projects where this type of financial strength is a barrier to entry. Such projects can only be financed by a limited pool of contractors and as such, competition is more balanced and pricing metrics more in line with normal market behaviour. With a strong cost leadership and risk management focus, Watpac believes these dynamics give rise to a real competitive advantage to the Group.

In recognition of the \$6.214M statutory net profit after tax recorded in 1HFY15, the Directors have declared an interim unfranked dividend of 2 cents per share. The dividend is expected to be paid on 27 March 2015.

In light of the substantially improved liquidity position, and the expected further inflow from property asset sales, the Board has acknowledged that it will need to ensure the Group's capital structure remains appropriate. The strong financial position of the Group has given rise to a suspension of the Watpac Dividend Reinvestment Plan with immediate effect.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 10 and forms part of the Directors' Report for the half year ended 31 December 2014.



Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Consolidated Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Brisbane this 23rd day of February 2015.

Signed in accordance with a resolution of the Directors.

R B McGruther

Chair



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 2014 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Simon Crane

Partner

Brisbane

23 February 2015



Consolidated Income Statement For the six months ended 31 December 2014

	Note	2014 \$'000	2013 \$'000
Continuing operations			
Revenue		594,997	609,277
Cost of sales		(557,615)	(569,367)
Gross profit		37,382	39,910
Property asset income		437	1,348
Property asset expenses		(521)	(742)
Other expenses		(2)	(84)
Property development holding costs expensed		(283)	(916)
Operating business unit and corporate administration expenses		(27,392)	(26,166)
Results from operating activities		9,621	13,350
Finance income	8	2,222	1,915
Finance expense	8	(3,317)	(5,040)
Net finance costs		(1,095)	(3,125)
Profit from continuing operations before tax		8,526	10,225
Income tax expense	6	(2,312)	(2,843)
Profit from continuing operations		6,214	7,382
Loss from discontinued operations, net of tax	14	-	-
Profit from continuing operations		6,214	7,382
Earnings per share			
Basic earnings per share from continuing operations		3.30¢	4.00¢
Basic earnings per share from discontinued operations		-	-
Total		3.30¢	4.00¢
			_
Diluted earnings per share from continuing operations		3.28¢	4.00¢
Diluted earnings per share from discontinued operations		-	-
Total		3.28¢	4.00¢



Consolidated Statement of Comprehensive Income For the six months ended 31 December 2014

	2014 \$'000	2013 \$'000
Profit for the period attributable to equity holders of the parent	6,214	7,382
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	6,214	7,382



Consolidated Balance Sheet As at 31 December 2014

	Note	31 Dec 14 \$'000	30 Jun 14 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		91,494	120,119
Term deposits		70,095	70,079
Trade and other receivables	10	165,080	124,461
Inventories - stock on hand		17,021	15,635
Inventories - property development assets		27,528	27,491
Total current assets		371,218	357,785
Non-current assets			
Trade and other receivables		-	25,343
Other investments	11	3,000	-
Inventories - property development assets		13,549	13,840
Property, plant and equipment		154,114	161,787
Intangibles		27,698	27,698
Deferred tax assets		13,605	15,918
Total non-current assets		211,966	244,586
Total assets		583,184	602,371
LIABILITIES			
Current liabilities			
Trade and other payables		245,068	248,849
Interest-bearing loans and borrowings		34,436	39,153
Employee benefits		14,710	14,149
Provisions		442	413
Total current liabilities		294,656	302,564
Non-current liabilities			
Trade and other payables		5,276	5,463
Interest-bearing loans and borrowings		21,487	35,648
Employee benefits		4,485	4,085
Provisions		805	819
Total non-current liabilities		32,053	46,015
Total liabilities		326,708	348,579
Net assets		256,475	253,792
EQUITY			
Issued capital		239,570	237,001
Reserves		9,524	9,097
Retained earnings		7,381	7,694
Total equity		256,475	253,792



Consolidated Statement of Changes in Equity For the six months ended 31 December 2014

In thousands of AUD		31	December	2014			31	December :	2013	
	Share capital	Equity benefits reserve	Hedging reserve	Retained earnings	Total	Share capital	Equity benefits reserve	Hedging reserve	Retained earnings	Total
Balance at 1 July	237,001	9,097	-	7,694	253,792	235,074	8,668	-	(5,552)	238,190
Total comprehensive income for the period										
Profit or loss	-	-	4	6,214	6,214	-	-	-	7,382	7,382
Total comprehensive income for the period	-	-		6,214	6,214	-	-	-	7,382	7,382
Transactions with owners recorded directly in equity										
Contribution by and distribution to owners										
Dividends to equity holders	-	-	-	(6,527)	(6,527)	-	-	-	-	-
Shares issued under dividend reinvestment plan	2,569				2,569	-	-	-	-	-
Share settled performance rights awarded	-	427	-	-	427	-	284	-	-	284
Total contributions by and distributions to owners	2,569	427	-	(6,527)	(3,531)	-	284	-	-	284
Total transactions with owners	2,569	427	-	(6,527)	(3,531)	-	284	-	-	284
Balance at 31 December	239,570	9,524	-	7,381	256,475	235,074	8,952	-	1,830	245,856



Consolidated Statement of Cash Flows For the six months ended 31 December 2014

	2014 \$'000	2013 \$'000
Cash flows from operating activities		
Cash receipts from customers	639,945	694,891
Cash paid to suppliers and employees	(631,208)	(645,737)
Cash generated from operations	8,737	49,154
Interest received	2,017	1,703
Interest paid	(3,286)	(4,879)
Net cash provided by operating activities	7,468	45,978
Cash flows from investing activities		
Investment in term deposits	(16)	(41,924)
Acquisition of property, plant and equipment	(12,226)	(8,229)
Proceeds from sale of property, plant and equipment	3	865
Net cash used in investing activities	(12,239)	(49,288)
Cash flows from financing activities		
Dividends paid	(3,958)	-
Repayment of finance leases	(19,896)	(20,536)
Net cash used in financing activities	(23,854)	(20,536)
Net increase/(decrease) in cash and cash equivalents	(28,625)	(23,846)
Cash and cash equivalents at 1 July	120,119	88,927
Cash and cash equivalents at 31 December	91,494	65,081



For the six months ended 31 December 2014

1. Reporting entity

Watpac Limited (**Watpac** or **Company**) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2014 comprises the Company and its subsidiaries (**Group**) and the Group's interests in joint arrangements.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2014 is available upon request from the Company's registered office at Level 1, 12 Commercial Road, Newstead, QLD 4006 or at www.watpac.com.au.

2. Basis of accounting

These consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001* and with IAS 34 Interim Financial Reporting. 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 2014. 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 consolidated financial statements of the Group as at and for the year ended 30 June 2014.

These consolidated interim financial statements were approved by the Board of Directors on 23 February 2015.

3. Functional and presentation currency

These consolidated interim financial statements are presented in Australian dollars (**AUD**), which is the functional currency of the Company. Watpac is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

4. Significant accounting policies

With the exception of the adoption of AASB 9 *Financial Instruments* (**AASB 9**), the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied in its consolidated financial report as at and for the year ended 30 June 2014.

The Group has elected to early adopt AASB 9, which would otherwise become mandatory for the Group's 30 June 2019 financial statements. This new standard revises the guidance on classification and measurement of financial



For the six months ended 31 December 2014

4. Significant accounting policies (continued)

assets contained in AASB 139 *Financial Instruments: Recognition and Measurement* but retains the requirements relating to the measurement of financial liabilities.

Application of AASB 9 has been made retrospectively and in accordance with the relevant transitional provisions, including the election to present any fair value changes of an investment in an equity instrument that is not held for trading in Other Comprehensive Income. This election has not impacted the presentation of the Group's 31 December 2014 interim financial statements, but may have an effect in future periods. In accordance with the requirements of AASB 9, comparative information has not been restated.

Adopting the new standard has not resulted in any material change to the classification of the Group's financial assets and financial liabilities in the consolidated financial statements nor given rise to a change in carrying values.

5. Estimates

The preparation of the consolidated interim financial report 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. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, 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 2014, with the exception of the measurement of the fair value of equity investments, which is an additional area of judgement applicable in the current reporting period.

6. Income tax expense

The Group's effective tax rate in respect of continuing operations for the six months ended 31 December 2014 is 27.12% (for the six months ended 31 December 2013: 27.80%). This tax rate is consistent with management's estimate of the effective tax rate that will be applicable for the full year to 30 June 2015, and it reflects taxation benefits expected to arise to the Group in the current year as a consequence of participating in the Research and Development ("R&D") tax incentive regime.



For the six months ended 31 December 2014

7. Operating segments

The Group's operating segments are based on the information that is provided to the Managing Director, the chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Discrete financial information relating to each of the Group's operating segments is reported to the Board on a regular basis.

Reportable segments are based on aggregated operating segments determined by the similarity of products sold and/ or services provided, as these are the sources of the Group's major risks.

The Group has three reportable segments, being:

- Contracting: Building, refurbishment, project management and construction management.
- Mining & Civil: Contract mining services and civil infrastructure works (excluding discontinued civil operations).
- Property: Development and trading of commercial, residential, and industrial properties.



For the six months ended 31 December 2014

7. Operating segments (continued)

Information about reportable segments (continuing operations) For the six months ended 31 December 2014

	Contra	acting	Mining	& Civil	Prop	erty	Unallo	cated	Elimin	ation	To	tal
In thousands of AUD	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
					.							
External revenues	450,843	448,422	143,719	147,651	435	10,157	-	-	-	3,047	594,997	609,277
Other material non-cash items:												
Property development holding costs expensed		-		-	(283)	(916)	-	-	-	-	(283)	(916)
Impairment expense	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	(346)	(299)	(19,799)	(22,992)	+	-	(762)	(1,052)	-	-	(20,907)	(24,343)
Finance income	-	-	-	-	202	5	2,020	1,910	-	-	2,222	1,915
Finance expense	(605)	(252)	(2,573)	(4,788)	-	-	(139)	-	-	-	(3,317)	(5,040)
Reportable segment profit/(loss) before income tax	15,805	9,974	2,405	9,121	(367)	(917)	(9,317)	(8,246)	-	293	8,526	10,225
						_						
Capital expenditure	88	180	12,935	10,567	-	-	222	330	-	-	13,245	11,077



For the six months ended 31 December 2014

8. Net finance income and expense

	31 Dec 14	31 Dec 13
	\$'000	\$'000
	0.000	4.045
Interest income	2,022	1,915
Change in carrying value of receivables	200	-
Finance income	2,222	1,915
Interest expense	(3,317)	(5,040)
Finance expense	(3,317)	(5,040)

9. Dividends

5. Dividends	31 Dec 14 \$'000	31 Dec 13 \$'000
Dividends declared and paid by the Group:		
Final 2014 dividend paid (2013: nil)	6,527	-
	6,527	-
Dividends proposed and not yet recognised as a liability:		
On 23 February 2015 the Directors recommended an unfranked dividend of 2.0 cents (2013: 2.5 cents) per share, which is expected to be paid on 27 March 2015.	3,785	4,608
	3,785	4,608

10. Trade and other receivables

The majority of the Group's trade and other receivables comprises receivables with terms of less than 12 months (typically 30 days) and therefore do not contain a significant financing component. As a consequence of the Group's stringent revenue recognition policies and ongoing monitoring of credit risk, there has historically only been moderate levels of overdue trade receivables with only immaterial balances outstanding for greater than 30 days at any one time.

Watpac has a strong receivables collection history across all its operations and consequently, the expected credit loss relating to these short-term debtors is considered immaterial. Therefore, no allowance for impairment has been recognised for these assets in the interim financial statements.



For the six months ended 31 December 2014

10. Trade and other receivables (continued)

As at 31 December 2014 the only receivable with terms greater than 60 days related to the amount receivable from the sale of the Waterloo property, which was subject to an unconditional contract in April 2014.

This sale is subject to a two-staged settlement, with the first stage of the settlement recognised at its nominal value as a current asset and the final stage of settlement proceeds recorded as a non-current asset and discounted for the time value of money in the 30 June 2014 financial statements. The balance of this receivable recognised at reporting date is \$36,542,580 (nominal value \$38,000,000), and with all proceeds expected to be received within the next 12 months, has been classified as a current receivable. \$200,000 of the initial discount recognised has been unwound during the six month period ended 31 December 2014.

For information about the Group's revenue recognition policies and approach to credit risk management, please refer to Note 25 in the 30 June 2014 consolidated financial statements.

11. Financial Instruments

A) Carrying amounts and fair value

The fair value of financial assets and liabilities is included at the amount at which the Group would expect to receive upon selling an asset and pay to transfer a liability in an orderly transaction between market participants' at measurement date. The fair value of cash and cash equivalents, term deposits, trade and other receivables and trade and other payables approximate their carrying amounts due to the short term nature of the instruments. The following methods and assumptions were used by the Group in estimating the fair value disclosed for financial instruments.

Other investments - shares

The fair value of the Group's equity investment is based on the value per share of shares issued in the most recent capital raising completed by the underlying investment.

B) Measurement of fair value

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level in the fair value hierarchy as follows:

- Level 1: the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability,
 either directly or indirectly
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)



For the six months ended 31 December 2014

11. Financial Instruments (continued)

The Group's only current equity instrument is currently suspended from trading on ASX. In the absence of a published price quoted in an active market, the Group has relied on the most recent transaction relating to these shares, being a capital raising completed in October 2014. Given the trading suspension there is no observable market data at balance date and therefore this investment is considered to be a level 3 financial asset.

Investments of this nature are not part of the Group's core operations. As such, an irrevocable election has been made to designate the investment at initial recognition as a financial asset measured at fair value through other comprehensive income, such that any future movement in its fair value will have no impact on the profit or loss of the Group.

12. Related parties

All arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2014 Annual Financial Report.

13. Capital commitments

	31 Dec 14 \$'000	31 Dec 13 \$'000
Plant and equipment Contracted but not provided for and payable		
- within one year	87	422

14. Discontinued operations

During the 30 June 2013 financial year, the Group committed to a plan of closing its existing civil operations in Queensland and Victoria. As a result, future civil opportunities, if any, along the eastern seaboard of Australia will only be pursued as part of the Group's other existing businesses.

Revenue and expenses relating to the discontinuation of civil operations in Queensland and Victoria, together with the previously announced closure of civil activities in South Australia, have been removed from the results of continuing operations and are shown in a single line item on the consolidated Income Statement.



For the six months ended 31 December 2014

14. Discontinued operations (continued)

The operating results for Civil Queensland, Victoria and South Australia for the six months ended 31 December 2014 are as follows:

In thousands of AUD	31 Dec 14	31 Dec 13
Revenue	30	5,103
Cost of sales	(30)	(5,103)
Gross profit	-	-
Other income		-
Operating business unit administration expenses		-
Finance costs	-	
Loss from discontinued operations before tax	-	
Income tax benefit/(expense)	-	-
Loss from discontinued operations, net of tax	-	-
Basic earnings per share from discontinued operations	-	-
Diluted earnings per share from discontinued operations	-	
Cook flavor from discontinued appretions		
Cash flows from discontinued operations		
Net cash provided by operating activities	(80)	9,440
Net cash from / (used in) investing activities	-	236
Net cash from / (used in) financing activities		_
Net cash from discontinued operations	(80)	9,676

15. Subsequent events

Other than the declaration of a dividend (refer note 9), 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.

4

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 11 to 23 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 2014 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 23rd day of February 2015.

Mengarir

Signed in accordance with a resolution of the Directors.

R B McGruther

Chair



Independent auditor's review report to the members of Watpac Limited

We have reviewed the accompanying interim financial report of Watpac Limited, which comprises the consolidated balance sheet as at 31 December 2014, consolidated income statement and consolidated statement of 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 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility 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

Auditor's responsibility

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 2014 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*.



Conclusion

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:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2014 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*.

KPMG

KPMG

Simon Crane

Partner

Brisbane

23 February 2015